

**Manchester City Council
Report for Resolution**

Report to: Economy Scrutiny Committee – 7 December 2016
Executive – 14 December 2016

Subject: Housing Affordability in Manchester

Report of: Strategic Director (Development)

Summary

Manchester can lead the way in how we define and deliver homes that are affordable to our residents. This report presents an assertive Housing Affordability Policy Framework for Manchester that links household income to the provision of new homes across the city. This will ensure that residents who are on or below the average household income for Manchester have access to decent and secure homes. The policy recommends that we aim to deliver between 1,000 and 2,000 new affordable homes in Manchester each year and seek to use a range of resources to build social rented housing aimed at replacing those lost through right to buy and demolitions.

Recommendations

The Executive is recommended to;

1. Note the contents of the report and provide comment
2. Approve the Housing Affordability Policy Framework contained within Section 3 of this report.

Wards Affected

All wards

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	This refreshed approach to affordability will ensure Manchester has the right mix of housing that is affordable across a range of tenure and income levels to support a functioning Manchester and sub regional economy.
A highly skilled city: world class and home grown talent sustaining the city's economic success	The new and existing homes will be well connected to employment opportunities and schools

A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	Increasing the supply of good quality affordable homes for sale and rent will provide the opportunity for Manchester residents to raise their individual and collective aspirations
A liveable and low carbon city: a destination of choice to live, visit, work	The right mix of quality energy efficient housing is needed to support growth and ensure that our growing population can live and work in the city and enjoy a good quality of life.
A connected city: world class infrastructure and connectivity to drive growth	This approach recognises the importance a balanced housing offer plays within a well-connected city and the neighbourhoods within it. It seeks to create neighbourhoods where residents will choose to live and their housing needs and aspirations are met

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

A predicted increase in the Council Tax base has been built into the Medium Term Financial Plan. The measures set out in this report will increase both the number of properties and the number above Council Tax bands A and B. This will contribute to achieving the growth in Council Tax base and increase the potential Council Tax revenue available to the City Council.

Financial Consequences – Capital

There are no direct capital consequences to the Council arising from this report. Any future programmes or schemes requiring capital subsidy to achieve affordability objectives will be subject to specific and appropriate approvals.

Contact Officers:

Name: Eddie Smith
Position: Strategic Director, Development
Telephone: 0161 234 3030
E-mail: e.smith@manchester.gov.uk

Name: Paul Beardmore
Position: Director of Housing
Telephone: 0161 234 4811
E-mail: p.beardmore@manchester.gov.uk

Name: Steve Sheen
Position: Housing Strategy and Partnerships Manager
Telephone: 0161 234 4115
E-mail: s.sheen@manchester.gov.uk

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- Draft Residential Growth Strategy, Executive, 4th November 2015
- Manchester Market Rental Strategy, Executive, 15th January 2015
- Manchester Residential Growth Strategy and 2016/17 Action Plan, Executive, 2nd March 2016
- Housing affordability in Manchester, Executive 1st June 2016

1.0 Introduction

- 1.1 At its meeting in November, Executive approved 'Manchester – A Housing Strategy 2016 – 2021. In the context of Our Manchester, the housing strategy sets out a vision for Manchester:

'To create successful neighbourhoods that are well connected to areas of future opportunity and employment, and which attract and retain people from diverse communities where people feel secure and can reach their full potential'.

- 1.2 Our challenge going forward is to continue the transformation of the city's housing market which has been underway over the last 20 years in broadening and deepening the housing offer. Providing a breadth of housing offer that meets the needs of our economy remains a key priority. Embedded within this ambition we must continue to ensure that a significant part of the new housing stock remains affordable to Mancunians who live in the city and who provide essential services within our economy.

- 1.3 The term 'affordable housing' is very widely used and misunderstood. The report 'Housing affordability in Manchester' approved by Executive on June 1st 2016 described affordable housing and how it is currently defined, developed and delivered in Manchester placing it within a wider housing market context. This has resulted in a broader understanding and more literal definition of affordable housing being proposed within Manchester's Housing Affordability Policy Framework;

'Decent and secure housing that meets the needs of Manchester residents that are below the average household income for Manchester will be defined as 'affordable'

- 1.4 This alternative description and approach to affordability linking household income to the cost of buying and renting a home within the city. By applying this income based approach to our future housing requirements we can begin to match groups of residents with a range of products that will support them into good quality affordable homes for sale and rent.

