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Introduction and Overview

This report was commissioned in response to concerns that the absence of affordable accommodation in the Upper Dales was having a serious long-term impact on the economy and social fabric of the area.

With 27% of properties being vacant, holiday or second homes, there is not perceived to be an absolute shortage of accommodation in the area. However low earnings and high house prices serve to make home ownership impossible for most local people forming new households, excepting those able to access parental wealth.

This report found that the entry-level price for home ownership was between £120,000 and £140,000 in the Upper Dales. These price levels are not sustained by local incomes, but by competition for property for holiday homes, for second homes and for retirement accommodation. The popularity of the Dales as a place to retire to or visit means that local house prices are not determined by the local economy, but by house prices and incomes elsewhere in the economy.

There is a shortage of affordable housing to either rent or purchase. The 2002 Census identifies only 7% of accommodation in the area as being available to rent from council or housing association, and only 0.2% as being shared ownership[1].

For many households their income is too low for home ownership to be a viable option, even if house prices were closer to the average for the region. However, there is still a significant number of local people with incomes that would be quite adequate to support home purchase in a "normal" market, and many local employers pay salaries sufficient for their employees to reasonably expect to be able to purchase a home. In addition, there are many households living in very expensive private rented accommodation, tied properties, or with family, who wish to purchase, together with households living in council and housing association property who would also be able – and willing – to purchase in a more "normal market".

Given the local availability of accommodation, and the incomes to support home ownership in "normal" circumstances, could not a scheme be devised which in some way enhanced the purchasing power of local households and employees?

One resource that is perceived to be available and under-utilised in the locality is personal wealth, with many local people and families holding considerable sums in investments and on deposit. Could a way be found to provide an economic return to local people with money to invest, using their funds to share the cost of home purchase with local households and employees?

It was in response to these last two questions that this report was commissioned. The author (with others) had previously identified the potential to develop an investment product – termed Affordable Home Equity (AHE) – which could assist affordable home ownership, in work commissioned by the Joseph Rowntree Foundation[2].

This report seeks to explore whether the initial Affordable Home Equity (AHE) concept could be developed and applied in the Upper Dales to enable affordable home ownership. The main intention of this project was to scope/provide:

- ❦ A profiling of the target client group that the initiative seeks to house
- ❦ A reality check on the willingness of private sector investors to invest on the "interest bearing equity loan" basis (which is the key funding ingredient of Affordable Home Equity)
- ❦ An exploration of the potential investors' expectations in terms of rate of return, risk exposure, length of investment and liquidity requirements
- ❦ An appraisal of the local market and costs, to confirm that the affordability gain achieved through the AHE model would provide accommodation affordable to the target client group
- ❦ An exploration of available subsidy (private) that may be available (or necessary) for the AHE model to be affordable to the target client groups
- ❦ An exploration of the "stretch" that could be achieved with limited public subsidy and using private investment through AHE to either provide a greater number of affordable homes, or to enhance the affordability of publicly subsidised property to lower-income target group clients
- ❦ A modelling exercise to explore the "fit" between local investors' requirements (and willingness to invest) and the affordability gain achievable through the Affordable Home Equity approach. Scoping any potential downside exposure for the home purchasers
- ❦ Scoping risks for the investors
- ❦ Scoping the extent (and predicted cost) of legal and other fees to transfer any model judged to be viable to a practical scheme

With the main outputs sought from this report when commissioned being:

- ❦ The willingness of local investors to invest, and an indication of the terms on which they would make funds available
- ❦ The fit achievable between the cost of the affordable housing provided, and the purchasing power of the target client group
- ❦ Whether subsidy (public, charitable or other local "Trust Fund") would still be needed, and in what measure
- ❦ The likely availability and nature of any private subsidy identified
- ❦ The extent and indicative costs of legal and other fees required to complete a project on a "first-time" basis (ignoring normal development costs and similar parameters). This may be either for a new development or purchase of existing satisfactory housing
- ❦ A note on the failings of current provision and grant structures, and recommendations to address the issues identified

A Note on Geography

This report focuses on the Upper Dales, the need for affordable housing (particularly home ownership), and an exploration of a new method of providing affordable home ownership through the use of Affordable Home Equity (AHE).

The Upper Dales comprises Upper Wensleydale, Swaledale and Arkengarthdale.

For the purposes of statistical information in this report, the Upper Dales is considered to be the area covered by the Richmondshire wards of Addlebrough, Hawes and High Abbotside, Penhill, Reeth and Arkengarthdale, and Swaledale.

Other information was only obtainable on a postcode basis, with the best fit for Upper Wensleydale being postcodes DL8 3 and DL8 4, and DL11 6 for Swaledale and Arkengarthdale.

When considering housing markets it was necessary on pragmatic grounds to work with information as collated by local estate agents, and to have regard for there being a wider local housing market than just the Upper Dales. For analysis of the local housing market it was often appropriate to widen the analysis to include the wards of Bolton Castle and Leyburn, and immediate vicinity.

Housing Stock and Tenure

The Upper Dales contains a total of 2,625 resident households living in a total of 2,632 properties or "household spaces"[3], or 4,216 households living in 4,223 properties if the wards of Bolton Castle and Leyburn are included.

There are however a total of 3,578 properties in the Upper Dales, or 5,338 including Bolton Castle and Leyburn. The discrepancy is explained by a high proportion of holiday and second homes, and empty properties.

The following tables illustrate the use of homes, tenure and property types found in the Upper Dales:

Table Showing Mix of Occupied, Vacant and Second or Holiday Homes

Ward	All occupied property with permanent residents	Vacant property	Holiday or second homes	All household spaces	Percent holiday or scond homes	Percent vacant
Addlebrough	561	20	132	713	18.5%	2.8%
Hawes and High Abbotside	572	16	146	734	19.9%	2.2%
Penhill	521	38	143	702	20.4%	5.4%
Reeth and Arkengarthdale	488	42	210	740	28.4%	5.7%
Swaledale	490	23	176	689	25.5%	3.3%
Total	**2632**	**139**	**807**	**3578**	**22.6%**	**3.9%**
Percent	**74%**	**4%**	**23%**			
Including						
Boston Castle	554	16	64	634	10.1%	2.5%
Leyburn	1037	31	58	1126	5.2%	2.8%
Total	**4223**	**186**	**929**	**5338**	**17.4%**	**3.5%**
Percent	**79%**	**4%**	**22%**			

It can be seen that the percentage of holiday and second homes rises to over 28% in Reeth and Arkengarthdale, and over 34% if empty homes are included.

The main property types are detached and semi-detached properties, with the more affordable terraces comprising only about 22%, and flats and maisonettes 7%. The majority of flats and maisonettes appear to be in the social rented sector, private rented sector or holiday apartments, with very few appearing on the market for sale for owner-occupation.

Main Property Types

Ward	Detached Property	Semi-detached	Terrace, inc. end terrace	All flats, maisonettes etc*
	%	%	%	%
Addlebrough	47.1	26.0	16.3	10.5
Hawes and High Abbotside	30.9	29.6	31.1	8.2
Penhill	45.4	32.3	16.7	5.3
Reeth and Arkengarthdale	39.9	22.3	29.7	8.0
Swaledale	51.7	28.5	16.4	3.3
Percent:	**43%**	**28%**	**22%**	**7%**
Including:				
Bolton Castle	46.37	29.18	20.03	4.26
Leyburn	44.58	31.53	14.65	8.35
Percent:	**44%**	**28%**	**21%**	**7%**

*about 0.3% of accommodation is temporary – caravans, etc

The dominant tenure is owner occupation, with nearly three-quarters (73%) owning or buying their property. About 7% rent from a housing association or council, with an unusually high percentage of private renting (20%). NB All vacant, holiday and second homes are excluded from these figures, so the proportion of total stock in any of these tenures should be reduced by about 27% to obtain tenure of available properties.

Tenure of Resident Households – Upper Dales

	Total	Percent
All households	2625	100%
Owner occupied: Owns outright	1269	48%
Owner occupied: Owns with a mortgage or loan	644	25%
Households: Owner occupied: shared ownership	4	0.2%
Rented from: Council (local authority)	121	4.6%
Rented from: Housing association	65	2.5%
Rented from: Private landlord	334	13%
Rented from family, employer, etc	188	7%

The census data is inevitably not completely accurate, and in particular the proportion of shared ownership properties seems to be very low compared to feedback from other sources. Shared ownership is, however, a tenure that is easily mis-described when completing the census form. While the above table is only for the Upper Dales, inclusion of Bolton Castle and Leyburn has minimal impact on tenure mix.

House Prices and Affordability

For first-time buyers there are two main factors that determine whether they can afford to purchase a home. Firstly the price of "entry level" property in the area in which they wish to live, and secondly, the amount of money they can afford and manage to raise from savings and borrowings.

