

Executive – 4 September 2008

SOUTH HAMS SUB MARKET RENT INITIATIVE

Report of Head of Community Regeneration

Statutory Powers: None

Financial Implications: Proposal to be funded through either existing ring-fenced commuted sum receipts or second homes Council Tax. The continued capital support for the scheme would be subject to any requirement to direct resources toward alternative strategic housing priorities.

Purpose

The purpose of this report is to seek approval for an initiative to deliver additional intermediate affordable housing within the district in accordance with CP1 objectives.

RECOMMENDATION

That the Executive APPROVES the proposed scheme in partnership with an appropriate housing provider.

Background

1. A Housing Market and Needs Assessment (HMNA) was undertaken by David Couttie Associates in 2006. The report highlighted a significant shortfall in the level of affordable private rented accommodation across the district. The report identified 765 households requiring private rented accommodation each year.
2. The private sector rental market constitutes an important element of the overall housing market and enables those on average incomes to access housing. A lack of such properties limits the ability of households to access accommodation and in the case of the South Hams, the lack of private sector rented properties contributes towards higher rental prices.
3. Factors affecting the shortfall of private rental properties in the district include a limited buy to let (BTL) market and a high proportion of holiday lets. The former is partly due to high property prices in the district making BTL less viable compared to other locations; the latter due to the higher returns available from holiday lets. Holiday lets are often let out for 6 months during the winter. This only provides short term opportunity to access housing and the Council is regularly approached by households whose tenancies are terminated at the beginning of the more profitable holiday let seasons.

4. A strategic recommendation of the HMNA was for the Council to investigate potential opportunities to increase the availability of affordable rented properties throughout the district. A partial response to this is for the Council to enable the delivery of intermediate or sub market rented homes.

Intermediate /Sub Market Rented (SMR) Housing

5. Intermediate or Sub Market Rented housing, referred to from this point as SMR, is rented housing at rents above those of social rent but below market rents. Typically SMR rents equate to around 80% of equivalent market rents.
6. SMR housing is a recognised form of intermediate housing. The concept has been around for a relatively short period of time and whilst widely understood, has not been provided in huge numbers. Registered Social Landlords (RSL's) are increasingly providing this form of accommodation as part of a growing demand for intermediate housing tenures.

The South Hams SMR Initiative (proposed)

7. In response to the strategic recommendations of the HMNA, the Council commenced discussions with Dartington Housing Association (DHA) as a potential partner to develop a scheme which addressed the lack of affordable rented accommodation identified across the district.
8. The Council has worked up a proposal with DHA to undertake a modest annual programme of acquisitions of 2, 3 and 4 bedroomed properties as an initial one-year pilot project with a view to extending the programme should the pilot prove successful.
9. DHA have shown significant commitment to the scheme to date and have received support for the initiative from their board. Whilst an initial commitment has been made to DHA, this would not preclude the Council from operating or extending the scheme with an alternative or additional RSL's in the future.
10. Properties purchased through the scheme will be let directly to those on the Council's Housing Register and in accordance with the Council's Allocations Policy at rents not exceeding 80% of the equivalent market rents.
11. The scheme will be primarily targeted at priority areas within the district with 50% targeted at Totnes town and the remaining 50% spread across other priority locations. These proportions are in line with the results of the results of the 2006 HMNA. Discussions have also considered the potential for applicants to be offered the opportunity to select an appropriate property from the open market.

12. Such an approach fits well with the current choice in housing agenda and will enable qualifying applicants to secure a home in a location which best fits existing social and family networks, schools, employment etc. Further discussions are required in relation to the practicality of this approach but if viable would prove to be a significant additional benefit of the scheme.
13. When formally launched, the scheme will be titled the South Hams Intermediate Rent Enterprise or SHIRE.

Funding

14. The following example illustrates how an intermediate rent scheme could work in practice. (It assumes a full market rent for a 2-bed house of £650 p.c.m. and a purchase price of £160K + £10K for on-costs)
 - Intermediate (i.e. 80%) market rental = £520 p.c.m.
 - Loan Supportable £121,000K from rent income
 - Leaving shortfall of £49K.
15. Further housing market price data and private sector rent levels are detailed at appendix 1.
16. DHA have undertaken a financial review which has enabled them to restructure their finances and generate capital for investment. DHA have agreed in principle to meet the majority of the shortfall or funding gap through additional borrowing or direct capital investment or a combination of the both.
17. In order to create a viable and deliverable initiative, a further capital investment is required. It is therefore proposed that a proportion of the funding is met directly through a capital contribution from SHDC.