- 1.5 The conclusion of the June report was approval to a set of key principles (**See Appendix 1**). These can be broadly grouped into 4 key areas:

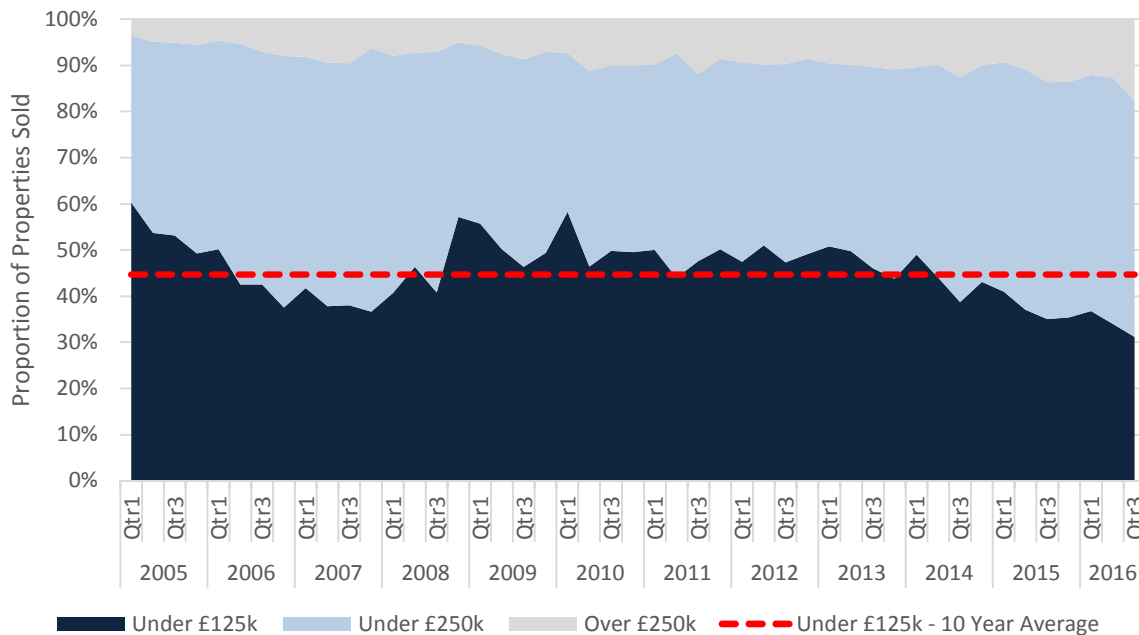
1. Link the affordability of homes to a maximum of 30% of gross household income
2. Ensure a geographical context for products, type and value of housing
3. Maintain the number of affordable homes
4. Use our existing 68,000 social rented homes to effectively meet demand

Officers were tasked with developing these principles into a Housing Affordability Policy Framework which would include a plan to maintain the current number of affordable homes in Manchester.

2.0 Manchester’s housing market and affordability

- 2.1 Compared to other parts of the UK (London and a number of Core Cities in particular), Manchester is a relatively affordable place to buy a house. Over the last ten years - a period of not insignificant house price inflation - approximately 45% of homes in the city sold for less than £125,000 (Graph 1 – red line).

Graph 1: Residential Sales Prices in Manchester 2005-2016 (HM Land Registry)



- 2.2 Perhaps the most compelling evidence of the city’s low value housing market can be found in an analysis of the total housing stock by council tax band. According to the Department for Communities and Local Government (Annex 1) across all 33 local authorities in Greater London (2016) there were 3,543,811 properties of which 135,302 were in band A (3.8%). Remarkably in the same year, Manchester accounted for almost as many - 131,751 - out of a total 225,322 (58.5%) band A properties.