There is clear evidence that house prices have risen steeply in the Upper Dales in the past three years, and that now there is extremely little low-price property available. Interviews with would-be first-time purchasers yielded the view that they expected to have to pay between £120,000 and £140,000 for their first property. The evidence collected and presented below substantiates that expectation.

Information on local house prices is available from two main sources. The Land Registry has a publicly accessible database which records the actual sales price of residential property sales. This is recorded by property type (detached, semi, terrace or flat/maisonette) and reported on a three monthly basis. Average sales prices only are reported, and no data is made available if less than three sales of a property type are recorded in any three-month period. The lowest (most precise) level at which sales data is made available is at the "sub-postcode" level. For the Upper Dales, the relevant postcodes are DL8 3 (mainly Upper Wensleydale), DL8 4 (also Upper Wensleydale) and DL11 6 (covering a large part of the Two Dales Partnership area). Overlap is not perfect, but does provide useful information.

Additionally, in the Upper Dales considerable distortion arises due to the small number of properties sold in any period, and the great variation between properties. This is particularly marked with terraced property, which can vary enormously both in condition[4] and size. A "terraced" property may in fact be several former dwellings converted into a single dwelling.

Bearing its limitations in mind, the Land Registry data provides some useful trend and over-view information.

The table on the next page reveals the relatively low level of total sales in any year. Typically 130–155 in any one year (the 12 months from July 2000 were almost certainly impacted by foot-and-mouth depressing sales). Of these, only between 20 and 30 a year are of the more affordable terraces.

Table Showing Average Property Sales Values in the Upper Dales

	Upper Wensleydale							Two Dales[1] Partnership area				
	Postcode DL8 3			Postcode DL8 4			Total props		Postcode DL11 6			Total props
Date	**Detached**	**Semi**	**Terr**	**Detached**	**Semi**	**Terr**		**Date**	**Detached**	**Semi**	**Terr**	
2003 - Qtr 2	£244,750		£141,650	£228,868	£185,000			**2003 - Qtr 2**	£215,375			
2003 - Qtr 1	£210,001	£120,500		£161,500	£123,333			**2003 - Qtr 1**	£217,485		£144,166	
2002 - Qtr 4	£208,611	£203,333	£154,375		£154,487	£103,650		**2002 - Qtr 4**	£208,166	£137,259	£116,189	
2002 - Qtr 3	£169,821	£151,222	£116,825	£308,050	£148,666	£106,150		**2002 - Qtr 3**	£157,750	£131,200		
Average	**£197,850**	**£153,312**	**£132,419**	**£254,395**	**£151,628**	**£105,014**		**Average**	**£194,109**	**£134,505**	**£128,179**	
Number	36	16	12	20	19	11	114	**Number**	22	11	7	40

Date	**Detached**	**Semi**	**Terr**	**Detached**	**Semi**	**Terr**		**Date**	**Detached**	**Semi**	**Terr**	
2001 - Qtr 2	£147,500	£81,900		£151,875		£70,850		**2001 - Qtr 2**			£90,816	
2001 - Qtr 1	£175,000	£68,250		£133,000	£94,306	£81,850		**2001 - Qtr 1**	£155,666	£82,333		
2000 - Qtr 4	£194,666	£102,500			£79,883	£67,625		**2000 - Qtr 4**	£151,250		£64,333	
2000 - Qtr 3	£120,700	£96,187		£157,889	£88,785	£76,300		**2000 - Qtr 3**	£149,248	£115,438	£85,780	
Average	**£153,500**	**£87,543**		**£145,528**	**£88,005**	**£75,690**		**Average**	**£151,653**	**£98,886**	**£81,304**	
Number	15	19	0	20	13	20	87	**Number**	13	6	11	30

	Postcode DL8 3			DL8 4					Postcode DL11 6			
Date	**Detached**	**Semi**	**Terr**	**Detached**	**Semi**	**Terr**		**Date**	**Detached**	**Semi**	**Terr**	
2000 - Qtr 2	£116,250	£91,500	£46,666	£137,712	£95,453	£92,033		**2000 - Qtr 2**	£149,600	£101,625	£74,900	
2000 - Qtr 1			£74,666	£105,333	£89,875	£82,833		**2000 - Qtr 1**		£83,250		
1999 - Qtr 4	£106,550		£82,900	£152,239	£90,166			**1999 - Qtr 4**	£147,100	£87,803	£78,333	
1999 - Qtr 3	£117,500	£72,852	£59,875	£141,100	£93,740			**1999 - Qtr 3**			£64,125	
Average	**£111,409**	**£84,041**	**£67,866**	**£141,074**	**£91,491**	**£88,966**		**Average**	**£148,350**	**£91,174**	**£72,167**	
Number	17	10	15	28	21	9	100	**Number**	10	11	12	33

[1] Swaledale and Arkengarthdale

The postcodes with the highest overlap with the Upper Dales area (DL8 3 and DL11 6) indicated an average price for a terraced property of around £130,000 in the 12 months to 30 June 2003, with the lowest quarter average being £116,825. As each quarter would only have between three and six sales, the inclusion of a single property in serious disrepair can depress the averages reported (equally a four- or five-bedroom terrace would inflate it).

Even with all the caveats about limited sample size and range of condition, it can be seen that there has been an enormous increase in average values during the period covered in the table. The lower-priced terraces increased by 95% from an average price of £67,866 to £132,419 in Upper Wensleydale (DL8 3), and by 77% from £72,167 to £128,179 in DL11 6, over a three-year period.

An alternative source of house price information comes from the sales details of estate agents. The dominant estate agent in most of the area, J R Hopper and Co, kindly provided access to their marketing records of the asking price on all properties offered in the market area from January 2001 to early August 2003[6]. A detailed analysis of all properties offered in the market area at an "offers invited" price of under £160,000 from May 2003 to early August 2003 was carried out. (NB The market area was judged to include Bolton Castle and Leyburn, with a small overlap into adjacent wards).

In all, 98 properties under £160,000 were offered on the market during this time. The market area was slightly larger than the postcode area analysed using Land Registry data, but the numbers are not inconsistent. A breakdown of offer prices is given below:

Price band	**No. of properties on market**
£68,000 < £90,000	9
£90,000 < £100,000	4
£100,000 < £110,000	6
£110,000 < £120,000	12
£120,000 < £130,000	20
£130,000 < £140,000	15
£140,000 < £150,000	16
£150,000 < £160,000	16
Total	**98**

Just 31 properties were available under £120,000. Scrutiny of the ten cheapest properties identified two in very poor condition (a property at £70,000 was subsequently renovated and remarketed at £172,000, providing an indication of its condition), one was an ex Right to Buy council flat at £80,000, and four others were single bedroom properties of which two could be described as "minute".

A clear impression was gained that there were few, if any, properties suitable for family (ie, minimum one adult and one child) accommodation under £120,000 in the Upper Dales. Below that price, properties were either in need of serious investment or very small, with the cheaper "decent" homes tending to concentrate around Leyburn and outside the formal Upper Dales boundaries.

Visits to, and conversations with, other estate agents and an independent financial advisor working in the area were all consistent with the above analysis.

The suggestion that the price of local property is determined by commercial and outside interests is demonstrated by an analysis of who is buying. An analysis of 106 sales in 2001 revealed only 44% of purchasers were from Richmondshire, 21% were second home purchases, and only 13% were first-time purchasers.[7]

In the last 12 months the situation has deteriorated further, with only around 5% of purchasers now being first-time buyers, with 75% of sales going to outsiders either moving in (retirement or to work) or for holiday or second homes.

Conclusion

Evidence from prospective purchasers, the Land Registry, and estate agents, is that the entry price for most households seeking a basic family property is in the region of £120,000 to £140,000. The high level of local house prices is driven by commercial and wealthy external purchasers, rather than by the strength of the local economy and local earning power.

Local Incomes and Affordability

To be able to afford the purchase of a property at £120,000, a household would need to have sufficient capital to meet the costs of purchase (approximately £3,000[8]) and a 5% deposit, and sufficient income to be able to both obtain and afford a mortgage for the balance.

Assuming adequate savings for costs and deposit the household would need to be able to borrow 95% of £120,000 = £114,000.

Different mortgage lenders calculate borrowing power (eligibility) in different ways, but typically a first-time buyer in secure employment could expect to be able to borrow 3.5 times main income, plus 1.0 times second income.

With a single income this would require earnings of £32,600pa. With a second income of, say £10,000, this would require a main income of £29,700pa.

An alternative lender approach of allowing 2.5 times main income and 2 times second income would still require both applicants to earn £25,350 each, or one to earn, say £28,000pa, and the other £22,000pa.

There are a number of unconventional mortgages available on the market which allow higher multiples of income to be borrowed. Most of these either require some form of parental guarantee or only apply to very high earners.

