

# Social HomeBuy prospectus



AFFORDABLE HOMES. STRONG COMMUNITIES





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# Foreword

Social HomeBuy offers tenants choice – a choice for those who can't afford to buy outright, but who want to get a foot on the housing ladder, to buy a share of their home at a discount. It also offers associations an opportunity – the opportunity to consider stock holdings and to diversify tenure as a tool in creating sustainable, mixed communities and great places to live.

The signs from the initial four pilots, launched in October 2005, are encouraging. Coverage has been rolled out across the country with schemes in areas as diverse as Northumbria and Eastbourne, Manchester and Hounslow. Early indications from participating associations are that interest from social rented tenants is high. A further 38 housing associations received allocations to participate from April 2006.

I am therefore delighted to invite, through this prospectus, bids for a further round of Social HomeBuy funding. The prospectus tells you about the product, and what it means for participating associations and for potential purchasers; what a Social HomeBuy programme should look like – from identifying eligible properties to spending receipts; and how and when to bid for funding in this round.

This is an important Government policy and it is vital that all in the sector actively take forward the choice agenda. I would strongly encourage all housing associations to consider offering Social HomeBuy and to bring forward proposals. The autumn 2006 Social HomeBuy bid round is an opportunity for the Housing Corporation and associations to show how we can meet the challenge to innovate.



**Steven Douglas**  
Deputy Chief Executive

October 2006

# Introduction

1. The Social HomeBuy pilot programme commenced on 1 April 2006 as a strand of the National Affordable Housing Programme 2006-08. The programme is designed to provide new opportunities for housing association and local authority tenants who do not have the Right To Buy or Right To Acquire, to buy their current home outright or, if they cannot afford it, to buy a share in their rented home.
2. Participation in the programme by housing associations is voluntary but the Government and the Housing Corporation are strongly encouraging landlords to offer the product. Social HomeBuy is a core element in offering a range of appropriate choices to all social rented tenants and reflects the Government's desire to see all landlords consider making Social HomeBuy widely available.
3. The National Audit Office report, *A Foot on the Ladder: Low Cost Home Ownership Assistance*, recently concluded that more needed to be done to assist social rented tenants into low cost home ownership. The Social HomeBuy programme represents an effective means of empowering current social rented tenants who desire to own their own home.
4. The Housing Corporation held an initial pilot (launched October 2005), that drew in four housing associations, each of whom were closely involved in the development of the programme. These associations are the Notting Hill Housing Group, the Sovereign Housing Group, the Guinness Trust and Places for People.
5. Associations participating in the initial pilot have been positive in their overall feedback.
6. There were strong initial expressions of interest from current social rented tenants, with the first successful applicants having completed their purchase in May 2006. Full statistics on activity to date for the four initial pilots are given in Appendix B. We are beginning to see some indications of the likely range of conversion rates from initial interest to sale. We recognise that these will vary between different

“Places for People are very keen on tenure diversification and on this initiative. We intend to make it work”  
**Places for People**

associations and different schemes: our primary focus is on offering the choice of Social HomeBuy to tenants.

“Interest from customers has been relatively good. For example, out of our phase one pilot (2,400 participating customers), over 250 registered an expression of interest, and of those, 115 have gone on to submit an application. The first is due to complete on 4 September 2006”

**Places for People**

“The initial response that we received revealed that there is a big appetite for home ownership among Notting Hill tenants”

**Notting Hill Housing Group**

7. We want to see more housing associations offer the opportunity of Social HomeBuy to their tenants. If levels of stock sales are lower than expected, then this will not negatively impact on a Housing Corporation accredited Investment Partners’ partner status. We strongly encourage Partners to engage with the programme.
8. As well as offering choice to tenants, Social HomeBuy is an important opportunity for associations to consider and rationalise their stockholding, and to introduce tenure diversification as part of their strategy for delivering mixed, balanced and sustainable communities.
9. Social HomeBuy will allow associations to provide replacement social rented housing by recycling receipts from sales via the Disposal Proceeds Fund. A small proportion of sales receipts is potentially available to spend on other housing related projects. For example, within the four pilot projects, receipts are available to improve existing rented stock to meet the needs of larger families and reduce overcrowding.
10. This prospectus invites applications to the Housing Corporation’s autumn 2006 Social HomeBuy bid round. For successful bidders the Housing Corporation will provide grant to cover reimbursement of the initial discount paid to homebuyers.