- 2.3 Manchester has over 75% properties in band A and B. This is far higher than most of the English Core Cities including Birmingham 65%, Bristol 62% and Leeds 60%. At the other end of the scale whilst Manchester has only 4% of band E+ properties (valued over £227,400 in 2015), Leeds has 11%, Bristol 9%, Birmingham 8% and Sheffield 7%. Within Greater Manchester, Trafford has 18% (17,300) and Stockport has 17% (22,190) of all total stock in band E+.

- 2.4 This is important as the average band E+ property pays a minimum of 83% more council tax than the average band A property. In addition, higher banded properties are also less likely to house residents in receipt of council tax benefit or who are eligible for discounts and exemptions.

- 2.5 Cities with a more balanced housing market are able to attract more working

households - often homeowners and people looking for well managed accommodation to rent. The net result is a strengthened overall tax base including increased rates of income tax and stamp duty for the national exchequer and most importantly, additional council tax revenues locally.

- 2.6 This approach to develop higher value homes will be supported with the provision of homes that are affordable to households that are on or below the average household income for Manchester.

Housing delivery and Affordable Homes 2011 - 2016

- 2.7 Over the last 5 years there have been **6016 net new homes** built in Manchester. In terms of value these can be broken down further:

- 55% were Council Tax bands A and B
- 40% were Council Tax bands C and D
- 5% were Council Tax bands E to H

- 2.8 Of the 6,016 homes built, **2721** (45%) of these new homes were delivered through the city's Affordable Homes Programme funded by the Homes and Communities Agency (HCA) in the form of grant and recoverable loan. The form of funding and subsidy levels are explained later in the report. The breakdown of the 2721 new homes is:

- Social Rent - 578
- Affordable Rent - 763
- Shared Ownership - 216
- Shared Equity - 1166

- 2.9 In this 5 year period there were approximately 1800 affordable homes lost through demolition, Right to Buy and Right to Acquire which resulted in a **net gain of 921 new subsidised affordable homes.**

- 2.10 During this time the City Council and its partners have been very successful in attracting funding, developing innovative schemes and delivering good quality affordable homes and place based programmes for our residents such as;

- The 3 major Private Finance Initiative's (PFI) at Grove Village, Miles Platting and Brunswick have regenerated complete areas, improving the social housing stock and introducing a range of affordable home ownership
- The City Councils partnership with Redrow led the way for the use of public land for private development and the introduction of a Manchester Shared Equity product
- The ground breaking partnership between the Greater Manchester Pension Fund and the City Council through Matrix homes pioneered the investment led approach to housebuilding we see emerging across the country now
- The major West Gorton regeneration programme has transformed one of our most deprived areas to a thriving up and coming neighbourhood
- Village 135 is the forerunner for older persons Extra Care development for

rent and low cost homeownership. This flagship scheme will lead the way for a programme of Extra Care housing for Manchester

- The Empty Homes Programme of activity which has seen a year on year reduction of empty properties across the city. This has continued with our Registered Provider (RP) partners and the introduction of private sector partners who are delivering refurbished homes for first time buyers in some of our more challenging areas

The Planning Process and securing Affordable Homes

- 2.11 Planning in Manchester is a vital part of the delivery of many of the Council's key objectives as outlined above. The focus is on outcomes necessary for the successful economic growth of the city and sustainable neighbourhoods. This manifests itself through the creation of jobs, high quality design that incorporates principles of security, inclusiveness and environmental considerations.
- 2.12 Housing and how this contributes to the city's growth is clearly a fundamental consideration in the planning process. The relevant policy sets out the criteria against which new residential development will be assessed and this includes whether it would be appropriate for the inclusion of 'affordable' housing.
- 2.13 The policy recognises that development has a major role to play in responding to the specific needs of a growing population and changing demographics, which will include affordable homes. It acknowledges that there will be an increasing demand for a mixed portfolio of both owner occupation and rented housing that allows for new lifetime choices, and that there will also be a requirement for high end accommodation associated with improving the City's economic base. The Council's strategic frameworks further provide a steer and an additional focus on how developments can deliver these objectives in specific areas.
- 2.14 Developers are required to respond to identified objectives and a key factor in all development assessments is deliverability. Scheme viability must be taken into consideration and where assessments through the planning process include those relating to affordable housing, this is a fundamental requirement and a clear tenet of national legislation.
- 2.15 In accordance with the legislative framework viability assessments are robustly assessed; at this current point in time with a difficult and uncertain economic market all the evidence suggests that schemes are not capable of delivering S106 agreements beyond that necessary to mitigate specific harm. In Manchester over the last 5 years the number of specific affordable homes delivered through the S106 process reflects this position with only 12 units provided in addition to a small commuted sum. There is a similar picture across Greater Manchester.
- 2.16 Bringing forward development through the planning process remains key to delivering new homes and providing the fundamental and underlying platform for further growth and ensuring that the supply of housing increases thereby