The only product identified which may assist relatively low earners in the Upper Dales is the "Step Ladder" mortgage provided on an experimental basis by Bradford and Bingley. The Step Ladder mortgage has one main attraction, which is that for successful applicants it will lend 100% of purchase price at 5 times earnings. The interest rate is slightly higher than alternative conventional loans, but not unreasonably so.

However, the purchaser has to repay a substantial proportion of any increase in the value of the property when it is sold (or after ten years). As the rules are written (and assuming five years before sale) the lender takes the first 10% in increase in value, plus one third of the next 50%. So if a property went up in value from £100,000 to £110,000 (or less) over five years, the lender would take the entire sale price (less any capital repaid). If the property went up to £160,000, the lender would take the original loan (£100,000, less any capital repaid), plus £26,667 (£10,000 plus one third of £50,000). Furthermore, the borrower does not get any offset against improvements made to the property. (So if the value had increased by £20,000 due to a kitchen extension, then this would still go back in part or all to the lender, with no offset for costs of work).

While income data for the Upper Dales is hard to obtain, it is apparent that most would-be home purchasers do not have a single income of £32,600 or even £29,700 assuming a second earner. Some may be able to afford the Step Ladder mortgage, and it is possible that it could be the best (only) available option for some purchasers.

Sources on local incomes are poorly documented. At county level the New Earnings Survey provides data for Richmond County, as does a survey of households (not employers) carried out by North Yorkshire TEC in 2000[9]. For people in full employment the mean gross earnings were £17,114, with three-quarters earning under £20,750.

Earnings in the Upper Dales are almost certainly lower than in Richmondshire as a whole, and earnings of potential first-time purchasers are most likely lower than the wider population, due to age and career opportunity factors.

Other sources of data are income data collected as part of local housing need surveys, job advertisements in the local paper, and survey information received from employers and would-be home owners surveyed or interviewed as part of this project. None of this data provides a rigid analysis, but it is consistent with a local labour market where most jobs pay in the £10,000 to £20,000 range.

The most useful information comes from the local housing needs surveys. Some of these identify the incomes of people looking or wishing to purchase a home, who consider they are in need of public subsidy to be able to buy. On examination, a substantial number of these households were either already owners but wishing/needing to move (retirement, large/smaller home, etc), or employees losing tied accommodation due to retirement. While the proposed Affordable Home Equity scheme could be adapted to meet the needs of these people, their incomes and circumstances are excluded from the current analysis.

The reported (gross household) incomes of the households were as follows:

Income band £pa	**No.**	**%**
< 7,500	29	27
7,501–11,000	34	31
11,001–13,000	12	11
13,001–15,000	9	8
15,001–19,000	12	11
> 19,000	12	11
Total:	**108**	**99***

*Percentages do not total 100% due to rounding

While it is probably unreasonable to expect the 58% of aspiring households with incomes below £13,000 a year to be able to afford home ownership, a scheme which "only" helped the 22% earning over £15,000 – or even the 11% earning over £19,000 – would be of substantial value. As a noticeable number of the higher-earning households were living in council or housing association rented accommodation, there is also the potential to provide an additional affordable let by rehousing these households.

Two other important factors to consider when considering affordability of home ownership are:

- ❦ The actual and potential cost of repaying the mortgage, once obtained, and
- ❦ The impact Working Families Tax Credit can have on the net income of lower paid households

Considering first the actual costs of repaying a mortgage:

A first-time buyer could probably obtain a five-year fixed rate at around 5% for 95% purchase. Using the earlier example of purchasing a £120,000 home with a 95% mortgage, then the purchaser's repayments on a 25-year repayment mortgage would be approximately £674 pcm.

This compares to housing association rents of c£260 month and open market private sector rents of from £350 to over £450 pcm.

In addition to their mortgage payments, a homebuyer also has to fund the costs of repair and maintenance, insurance, council tax and utility bills. Tenants will be used to some of these, but first-time buyers moving from home or similar will notice a sharp increase in expenditure. But for all, the cost of property insurance and maintenance will be extra (though some tenants observed they could make savings by moving from higher council tax band rented property to lower banded purchased home).

The introduction of Working Families Tax credit has been a "stealth benefit" whose presence is only gradually becoming apparent. Its impact on household income can be quite substantial, and it is of particular benefit to lower income (potential) home owners.

For example, a household of two adults and a child with a single salary of £15,000 a year (gross) *last year [2002/3]* will receive child tax credit of £959.69 (£18.45 a week) this year [2003/4].

A couple with three children and single income of £12,000 a year would receive £2,387.86 child tax credit and £528,80 working tax credit, worth £2,916.66 a year or £56.09 a week.

A single parent with two children earning £18,000 and paying £70 a week in approved childcare costs would receive a total of £2,370.04 a year, or approximately £900 a year if no childcare costs.

In recent years there has been a marked shift in the tax and tax credit system to increase the retained income of working lower income households. This works to make home ownership more affordable on a lower income.

While the amount of money that a mortgage lender will lend as a ratio of gross income has remained nearly constant over the past ten years, interest rates have fallen from a high of around 15% to around 5% today. While the lenders (and politicians) quickly found that many households could not sustain mortgages at around the 15% interest mark, mortgage borrowers generally seem able to manage mortgages at below 10% interest with relatively few problems. The fall in interest rates has two consequences:

1. Capital is repaid much more quickly with low interest rate mortgages. With a 5% mortgage, 11.5% of the debt is repaid after five years and 26.3% after ten years. With a 10% mortgage, only 6.2% and 16.2% is paid off after five and ten years respectively.

2. Monthly repayments are significantly lower, allowing some headroom within established affordability experience for earnings to support top-up loans (or rent in the case of shared ownership).

In other words, household budgets have considerably more capacity today, compared to five to ten years ago, to support additional expenditure on home purchase, beyond that required by a mortgage made at conventional income rations. However, such presumptions should always come with a health check regarding the ability to absorb a significant increase in current interest rates.

Ten years ago an employee on £20,000 could have borrowed up to £70,000 and (at 12% interest rate) would have repaid £743.75 month (less approximately £75 a month by way of tax relief, prior to the abolition of MIRAS). Today a loan of £114,000 at 5% would cost c£674 month. While someone on £20,000 a year cannot obtain a £114,000 loan, on historic precedent they could – just – afford it.

The key issue for affordability in the Upper Dales is how to stretch the £70,000 mortgage obtainable by a household with a single income of say £20,000 to reach the target £114,000 borrowing required to purchase the illustrated property. (Or more challenging how to stretch the £62,500 borrowable by a more typical household of two earners grossing £15,000pa and £10,000pa respectively).

Case Study

John Allerton works as a foreman. He is married, with a child expected soon. The family currently pay c£320 pcm rent. His take-home pay varies between £340 and £400pw (according to overtime). The family can afford up to £10,000 deposit, and could expect to raise a mortgage of £70,000 to £80,000. They had identified a property priced at £120,000, so have a shortfall of c£30,000.

Impact on Employment

The lack of affordable home ownership is perceived as having a negative impact on employment and business in the Upper Dales. It is suggested that economic growth and delivery of municipal services is being hindered by the inability of prospective employees to obtain accommodation in the locality.

This issue was illustrated by the difficulty that one of the local schools had in recruiting a head teacher, and Ripon Travel's closure of their Leyburn office due to problems with staff recruitment (see photograph opposite).

"Ripon Travel have regretfully been forced to close their Leyburn branch due to not being able to recruit staff within the area..." Notice on empty shop in Leyburn

It was a theme repeated in interview by a number of commentators. One problem is the difficulty of recruiting an individual with specific skills or qualifications needed for the business to grow (such as an accountant). A second problem is the steady decline in available building tradespeople able to carry out essential building and maintenance work (plumbing, electrical work, joinery, etc). Increasingly it has been necessary to call out tradespeople from Ripon or Darlington with obvious knock-on impacts of cost and delay.

To test the extent to which local employers considered this an issue, a simple questionnaire was sent out to 93 local employers. A total of 23 returns were received, giving a response rate of 25%, which is fairly typical for this type of survey. Three returns were incompletely filled in. Of the 20 analysable returns, 11 indicated that a shortage of affordable housing had no real impact on their companies. However, 9 (or 45%) of returns indicated the following problems:

Response to " A shortage of affordable housing to buy in the area ... "	No.	%
Has caused problems recruiting staff	6	30
Has caused problems recruiting staff with necessary skills/ qualifications	5	25
Has caused problems retaining services of key staff	1	5
Has resulted in one or more unfilled vacancies	1	5
Has reduced level of service to customers/clients	2	10
Has caused business to turn away or not fulfil orders	1	5
Has restricted ability/potential of business to expand	3	15
Has caused difficulties/delays obtaining services of necessary sub-contractor	4	20

Just under half of employers (or three-fifths if weighted for numbers employed) experienced problems relating to the lack of affordable housing. While the sample size is too small to allow detailed analysis, it was noticeable that the businesses/employers reporting problems included most of the larger employers who had a much higher turnover than most of the employers reporting few problems. Of particular concern is the impact on the larger employers restricting the ability to expand, implying that high house prices are placing a serious impediment on the local economy. Additionally, one of the non-responding employers contacted (the only local private nursing home) has subsequently gone out of business with lack of staff being cited as the major reason

There is a clear trend for younger households to move away from the area, but with significant numbers seeking to return once qualified and/or experienced. The constraint on growth (or service provision) in the local economy can only serve to exacerbate this trend, increasing the displacement of the local community through holiday, second homes and retirement homes.

