running costs, and may offer a more flexible product to home purchasers. It would also be able to offer affordable home ownership to many communities facing similar housing problems to the Upper Dales. Such an approach may however be at the cost of local control and input, and run the risk of introducing additional remote decision making which may not be sufficiently sensitive to the needs of the local community.

Two possible new favourable developments on the horizon, which could greatly assist in providing a suitable vehicle for investors are the possibilities of developing Real Estate Investment Trusts (REITs) as proposed in the Barker Report, or Open Capital Partnerships (OCPs).

The economic benefits to the public purse of an Affordable Home Equity scheme could be quite substantial. In addition to retaining local working people and enabling the recruitment of essential workers there are many local housing association tenants who could afford to buy through this scheme. Rehousing just two tenants a year would generate 20 extra social lets over ten years. In an area with just 65 rented housing association homes, this would be of substantial benefit to households whose only option is to rent.

Executive Summary

Affordable Home Ownership in the Upper Dales

A report on the feasibility of establishing a Home Equity Fund

Key Points – General

These points can be applied in many locations throughout the UK where high house prices restrict the ability of local people to purchase homes:

- Clear evidence of willingness of "high net-worth" individuals to invest in an affordable home ownership product which would assist local people and essential workers to purchase property
- An achievable fit between needs of local people/essential workers seeking to buy and requirements of investors
- The potential purchasers interviewed all appeared to very quickly grasp the concept and issues relating to the "interest-bearing equity loan" being explored as a product to facilitate affordable home purchase
- Barriers to developing a viable scheme are the linked issues of:
  - Identification of most appropriate vehicle or method to solicit and receive deposits, and on-lend
  - Set-up costs
  - Requirements of the regulatory regimes applying to both mortgage lending and deposit taking

Key Points – Local

- Home ownership too expensive for local people to afford without substantial family backing
- Entry level properties were £120,000 to £140,000, against typical local incomes within the range of £10,000 to £20,000
- Property market inflated beyond purchasing power of local waged economy due to demands for holiday homes, second homes, and retirement homes
- No absolute shortage of housing:
  - Shortage is caused by outsiders buying-in
  - Purchasing power and affordability are the key local issues
- Shortage of affordable housing having an adverse impact on the local economy, leading to a skills drain, business closure, and long-distance commuting of key tradespeople
- Affordable home ownership preferred to sub-market renting

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Matching Investors Wealth to Local Housing Need

The Upper Yorkshire Dales (Upper Wensleydale, Swaledale and Arkengarthdale) is an area of exceptional natural beauty. The very attractiveness of the locality, however, causes severe problems for the local economy. The desire for outsiders to rent holiday homes, and/or purchase second and retirement homes raises property prices well above the levels that can be afforded by the local community. The result is an exodus of local people unable to purchase, and problems for businesses seeking to recruit essential workers. Increasingly, tradespeople commute in from considerable distances, and the local economy is gradually becoming less sustainable.

There is no absolute shortage of homes. It is just that as properties come on the marke,t holiday-home businesses or in-moving outsiders buy them at prices far higher than local employees can afford. A small number of properties are provided through housing associations on a shared ownership basis, with slightly more for rent. While making a small contribution, these fail to meet local need, and the current Housing Corporation grant regime does not appear to be working well in the locality due to issues of land supply and TCI (Total Cost Indicator) limits.

This project sought to explore whether it would be possible to identify wealthy local investors who would be willing to invest in helping first-time purchasers and essential workers buy homes, and whether a set of terms could be found which provided an acceptable rate of return to the investors, but which were also acceptable and affordable to purchasers.

The funding product considered to assist home purchasers is termed "Affordable Home Equity"(AHE), and comprises a "interest-bearing equity loan". The concept was conceived during the Joseph Rowntree Foundation "Inquiry into the Future of Low Cost Home Ownership". The illustration below shows how it could work.

This example is illustrative and inevitably simplifies a number of transactional issues

The research included interviews and focus groups with approximately 30 high net-worth individuals. These were either better-off local people who had been identified as possibly being willing to invest in a suitable scheme (interviews carried out on a one-to-one basis) or wealthy investors remote from the Upper Dales brought together in focus groups to consider the merits and investor requirements of such a scheme. The research also included interviews with 12 local households who had expressed an interest in purchasing a home in the Upper Dales but needed assistance.