helping to counter price rises created by shortage. The intention is to continue to negotiate through the planning process new housing that can best meet the diverse needs of the City. An assessment of scheme viability will have to play an important part of this and where this is possible a contribution towards an identified affordable need will be sought. However, the planning process will not provide the scale and number of new affordable homes the city requires for the future

3.0 Proposed Housing Affordability Policy Framework

3.1 The 'Our Manchester' strategy has set a series of high level aims to secure the 2025 vision for the city, in particular the need to build well designed, energy efficient, sustainable and affordable homes to rent and buy. In doing so the strategy recognises the importance of focussing on reducing the gap between residents wages and the average wage earned in the city. It is imperative that we continue to work with our residents to improve their employment prospects and increase their household income so they can access the homes of their choice.

3.2 The average household income in the city is around £27k per year. Households above this income level have more options than those below it, while those with significantly higher incomes show a strong tendency to live outside of the city. Households with below average incomes need lower rents and depend to some extent on welfare benefits. **(See Appendix 2)** If they are to buy a home they need it to be lower cost, and they may need support with the deposit

3.3 In Manchester's Housing Affordability Policy Framework;

'Decent and secure housing that meets the needs of Manchester residents that are below the average household income for Manchester will be defined as 'affordable'

It will include a significant proportion of lower cost market housing and a range of the following;

- Social Housing
- Affordable Rent
- Shared Ownership
- Shared Equity
- Rent to Purchase

There will be geographical variations to these products which will reflect the diverse nature of Manchester's neighbourhoods and the financial circumstances of the residents within them.

Housing Delivery and new Affordable Homes 2016 - 2021

3.4 It is very difficult to estimate the number of new homes, in particular the level of affordable homes we will require over the next 5 years. The National

Planning Practice Guidance (NPPG) sets out a process to try and calculate the level of affordable housing an area should have based on 'Housing Need'. Within the Guidance it states that local authorities need to;

' Estimate the number of households and projected households who lack their own housing or live in unsuitable housing and who cannot afford to meet their housing needs in the market'

3.5 There are a range of views on the interpretation of 'Housing Need' and although the guidance is meant to be objective it depends heavily on the data and information sources together with assumptions that are used in its formulaic approach and therefore can often be subjective. Its fundamental failing is that it is based on a backward look at existing housing. It does not therefore present any opportunities to change, which leads to a constant cycle of repetitive housing need. As a city council with an excellent team of research analysts, we will continue to rely on our understanding of primary data to inform 'our Manchester' approach in developing our Housing Affordability Policy Framework

3.6 From our planning pipeline and local intelligence analysis, we forecast **14,000 homes** to be built in Manchester in the next 5 years¹ We expect these to fall into the following CT Bands;

- 25% will be Council Tax bands A and B
- 64% will be Council Tax bands C and D
- 11% will be Council Tax bands E – H

3.7 As part of the overall 14,000 expected new homes the city council and its Registered Provider partners have already bid for funding commitments (announcements due December 2016) from the HCA to deliver a programme of **1650 affordable homes** up to 2021:

▪ Social Rent	-	172
▪ Affordable Rent	-	730
▪ Shared Ownership	-	654
▪ Rent to Buy	-	94

The Rent to Buy is a new product whereby the tenant lives in the property paying an affordable rent (80% of market value) and has the option to purchase the property through shared ownership once they have saved enough money for a deposit.

3.8 We aim to replace every social home sold under the right to buy and potential extended Right to Buy, and to seek the funding to maintain the level of social housing at least to the current number in the City.

