

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO HEALTH & HOUSING COMMITTEE

Agenda Item No. 7

meeting date: THURSDAY, 21 MARCH 2019
title: SETTING A MAXIMUM VALUE FOR AFFORDABLE DISCOUNT SALE PROPERTY
submitted by: NICOLA HOPKINS – DIRECTOR OF ECONOMIC DEVELOPMENT & PLANNING
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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.

1.2 Relevance to the Council's ambitions and priorities

- Community Objectives – To address affordable housing need.
- Corporate Priorities – To be a well-managed Council.
- Other Considerations – None.

2 BACKGROUND

2.1 This proposal was reported to the January Health and Housing Committee and it was agreed would go out to consultation for 6 weeks.

2.2 The report was sent out to all attendees of the housing forum, and also published on the website as a consultation document. Two written responses were received, both of which supported the policy being introduced in the proposed format.

2.2 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.

2.3 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

2.4 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.

2.5 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.

2.6 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.

Earnings by place of residence (2018)			
	Ribble Valley (pounds)	North West (pounds)	Great Britain (pounds)
Gross weekly pay			
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

Hourly pay - excluding overtime			
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 £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.

4 RISK ASSESSMENT

4.1 The approval of this report may have the following implications:

- Resources – No impact on resources.
- Technical, Environmental and Legal – To introduce a formula rather than a fixed value will ensure the value stays in line with household income over time. There may be some issue with mortgage lenders but that will be addressed if raised.
- Political – Important that affordable housing stock remains affordable in the future.
- Reputation – Essential that the discount sale properties remain accessible for those households in affordable housing needs.
- Equality & Diversity – Ensure fair access to all.

5 RECOMMENDED THAT COMMITTEE

5.1 Agree to introduce a formula to calculate the maximum value of a discount sale affordable property in the borough as set out at paragraph 3.4.

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For further information please ask for Rachael Stott, extension 3235.

The housing crisis in the North West

The North West is a strong, vibrant region with growing opportunities. It has high economic aspirations, but a housing crisis that needs to be addressed in order to meet them.

This report provides local data on the housing market in the North West and highlights that:

- While overall house prices are lower than the national average at £182,334, homes cost around seven times the average income.
- This means a household requires an annual income of over £40,000 to afford a mortgage, compared to the average salary in the region of around £26,000. The required income rises to nearly £69,000 in Trafford and over £60,000 in Cheshire East.
- Renting privately swallows up around 27% of the average income, and this figure is even higher in areas such as Manchester, where it rises to over 36%.
- The pension-age population in the North West is growing faster than in most other regions, putting pressure on the need for specialist and supported housing. Between 2014 and 2039, the number of people aged over 65 is expected to increase by 49%, from 1.28 million to 1.9 million.
- The number of empty homes in the North West is the highest in the country at 38,969. The problem is particularly acute in areas where there is high unemployment, low demand and poor quality housing.

Solving the housing crisis

Housing associations are united by a single purpose – to ensure everyone can live in a good quality home that they can afford.

Last year we built 26% of new homes in England and our ambition is to deliver 120,000 homes a year by 2033.

Beyond increasing supply, regeneration is a key part of fixing the housing crisis in the North West. Housing associations are committed to creating great places to live, and supporting thriving and vibrant communities.

Recent changes in Government policy will help us deliver even more. An extra £2bn investment included a specific commitment to allow new homes to be built for social rent – the first time such funding has been available since 2010.

Certainty over future rents and recognition for supported and sheltered housing are steps in the right direction. The Government must now deliver the final part of the jigsaw: the long-term supply of affordable land. Only then will the right amount of homes, of the right kind, in the right places, be built to meet changing housing needs.

If you share our sense of purpose and ambition, let's work together to end the housing crisis.

