



Co-Ownership
Housing

Affordability Review

2nd Submission
26 January 2007



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Foreword

The Board and management of Co-Ownership Housing are appreciative of the very considerable body of work undertaken by the Affordability Review Team and the many Review contributors. We welcome the potential for improvement in the housing market you have created by highlighting such a wide range of important issues and enabling debate around them.

We trust we can support the debate further through this document.

As with our first submission to you in November 2006, Co-Ownership Housing is part of a joint submission which is being prepared on behalf of the social housing movement. In this our second submission we focus on areas within the remit and responsibility of Co-Ownership that are not within the scope of that joint NIHE/NIFHA submission, and also go into more detail where appropriate.

We aim to ensure that the grant cost of providing assistance into low cost home ownership is kept to a minimum. However, referring only to cost is misleading with a scheme such as Co-Ownership, which is investing in property as much as in people, and thus is continually generating returns for the public purse. Providing the policy changes we have proposed take place to deliver a public scheme that is acceptable to the private market, and subject to the availability of appropriate enabling grant funding, there is potential to provide significant numbers of affordable homes through Co-Ownership at minimal net cost to the public purse.

We expand later in this submission on the beneficial implications for the public purse in continuing to grant aid the Co-Ownership scheme. At this point we would simply emphasise that in the longer term a sustained and committed level of funding will transform the operational environment for Co-Ownership and make further innovation and service expansion possible.



**Dan Corr,
Chairman**



**Alan Crowe,
Chief Executive**



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Initial Co-Ownership Housing submission

Co-Ownership Housing listed in its first Affordability Review submission the main operational restrictions affecting Co-Ownership that we feel are relatively straightforward to remedy.

In that submission we made a series of recommendations separated into 3 strands to help with affordability issues as follows:

- **increase** access to affordable home ownership
- **encourage** sustainability once purchasers access a home
- **enhance** the supply of affordable homes

We would strongly encourage consideration of these various recommendations.



Affordable housing

In this, Co-Ownership Housing's second submission, we wish to pick up first on the Interim Report's comments¹ on defining affordability and the various forms of affordable housing and offer particular comment, drawing on the following principles:

- Market responsiveness
- Collaborative working
- Evidence based approach
- Delivery focus.

As an organisation we have to date applied our core Co-Ownership scheme in creative and flexible ways to meet affordable housing need. We offer these comments because we wish to:

- demonstrate support in tackling the difficulties involved in arriving at a clear and inclusive definition for all forms of affordable housing
- widen opportunities for affordable home ownership in Northern Ireland
- highlight the risk of inadvertently restricting the scope for Co-Ownership involvement in affordable housing solutions.

Defining affordability

In defining affordability one has to be careful that unintentional adverse impact on Co-Ownership activities are avoided, because the sheer adaptability of the scheme makes it a little different from what conventionally is thought of under affordable housing. Co-Ownership helps purchasers to afford homes irrespective of who actually built them (indeed, whether they are new build or existing properties) and irrespective of who they are currently being purchased for -

- a private developer,
- a housing association (developing or simply selling on, including Co-Ownership Housing), or
- an individual vendor/investor.

An inappropriate definition might inadvertently, for example:

- exclude Co-Ownership Housing from mixed tenure development projects which can make a valuable contribution to the supply of affordable homes.²
- severely restrict the supply of eligible existing properties and affordable housing choice through the scheme³

¹ Review into Affordable Housing Interim Report, Chapter 2: *What do we mean by affordable housing?*

² Co-Ownership has been successfully piloting a range of partnership models with development input from housing associations, private developers and Habitat for Humanity NI.



The initial consultation draft of PPS12 recognised that there were difficulties in defining affordability and instead adopted a more practical approach by describing affordability instead.⁴

PPS12 in its current form takes a more restrictive approach, drawing on an income cap to define affordability.⁵

More recently, PPS3⁶ in England and Wales defined the terms of “affordable housing” and “intermediate affordable housing” according to what the definitions included and what they were not intended to exclude.