3.9 Social housing has lower rents because the costs of building them are heavily subsidised, and they have more attractive tenancies because they are let by

¹ Including all homes across all tenures expected to complete on sites expected to deliver in excess of 10 units as well as Affordable Homes completions on infill sites (confirmed by the HCA)

landlords with a social mission. There are currently over 68,000 social homes in our city. The Council will continue to look for ways to build social houses either within Government funded programmes or without if necessary.

- 3.10 Alongside both our public and private sector partners we will aim to sustain the positive outcomes secured over the last 5 years and to increase the proportion of homes affordable to Manchester residents to between 1000 and 2000 each year. These will be split equally between homes for rent and for purchase and supported by;
- Ongoing redevelopment of the city centre which will continue to be the key driver of Manchester's economic growth and prosperity
 - Refreshed development frameworks for Ancoats and New Islington which will continue the redevelopment and placemaking schemes in the city centre fringe
 - Continued regeneration of the Collyhurst and West Gorton neighbourhoods
 - A programme of Extra Care housing for low cost home ownership and affordable rent
 - Reprovision and consolidation of accommodation for residents with Learning Disabilities
 - Future phases of the Housing Investment Fund with Matrix Homes
 - Exploration of 'live-work' units especially within our local centres and aimed at younger people.

Future funding for new and replacement affordable homes and Manchester's Affordability Fund

- 3.11 Alongside the development of higher value homes in and around the city centre will be the provision of a range of homes that will be affordable to residents on or below the average Manchester wage. This programme of housebuilding will require a substantial amount of funding with varying levels of subsidy for affordable homes (**See Appendix 3**). There is no single product or approach that will work across the city so we will have to consider household income and the geographical context for our housing development programme and provide a range of options to rent and buy
- 3.12 In such an uncertain funding environment Manchester welcomes the announcements of the Autumn statement around the introduction of the National Productivity Investment Fund (NPIF) and the relaxation of the restrictions around current grant funding for affordable homes. We will work with our public and private sector partners to maximise our bids to this and other government funding programmes.

The proceeds from any successful bids will form an important part of Manchester's Housing 'Affordability' Fund alongside other types of investment utilising the city's land, assets and borrowing power as appropriate. This will support the delivery of Manchester's ambitious Affordable Homes Programme. As a City Council we will ensure we use this subsidy so it represents value for money and where possible allows for recycling of this investment

Manchester's existing social housing

- 3.13 Manchester has over 68000 social rented homes across the city. The majority of these are managed by Registered Providers (RP's) and they are and will continue to be key partners in providing high quality social rented homes. RP partners have been working with officers through the Manchester Housing Providers Partnership to support the development of the Housing Affordability Policy Framework and have also provided their expertise in the plans to maintain the current number of affordable homes and use these to effectively meet demand. In particular there have been workstreams considering the impact government policy will have on our affordable housing sector;
- **Starter Homes** - Although the Autumn statement made provision for future funding for affordable homes it was silent on the introduction of Starter Homes so this will have to be closely monitored so we can respond accordingly
 - **Local Housing Allowance Cap for people under 35** - Continued welfare reform and changes to the benefit system will be a challenge for Manchester and Greater Manchester.
 - **Extended Right to Buy** - will now be subject to a regional pilot and will not be mandatory for other local authorities which in turn will not require any associated levy at least for the foreseeable future
 - **End of secure tenancies** - the government are pressing ahead with the ending of secure tenancies which will have to be reflected in Manchester's emerging Tenancy Strategy
 - **1% rent reduction for the next 4 years** - will affect funding levels for new and existing affordable homes.
- 3.14 There are still areas of emerging government policy that need clarifying so we can understand the full impact on Manchester and our residents. However we must present a Housing Affordability Policy Framework that is robust and flexible enough to deal with these as and when they are implemented. Without this we will not be able to deliver enough homes that are affordable for our new and existing residents. Therefore we will;
- Review and update Manchester's Allocations Policy and Tenancy Strategy so we continue to let the majority of our social homes to those most in need
 - Continue to reward residents with increased priority for social housing who are actively making a contribution to the city and/or are working households.
 - Create incentives to allow residents who are under occupying our social homes to move to a more appropriate form of housing that will support their needs. This in turn will free up these homes for families to move into.
 - Make better use of our adapted homes and where possible allocate these to residents who need this type of home.
 - Offer help and advice to older people through a bespoke housing options advice and guidance service
- 3.15 In addition, the City Council and RP partners are working closely with GM

providers and Districts to review and consider how we make the best use of our existing social housing stock. This includes ways of supporting those who have the means and the aspiration to purchase a home, freeing up the capacity to let the social home again or to build new homes more suited to the demand.