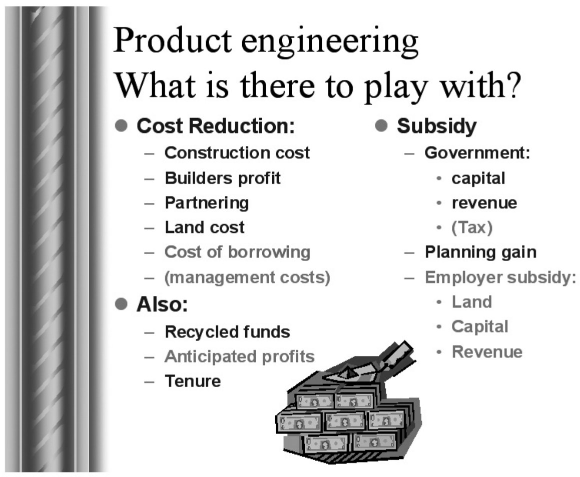
Interestingly, of the 11 employers reporting that the lack of affordable housing had no real impact on their business/organisation, five separately indicated that their business/organisation might benefit from a scheme that improved access to affordable housing. A few respondents also added personal comment along the lines that while the impact on their business may be negligible, the impact on their own family of a lack of affordable housing for their children was significant.

Three employers provided details of the posts they had struggled/been unable to fill. Two of these were offering salaries of up to £16,000 and £20,000pa.

Achieving Affordable Home Ownership – Different Remedies

There are a large number of potential routes to providing affordable home ownership. The illustration immdeiately below lists a range of products provided by housing associations, and sometimes councils and other bodies. Where these schemes require grant, and are provided through a housing association, they will be subject to extensive rules and constraints by the Housing Corporation in its role as grant funder and/or regulator.

When exploring the possibilities of providing affordable home ownership through existing or new products, there are only so many variables that can be manipulated, (see below):



A quick review of schemes developed for rural settings indicate that they are generally new-build, and in addition to any grant given, provide affordability through one or more of the following routes:

❦ **Land use, planning or similar restrictions** which depress the value of the land/property below the local "open" market. While property is constructed "at cost" the greatly reduced price of land allows a lower resale price. Rural exception schemes are a good illustration of this approach. In the Upper Dales, reduction of plot purchase costs/value from a typical £55,000–£65,000 open market value, to say £10,000, would provide a saving of £45,000–£55,000 in the economic cost of providing the property, which could be passed on to make it more affordable.

- **Gifted land,** from a trust, council, benevolent individual or self-interested employer

- **Foregone profit** whereby a not-for-profit organisation acts as developer/builder and passes on the assumed 15%–25% developer's/builder's profit to the purchaser. Use of voluntary labour and self-build provide additional variations on this theme

- **Cheap or subsidised loans** can be useful in providing start-up funding

- **Legal restrictions** through covenants or some form of equity sharing to preserve the discount to market value for future purchasers

These schemes generally require the availability of (controlled) land and planning permission, both of which are very welcome but in exceedingly short supply in the Upper Dales.

While there is a very small amount of housing association new-build shared ownership provision, the current grant rules make it very hard to produce schemes that comply with the grant regulations. Not least because of restrictions on the maximum total value of developments which can be produced under the Shared Ownership scheme.

Some additional social housing for rent is being provided in the Upper Dales and wider locality, albeit on a very small scale. Home Housing Association were also able to reacquire former Right to Buy homes in 2001/2 through "purchase and repair", but had to relinquish the funding in 2002/3 due to house prices rising above the Housing Corporation's TCI[10] indicators.

Harewood Housing Association have developed three flats for rent in Reeth, and Broadacres Housing Association are progressing with a six-property scheme for rent in Askrigg. This scheme is only viable due to the land being on a "rural exception" site, and being available at what is estimated as 10% of its "open-market" value. An examination of the costs and values of this scheme indicate it could have alternatively been developed (just!) within the Housing Corporation's rules for shared ownership.[11]

A good example of the way in which well-intentioned rules can work against provision of affordable housing in the Dales (and similar rural locations) is the Housing Corporation requirement that all grant-funded developments use contractors who are "Constructionline" registered. This appears to be an excellent rule to ensure quality and economy on large developments in areas where there is a wide choice of larger firms of house builders, but is a major impediment in the Upper Dales where none of the local contractors are registered under this scheme.

An interesting critique of the different shared ownership products available for use in rural communities has recently been written by Rachel Kalis for Dorset Community Action[12]. While her casework was focused on rural Dorset, the property price, grant and regulatory structures are comparable to the Upper Dales. Issues identified with "conventional" shared ownership developments are that they often offer poor value for money to purchasers, and that the properties are often lost as a source of affordable housing on sale, or become too expensive to be affordable by their intended client group after first sale. She also observed that additional funding was not always translated into greater affordability for purchasers, and challenged the efficiency of housing associations in delivering conventional shared ownership.

While there is evidence that the rents charged by housing associations on newly developed shared ownership properties are falling (to 3.5%–4% of the value of unsold equity), these rents generally increase at a greater rate than inflation, and for sales in Yorkshire and Humberside in 1999/2000 the median shared ownership rent was 5.4% of unsold equity[13]. This means that rent was charged at £54 pa on every £1,000 of value of the proportion of the property that had not been sold. As the housing associations will typically have received a 50% grant towards their share of the unsold equity, the associations are looking at a gross yield of 10.8% on their investment. This could be regarded as excessive, expensive for the shared owners, and poor value for money for the grant providers.

A key driver of the shortage of affordable housing in the Upper Dales is the lack of residents' purchasing power to acquire properties at the high prices determined by outside and commercial purchasers. Rather than seeking to provide relatively poor value shared ownership schemes with public subsidy, an alternative approach is to explore whether residents' *purchasing power* could be enhanced. If this "customer-focused" solution can be achieved, there is the possibility that the demographics of the market will be "rebalanced", leading to a greater proportion of purchases by local first-time purchasers, and provision of some community and labour market stability (though this approach will not drive prices down).

With this approach in mind, this report focuses on the practicalities of increasing local purchasing power through the development of an "Affordable Home Equity" product.

The concept

Affordable Home Equity is the name given to a way of helping home purchase through offering potential purchasers what is termed an "interest-bearing equity loan". From a purchaser's perspective the concept is simple and easy to grasp.

An assisted purchaser buying a £120,000 property would take out a conventional mortgage for between half and three-quarters of the value/purchase price. They would then contribute a (minimum) 5% deposit, and obtain an "equity loan" to fund the balance of the purchase.

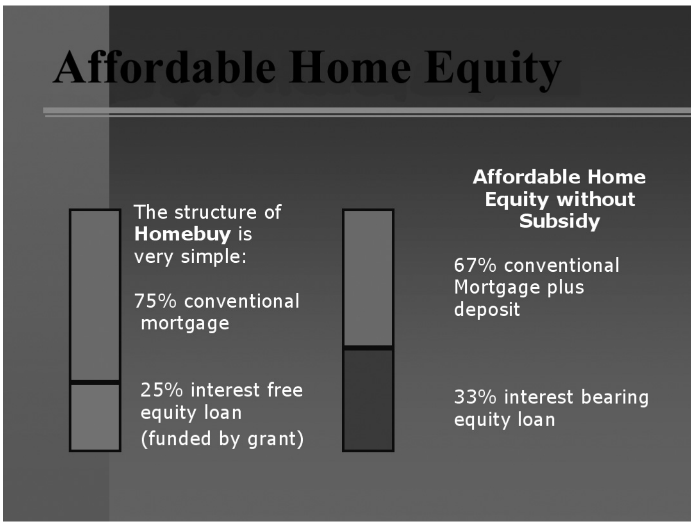
Let us say (for simplicity) that the purchaser can raise a mortgage of £74,000 and a deposit of £6,000, enabling them to raise £80,000 – or two-thirds – of the purchase price. The remaining third – £40,000 – is funded by an equity loan. The purchaser would pay interest on the equity loan, but no capital repayments.

After a period of time the owner decides to sell, and obtains £150,000 for the property. They keep two-thirds of this (£100,000) and use the proceeds to repay their original mortgage and keep the balance, perhaps as a deposit on a different property. One-third of the purchase price goes to redeeming the equity loan and is returned to the lender.

Instead of selling their property, the purchaser could alternatively opt to purchase the outstanding share at the appropriate proportion of the current value of the property.