We propose therefore that there should be an agreed conceptual definition of affordability (at a strategic and policy making level) along the lines of PPS3, from which more contextual (operational and implementation level) definitions might be developed in consultation as necessary. We appreciate, for instance, the need for a “definitive” definition for planning purposes.

Following through with this inclusive and simplified approach, we are not convinced there is benefit, for affordability definition purposes, in separately addressing the various types of housing between social rented and market.

We are not proposing that definitions should be so widely drafted that every home currently priced out of the market should be considered an “affordable” home. Rather, our viewpoint is that all definitions of affordability and affordable housing should be assessed to ensure they do not inadvertently preclude market entry products such as various Co-Ownership product applications.

We would welcome involvement in any consultative process to achieve an appropriate definition.

There are many possible routes into an affordable home using Co-Ownership already and the potential exists for further exploration and enhancement in diverse contexts such as:

³ The value limits system currently in use for Co-Ownership fixes a ceiling price for property purchase, and has materially impacted upon Co-Ownership’s ability to operate in the market. The value limits are set by DSD to operate within the lowest 25% of property prices.

⁴ Planning Policy Statement 12, consultation draft. *“Affordable housing may be defined as housing of an adequate standard which is relatively inexpensive compared to that which is generally available in the local housing market. It includes the following categories of housing: subsidised rented housing, subsidised low cost home ownership and in some market situations low cost housing for sale.”*

⁵ Planning Policy Statement 12 glossary states *“Affordable housing comprises the social rented sector, housing benefit funded private rented and that part of the low cost owner occupation market which can be purchased utilising 30% or less of gross household income.”*

⁶ Planning Policy Statement 3 on Housing (Nov 2006) offers the following definitions for “affordable housing” and “intermediate affordable housing”. *“Affordable housing includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. Affordable housing should meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices; include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.”* *“Intermediate affordable housing is housing at prices and rents above those of social rent, but below market price or rents, and which meet the criteria set out above. These can include shared equity products (eg HomeBuy), other low cost homes for sale and intermediate rent.”*



- Grant assisted equity schemes
- Equity schemes without grant assistance
- Mixed tenure in partnership with the social housing sector
- Mixed tenure in partnership with the private housing sector
- Private development through Article 40 agreements
- Private development outside the scope of Article 40 agreements.

We are therefore keen to see these routes supported in any enabling policy, PPS amendment and otherwise in developing definitions.

Affordability is always a local matter, relative to market prices and dynamics and availability at any given time. Affordability definitions need to allow realistic comparative assessments to take place in local markets on a current basis. For owner occupation purposes and where house price and income information contributes to the affordability assessment, this material should enable analysis to keep pace with the real housing market and be uplifted to anticipate the likely market conditions at time of sale.

For similarly practical reasons, mechanisms used to track affordability should be tenure sensitive. Affordable for social renting is quite different from affordability in the context of owner occupation where the term relates primarily to the ability to access and service a mortgage, a filtering mechanism which is applied quite separately from and independent of housing cost monitoring protocols.

Indexing affordability⁷

For the purposes of PPS12 currently, the trigger for when affordability becomes an issue is when 30% of average household income is insufficient to purchase a dwelling in the upper part of the lowest house price quartile. We would suggest some potential pitfalls in this approach.

- a) Using house prices as the sole yardstick for affordability in property terms ignores why people buy homes in the first place and what they need to sustain living in them. Issues such as standards and quality of property, value for money, location, fit with individual circumstances (childcare, travel to work etc) all play their part. A more sensitive approach is needed, especially where the affordable home may be other than new build.

We recommend that the additional costs involved in sustaining home ownership over social and private renting should be recognised when defining affordability for all forms of owner occupation.

- b) Typically, purchasers who cannot afford to buy unassisted will also not be able to afford a 5% property deposit.⁸ Deposits are more characteristic of the

⁷ Planning Policy Statement 12 glossary. *Affordable index: a coefficient based on 30% of gross household income (used to service a 95% mortgage) necessary to purchase a property with a market value equivalent to the upper limit of the lower quartile of house prices.*

⁸ To counteract this, Co-Ownership Housing works continuously to encourage lenders in 'no deposit' lending for Northern Ireland.

wider first time buyer housing market rather than the target buyers, as well as being subject to regular change in line with trends in that market.