The role of the Private Rented Sector

- 3.16 Our Market rental strategy sets out a very clear direction to support the majority of responsible landlords and especially where institutional investment creates long term stability and quality. However we will challenge landlords who provide poor quality homes, charge exorbitant rents and give no security to their tenants. We will introduce landlord licensing schemes where appropriate, and will set up social lettings arrangements to support responsible investors.
- 3.17 Tackling these two issues, quality and security, is a key objective for the Council. The introduction of landlord licensing in pilot areas, together with more assertive challenge for poor landlords across the city should teach us lessons and improve our tactics. We need to make sure that when landlords put houses on the market to escape our requirements we have either a local social landlord or a responsible private sector partner ready to buy them.
- 3.18 We will seek to establish at least one social lettings agency to manage homes in this sector, and we will continue to ensure that new homes built for the rental market are managed by organisations that share our aims and objectives.

Employment, Skills and Training

- 3.19 Manchester's future approach to affordability will not just be about the homes that our residents will live in. It will have to be equally focussed on increasing the employability of our residents through our work and skills programmes.
- 3.20 It is important that the City has a work and skills system, which meets the growth needs of all businesses and enables residents from all backgrounds to obtain the skills and attributes that employers require. To achieve this there is a need to:
- Maximise employment opportunities for Manchester residents leveraging, in particular, where the city council has a strategic development, procurement or commissioning role;
 - Embed work as an outcome across the City's reform programme and continue to work with Working Well and the health system more broadly to support more people with underlying health conditions into sustainable and quality work;
 - Refresh the City's approach to Family Poverty, using an intelligence led and 'Our Manchester' approach to focus on families and neighbourhoods, most heavily impacted by welfare reform

- Ensure that employers at a citywide and neighbourhood level are engaged in shaping and contributing to skills development of both their existing and future workforce;
- Simplify the skills offer and pathways for residents from all backgrounds to lead to sustainable jobs and careers progression, working with colleges and training providers to deliver quality post-16 education and training with an accessible learning offer that provides higher level and technical skills linked to the City's growth sectors;
- Improved careers advice based on real market information and continued work with schools to ensure there are a range of positive pathways for young people to successfully compete in the labour market
- Ensure that business start-up and growth services deliver a high quality offer for the City's residents to start a business or pursue self-employment

4.0 Other housing policy issues still under review - housing for vulnerable demographic groups

- 4.1 The need continues to grow for specialist housing and support for older people, particularly those with health and mobility needs, younger people caught by the governments approach to housing benefit entitlements for the under-35s, the homeless, and people with a history of drug and alcohol addiction. We will develop an ambitious strategy to provide better and easier access to decent homes for all of these vulnerable groups.

5.0 Conclusion

- 5.1 Manchester can lead the way in developing a new and innovative approach to the future affordability of homes. This will ensure that Mancunian's can access a home of their choice that will reflect their household income. Through the guidance and direction provided by the Residential Growth Strategy, Housing Strategy, Market rental Strategy, Area Plans and Development Frameworks we have positioned ourselves to continue delivering new homes, improving the existing stock and creating places where people want to and aspire to live.
- 5.2 Recommendations are at the front of this report for approval.

6.0 Contributing to the Manchester Strategy

(a) A thriving and sustainable city

- 6.1 This refreshed approach to affordability will ensure Manchester has the right mix of housing that is affordable across a range of tenure and income levels to support a functioning Manchester and sub regional economy.

