

# **CONSULTATION DOCUMENT**

## **TO PROPOSE THE INTRODUCTION OF A MAXIMUM VALUE OF A DISCOUNT SALE UNIT IN THE RIBBLE VALLEY**

The proposal was presented to Health & Housing Committee on 17 January 2019 and it was agreed by Committee that the policy would go out to consultation for 6 weeks and any responses would be reported back to Committee on 21 March.

The consultation period is open from 28 January until 4 March 2019, please send your response to [rachael.stott@ribblevalley.gov.uk](mailto:rachael.stott@ribblevalley.gov.uk)

### 1 PURPOSE

- 1.1 To propose a maximum value for affordable discount sale units developed in the borough in order to ensure the units meet the affordable housing definition.

### 2 BACKGROUND

- 2.1 The cost of housing compared to household income ratio is frequently used in research into housing affordability. In Ribble Valley the high house prices compared to income levels is often used to support affordable housing delivery and to highlight the difficulties households face in order to access home ownership.
- 2.2 Housing cost can be compared to earnings (the amount the employee earns before tax and benefit) or to household income, or the income a household receives after tax and benefits. Earnings data is frequently used because it is readily available at local level, however income data provides a more complete picture. It accounts for households with multiple earners and those with a higher proportion of their income coming from benefits.

#### Affordability and Tenure

- 2.3 Home ownership has become increasingly difficult to access particularly for first time buyers as house price growth has outstripped growth in wages. Median house prices in England are now 7.9 times higher than median earnings. Appendix 1 National Housing Federation the Housing markets in the North West shows a table that sets out all the house price to income ratios across the North West and highlights that Ribble Valley is in the top five with a ratio of 8.1.
- 2.4 The decline in the affordability of home ownership together with pressure on the social rented sector has prompted growth in private renting. As private rents rise the private rented sector has experienced its own affordability issues.
- 2.5 Access to social housing is constrained by lack of supply, the number of new homes provided for social rent declined from 39,516 in 2010/2011 to 5,900 in 2016/2017. Following their introduction in 2011/2012 the number of new homes for affordable rent initially increased rapidly with 40,000 new units being provided in 2014/2015. However the number of new affordable rent units in 2015/2016 was lower at 24,390.

### 3 ISSUES

- 3.1 The proposal is to set a maximum value of an affordable discount sale housing unit in the borough. Using the definition of affordable housing for discount sale property, 'to address the housing needs of those households unable to access the housing market', could be challenged when there is no upper value set for the sale of

discount sale units and hence why there is a proposal to set a maximum value. Discount sale units in the borough have always proved to be in high demand and a popular affordable home ownership option. This type of property has a straightforward percentage discount from the open market value. A 40% discount is applied to dwellings in rural areas and 30% discount for dwellings in urban areas. At point of sale 100% of the property is sold and no other body owns the proportion that is discounted and there is no rent to pay on that figure. At the point of sale the discount is applied and when in the future the property is resold, whenever that may be, the benefit of the discount is passed on then to future purchaser. This along with the local connection requirement is monitored through the Section 106 Agreement.

- 3.2 This form of affordable housing delivery does not require any Registered Provider (RP) input and therefore can be delivered by the developer. This brings the advantage that there was no reliance on RPs to deliver the units and therefore at times when RPs are making restricted investment in new stock, this product has proved to be both popular and useful in the provision of affordable homeownership units.
- 3.3 The option of delivery of an affordable unit by securing the discount has, in some cases, been used where a holiday let restriction is being lifted on a property and there is a requirement for the property then to become affordable. In these examples it is important that the value of the property remains accessible to those households in housing need. In certain parts of the borough even applying a discount may not provide a property which is accessible to households in affordable housing need, hence the proposal to set a maximum value.
- 3.4 Therefore the proposal is for a value to be set which will be calculated using the following formula.

The average weekly fulltime income in the borough x 1.5 = for weekly household income x 52 for the annual income X 4 for the which is the standard mortgage calculation.

Using information from <https://www.nomisweb.co.uk/reports/lmp/la/contents.aspx>

$A \times 1.5 \times 52 \times 4 =$  maximum house value of discount sale property.

Worked example using figures from the table below;

$604.9 \times 1.5 = 907.35$

$907.35 \times 52 = 47,182.20$  annual income

$47,182.20 \times 4 = \pounds 188,728.80$  max discount sale value.

<b>Earnings by place of residence (2018)</b>			
	<b>Ribble Valley (pounds)</b>	<b>North West (pounds)</b>	<b>Great Britain (pounds)</b>
<b>Gross weekly pay</b>			
Full-time workers	604.9	529.6	571.1
Male full-time workers	594.8	571.9	612.2
Female full-time workers	603.6	472.4	510.0
<b>Hourly pay - excluding overtime</b>			
Full-time workers	15.40	13.35	14.36
Male full-time workers	14.50	13.90	14.89
Female full-time workers	16.01	12.55	13.56
Source: ONS annual survey of hours and earnings - resident analysis			
Notes: Median earnings in pounds for employees living in the area.			

Currently this equates to a value of  $\pounds 188,729$ . Therefore this will be fixed as the upper limit that any affordable discount sale unit could be sold for at first sale. It is proposed that this straightforward calculation will be included in the Section 106 definition of discount sale.

Future sales of the property will be in line with standard house price inflation.

This will ensure that those developers considering developing units with a discount will be aware of the upper value restricting the value.