The concept of Affordable Home Equity is derived from "Homebuy". This is a grant-funded home ownership product that enables purchasers to buy three-quarters of a product, while a housing association funds and retains an interest in the remaining 25% through an equity loan.

One potential benefit of affordable home equity appears to be that potential purchasers will be able to obtain better terms on their conventional mortgage. While this needs to be tested out in the marketplace, the advice of a prominent local IFA (independent financial advisor) is that as the main loan will be for 75% or less than the market value of the property, it would be possible to obtain a more competitive rate than for a first-time buyer requiring a 95% mortgage (plus savings on mortgage indemnity insurance), and also a more competitive rate than for a shared ownership purchaser.



A further advantage seen by the financial advisor is that it should be possible to obtain a "non-status"[14] mortgage, making it far easier for self-employed applicants to apply, and also allowing the possibility of borrowing conventional funds over the usual 3.5 times earning ratio. These last points being subject to the IFA being satisfied that the total package was affordable to the borrower(s). At the time, (July 2003) the IFA provided details of a mortgage from the Halifax, which offered a five-year fixed rate of 4% for up to 75% of value. (NB all fixed rates have since moved up by approx 0.5%–1%).

For Affordable Home Equity to be deliverable it must:

- ❦ Be understandable and affordable to potential home purchasers
- ❦ Be understandable and attractive to potential investors/funders
- ❦ Be legally scoped and defined, and receive the appropriate regulatory clearance(s)
- ❦ Have a robust deposit-taking vehicle
- ❦ Have a robust and appropriate lending mechanism

These requirements are explored in the following sections.

An ecclesiastical precedent

The author found one practical example of an Affordable Home Equity Product operating successfully. This is run by the Church of England Pension Board for retired clergy, and is termed "CHARM" (Church's Housing Assistance for the Retired Ministry). During the five-year period 1997-2001, the scheme lent approximately £21.1m on an equity loan basis on 443 properties. Loans averaged approximately 60% of property value, and borrowers paid an interest rate of 4% (indexed).

[Source – Church of England Pensions Board Report and Accounts for the year 2001]

Purchasers' perspective

Obviously there would be no point in developing Affordable Home Equity as a product if it were not attractive and acceptable to potential purchasers. It also needs to be easily understood. Additionally it was also very important to explore what was affordable, acceptable, and not acceptable, to potential purchasers in terms of constraints, charges and restrictions as this would be critical in designing a product which would be acceptable to potential investors.

In value-for-money terms, the Bradford and Bingley Step Ladder mortgage provides a good comparator.

To find out whether the product would be attractive to potential purchasers, whether they could actually afford to purchase using Affordable Home Equity, what features they would particularly welcome, and what constraints would generate resistance, a series of interviews was arranged with potential purchasers. These potential purchasers were identified by a mixture of publicity and networking organised by the Upper Wensleydale Community Partnership (UWCP) staff.

Interviews with (12) potential purchasers took place in parallel to a similar exercise with potential investors, allowing issues to be tested and cross-checked for acceptability (or otherwise) as they arose. The sample did not include tied households seeking to purchase on retirement, nor existing owners wishing to move to more expensive accommodation in the locality.

While it cannot be demonstrated that the sample of prospective purchasers was truly representative of all prospective purchasers in the locality, their incomes were in the £11,000 to £20,000 range (with one high outlier), with a mix of single and dual income households, with and without children, and with a wide range of household circumstances.

The interviews established:

- ❦ All potential purchasers very quickly grasped and understood the mechanism of Affordable Home Equity This is very important, as a significant number of professionals have raised this as an issue in discussion[15]

Case Study: (Unviable)
Patricia Garth is a single parent with two children. Her rent is c£300pcm. While optimistic that she could increase her gross earnings of £11,000pa if there was an opportunity to buy, she would not be able to obtain an adequate mortgage to purchase half of a property at £120,000, nor afford the combined outgoings of the mortgage and equity loan.

- ❦ Once the concept was grasped, all potential purchasers were able to consider the implications and make perceptive comments or questions about the product

- ❦ The majority of prospective purchasers were keen (very in most cases) to take things further

❦ Questions raised included the issue of early sale (penalties?), how improvements would be handled, what would happen if the purchaser could not staircase after ten years?

❦ The scheme was not suitable for everyone. Two households would probably be able to purchase in their own right without needing the scheme. One wished to buy to renovate, for which the scheme was not appropriate, and for the second it was unlikely that the scheme could be made affordable without public subsidy

❦ Depending on the final terms acceptable to investors, the majority of those interviewed appeared to be able to purchase should the scheme be launched

❦ There was a wide range in understanding of the transaction costs of purchasing a property, and the costs of living in an owned home

The interviews were able to establish views on some of the sensitive issues and requirements that would allow the scheme to be made more attractive to investors:

Case Study (Marginal viability)
Rachel Lyndon and her partner currently pay £400pcm in rent. She earns £15,000 (gross) and he £8,500 (gross), with some capacity to increase earnings if needed.
Locally they would need to pay nearly £140,000 for a house in satisfactory condition, and can rely on parental help for a deposit.
They can probably raise a £60,000 mortgage and with a £10,000 deposit could afford 50% of the purchase price. Repayment of the £60,000 mortgage would be £355pcm (5%, 25-year term), plus £233pcm on the equity loan (at 4%) = £588pcm. The extra £188pcm instead of renting was felt to be "just affordable" (mainly by taking on additional work). Purchasing a property at £120,000 would have saved £67pcm, but would have meant moving away from the immediate locality, and made commuting to work impractical.

❦ All potential purchasers accepted that they would have to pay back the full initial value of the equity loan if they sold the property for less than the purchase price (NB This is different from the grant-funded products such as shared ownership and Homebuy)

❦ Most potential purchasers (who were asked) considered it reasonable to have to “buy-out” the equity loan after ten years, if they had not sold or already “staircased” to full ownership

❦ Most potential purchasers (who were asked) indicated they would be able to raise a 5% deposit. Those that could not indicated they could provide the equivalent of a deposit by way of parental guarantee. One would-be purchaser was neither able to raise a 5% deposit after purchase costs, nor offer a guarantor, but was very keen to be able to demonstrate their credit-worthiness

❦ All potential purchasers accepted the principle of being fully responsible for maintenance and repair costs

❦ Most – albeit reluctantly – indicated they would accept the equity investor taking a proportionate share in any increase in value arising from improvements made by the purchaser

❦ Where asked, potential purchasers appeared to be both understanding and willing to be very heavily scrutinised prior to being accepted on the scheme. This willingness appeared to flow from an understanding of the commercial risk being taken by the equity investors (and a linked desire for the scheme to succeed, so as to help other households), and an understanding that only a limited number of loan offers could be made, and that it was important that the right people were chosen

NB There were considerable differences in views as to who should be eligible. Some local people felt threatened by the scheme being made available to (say) designated employees (who may be moving in from outside), others were very

Case Study (viable)
Steve Lipton and his wife commute into the area to work, having had to find accommodation outside the area. He works for a government agency and earns c£20,000 and she c£10,000 (gross). They made up one of the higher earning households in the survey, want to live locally but had been unable to purchase.
They can manage a £5,000 deposit, and could expect to raise a £80,000 mortgage. They could purchase a suitable property locally for c£140,000. This would require an equity loan of £55,000. Monthly repayments would be £473 (5%, 25 years) on the £80,000 mortgage, and £183 on the equity loan. £656 in total. This is "comfortably" affordable. In practice the couple may be able to benefit from a cheaper "non-status" loan, and increase the size of their conventional mortgage, which would provide better value for money.

keen to ensure “returnees” could be eligible to enable people who had had to move away to go to college or find work, to be able to return to their “home”.

Conclusion

There was a clear understanding and acceptance amongst potential purchasers of the Affordable Home Equity product, a good fit with personal circumstances, and a willingness to accept the majority of the “harsher” terms that would make the product more commercially attractive to investors.

Investors' perspective

The willingness – or otherwise – of investors to invest into Affordable Home Equity was always perceived as the critical element.

A major problem became apparent very early on with the proposed methodology, which had consisted of using a market research company to run focus groups of independently identified potential investors in the locality. Early exploratory work rapidly led to the realisation that within the Upper Dales it was very likely that potential investors invited to a focus group would know each other, and further, regardless of whether they knew each other or not, that they would not be very forthcoming in discussing their finances in front of other local people!