11. The Social HomeBuy programme could help housing associations achieve a number of key outcomes:

- to act as a stepping stone into home ownership for those who can't otherwise afford to do so;
- to allow tenants to buy their home at a level they can afford and sustain;
- to offer increased choice of tenure to residents;
- to end mono-tenure estates;
- to generate funding for housing associations to provide more social lettings and to help reduce overcrowding; and
- to deliver mixed and sustainable communities.

# How does Social Homebuy work?

## The product

12. Social HomeBuy is a low cost home ownership product designed for social rented tenants who would like to acquire an equity stake in or outright purchase of their existing home. The Social HomeBuy Programme has been rolled out from 1 April 2006, as part of the National Affordable Housing Programme 2006-08 and is intended to be a two-year pilot.

13. Under the scheme, social rented tenants are given the opportunity to purchase their current home (or an alternative if offered by their landlord) outright or on shared ownership terms. Social rented tenants are able to purchase a minimum initial share of 25% of a home (rising to a maximum 100% share of their home). The unowned share of the equity is retained by their landlord who is able to levy a charge of up to a maximum of 3% of the capital value of their retained equity. The target average for the charge is expected to be 2.75%.

14. Social rented tenants participating in the programme are entitled to receive a discount on the initial share of their purchase. This discount is equivalent to

that available under the Right To Acquire and is currently set at a level between £9,000 and £16,000 depending upon the local authority in which the property is located, pro-rata to the share purchased.

15. The Social HomeBuy product replaces the former Voluntary Purchase Grant and allows tenants to buy 100% with a discount where they can afford to do so.

## The programme

16. Participation by housing associations is voluntary and participants are able to determine which self-contained properties they wish to include in their scheme. Housing associations are required to publish their policy. However, some properties are ineligible and full details of these can be found in section 7 of the Corporation's Capital Funding Guide Social HomeBuy chapter. This guide can be located via a direct link from the Corporation's homepage at: [www.housingcorp.gov.uk](http://www.housingcorp.gov.uk)

17. Some tenants will be unable to purchase their rented home because it has been designed specifically for someone with a disability or special needs or it is

particularly suitable for that purpose. We would encourage housing associations to consider options to enable such tenants to access homeownership. Details of exceptional alternative uses are given in the Capital Funding Guide.

18. Homes that are exempt from Right to Acquire will also be exempt from Social HomeBuy, i.e. homes in small rural areas (settlements of less than 3,000 in population) and in supported housing developments for people with special needs such as the elderly and the disabled. However, tenants who do not have the Right to Acquire can be offered Social HomeBuy.

19. Housing associations can sell eligible homes to eligible tenants, as described in paragraph 21 below. However, in low demand areas, housing associations would be able to extend the sale of properties to non-eligible social tenants and non-social tenants at their discretion. Such sales are not eligible for a discount on the purchase price, would not be eligible for Social HomeBuy grant and would be classified as a voluntary programme.

20. The sale will take the form of the grant of a long lease, on shared ownership terms, unless an outright purchase is being made. Tenants will purchase the lease, with a payment covering the share of the property they can afford (subject to a minimum of 25%) through savings and a mortgage with assistance of the discount.

21. Details of the specific conditions for Social HomeBuy, can be found in the Capital Funding Guide, including:

- grant eligibility criteria, for tenants, housing associations and properties;
- repaying discount; and
- a sample lease.

The Capital Funding Guide is located on the Housing Corporations web site at: <http://www.housingcorp.gov.uk/CFG>

## Minimum share and discount

22. The minimum share that can be purchased is 25%, with the remaining equity share retained by the housing association. The level of discount available is calculated according to the size of the share that is purchased,

e.g. if a 50% share of the property is purchased, 50% of the eligible discount will be reflected in the purchase price. No further discounts are available on staircasing.

23. Homebuyers should be expected to purchase the maximum share they can afford at initial sale. It will also enable homebuyers to make the most of the available discount.
24. The housing association retains the freehold interest (or lease if it only has a leasehold interest itself) and grants a long lease (or sub-lease on a leasehold property) to the homebuyer.