Key objectives of the research were to find whether the Affordable Home Equity product was suitable for, affordable to, and understandable by, local potential purchasers, and whether a fit could be obtained between the requirements of potential investors and needs of local households seeking to purchase. It was also important to test out the acceptability for potential purchasers of some of the more stringent conditions required by investors compared to the more benign approach of social landlords.
An early conclusion was that it is unlikely that there would be sufficient "benign" investment money available in the Dales to fund a viable home equity scheme. Any scheme established would have to be on sufficiently investor friendly terms to appeal to investors from outside the locality. Over time, and with initial success, it is likely that the proportion of funds raised locally would rise.

A key requirement for any scheme from an investor perspective would be thorough scrutiny and vetting of all potential borrowers, from both an affordability perspective and the perspective of personal commitment and integrity. Perhaps surprisingly, this approach was not only acceptable to the potential purchasers, but was very strongly endorsed. They were keen not to see the scheme falter due to lack of commitment or application from other purchasers (with several being critical of the "non-judgemental" approach perceived to be taken on housing association shared ownership schemes).

Investors were generally positive about investing in AHE, which was seen as: "A way of investing in property without becoming a landlord". Matters that were important or essential to investors included:

- ❦ Careful selection of home purchasers (a well thought through vetting or sponsorship system clearly a high priority)
- ❦ Deposit essential (5% adequate)
- ❦ Interest rate of 3% (indexed) appeared sufficiently acceptable to attract funds, though slightly higher would be more attractive
- ❦ Ability to exit after ten years essential (or alternatively ability to trade their investment). But ten years seen as appropriate for a property based investment.

- ❦ Ability to redeem early on death or financial emergency (penalty acceptable)
- ❦ Essential that borrower pays full value of loan if property value falls
- ❦ Household or credible name attached to investment
- ❦ Small amount of public or charitable "risk money" to underwrite scheme would enhance its attractiveness
- ❦ Would "absolutely love" investment to be available in ISA form. This would encourage annual investment

The requirement of investors to be able to withdraw their investment after ten years makes the product unsuitable for most potential borrowers over 35, and does not meet the needs of retiring workers moving out of tied accommodation. Additionally, the equity-sharing concept makes this product unsuitable for properties that require major repair or improvement, as much of the benefit – but none of the costs – would go to the investor. However the ten-year restriction appears to be acceptable to most would-be purchasing households interviewed, and also viable in terms of their ability to "buy-out" or refinance the loan after ten years under most scenarios.

The prospective purchasers' perspective was one of robust commitment. This was demonstrated by an immediate willingness to identify ways in which they would earn the additional money needed to cope with the increase in their current housing costs to the calculated purchase and running costs of a property purchased through this scheme.

Prospective purchasers were also willing to accept as part of any agreement:

- ❦ The obligation to pay off the AHE loan in full if the value of their property fell
- ❦ Ten year maximum before buying out the AHE loan
- ❦ 5% deposit (or alternatively, personal guarantor)
- ❦ Full responsibility for all property running costs
- ❦ Sharing the gain on any improvements carried out
- ❦ Thorough pre-purchase scrutiny and vetting

The scheme would have been appropriate and viable for between half and three-quarters of the prospective purchasers interviewed.

This report identifies the need for assistance for local first-time buyers and key workers in the Upper Dales, and the "financial fit" that could be achieved with a suitable deposit taking and on-lending vehicle.

Key issues to be resolved prior to establishing an Affordable Home Equity scheme for the Upper Dales (or elsewhere) are identified as:

- ❦ Choice of an appropriate vehicle for receiving investments and making loans, and financing set-up costs
- ❦ Compliance requirements generated by the necessary prudence of the regulatory regimes applying to both receiving funds and mortgage lending
- ❦ The need for special clearance from the Office of Fair Trading on loan documentation where the equity sharing nature of the loan makes advance calculation of the final APR (Annual Percentage Rate of Interest) impossible
- ❦ Development of a business plan which can operate at an appropriate scale for the Upper Dales. This would need to operate at a sufficiently low level so as not to distort the local housing market, yet on a sufficient scale to cover necessary administration and other running costs

A key choice for the Local Strategic Partnership would be whether to try to provide a bespoke local scheme specifically for the Upper Dales, or promote a wider scheme from which the Upper Dales would benefit.

A small local scheme would have the advantages of attracting local commitment, community ownership and focus, but perhaps at the expense of having disproportionate start-up costs and only a small amount of annual income generated with which to administer the scheme.

A wider scheme could attract investors on a firmer footing, be far better able to cover its start-up and annual