The methodology was therefore revised as follows:

- Firstly the researcher interviewed as many potential local investors as could be identified by the Upper Wensleydale Community Partnership (UWCP), through publicity in local newsletters and personal networking

- These interviews (about nine) were then used to explore the parameters and key issues that might make investing in Affordable Home Equity attractive to investors. This information was then used to "shape" the "stimulus document" used by the market research company in its focus groups

- Key answers sought from the potential investors at this stage were:
  - Level of annual interest (minimal acceptable)
  - Length of investment (maximum acceptable)
  - Acceptable penalty for early withdrawal
  - Who holds the equity investment fund (preferences)?
    - Building society
    - Investment trust
    - Housing association
    - Other vehicle
  - Capital appreciation as dividend, interest or capital gain?
  - Any strong views on borrowers/properties to be purchased
  - Other key concerns or "attraction factors"

- The market research company then arranged three focus group meetings of "high net-worth" individuals who invested a minimum of £5,000 a year in their own recognition (ie, rather than just following an IFA's advice). Each group consisted of seven investors. One group's meetings took place in Leeds, and two in Chorleywood (Herts)

The experience and findings from this procedure are as follows:

The interviews with the local potential investors were very helpful in gaining a first response to the key issues identified above, and providing a wider perspective on investors' likely requirements.

However, these interviews had a clear limitation. This was due to all the investors expressing some form of positive desire for the project to work, and hence being motivated by a degree of social concern or philanthropy. While normally looking for a return on their funds, for many investors there was a clear element of being willing to take a greater risk, or accept a lower rate of return due to the wider social benefits of the project. At least two of the investors were very keen to invest, but indicated they were treating their (potential) investment almost as a donation.

This initial work enabled the "stimulus material" for the main focus groups to be shaped to produce focused and productive comment.

In contrast, the 21 participants in the three subsequent focus groups were looking at the investment potential purely with reference to their desire for a satisfactory return against the perceived level of risk, and the merits of the potential investment when compared to other opportunities and products available on the market.

From this process it has been possible to develop a product which would be attractive to potential investors on commercial, rather than philanthropic, grounds, but which also appears to be acceptable to the potential home purchasers who were interviewed.

Key features of the product are:

- Investors did not like word or concept of "Trust" – strong preference for a "Fund"
- Attractiveness of product would be greatly enhanced if backed by a recognisable name (mainstream lender preferred, but developer or similar quite acceptable)
- Investment of a moderate amount of public sector or other "risk capital" would be welcome as this would reduce perceived risk and provide comfort. However not essential
- Investors did like description of product as "A way of investing in the property market without becoming a landlord"
- Mixed views as to whether they would want income stream during investment, or all rolled up as a final lump sum return
- Liked the concept of prospective owners being "sponsored" and vetted
- Essential that purchasers put down a deposit (5% acceptable)
- Rate of return of 3% (indexed) seems good/acceptable in current market (would wish for more, may just accept less, but 3% closest to consensus level of group)
- Essential that can exit scheme after ten years
    - Longer not acceptable
    - Would prefer five years

❦ Ability to exit early in defined circumstances (death or urgent need of capital) would be valued. A penalty for this acceptable. Very important to know what happens on death

- ➻ It appeared acceptable to offer repayment of initial capital, but with ability to impose a market reduction if value of portfolio had fallen

❦ Investors would welcome product developing liquidity, allowing holdings to be traded at the prevailing market value

❦ Essential to know that borrower due to repay full value of loan even if property value falls

❦ Very interested in cost of management of fund

❦ Would welcome option to invest annually

❦ Minimum investment of £5,000 acceptable (please no maximum)

❦ Would really welcome opportunity to invest in product through an ISA

❦ Reluctant to have all funds invested in a single locality

❦ Content with following profile of properties:

- ➻ In high demand/rising value areas.
- ➻ Houses normally preferred to flats except in specific locations (city centre, etc) due to their lower price volatility

❦ Content with following profile of borrowers/purchasers:

- ➻ Good employment prospects/track record
- ➻ Sponsorship from employer, close family relative or similar
- ➻.A clear local connection (family or employment)
- ➻ Be vetted for stability, credit-worthiness and commitment to the scheme
- ➻ Able to make a deposit of 5% of property value
- ➻ Age limit of 35 would apply in most circumstances[16]

And who would be either:

- ➻ First-time purchasers meeting the above criteria
- ➻ Professionals moving home from a lower value area to a higher value area who are able to make a substantial deposit from the sale of their existing home
- ➻ Employees backed by an investment or nomination fee from their employees

The focus groups were professionally facilitated. Key comments of the facilitator include:[17]

- *"Once they had understood the product, most people's reactions were very favourable"*

- *"The beauty of the product from their perspective is that it is a way of investing in the property market without moving to a larger property, buying further properties, or becominga landlord"*

The conclusions and recommendations of the market research company are reproduced in full below:

> *Our overall interpretation of the responses to the product is that whilst certain aspects need clarifying or strengthening, it has the potential to be highly successful.*
>
> *The product will not appeal to all: it may not, for example, be suitable for retired people who need an income.*
>
> *But for many people, this appears to be exactly the sort of investment opportunity they are looking for. It gives them a way of investing in the property market without over-committing themselves or becoming landlords. It offers safety but also potentially high returns if the market performs as on balance they believe it will in the long term.*
>
> *It is also "interesting and different", and in a crowded market for financial products this could well work to its advantage.*
>
> *The key areas that need to be addressed are:*
>
> *The Name: the variants used do not yet do justice to the concept.*
>
> *The Support: the product would become much more appealing, especially to the less confident (the Waverers) if it had household name back-up. At the front of people's minds are banks and building societies, but the support could also come from property developers, builders or state/council-led organisations.*
>
> *The Geographical Basis: on balance, unless people have a specific link with the area, their preference is for wider geographic spread.*
>
> *With these provisos, the evidence from this research is that this product has the potential for success with many investors.*

Key Summary

From the feedback received from both investors and potential purchasers, it appears possible to design and market a product that meets the needs of both parties.

Business plan issues

There appears to be two main approaches to achieving an affordable home equity fund to enable affordable home ownership in the Upper Dales.

The first of these would be to establish an investment and lending vehicle specifically targeted at just the Upper Dales, or perhaps a little wider. Investment for this would be sought mainly from local people and businesses, though external investors would be most welcome.

The second approach would be to seek to launch a national fund working with a major institution, with investment being targeted at a wide range of localities, but including the Upper Dales.

The comparative benefits of these two approaches will be considered later. Firstly it is worth bringing together key pieces of information.

Quanta of local investment

It is worth considering the maximum amount of local investment that could sensibly be made by an Affordable Home Equity investment vehicle.

Annual sales appear to be just over 100 properties a year in Wensleydale (postcode areas DL8 3&4), and around 40 properties a year in Swaledale and Arkengarthdale, and perhaps 200+ a year in the wider local market including Bolton Castle and Leyburn wards.

Of these properties, approximately 20% are terraces (from Land Registry data) and perhaps 25% are priced under £140,000 and in reasonable condition. Of these, flats should be excluded as not really appropriate for (private sector) Affordable Home Equity, leaving perhaps 20% eligible properties.

This implies approximately 30 properties a year coming on the market which would be suitable for first-time (or other designated) purchasers in the Upper Dales, or 50 properties a year in the wider market area.

It would be imprudent to seek to assist the purchase of more than a third of these properties, lest increased competition inflates the market. This implies an upper limit on AHE-supported purchase of around ten properties a year in the Upper Dales, or 15-20 in the wider market area.

If the average purchase price of AHE-assisted purchase was £130,000, and the average lending was 35% of value for ten properties a year, then this would require available AHE funds of £455,000 a year.

In practice, it may be possible to assist ten households to purchase for less, if the advice received is substantiated that AHE plus deposit of 25% allows prospective purchasers to extend their conventional purchasing power.

Additional funds could allow lending to the wider market area (to say £700,000pa), or to households with a larger deposit seeking to buy more expensive properties. This may be important later to attract key workers moving in who want a similar sized property to the home they are leaving. It would probably be possible to invest up to £1 million a year without excessively distorting the local market.

While it would in theory be possible to run a scheme with less than ten properties a year, this would rapidly start to suffer from problems of lack of scale in terms of administration resources (see below).

The investment requirements for an AHE scheme in the Upper Dales are to be able to raise a minimum of around £400,000 a year, with an upper local investment ceiling of around £1m.

Running Costs

A good – but frugal – benchmark for the running costs of an investment product is 1% of capital raised/invested.

This benchmark can be factored in as a workable margin between the interest paid to investors (3%pa) and paid by borrowers (4%), and appears viable in terms of investors' expectations, and borrowers' sense of fairness and ability to afford.

When applied to a purely local scheme, the 1% margin would generate just £4,000 a year on the first year's minimum investment of £400,000, or £10,000 if the maximum £1m was achieved.

Over ten years the fund *could* build up to a maximum of £4,000 x 10 = £40,000 income a year on the minimum level of investment, or £100,000pa at the maximum level.

However, not all properties would remain in the scheme for the full ten years, and there needs to be a small provision for losses. If 0.2% of capital invested is set aside each year for bad debts, and an average life of investment is assumed to be seven years, then the upper limit of income available for direct running costs will be approximately 0.8 x £400,000 x 7 = £22,400pa on a scheme based on £400,000 investment pa, or £56,000 if the maximum £1m was lent each year.