- c) Housing provision today focuses strongly on standard and quality in new build; but affordability is a property related issue, as well as a supply side one. In a market pricing structure the houses of a less adequate standard will cost the least.

Co-Ownership Housing's experience in the existing property market⁹ has shown us that it is increasingly difficult within the lowest 25% of house prices (where Co-Ownership value limits are set) to find sufficient housing of an adequate standard which is at the same time relatively inexpensive.¹⁰

Affordability is relative to the market and must follow market movements. We recommend that the requirement for property of an adequate standard should be recognised as a prime consideration within affordable homes policy. Any top percentage for affordable house prices should be set to provide a sufficient supply of adequate properties, with reference to what is currently available in the market.

Assessing affordability

We take as our yardstick for effectiveness on affordable home ownership solutions that they must be acceptable to all stakeholder groups – public, commercial and client – and also:

- Interface with the wider house sales and finance markets
- Deliver benefits to the purchaser at reasonable cost

In other words, affordability policies are interfacing with the private sector and to be effective they must be acceptable to the private market.

The National Audit Office's recent report into low cost home ownership assistance in GB took an interesting approach to the whole subject of assessing affordability, which we feel is worth drawing from and building on for the NI context.¹¹

For instance, the NAO report encouraged providers to adopt a more sophisticated approach to assessing people's finances when encouraging purchasers to buy the maximum share they can afford and sustain. It also referred to the use of mortgage multiples to assess how large an equity share purchasers might be able to afford.

Our experience over the years in tracking the various products available from mortgage lenders has been that it is the total mortgage package that can have a

⁹8,000 existing properties have been purchased over the past 30 years within total property acquisitions of more than 19,500. The number of existing properties represents 40% of all Co-Ownership housing stock cumulatively, but 85% of properties provided through Co-Ownership in recent years.

¹⁰ Properties purchased through Co-Ownership are increasingly unavailable for new purchasers when next they come onto the market. In 3 out of 10 cases where homes owned through Co-Ownership have been recently valued for sale, the current market value exceeded the prevailing Co-Ownership purchase price limit and so these Co-Ownership properties were therefore rendered ineligible for a new Co-Ownership purchaser.

¹¹ National Audit Office, July 2006. *A Foot on the Ladder: Low Cost Home Ownership Assistance.*



significant impact on affordability, multiples being one of various package terms and conditions. Other terms apply such as one off costs, introductory rates, repayment penalties for the product selected.

Today, in a competitive commercial market, it is difficult to generalise as different lenders offer different affordable mortgage packages to attract differing client bases. The income multiple approach no longer dominates lenders' affordability assessments, as various 'ability to pay' approaches are now being brought in to help stretch the amount lent.

The Shared Equity Task Force progressed the NAO report by suggesting that providers should follow the lead of financial institutions in adopting affordability criteria to assess how much borrowers can afford and sustain.¹²

We do not believe that it is possible to accurately establish individual affordability by means of a purely formulaic calculation of housing costs, household income and property prices, ignoring other factors such as:

- income derives from various sources these days
- affordability based lending distinguishes between different sources of income (eg, earned income, benefits, allowances, tax credits) and may therefore have a differential impact amongst s75 groups.

It is our view therefore that adopting an overly formulaic approach to assessing affordability restricts capacity to respond to individual need. We recommend that, for the avoidance of anomalies, affordability assessment should move towards a more sensitive risk based set of criteria to include the accessibility and sustainability of mortgage finance for the individual purchaser.¹³

For example, costs for the potential lifetime of the mortgage have little impact on affordability decisions for the parties involved: purchaser, lender, social provider. Mortgages are likely to be extinguished and/or replaced before the contracted term of say 25 years or more. Co-Ownership Housing considers that first year costs may be a particularly relevant indicator of affordability, as the period addresses one off costs and special features such as discounted or other introductory rates.

We are keen to be involved with other bodies in this endeavour and to use our insight and expertise in full support for an integrated and evidence based approach to assessing affordability, in order to arrive at an agreed coherent and robust mechanism for identifying indicators of need and value in changing markets.

