

**Manchester City Council
Report for Resolution**

Report to: Executive – 7 March 2018

Subject: Manchester’s Housing Affordability Plan – New Products

Report of: Strategic Director (Development)

Summary

Following approval by Executive in October 2017 Manchester’s Housing Affordability Fund was established. Within the report there were a number of areas suggested that would bring forward good quality affordable homeownership. This report details a Rent to Purchase proposal and an empty homes scheme that will provide new ways for First Time Buyers and purchasers to get onto the property ladder.

Recommendations

The Executive is recommended to:

1. Approve the two schemes as set out in the report and to delegate final agreement to the Director of Housing and Residential Growth in consultation with the Deputy Leader of the Council with responsibility for Housing.
 2. Authorise the City Solicitor to enter into any agreements to give effect to the recommendations.
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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	The 2 proposed schemes will support the city in providing 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

Rent to Purchase scheme - There are no revenue implications for MCC.

Empty Homes scheme - There will be council tax payable on properties held whilst empty and it is anticipated that this will cost £5k - £6k per annum, which will be met from existing resources.

Financial Consequences – Capital

Rent to Purchase Scheme - £0.2m

The capital and revenue forecasts (over a five year period) for the Rent to Purchase pilot scheme have been produced by Mossclare St Vincent's and show that MCC would contribute £25k per property for both two and three bed roomed houses in return for an equity share estimated at 20.1% for a two bed property and 18.6% for a three bed property. The plan is that this would be realised after either five or ten years but is subject to the property being sold. There is a risk that property values will decrease, in which case MCC would not recover the whole of the amount invested, but if property prices increased then a surplus would be generated. The financial model shows only a marginal surplus but this has assumed that property values reduce from anticipated open market values at the time of construction.

Assumptions have also been made in the financial model around build costs, market rent levels, voids, bad debts etc. - these are difficult to assess as this is a new type of tenure but any variation from the assumptions will impact on revenues from the scheme. However, the main risk to MCC is future property values. The success of the pilot is to be measured by assessing how many of the properties offered for initial rental have been taken up after construction. Whether the tenant/purchasers then save the required amount and take up the option to purchase won't be known for at least a further five years.

Empty Homes Scheme - £2.0m

The ability to deliver the number of properties planned from the funding resources set aside is dependent upon the purchase price, cost of improvement works and the selling price achieved being in line with estimates. Any adverse variation will impact upon delivery of the quantities assumed.

The combined £2.2m requirement for both schemes is intended to be funded from a combination of S106 contributions available for affordable housing (£1.2m) and city council capital receipts (£1m).

Detailed project and funding proposals for both schemes will also be subject to review and approval via the councils Capital Strategy Checkpoint Process.

Contact Officers:

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

Name: Jude Millet
Position: Housing Commissioning Manager
Telephone: 0161 234 4840
E-mail: j.millet@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.

- Housing affordability in Manchester, Executive 1st June 2016
- Housing affordability in Manchester, Executive 14th December 2016
- Housing Affordability Plan, Executive October 2017

1.0 Introduction

- 1.1 In October 2017 Executive approved the establishment of Manchester's Housing Affordability Fund (HAF). The HAF brings together in one place a range of funding streams targeted at the provision of affordable homes that will complement the development of higher value homes in and around the city.
- 1.2 The type of affordable homes the Council will deliver will vary depending on location, evidence of demand a clear rationale for delivery and will be a mixture of new build and, importantly, existing housing. Money from the HAF will be used flexibly and will enable the City Council to subsidise eligible schemes across the city. This will take the form of non-recoverable grant and/or recyclable investment.
- 1.3 The HAF has given the Council a real opportunity to invest directly into the provision of affordable homes in Manchester. This report outlines the first two schemes that will benefit from the Fund;
1. Rent to Purchase
 2. Empty houses to First Time Buyer Homes
- 1.4 These 2 proposed schemes have been developed with Registered Provider (RP) Partners and will seek to provide new and innovative ways for Manchester residents to access good quality affordable homes. The second of the two proposals has been successfully piloted in Manchester and this proposal builds on the experience gained.