It is clear that a first-year income of £3,200 (after provisions) would be insufficient to fund anything other than basic administration costs and regulatory fees. It is just possible that a budget of £22,400pa would be sufficient to cover basic administration and regulatory costs, and to either pay a part-time worker, or to part-fund a post in an appropriate community organisation.

The low amount of funds available at the lower level of investment indicate that, for a locally run scheme, considerable amounts of experienced and competent volunteer input would be necessary, particularly in the early years.

Set-up costs (excluding marketing)

To establish an AHE vehicle that can both receive deposits and lend mortgages the minimum work and costs need to be carried out:

Item	Indicative cost	Comments
Mortgage documentation, including regulatory approvals (and allowing for work carried out to date)	£20,000–£30,000 (plus VAT)	Very high as equity-based loan products require a special derogation from the Office of Fair Trading, and new legislation will apply to mortgage lending from next year
Scoping of best appropriate legal vehicle to receive deposits, establishment and registration of legal entity, and obtaining appropriate regulatory approvals	£30,000–£40,000 (plus VAT)	This is a tightly regulated area. It is in this area that costings are most tentative
Minimum launch costs in terms of recruitment/secondment of appropriate project worker to establish scheme and run for first year	£10,000–£25,000	Depending on regulatory requirements, and ability to include job role as part of a wider post
Total cost range:	£60,000–£95,000 (plus VAT)	But some savings may be possible

Options for the appropriate legal vehicle may be:

- An existing housing association or subsidiary
- Company limited by shares
- Company limited by guarantee
- Industrial and Provident Society

While much of the legal scoping work on the AHE mortgage product has been funded by the Joseph Rowntree Foundation, a further £10,000 (plus VAT) is estimated to be required prior to regulatory clearance being given. Additionally, the Financial Services and Markets Act 2000 is going to impose new and substantial regulatory criteria on all mortgage lenders from 2004 or early 2005. While in theory this could be disregarded, it would be imprudent to launch a new product, only to fall foul of the new regulations.

There are a number of ways in which the above costs can potentially be reduced or accommodated.

One approach would be to share costs with other projects seeking to establish a similar vehicle (or share the costs of a single, wider ranging vehicle). An option may be to purchase copies of the legal documentation of a similar project once it is up and running, which would substantially reduce costs.

An alternative approach would be to interest a major institution in launching an AHE fund, on such a scale that the set-up costs could be absorbed in the running costs over time.

Marketing – costs and approach

If the AHE scheme is being set up purely on a local basis, then marketing could be managed in a simple and direct way. This could be through a combination of local and national media publicity (as has already been demonstrated), direct mailings of potential investors, working through the local financial advisors who advise on investments, possibly offering the scheme via web-based transaction-only fund supermarkets, and in collaboration with local estate agents, linking the marketing of the investment to sales of retirement or second homes.

Assuming the availability of a staff member, (budgeted above) a large amount of initial publicity could be generated for £5,000 (a significant element of which would need to be legal clearance on the text and content of any promotional material).

The costs of marketing on a national scale would depend on the nature of the organisation launching the product, their internal charges, and, for example, branch network and mailing structure.

Reality check – viability of a local AHE scheme

This table attempts a "reality check" on whether a purely local AHE scheme would be viable, and what would be required for a successful launch.

Issue	Observations	Commentary and options
Start-up costs	Estimated to be between £65,000 and £100,000, (plus VAT). To include basic marketing	●Would need public or grant aid subsidy for viability ●Opportunities may exist to "buy-in" work being carried out by comparable projects elsewhere ●Alternatively it may be possible to establish some form of cost sharing – or joint ownership – with other projects/local authorities elsewhere
Running costs	Frugality and detailed budgeting essential. Detailed budget not possible until legal and regulatory costs scoped	●Scheme will only generate a small margin, particularly in the early years ●Some public/grant aid subsidy needed for first year, and probably first three years
Demand (potential purchasers)	Evidence is of a high demand for AHE from potential purchasers	●Product appears to have many advantages over grant aided affordable home ownership schemes
Investor potential	Evidence is that a national market would exist for a national product	●The willingness of local investors to invest in a local scheme is much harder to predict than the willingness of investors nationally to invest in a national scheme
Exit arrangements	Any good business plan should include provision for wind-up. Failure of the scheme to attract funds after the first year or two would generate problems of critical mass	●A small amount of money should be set aside from the revenue budget to wind-up in the event of the scheme no longer being required/viable ●More seriously the start-up budget should include some funds to allow early "closure" in the event of intractable problems, a better alternative product emerging, or lack of investor commitment.
Underwriting	Risk reduction scored very positively with potential investors. An investment of risk capital in some form of just £10,000–£25,000 could be beneficial in terms of attracting investors	●A donation of some start-up capital, or even a "subservient" loan, could dramatically encourage investors confidence in the scheme by protecting the fund – and hence their investment – against adverse contingencies. ●Such a sum need not be large (compared to say the set-up costs)

The largest imponderable is the ability of a local scheme to attract investment.

The market research findings indicate a clear willingness for investors nationally to invest in a national AHE product, provided it was properly designed, marketed and endorsed.

The market research also indicated that investors would not be motivated by "compassionate" considerations unless there was a direct local link.

Local interviews confirm that there are (at least) a small number of local investors willing to invest modest (£5,000–£10,000 each) in the scheme. There were also a few indications that larger sums of investment might just be available for commitment, but nothing substantiatable.

The researcher formed the view that the local interviewees had a much lower investment capacity per head than the investors in the external focus groups. He is, however, reasonably convinced that a substantial number of wealthy potential investors live in the Upper Dales, who will have the investment capacity to at least match that of the focus group sample.

If the wealthier local investors have a propensity to invest which parallels that of the external investors there would be sufficient funds available to fully fund the local requirement for AHE. Guided by discussions with a financial advisor and other interviewees, the researcher's *judgement call* is that it is likely that significant sums of local investment would become available, but only after the scheme had been up and running successfully for two to three years.

Additionally, investment of some form of risk capital (a "small" amount only – say £25,000) could greatly reassure investors that the fund's exposure to any risk would be reduced.

Potential sources of investment income for a local AHE scheme include:

Potential Source of Investment	**Amount that may be available**	**Commentary**
Benevolent local investors	£40,000–£80,000 in first year. £20,000pa subsequently	There are definitely a small number of potential investors keen to support a scheme of this nature. Publicity and success may just encourage others to come forward
"Self-interested" local investors	Possibly upwards of £250,000 to £500,000 a year	BUT ONLY after scheme has been running successfully for 2–3 years. Some risk capital would almost certainly assist
Local businesses	Nil – minimal	This could change with success, but the survey of local businesses and employers indicated a little support for helping with start-up costs, but no available capital to invest
Local authorities and other statutory local bodies (under investment powers)	Depending on vires, Nil to substantial	It *may* be within the LA's powers (or their pension funds) to invest in the AHE scheme under their investment powers (in addition to their grant giving powers). If this is the case, the local council would have the potential to make a substantial contribution to funding the scheme, at no cost (in fact the opposite) to its council-tax payers
Local housing authority. Grant (from disposal of HRA assets)	Potentially substantial	Current ODPM/Treasury financial rules appear to allow housing authorities to reinvest 100% of the proceeds of disposal of HRA[18] assets (other than proceeds of Right to Buy sales) into providing affordable housing
Local Charities and Trusts	Unresearched, but potentially substantial	Provided the AHE investment can be shaped to meet the investment criteria of local trusts or charities, there could be substantial potential for them to place long-term funds with the project. One possible (six figure) investment was identified by happenchance during the research
Purchasers of retirement and second homes	Unresearched,[19] but potentially substantial	At least two commentators observed that these purchasers often have substantial wealth, and are looking to invest some of it long term. They often have a desire to contribute to the community into which they are moving. One local estate agent has indicated a willingness to publicise this investment opportunity to clients purchasing property
External investors	Potentially significant	At least one spontaneous offer of investment in the fund has been received by a visitor from southern England. It would be quite practical to market this opportunity through the normal tourist and accommodation outlets

A summary of the above could be:

- ❦ If the scheme can raise sufficient funds to run for two to three years, and demonstrates a return on investment, then it is likely to be able to continue to attract adequate funds for the indefinite future

- ❦ It is likely that the scheme could raise an initial £40,000–£80,000 from "benevolent investors", and £20,000pa in subsequent years

- ❦ Prior to launch, it would be prudent to identify, say, £20,000 risk capital and at least a further £100,000pa investment for the first two years. (If these funds can be identified prior to launch, it is most likely that the balancing investment needed will flow from the publicity and momentum generated from the launch, and first properties acquired)

- ❦ To achieve this it will be necessary to raise between c£80,000 and c£120,000 (plus VAT) through grants or donations to establish the legal vehicle and structure for the scheme, and fund early years running costs.
  NB But significant opportunities may exist to either share these costs with others or purchase a legal template from other schemes being developed.