We support greater flexibility and local input to market oriented plans for new housing provision, and are keen to be involved with the Planning Service, DRD, the Housing Executive and other relevant bodies to explore how this might be achieved at both a strategic and operational level.

¹² Shared Equity Task Force Report, December 2006.

¹³ First time buyers and returning home buyers both face affordability problems; however, they may be treated differently in terms of their access to mortgage finance, where different products may apply to each category of borrower. Consequently two buyers on identical incomes attempting to purchase identical properties at the same price may face different situations in terms of their affordability.



Property availability and funding for Co-Ownership

We greatly welcome the Interim Reports comments in relation to our proposals on an alternative to the current value limits system and on securing properties. Property price inflation has continued apace and we find ourselves facing even greater operational constraints with few properties available within the £130,000 and £150,000 property value limits. The current system is out of step with today's housing market and needs urgent root and branch review, to be replaced with a more sensitive and robust approach. The current system disadvantages Co-Ownership in interfacing effectively with the private market, stimulating development and availability of affordable new build and enabling individual house buyers to compete for homes.

We would emphasise for clarity that, as a result of the current system, the level of property purchases year on year is neither an indicator nor a predictor of demand for Co-Ownership. Rather, activity levels flow from current policies on which properties are eligible for purchase through the scheme and on grant funding.

Small changes can have big impacts. In a scheme such as Co-Ownership, so inextricably linked with the private market and requiring funds to be dedicated some time in advance, a stable and committed level of funding is vital. Government funding is the necessary lynchpin, enabling Co-Ownership Housing to operate to its fullest potential in order to.

- deal with short term market volatility and long term house price inflation
- improve affordability for individual purchasers through cost cutting initiatives such as lowering equity share options and rents
- undertake area based initiatives to add to housing supply through development, refurbishment, or investment in a rolling stock programme

Stable and committed funding for Co-Ownership has the added benefit of delivering an excellent return on investment for the public purse. Subject to funding levels continuing at a similar level to the grant programmed for 2007/8, latest three year projections indicate that significant volumes of properties (at similar levels to those purchased in recent years) could be delivered at a minimal net cost to the public purse in comparison to the total value of the properties provided.

This is not a matter of asking for more money. It is about achieving best value for money. It is a matter of managing cashflow and commitments to best effect, ensuring the money we do receive goes as far as it possibly can.



Public land

Suitable sites could be made available from the NI Housing Executive and other landowners for the purposes of development/properties for refurbishment to support further community based opportunities for shared equity and self build.

To illustrate this point:

Habitat for Humanity Northern Ireland has an innovative scheme whereby people from within local communities themselves contribute in part to the construction of dwellings in which they live. To enable such persons to aspire to home ownership, provided they meet Co-Ownership Housing's eligibility criteria, they can avail of the equity sharing scheme provided by Co-Ownership.

Subject to site availability, their model can be rolled out in both urban and rural areas for both:

- new build properties, especially on brown field sites, and
- refurbished homes in former voids.

Co-operation between Habitat for Humanity Northern Ireland and Co-Ownership Housing enables people to live in and take ownership of their communities and thus supports regeneration, community reconciliation and home ownership opportunities across Northern Ireland.



Article 40 agreements

Co-Ownership Housing agrees that the use of agreements under Article 40 of the Planning (NI) Order 1991 (“article 40 agreements”) should be brought into effect as soon as possible and looks forward to being an integral provider of the affordable housing which could be provided as a result of such agreements.

The introduction of article 40 agreements for affordable housing would not be without its own complexities. It is important that bodies such as Co-Ownership are part of the process by which article 40 agreements are developed at both a strategic and operational level.



Higher densities

The Interim Report advocates higher densities of housing and considers that high rise apartments in Belfast City Centre and low rise accommodation in Belfast and other large towns would be acceptable to local communities. It further recommended that such properties be developed on the basis of mixed tenure, thus comprising an element of owner occupied apartments.