2.0 Rent to Purchase

- 2.1 It is well documented that a person or household's ability to save for a deposit while paying current housing costs is preventing them from accessing home ownership. The average age of a first time buyer is estimated to be 37 which is in part due to the deposit required to access a mortgage. Manchester's Rent to Purchase scheme is looking to address this issue and allow a potential purchaser to live in a home they will eventually purchase.
- 2.2 This will be a pilot project where Rent to Purchase properties will be available for working households who are able to afford market rent payments and aspire to be homeowners but do not have the necessary deposit to access a high street mortgage. Essentially the scheme will be marketed as a deposit free home purchase plan.
- 2.3 The proposed Rent to Purchase scheme is part of a mixed tenure development across 6 infill sites in Cheetham, North Manchester which will see 48 new homes built starting in March 2018;
- 8 for Rent to Purchase
 - 20 for Shared Ownership
 - 20 for outright sale

2.4 There are 4 parties involved in this initial pilot:

1. **Manchester City Council (MCC)** – is the current landowner of all 6 sites and will provide equity investment into the construction of the homes for this product.
2. **Rowlinson Construction Limited (RCL)** - will purchase 6 infill sites from MCC and build 48 homes across 6 sites, selling 28 homes to MSV, 8 homes of which will be earmarked for the Rent to Purchase pilot.
3. **Mosscaire St Vincent's (MSV)** - will purchase the completed homes and will be the 'provider' of the product to the Tenant/Purchaser.
4. **Tenant/Purchasers (TP)** – will enter into an agreement with MSV to rent the homes with a view to purchasing them outright at an agreed date or point in time.

2.5 Subject to Executive approval MCC will enter into a Collaboration Agreement with MSV and will invest £25k as an equity share into each property to support the pilot. This will be recoverable when the property is sold to the Tenant/Purchaser. The Collaboration Agreement sets out the following key principles which have been agreed between MCC and MSV regarding the operation of the Rent to Purchase pilot:

- MSV will grant each of the T/P's an initial 5 year Option to Purchase their home from MSV at Open Market Value ("the Initial Option"). Where a T/P is not in a position to exercise their Option to Purchase at the end of the 5 year Initial Option period, MSV will grant a T/P a further 5 year Option to Purchase ("the Further Option") where MSV consider that the T/P will be in a position to exercise this Further Option.
- MSV will grant each of the T/P's a 12 month assured shorthold tenancy ("the AST") in respect of their home. Provided that the T/P complies with the terms of their AST, MSV will continue to grant the T/P further ASTs during the term of the Initial Option and any Further Option.
- Where a T/P wishes to exercise their Option to Purchase their home, MSV will assist the T/P to access a mortgage offer by providing the T/P with a deposit incentive of up to 5% of the purchase price of their home ("the Deposit Incentive").
- MCC's equity investment in each of the Rent to Purchase homes will be secured by way of a second-ranking legal charge against the property.

2.6 MSV will market the properties and will source suitable T/P's for each home. MSV and the T/P's will enter into a legal agreement which sets out their respective obligations in respect of the ASTs which MSV will grant to the T/P during the Initial Option and any Further Option periods, and how and when the 5% Deposit Incentive can be accessed by the T/P in order to support them to access a mortgage offer. During the term of the Initial Option and any Further Option period it is anticipated the T/P will build up their credit rating through regular rental payments under their ASTs which will make it easier to access a competitive mortgage offer. The T/P will be encouraged where possible to make savings themselves which can help boost the Deposit Incentive or enable them to exercise their Option to Purchase sooner.

- 2.7 Once the T/P triggers the release of the Deposit Incentive they will complete their mortgage application and purchase the property outright from MSV. The T/P will purchase the property from MSV at its "Open Market Value" as at the date of purchase
- 2.8 This is a pilot scheme to understand the demand for this type of product and the practical aspects of delivery. The lessons learned from the implementation of the scheme will be used to see if this a product that could be scaled up across other sites in Manchester.

3.0 Empty houses to First Time Buyer homes

- 3.1 As described in the October report to Executive approximately 75% of the city's existing homes fall into council tax bands A and B which implies that the city has a significant stock of lower value homes to purchase and rent. At present there is no practical support to buy or rent these homes other than through the traditional high street mortgage, market rent or, subject to eligibility, a social home through Manchester Move. In addition, potential owner occupiers struggle to compete with investors who are able to offer quick cash purchases whereas most potential owners occupiers need to access a mortgage with its inherent delays. However, in terms of Manchester's Housing Affordability Fund, the city's existing older housing presents the biggest opportunity to support some of our aspiring lower income households into the tenure of their choice.
- 3.2 The City has already run two pilot schemes, one of which related to purchasing empty homes, refurbishing them and selling to owner occupiers. The second related to housing providers disposing of surplus stock. The pilot allowed a small SME developer to purchase the stock at a discounted rate, refurbish it and sell to owner occupiers. The developer brought a unique style to engaging local residents in the refurbishments, finding and introducing new homeowners to the local residents and helping a resurgence of interest and community cohesion in areas that were showing signs of stress, caused in the main by a concentration of rented properties. The issue with this second pilot is that it is dependent on a subsidy, either through discounted sales values or a 'gap' funded grant.
- 3.3 The City Council has been successful in its efforts to reduce the number of long term empty homes over recent years. This was supported as part of the national funding programme but as this is coming to an end MCC has been developing ideas with both public and private sector partners. In respect of both these pilots, they are based around the basic premise of purchasing empty homes, refurbishing them and selling them to First Time Buyers (FtB) or lower income households for owner occupation.
- 3.4 In order to make this viable in some neighbourhoods this is likely to require both equity investment and grant funding. As mentioned above, the City has delivered a similar empty homes scheme where an approximate 19% 'subsidy' was needed to bridge the gap between acquisition and refurbishment costs