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#HomeTruths2018

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Home Truths 2017/18

The housing market
in the North West

North West	Average (mean) house prices in 2016/17 ¹	Mean monthly private sector rents in 2016/17 ²	Mean annual earnings in 2017 ³	Ratio of house prices to incomes ⁴	Income required for 80% mortgage [80% at 3.5x] ⁵	Percent of Housing Benefit claimants in employment ⁶	Unemployment rate 2016/17 ⁷	Long-term empty homes ⁸	Second homes ⁹	Total housing association affordable homes 2017 ¹⁰
England	£288,898	£852	£28,444	10.2	£66,034	24%	4.8%	200,145	248,747	2,672,026
North West	£182,334	£584	£25,683	7.1	£41,676	17%	5.1%	38,969	26,483	513,026
Blackburn with Darwen UA	£125,599	£489	£22,370	5.6	£28,708	11%	6.0%	1,563	171	11,676
Blackpool UA	£116,074	£521	£20,056	5.8	£26,531	17%	6.7%	1,174	598	2,346
Halton UA	£160,454	£547	£24,872	6.5	£36,675	9%	5.2%	445	90	14,522
Warrington UA	£209,103	£620	£28,579	7.3	£47,795	22%	3.7%	666	468	15,092
Cheshire East UA	£263,253	£740	£29,084	9.1	£60,172	13%	3.5%	1,451	1,308	20,941
Cheshire West and Chester UA	£232,213	£648	£28,158	8.2	£53,077	20%	4.0%	1,756	877	19,041
Cumbria	£180,081	£528	£24,991	7.2	£41,161	17%	3.6%	4,177	8,471	31,348
Allerdale	£173,598	£504	£26,296	6.6	£39,679	15%	3.9%	802	1,328	8,855
Barrow-in-Furness	£132,608	£503	£25,808	5.1	£30,310	14%	5.6%	907	230	823
Carlisle	£155,415	£469	£21,928	7.1	£35,523	17%	4.1%	553	621	8,008
Copeland	£139,957	£501	£29,687	4.7	£31,990	14%	5.7%	724	951	6,120
Eden	£205,365	£552	£21,788	9.4	£46,941	19%	2.2%	364	1,380	2,696
South Lakeland	£251,961	£643	£25,111	10.0	£57,591	22%	2.2%	827	3,961	4,846
Greater Manchester MC	£182,208	£628	£25,537	7.1	£41,648	19%	6.3%	11,150	9,777	203,308
Bolton	£148,372	£551	£24,648	6.0	£33,914	18%	5.4%	1,525	585	25,964
Bury	£174,001	£598	£27,383	6.4	£39,772	20%	5.2%	1,050	285	4,885
Manchester	£180,455	£729	£23,691	7.6	£41,247	23%	7.6%	1,365	5,191	52,550
Oldham	£145,974	£538	£24,643	5.9	£33,365	23%	6.6%	1,189	251	18,917
Rochdale	£141,006	£497	£23,634	6.0	£32,230	17%	6.9%	901	287	21,168
Salford	£172,742	£640	£24,726	7.0	£39,484	11%	6.4%	1,008	1,273	30,428
Stockport	£236,309	£719	£28,553	8.3	£54,014	19%	4.5%	1,087	694	7,220
Tameside	£149,181	£528	£23,140	6.4	£34,099	18%	5.7%	997	127	22,403
Trafford	£300,461	£905	£30,758	9.8	£68,677	21%	3.5%	687	678	16,095
Wigan	£142,807	£496	£25,022	5.7	£32,642	16%	4.8%	1,341	406	3,678
Lancashire	£169,598	£538	£25,418	6.7	£38,765	17%	4.2%	7,692	2,913	57,272
Burnley	£98,272	£449	£23,728	4.1	£22,462	16%	5.6%	1,115	182	5,966
Chorley	£197,045	£568	£25,407	7.8	£45,039	19%	4.3%	502	137	6,805
Fylde	£217,312	£591	£28,231	7.7	£49,671	19%	3.5%	470	574	2,746
Hyndburn	£111,279	£458	£22,688	4.9	£25,435	15%	5.1%	710	78	4,914
Lancaster	£176,596	£538	£25,974	6.8	£40,365	17%	4.5%	1,006	668	2,821
Pendle	£123,167	£458	£24,887	4.9	£28,152	18%	4.7%	900	176	4,631
Preston	£155,842	£534	£24,045	6.5	£35,621	19%	5.7%	990	302	11,613
Ribble Valley	£242,510	£683	£29,910	8.1	£55,431	12%	2.3%	206	222	2,304
Rosendale	£152,061	£498	£25,111	6.1	£34,757	10%	5.0%	554	154	4,654
South Ribble	£169,199	£579	£25,511	6.6	£38,674	22%	3.6%	375	92	5,310
West Lancashire	£209,054	£556	£26,775	7.8	£47,784	18%	4.7%	636	98	1,519
Wyre	£172,272	£573	£23,863	7.2	£39,376	15%	4.2%	228	230	3,989
Merseyside MC	£160,055	£520	£25,194	6.4	£36,584	14%	6.4%	8,895	1,810	137,480
Knowsley	£136,166	£567	£24,346	5.6	£31,124	9%	5.0%	857	41	18,322
Liverpool	£141,572	£499	£25,022	5.7	£32,359	15%	6.5%	3,449	174	59,081
St. Helens	£146,988	£522	£25,074	5.9	£33,597	14%	4.7%	935	595	17,732
Sefton	£183,345	£553	£24,986	7.3	£41,907	13%	4.9%	1,640	361	19,116
Wirral	£180,984	£526	£26,078	6.9	£41,368	17%	3.8%	2,014	639	23,229

1. Office for National Statistics (ONS), small area statistics

2. Valuation Office Agency

3. ONS, Annual Survey of Hours and Earnings

4. ONS, small area statistics and Annual Survey of Hours and Earnings

5. ONS, small area statistics and National Housing Federation own analysis

6. Department for Work and Pensions, Stat Xplore

7. ONS, NOMIS model based estimates

8. MHCLG, table 615

9. MHCLG, Council Tax base

10. Homes England, Statistical Data Return 2017