(b) A highly skilled city

- 6.2 The new and existing homes will be well connected to employment opportunities and schools

(c) A progressive and equitable city

- 6.3 Increasing the supply of good quality affordable homes for sale and rent will provide the opportunity for Manchester residents to raise their individual and collective aspirations

(d) A liveable and low carbon city

- 6.4 The right mix of quality energy efficient housing is needed to support growth and ensure that our growing population can live and work in the city and enjoy a good quality of life.

(e) A connected city

- 6.5 This approach recognises the importance a balanced housing offer plays within a well-connected city and the neighbourhoods within it. It seeks to create neighbourhoods where residents will choose to live and their housing needs and aspirations are met

7.0 Key Policies and Considerations

(a) Equal Opportunities

- 7.1 This approach to affordability will enable the provision of a diverse range of housing to meet the needs of the growing and changing population. Local communities will be engaged through appropriate consultation, giving all stakeholders opportunities to engage in the development of Manchester's policy.

(b) Risk Management

- 7.2 Assessment, mitigation and management of risk will be overseen through the city council's governance arrangements associated with residential growth

(c) Legal Considerations

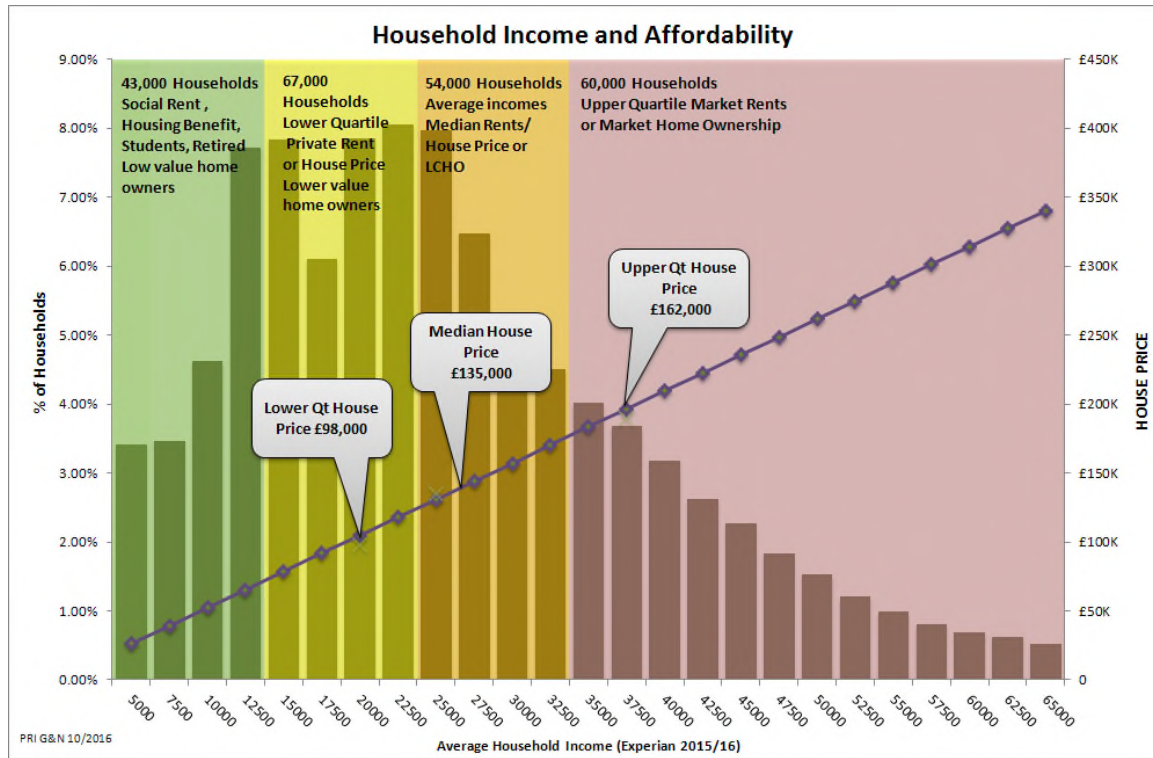
- 7.3 Any amendments to policy or practice as a result of this report will require a legal view to ensure compliance with any relevant legislation and case law relating to housing.