Often apartment or other multi-unit developments involve common areas inside the building such as entrance halls and stairwells in addition to a roof common to all units in the block. Outside the apartment block there are often common gardens, driveways and bin storage facilities. It is important that appropriate structures are put in place to deal with the maintenance and management of such areas and the insurance of the entire building. Mostly this is undertaken by the developer forming a management company specifically for this purpose. In due course, when the apartment development is finished, the title to the common parts is transferred to the management company, the shareholders and directors of which are usually all and a number of the apartment owners respectively.

However it is fair to say that the performance of the management company depends on effective and efficient operation by its directors and shareholders. There is a concern that with the passage of time, if there is apathy in the affairs of the management company or lack of awareness of the importance of appropriate and timely attention to the running of the management company, returns to the Companies Registry may not be filed appropriately and indeed there is a danger of the company being struck off the Companies Register. In such circumstances the sustainability of the property may be adversely affected.

The problems emerging from management companies have also been raised in the Republic of Ireland to such an extent that the Law Reform Commission in December 2006 issued a consultation paper on law reform entitled "Multi-Unit Developments". The issues which the Commission highlights in relation to multi-unit developments include:

- Purchasers not appreciating the difference between ownership of an apartment and ownership of a more traditional housing unit
- Confusion as to the nature and purpose of service charges
- Lack of regulation of management companies
- Company law surrounding management companies being in a state of flux
- The complexity of multi unit developments in terms of ownership means that conveyancing is fraught with difficulties.

The Irish Law Commission has concluded: "Having identified myriad problems in the sector, the Commission takes the view that reform of the status quo is imperative..."¹⁴

In Northern Ireland it is important that, if consideration is given to increasing the supply of housing through higher density mixed tenure developments, cognisance is taken of the problems which may arise with such developments and to the fact that legal provision may need to be made to deal with such problems.

¹⁴ Page 17 of the Irish Law Commission report entitled Multi Unit Developments.



Summary of recommendations

Affordable housing

1. There should be an agreed conceptual definition of affordability (at a strategic and policy making level) along the lines of PPS3, from which more contextual (operational and implementation level) definitions might be developed in consultation as necessary.
2. All definitions of affordability and affordable housing should be assessed to ensure they do not inadvertently preclude the activities of Co-Ownership.
3. Mechanisms used to track affordability should be tenure sensitive. The additional costs involved in owner occupation compared with social and private renting should be recognised when setting affordability limits.
4. The requirement for property of an adequate standard, whether it is new build or an existing property, should be recognised within the definition for an affordable homes policy.
5. Affordability is relative to the market and must both follow and anticipate market movements. Market information used should be as current as possible, and allow assessments to take place in local markets.
6. For the avoidance of anomalies when establishing affordability at an individual purchaser level, assessment criteria should include consideration of the accessibility and sustainability of mortgage finance for the individual purchaser.
7. We support greater flexibility and local input to market oriented plans for new housing provision, and are keen to be involved with the Planning Service, DRD, the Housing Executive and other relevant bodies to explore how this might be achieved at both a strategic and operational level.

Property availability and funding for Co-Ownership

8. A sustained and committed level of funding enables Co-Ownership Housing to operate most effectively. It maximises the number of affordable properties that can be provided at the least cost to the public purse, and enables us to progress local solutions. There should be a 3 year rolling commitment for grant allocation.
9. The property value limits system should be replaced as a matter of urgency with a more sensitive, predictive framework that supports interface with the private housing market. We are concerned that universally applying a limit of the lowest 25% of property prices is exclusive and arbitrary and would wish to work with others to agree an alternative, robust approach.



Public land

- 10.** Suitable sites should be made available from the NI Housing Executive and other landowners for the purposes of development/properties for refurbishment to support further community based opportunities for shared equity and self build.

Article 40 agreements

- 11.** It is important that bodies such as Co-Ownership are part of the process by which article 40 agreements are developed at both a strategic and operational level.

Higher densities

- 12.** It is important that, if consideration is given to increasing the supply of housing in Northern Ireland through higher density mixed tenure developments, cognisance is taken of the problems which may arise with such developments and to the fact that legal provision may need to be made to deal with such problems.
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