and the final sales receipt. This was due to very high refurbishment costs so this was an area that needed to be addressed in any future scheme.

- 3.5 To bring down the costs of the refurbishment Officers have worked with partners to develop a good quality 'occupational standard' which in turn would reduce the level of subsidy required. The occupational standard is being finalised with partners to ensure this does not detract from the overall quality of the finished product. This approach is also going to be complimented with a review of the contractors supply chain associated with empty homes work so we will have a more competitive and efficient form of delivery.
- 3.6 These discussions have now formalised into a proposed agreement between MCC and Adactus Housing Group (AHG) being put forward for approval by Executive. This agreement is by way of a Grant made under section 22 of the Housing Act 1996. Under section 22 of the Housing 1996 the Council has the power to provide financial assistance in the form of grants or loans to a registered social landlord for the provision of housing. The conditions of the grant funding to AHG will be in accordance with the provisions contained in a section 22 Agreement.
- 3.7 The overall aim of the project agreement is to bring empty and surplus to requirement houses back into use for affordable home ownership. The definition of affordable will be in line with the city's Housing Affordability Policy Framework (HAPF).
- 3.8 AHG working with private sector partners will undertake the refurbishment of empty homes and will then offer them for sale to First Time Buyers or owner occupiers. Based on combined acquisition and refurbishment costs of circa £80k and a sales programme which requires a 10% non-recoverable subsidy the initial investment of £2 million could potentially deliver 135 homes before it diminishes. This is based on recycling and reinvesting the sales receipts over several phases.
- 3.9 There have been early discussions with Manchester College on how this project can generate an increased level of social value. There are clear opportunities around employment, skills and training through a partnership between the private sector partners and the College. This is beginning to take shape and will explore the use of on-site classrooms, site experience, mentoring and the potential for apprenticeships linked to the construction industry and associated professions.

4.0 Conclusion

- 4.1 Manchester's Affordability Fund has the opportunity to support 2 new schemes that will give Manchester residents the opportunity to access the home of their choice. By being more creative, and working with both public and private sector partners, this can be delivered at a scale that would not be possible if the Council did this alone.
- 4.2 Recommendations appear at the front of this report

5.0 Contributing to the Manchester Strategy

(a) A thriving and sustainable city

- 5.1 The 2 proposed schemes will support the Council in providing 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

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

(c) A progressive and equitable city

- 5.3 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

- 5.4 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

- 5.5 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

6.0 Key Policies and Considerations

(a) Equal Opportunities

- 6.1 This approach to new homes 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 and associated schemes.

(b) Risk Management

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

(c) Legal Considerations

- 6.3 Under the Rent to Purchase pilot scheme the Council is making an equity investment of £25,000 per Rent to Purchase home to support the costs of construction. The Council's equity investment will be secured by way of a second-ranking legal charge against each of the Rent to Purchase homes. The Collaboration Agreement to be entered into between the Council and MSV sets out the key principles that have been agreed between the parties as to how the Rent to Purchase pilot scheme will operate and MSV's obligations towards the T/Ps (including the grant of the Initial Option and how the T/P will be able to access a Deposit Incentive to assist them to secure a mortgage offer). The Collaboration Agreement also includes a "cap" and "collar" mechanism in respect of the maximum amount that MSV can charge a T/P who wishes to exercise their Option to Purchase their home and the minimum amount that MCC will receive in return for its equity investment. Subject to the protection of the "collar" mechanism, as the Council is making an equity investment into the Rent to Purchase properties, this investment is subject to the risk that the Open Market Value of the properties concerned could decrease and the Council might not recover all of its equity investment.

Under section 22 of the Housing 1996 the Council has the power to provide financial assistance in the form of grants or loans to a registered social landlord for the provision of housing. The conditions of the grant funding to AHG will be in accordance with the provisions contained in a section 22 Agreement.