Appendix 1 – Approved key principles of affordability – Executive June 2016

- Affordability of housing in Manchester should be linked and aligned with household income. As a principle housing costs should not be more than 30% of a household's gross income.
- There should be spatial and geographical considerations in the provision and type of homes that meet our affordability thresholds across the city to help maintain mixed communities and balanced housing markets
- New build social and affordable rented housing should only be developed for specialist and supported housing, replacement homes lost through right to buy, demolition or estate regeneration with the overall aim of maintaining the current quantum of social housing in the city.
- There should be a wide range of tenure blind 'affordable' options for residents in the city, including market sale and rent. We should seek to direct and support those who can afford it, into those homes.
- We should consider where appropriate, our Registered Provider and Council owned affordable housing as an incentive and reward for reducing dependency
- We should offer secure tenancies to those residents with long term dependencies where affordable housing will link into a wider health and social care package, reducing costs on the public purse
- We should make the most efficient use of our existing social housing stock including;
 - Re provision where stock is poorly designed or the wrong type
 - Adopting a more flexible approach to tenancies e.g. use of fixed term tenancies to enable a review of the need for a secure tenancy
- We need to review the use of our planning powers, policies and affordable housing requirements to ensure that we can continue to develop a sustainable housing market that provides for those who work in our economy whilst sustaining the attractiveness of the market to investors

Appendix 2 – Household Income and Affordability

A key consideration in developing the policy was to understand the household make up across the city and their financial circumstances. In the diagram below we have split the 224,000 Manchester households into 4 income groups;



Group 1 – are on or below a basic household income of up to £15k per annum. They are most likely not in work, on benefit, in a job that pays the minimum wage/part time, students or they're retired on low income. This group (students excepted) are most likely accessing Social Rent or Local Housing Allowance in the market rented sector plus some older households in owner occupied homes or sheltered accommodation

Group 2 – are not quite on the average income but above the living wage earning between £15k - £25k as a household income. A proportion will be living in social housing or entry level market rent in more affordable neighbourhoods. Home owners in this group will be living in lower value homes or have accessed some form of low cost home ownership product or exercised their Right to Buy

Group 3 - are earning between £25k to £35k and will primarily be homeowners or accessing market rents in a wider choice of neighbourhoods. Their housing options are much broader both in terms of buying, renting and accessing all forms of low cost and mid-market home ownership.

Group 4 – are earning £35k and above. As a group they have greater opportunities and choices in terms of higher value home ownership and market rental. They will still have the option to access low cost home ownership but the higher income households within the group will be ineligible.

Appendix 3 – Affordable Housing Subsidy

The key constraint in the delivery of affordable homes is the level of subsidy required to make new affordable house building a viable option. Market house building allows the developer to recover their build costs plus profit through the sale of the property or by long term financing repaid through a market rent. Affordable housing is very different and is relatively heavily subsidised to make up the gap between the affordable product being offered and the market equivalent for sale or rent.

Using previous grant regimes we can express the level of subsidy required to build affordable homes. This can vary but is broadly as follows:

- **Social Rent** - will require grant subsidy of **50% - 60% of build costs**. As the maximum rent charged is approximately 60% of market rent registered providers can only finance 40-50% of the capital cost.
- **Affordable Rent** – will require grant subsidy of **30% of build costs**. Rents can be charged up to 80% of the market rent and where HCA grant is constrained, registered providers subsidise the costs further by converting a proportion of their existing social rent homes to affordable rent as they become vacant. They may also have to put in their own capital surpluses as funding if conversions are not an option.
- **Shared Ownership** - will require subsidy of **30% of build costs** as they will be selling a 'share' of the property and charging a nominal rent on the remaining amount. In theory the subsidy is repayable if the occupier 'staircases' out and buys their home outright. Historically there has been a negligible rate of staircasing.
- **Shared equity** – will require subsidy of **30% of build costs**. The majority of cost should be recovered on the sale of the property with possible increases in value if the property value increases over time.

An important point to note is that both the social rent and affordable rent subsidy will take the form of a grant and will not be recycled unless the registered provider disposes of their stock which is highly unlikely. Shared Ownership and Shared Equity will be a loan which can be repaid and recycled on the future sale of the properties