Value for public money

If the scheme were able to assist ten home purchasers a year over ten years the cost to the public purse would be a little over £1,000 per household assisted. Developing this further, if just two of the ten households helped each year were living in council or housing association property (or eligible for same) a total of 20 extra lets would be provided from the c£100,000 investment.[20]

Viability of a nationally funded, national AHE scheme

The basic set-up costs for a national scheme would be similar to those for a local scheme. In practice however, a national scheme would only be launched after considerably more "due diligence" and marketing work, to provide against "reputational risk" for the corporate body backing the scheme.

The attractions of a national scheme are that hopefully all the set-up and running costs would be provided by the fund manager. The downside may be the loss of local control. However, if the scheme were to be launched on a national basis, then there would be little to prevent it being widely publicised in the Upper Dales. It is also quite possible that the retained specific research acquired during this (and linked) work would be sufficiently valuable to any national venture to enable an "Upper Dales Quota" to be included in their business plan.

At the time of writing tentative contact has been made with two potentially sympathetic lenders, and an exploratory meeting held with a substantial corporate entity.

Looking Forward

There are a number of exciting developments on the horizon which may facilitate the development of a Home Equity Fund – or at least a tax-transparent and user-friendly way for individuals or institutions to invest in affordable home ownership. Two of the more notable developments are:

Real Estate Investment Trusts (REITs)

These are proposed by Kate Barker in her review of housing supply for HM Treasury[21] . The attractiveness of REITs is that they offer a tax-transparent investment vehicle on a model that has been demonstrated to work elsewhere. As currently proposed the assumption is that REITs would be established to facilitate investment in rented property, but there seems to be no reason why REITs should not equally be developed to facilitate investment in affordable home ownership.

Open Capital Partnerships

These have been conceived as an investment vehicle for affordable home ownership by Chris Cook (of Partnerships Consulting) based on the (post 6 April 2001) UK Limited Liability Partnership which has to date been applied in the commercial sector in a £350m transaction. This structure is tax-transparent and has the additional benefit of being Sharia-compliant. It also appears to have the advantage of being an eligible product for personal pension fund investment. It works on the basis of both the occupier and investor owning "shares" in a home, (proportional to their contribution), and the occupier paying a rental to the financier in return for the beneficial use of the property.

Appendix 1

A radical approach to generating additional affordable housing through a council/housing association partnership

Discussion prior to the commissioning of this research report indicated a desire to increase the total access to affordable housing, for both ownership and rent. The proposals put forward below would depend on a high level of cooperation by the local council and local housing associations, but could actually generate a real increase in access to both affordable renting and affordable home ownership.

Where councils sell a HRA[23] asset they appear to be allowed to reinvest the full proceeds into provision of affordable housing, provided the funds received are spent within a year. This allows a council to adopt a policy of selling off a proportion of its council homes as they become vacant, and reinvesting the proceeds through a registered housing association.

In the Upper Dales, a three-bedroom council house would sell, with vacant possession, for upwards of £150,000. *Provided* exception sites were available, a grant of around £85,000 should be sufficient to fund the cost of a three-bedroom new property for rent through a housing association. Sale of five houses at £150,000 each could yield in excess of £750,000. This could be reinvested to provide (for example):

Type of provision

	3-bedroom rented houses	Mix 2- and 3-bedroom shared ownership houses	Homes funded through AHE where RSL matches grant 50:50 through own borrowing[24]	**Total provision**
Grant needed per property	£85,000	£45,000	£20,000	
Mix 1	8	1	1	10
Mix 2	5	7	0	12
Mix 3	5	0	16	21

As a demonstration exercise, proceeds of just one sale could be used to illustrate the amount of housing provision possible through Affordable Home Equity.

The properties sold need not be lost to local people. By packaging the sale with an equity loan, these properties could be targeted at local buyers.

One variant on the above approach would be for the council to sell properties in low-demand areas away from the Dales for reinvestment. This would require a more strategic approach, but there is now a body of evidence to show that selling a selection of properties on low-demand estates for owner occupation serves to improve the reputation of an estate and increase demand for the remaining rented properties.[25]

While the above financial mechanism does not work as well for housing associations, a total gain in provision of affordable housing to local people can still be achieved.

A linked issue is the strategic management of all affordable housing (rented and home ownership) in the Upper Dales or wider community. Substantial feedback was received from tenants and other commentators during this research relating to the perceived poor standard of management of social rented housing in the locality, particularly by housing associations.

The remoteness of the management offices for much of the available social housing is linked (in tenants' perceptions at least) to issues of poor and insensitive management of the available housing. One suggestion would be to develop further the emerging practice of running council-owned housing through an ALMO (arms length management organisation) into the concept of establishing a dedicated management company for all affordable housing in the locality. This should lead to considerable gains in terms of efficiency, and effectiveness of management and strategic decision taking.

While the management option is beyond the remit of this project, the potential to address the shortage of affordable housing through close cooperation between the council and partner housing association(s) is clear. The approach identified in this Appendix would appear to generate additional affordable properties without a need for additional resources.

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Endnotes

[1]Though this is probaby a slight underestimate
[2]Ch. 8, Swamps and Alligators – The future for Low Cost Home Ownership, Graham Martin JRF 2001
[3]2001 census – NB The census uses the terminology "household spaces". While perhaps more precise, this report prefers to use the word “properties” in line with common use of English
[4]For example, one property was sold for approximately £70,000 in need of refurbishment, and after completion of works marketed for £172,000
[5]Swaledale and Arkengarthdale
[6]Analysis had to be of "offers around" price as this is public domain information. Actual sales values could not be provided for obvious reasons of client confidentiality. However the author is confident that there is a sufficiently good general correlation between asking price and actuals for the purposes of this report.
[7]Information originally provided by J R Hopper estate agents
[8]A local IFA estimated typical purchase costs as 1% stamp duty, £600 legal costs, £250 valuation fee, £200 mortgage arrangement fee, plus MIG if required; "£3,000 to be on the safe side".
[9]"2000 Household Survey – Richmond District Report" – North Yorkshire TEC – Prepared by DMG Research, Birmingham
[10]TCI – Total Cost Indicators
[11]The author is very grateful to Jacqueline Blenkinship for carrying out the detailed calculations on this, and to the housing associations for the information provided.
[12]"Forever Affordable – Rural Shared Ownership Models that Work" Rachel Kalis. Dorset Community Action December 2003
[13]Unpublished data from "Swamps and Alligators – The Future for Low Cost Home Ownership" Graham Martin JRF 2001
[14]A non-status mortgage is one where the loan is made on an assessment that the purchaser can afford the repayments, but outside of the normal income(s)-to-loan ratios.
[15]Not least "A Home of My Own – The Report of the Government’s Low Cost Home Ownership Taskforce" (Housing Corporation November 2003). This expressed the view that this type of product "could be confusing to occupiers" (para 52, p98). The potential home buyers interviewed in the Upper Dales experienced no problems in getting a sound grasp on the product.
[16]The upper age limit of 35 is "precautionary" in that it acknowledges the need for the purchaser to buy out the equity loan after ten years. After age 45, borrowing power drops considerably. In circumstances where the home purchaser would expect to move on after ten years, or whose earnings or wealth can prudently be expected to rise in this time the age limit can be more flexible.
[17]A full report from the market research company, Stratosphere, can be made available (on appropriate terms) to organisations demonstrating a serious interest in developing this area of work
[18]HRA – Housing Revenue Account
[19]The focus groups of wealthy investors indicated that AHE might not appeal to older investors (due to the timescale and assumed lack of liquidity). However, most people purchasing retirement homes do not consider themselves as "old", still having well over ten years active life expectancy ahead of them.
[20]NB If five of the vacant properties generated were sold, this would yield a capital receipt (which could be retained 100% for spending on Housing Revenue Account approved purposes).. Five Properties sold by the council could generate over £750,000 in capital receipts. Appendix 1 explores how these funds could be reinvested to provide a net gain of affordable housing, including one for one replacement of affordable rented homes. There should be no loss of net lettings during the period.
[21]HM Treasury "Review of Housing Supply – Securing our future housing needs" – Kate Barker 2003
[22]From a submission to the Treasury Committee, Houses of Parliament "Restoring Confidence in Long Term Savings" by Chris Cook. (Personal communication to author). Further information on Open Capital Partnerships can be found at: http://www.senscot.net/LD/Articles/LLpPapers.asp
[23]Housing Revenue Account
[24]In practice RSLs ought to be able to fund a higher gearing ratio than 50:50
[25]"Rebalancing Communities: Introducing mixed incomes into existing rented housing estates". Graham Martin and Judi Watkinson. Joseph Rowntree Foundation 2003.