B3: Flexing up – the future of flexible tenure

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Springboards and Safety Nets

Fully flexible tenure – why it’s relevant

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What I’m going to talk about

• Who we are
• Operating context
• Possible responses
• Flexible tenure research
Who we are
Current housing stock profile
Emergence of social housing: timeline

- Wiggold Almshouses 1235
- Peabody 1862
- Guinness Trust 1890
- First council housing 1890
- Sutton Trust 1900
- Joseph Rowntree Village Trust 1904
- 1924 Housing Act: council housing takes off
Subsidised housing requires subsidy

- Rents (and HB)
- Capital subsidy
Revenue risks have to be managed

'Screening residents'  'HB takes the strain'

Creating homes, shaping communities, changing lives
The core challenge for HAs

Meet housing need in a way that is sustainable for
• the individual
• the community
• the organisation
The operating context
A changing market

- **Since 1991:**
  - Number of homes up 1%/year
  - 76% of housing growth in PRS

- **By 2022:**
  - Private rent could become the dominant tenure for families in London, and
  - the dominant rented tenure outside London (CCHPR)

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CLG: Table 104 (thousands)
Lower quartile house prices to lower quartile incomes (CLG live table 576)

- Sovereign average
- SOUTH WEST
- SOUTH EAST
- ENGLAND
Access to Sovereign homes

- GN and AR Mostly via CBL (limited control)
- Zone agency for LCHO
- Mixed for non-GN rent

- 26% social renters formerly with family and friends, 38% shared owners
- 31% new GN tenants in work earned more than average new shared owner
Social policy issues (long and short term)

- Social housing as stop-gap/safety net
- No incentive for HAs to build new homes
- No way back

- ‘problem’ of high income tenants
- ‘Affordable’ v social rent
- Welfare reform:
  - Overall cap v larger families
  - Bedroom tax v local solutions
- Housing allocations policies become political?
Possible responses
Where do we turn for help?

- Financial climate has an impact on:
  - Residents
  - LA partners
  - Government
  - Funders (who have never been more important)
- All have their own problems and their own risks to manage
- We have to be responsible for our own solutions
The easy options

- Restrict development
- Limit access
- Cut services
The harder option

- Return to our roots, and create a balanced approach that:
  - Uses commercial activity to create internal subsidy
  - Matches housing solutions to people’s income and other circumstances
  - Creates balanced, sustainable communities
  - Is financially sustainable for our business
  - Maximises the number of high need households we help
Fully flexible tenure
Where the idea came from

- interest in access to assets for social tenants
- High income social tenants
- Fixed term tenancies – what happens at the end of five years?
- Sustainable communities
- Reinvigorating Right to Buy
- Property slump – increased ‘non-traditional’ demand
- Generation rent
The partners

Sovereign
- Mixture of tenures
- 1,000 new homes per year
- Joint HomeBuy agency
- HCA Partner

Moat
- Rent and home ownership
- 500 new homes per year
- HomeBuy agent
- HCA Partner

Radian
- Mixed development
- 500 new homes per year
- HomeBuy agent
- HCA Partner
The challenges

‘Being a social tenant may not be what I really want, but it’s safe and I know what to expect’

How can we create a sustainable response to the operating environment?
The business challenge

Pro’s
• £ locked into assets could support development

Con’s
• Asset sales reduce social stock
The concept

Step 1: Design a model with
- an appropriate fit between people’s circumstances, housing costs and aspirations
- sustainable for associations, residents and communities

Step 2: Understand the implementation challenges

Step 3: Try to overcome them
The model (headlines)

- Fully Flexible Tenure
- Acquire property in 10% slices
- Rent reduces proportionately
- Service charges and ‘maintenance fee’ remain the same
- Buy back guarantee/Staircase down in case of difficulty
- Transactions at OMV with cost/value floor

Creating homes, shaping communities, changing lives
Outline proposal

- Shared ownership with a ‘safety net’
- Three points of entry
- Residents buy equity shares – minimum 10%, increasing to 100% as income increases
- Receipts available for HA to offset cost of borrowing
- ‘saved’ cost of borrowing replaces lost rent
Outline proposal (2)

- Resident’s total rent payment to HA includes:
  - Service charge (if applicable)
  - Maintenance fee
  - Occupancy charge
- Under flexible tenure model:
  - Service charge and maintenance fee are ‘fixed’
  - Occupancy charge is % of net rent relating to unpurchased equity
  - Residents fund cost of 10% shares
Outline proposal (3)

- Use current form of shared ownership lease
- Legal and regulatory changes more manageable
- Familiar to mortgage providers
- Buy back guarantee enables downward staircasing
Financial modelling

• Modelling based on ‘typical’ costs
• Range of assumptions
• Grant to take place as tranches are purchased (in practice, likely to be recycled via RCGF)
• All transaction costs are met by the purchaser

• All schemes have positive npv
• Costs to residents appear manageable (extra cost depends on property value/ rent levels)
### Social rent > 10% shared ownership

<table>
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<tr>
<th>Mortgage costs</th>
<th>Rental savings</th>
<th>extra cost</th>
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<tbody>
<tr>
<td>Market value</td>
<td>£ 215,000</td>
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<tr>
<td>Loan value (10%)</td>
<td>£ 21,500</td>
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<tr>
<td>Add year 1 costs</td>
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<tr>
<td>Total loan</td>
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<tr>
<td>Loan period</td>
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<td>Loan interest rate</td>
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**Weekly rent £100.00**

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<tr>
<th></th>
<th>monthly</th>
<th>monthly</th>
<th>monthly</th>
<th>£</th>
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<tr>
<td>monthly</td>
<td>£ 133.75</td>
<td>£ 43.45</td>
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<td>weekly</td>
<td>£ 30.78</td>
<td>£ 10.00</td>
<td>£ 20.78</td>
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</table>
Demand

“the security and being able to get yourself on the property ladder and the fact you can do it slowly if you don’t have a big income. It makes you feel more comfortable”;

- No literature on this used SHMAs as proxy
- Pent up demand for part-ownership
- Welcomed by residents in general
- The safety net and small tranches vital attractions, also the potential to extend RTB to tenants currently excluded.
- Cautious welcome by LA/CLG – consultations ongoing
Legal and Regulatory Constraints

- Constitutional?
- Charitable Status
- Planning Restrictions (Section 106) and Nomination Agreements
- Title Restrictions (e.g. LSVT)
- Grant
- Stamp Duty Land Tax (SDLT)
- Consents
- Repairs and Maintenance
- Right to Acquire
Legal and Regulatory Constraints

- Compliance with existing Regulation (Regulatory Framework)
- Attitude of:
  - the HCA (Investment)
  - mortgage lenders
  - RP funders
  - local authorities
Next steps

Complete and refine modelling (sensitivity testing)

Final report

Further consultation, and operationalise
Thank you

Questions?
Housing & Economic Growth

Your feedback is important to us!

Thank you for attending and please don’t forget to complete your evaluation form and hand it to a member of Federation staff before you leave.