

REPORT

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Cllr Cole-Morgan: Cabinet Member for Community & Housing

PROPOSALS TO OPERATE A DO IT YOURSELF SHARED OWNERSHIP SCHEME FOR 2005/06

1. Purpose:

- 1.1 This report outlines an opportunity for the Council to re-establish its Do it Yourself Shared Ownership (DIYSO) Scheme to help local first time buyers to access the housing market.

2. Background:

- 2.1 Options to access owner-occupation are extremely limited yet the Council is increasingly aware of the inability of locally employed people to be able to access the housing market.
- 2.2 In 1989 the Council set aside £1m and established a successful DIYSO programme. Following this programme the identified needs changed and funding was directed towards social rented housing and the programme reduced overtime. Currently the council has 15 properties still within the DIYSO scheme.

3. What is DIYSO?

- 3.1 Under a shared ownership scheme the Council, rather than the prospective shared ownership purchaser, actually buys the freehold of the property. The price paid is one determined as reasonable by a qualified valuer. The Council then grants a 99 year lease to the shared ownership purchaser, in consideration of:-
 - A cash sum equal to the percentage that is being purchased.
 - A percentage of rent on the share retained by the Council.
- 3.2 The shared owner takes full responsibility for the property including:-
 - All repairs and maintenance liability.
 - Buildings insurance
 - All service charges and utility costs.
- 3.3 In order to ensure this scheme meets its target audience the Council proposes to establish the following eligibility criteria:-
 - A secure tenant of Salisbury District Council or Registered Social Landlord in Salisbury.
 - A person on the active Housing Needs Register.
 - A first time buyer with a sole income of no more than £25,000 pa or a joint income of £40,000.
 - Persons who are in local employment within the district.

Applicants will be individually assessed and if it is found they can purchase outright a property suitable for their need or unable to afford the repayments required under the scheme then they will be considered ineligible.
- 3.4 The council will require prospective purchasers to obtain and provide a Building Society mortgage survey known as the 'House Buyers Report and Valuation'. The report provides concise details on the state of repair and of the condition of the property together with an opinion of its open market value.

4. Proposals for a 2005/06 DIYSO Programme:

- 4.1. Capital resources within the Affordable Housing budget currently stand at £1,227,000.

- 4.2. In order to make available funds that will assist some 10 households it is proposed that £700,000 should be ring-fenced for the DIYSO scheme.
- 4.3. Consideration needs to be given as to the percentage share the Council would sell at. Generally shares are either 25%, 50% or 75%. Given the restrictions on financial resources, for this scheme 50% should be the minimum share as 25% would further reduce the number of people the Council is able to assist.
- 4.4. The Council will need to set maximum value limits for properties and the following levels are proposed:-
 - 1-bedroom 2 person property £130,000
 - 2-bedroom 4 person property £160,000
 - 3-bedroom 5 person property £200,000
- 4.5. The rate of return on the percentage share retained by the Council needs careful consideration. Too high a rate of return will generate a high rent which will make the scheme less attractive and less affordable. However, the Council should ensure that any return reflects and tracks current market conditions. It is proposed to set a rent at 50% of the current Bank of England bank rate. This will yield a return capital but also achieve an affordable rent level for the shared owner. The yield from this rent could be returned to the Affordable Housing Programme to support future years development. Attached is an affordability analysis.
- 4.6. Although technically the council will lose payable interest on this sum, Members are reminded that the funds in the Affordable Housing Programme are solely for housing, that current interest accruing has not been budgeted for and if allocated to a housing association the council would get no return. In this instance not only does the council hold an asset but also receives a percentage of return.
- 4.7. Consideration has been given to trying to 'stretch' this resource with matching it to other funds. Unfortunately this has not yet been possible however, officers will continue to examine any way to bring in additional funding.

5. Recommendations:

Members are asked to:-

1. Approve a DIYSO scheme for 2005/06.
2. Ring-fence £700,000 from the Affordable Housing Programme.
3. Agree the rate of return of 50% of the Bank of England interest base rate.
4. Agree that the rent yield is returned to the Affordable Housing Programme budget.
5. Approve the property values as set in Para 4.4 but to delegate to Head of Strategic Housing Services the capacity to increase these by 5% to enable a small degree of flexibility.
6. Approve the eligibility criteria as set out in para. 3.3.

6. Implications:

Financial:	Paragraphs 4 details all financial implications
Legal:	DIYSO is authorised under Housing legislation. The council has a broad discretion in law in the fixing of rent levels.
Human Rights:	Article 8 (the right to respect for private and family life) does not confer the right to a home
Personnel:	None in respect of this report
Community Safety:	None in this report
Environmental:	None in this report
Council's Core Values	Promoting excellent service, supporting the disadvantaged, being fair and equitable, communicating with the public, wanting to be an open, learning council and a willing partner.
Wards affected:	All
Consultation undertaken	Staff only

Do it yourself shared ownership Programme 2005/06

Comparison of rent yields

	100%	50%	3% yield per month	2.5% yield per month	2% yield per month
1 bed 2 person property	130,000	65,000	150	125	100
2 bed 4 person property	160,000	80,000	193.75	161.46	129.17
3 bed 5 person property	200,000	100,000	250	208.33	166.66

Mortgage comparison -interest only standard variable 6.5% repayable over 25 Years

	100% £	£ monthly	50% £	£ monthly
1 bed 2 person property	130,000	650	65,000	352
2 bed 4 person property	160,000	866	80,000	433
3 bed 5 person property	200,000	1,029	100,000	541

Analysis of affordability based on 50% ownership and rent yield being 50% of Bank Base rate

				Total monthly outgoings	Average private sector rents
Bank of England current interest rate 4.75%	monthly 50% mortgage	rent @ 2.38% yield			
1 bed 2 person property	65,000	352	119	471	500
2 bed 4 person property	80,000	433	153.71	586.71	650
3 bed 5 person property	100,000	541	198.33	739.33	800