SHDC Capital Contribution

18. The proposed capital contribution from the Council will be at a target amount of £10,000 per unit. A degree of flexibility will be required however to reflect varying purchase prices but also to enable higher capital contributions where a particular priority need or strategic housing objective of the Council can be met by doing so. It is expected however that single capital contributions would not exceed £20,000 per unit.
19. It is proposed that the Council's contribution be funded through existing ring fenced commuted sum receipts or second home Council Tax funds held for affordable housing. Commuted sums are financial contribution received from developers through s.106 negotiations in lieu of affordable housing provision on site.

20. The capital funding will be issued on an equity loan basis, i.e. interest free. For example, if the Council provided a £10,000 capital contribution toward the purchase of a £100,000 property on an equity basis, the Council would be issuing a 10% equity loan. Should the property be disposed in the future, the Council, by way of a charge or other similar mechanism, would redeem 10% of the sale price at that time. Such receipts would be reapplied toward the provision of affordable housing within the district.
21. The Council has worked up a joint memorandum of understanding with DHA regarding the scheme principles and aim to commence initial purchases once approved by Members and on completion of a formal agreement between DHA and the Council.
22. The formal agreement will include minimum standards, a nomination agreement and other relevant details and protocols.

Risk Assessment

Risk	Mitigation
The primary risk to the Council is the future performance of the housing market which may negatively affect the potential return of capital.	The proposal is based on a long-term strategy and it is unlikely that the properties would be sold in the short or medium term. The likelihood is that capital investment would be long-term and therefore safe against cyclical fluctuations in the housing market.

Value for Money

23. The SMR initiative should principally be viewed as an effective and strategic response to an identified housing need. The initiative does however also provide significant value for money. Traditional grant rates equate to around £42,000 for a social rented property and around £20,000 for intermediate property. The target grant for the SMR scheme is £10,000 per property.
24. Typically, capital contributions from the Council, either through Second Homes Council Tax or Commuted sums, are retained indefinitely by the receiving Housing Association. The target capital contribution of £10,000 delivers an effective product which meets locally identified housing need but also provides the opportunity to share in any market increases combined with an ability to recycle the contribution at a later date should the property be disposed.

Human Rights Act

25. There are no obvious human rights issues arising from this report.

Conclusion

26. The ability to address the scale of housing need in the district is dependent not only on supply from new builds, but also on innovative new initiatives such as the SMR scheme.

27. The proposed initiative is a direct response to an identified need and takes forward one of the strategic recommendations of the recent HMNA. It applies existing ring-fenced resources for affordable housing in an efficient and sustainable way and will directly contribute towards the achievement of the Council's Corporate Priority 1. Community Policy Development Group received a report on the proposed initiative in July 2007 and supported a recommendation to approve the scheme. It is therefore recommended that Executive approve the proposed scheme.

Liam Reading
Affordable Housing Manager

Executive
4 September 2008

Lee Bray
Head of Community Regeneration

Background documents:

None

Appendix 1 – Private Sector Rent Levels / Purchase Prices – June 2007

	2 Bed		3 Bed		4 Bed	
	Market Rent	Purchase Price	Market Rent	Purchase Price	Market Rent	Purchase Price
Dartington		Ave £260K		Ave £300K		Ave £460K
Dartmouth	£600 pm	Ave £150K	£700 pm	Ave £220K	£1100pm	Ave £400K
Ivybridge	£500 pm	Ave £140K	£6-650pm	£175-190K		Ave £240K
Kingsbridge Town	£550 pm	Ave £150K	£650 pm	Ave £200K		Ave £320K
Kingsbridge Rural				Ave £350K		
Totnes Town	£650 pm	Ave £160K	£7-900 pm	Ave £225K	£1000 pm	Ave £320K
Totnes Rural						