## Charging

25. The homebuyer will be subject to an annual rental charge up to a maximum of 3% of the original capital value of the equity retained by the housing association, and with a target rate of 2.75% or lower. The annual rental charge will be paid on a monthly basis. Rent increases will be up to RPI + 0.5% per year. Within this maximum charge, housing associations should look at a range of rent options, with a strong

emphasis on affordability for potential homebuyers.

26. The overall costs to participants should be no greater than 32% of their gross household income with a target of 30%.

## Maintenance

27. Homebuyers purchasing a share will have a full repairing lease and be fully responsible for all maintenance charges and outgoings in the same way as any other homeowner.
28. Homebuyers purchasing maisonettes or flats will have to pay service charges including a contribution towards the upkeep of the building and communal areas. Housing associations are required to set up and maintain sinking funds for this purpose and apportion costs to individual homebuyers by way of the service charge. Housing associations will be expected to give notice of the estimated annual service charges for repairs and improvements during the first five years of ownership, and these estimates will act as a cap on charges that can be levied.

## Staircasing

29. The homebuyer is entitled under the lease to purchase further shares of the equity at the prevailing market value ('staircasing up'). The minimum tranche for staircasing will be 10%. The purchaser is not entitled to any further discount (grant from the Housing Corporation) when staircasing. Tenants may buy 100% of the property at the outset, if they can afford it with the discount.
30. On staircasing to 100%, for homebuyers in flats and maisonettes, the shared ownership lease falls away and is replaced by a standard lease. For homebuyers who live in houses, the freehold will be transferred to the homebuyer.
31. All Social HomeBuy leases must contain a fundamental clause allowing the purchaser to buy further shares and staircase to 100%. Leases containing restrictive staircasing provisions will make the scheme ineligible for grant funding.

## Nomination and option to buy back

32. Nomination and pre-emption rights apply as they do in the New Build HomeBuy scheme, to retain stock within the affordable housing sector. These provisions are contained in the model/standard lease available on the Corporations' website in section 10 of the Social HomeBuy chapter of the Capital Funding Guide see paragraph 16.

## Planning a Social HomeBuy programme

33. Housing associations have discretion over which eligible properties they decide to include in the scheme in each local authority area, but are required to draw up a published policy document, which specifies the list of properties, or types of properties, that are excluded from the programme that is available to tenants in order to be seen to be operating on a fair and consistent basis. It is not acceptable for housing associations to sell on a case-by-case basis in response to demand from individual tenants. Once published the

policy must remain in place for the duration of the scheme.

34. Participating housing associations should consult the local authority in which it is proposing to offer Social HomeBuy to its tenants. If no policy is in place by the start of the sales and marketing programme, it will be assumed that all properties in that local authority area will be included in the Social HomeBuy programme, other than those covered by mandatory exceptions.

35. Initial participants adopted different approaches and reported varying results to marketing the product to customers. Notting Hill Housing Group chose to market Social HomeBuy to its entire tenant base. They explained this approach as being a good way of testing attitudes to Social HomeBuy across a large and diverse portfolio. Whilst others chose to roll out the programme to selected pilot areas covered by their associations' remit.

36. Social HomeBuy sales must be based on a full open market valuation of the property carried out by an independent qualified valuer. Sales on shared ownership terms are based on a percentage of the full market value of the property. Housing associations cannot set Social HomeBuy prices above the valuation.

37. Tenants wishing to apply for Social HomeBuy must make a formal written application to purchase their property. The application must be completed by the tenant(s) and returned to the landlord. Housing associations must formally respond to all applications. On receipt of the application, the housing association will determine the tenant's eligibility against set criteria and carry out affordability checks to ensure that the applicant can sustain home ownership. On completion of the checks, the housing association should respond to the tenant either confirming or if denying eligibility stating reasons. Tenants should be encouraged to buy as large a share as they can afford and sustain.

## Use of Social HomeBuy receipts

38. The Corporation's requirement is that receipts from Social HomeBuy sales will be credited to housing associations' Disposal Proceeds Funds for the provision of replacement social rented housing.
39. Exceptionally, there may be an alternative case to be made where provision of new lettings is not a priority, e.g. in low demand areas or in cases where Registered Social Landlords would otherwise need to sell homes onto the market to raise revenue.

## The bidding process and schedule

40. Bids should be submitted online with two copies of additional supporting information to be submitted separately. Additional information should be submitted in hard copy and in the form of a CD Rom. A template will be provided for the submission of supporting information and can be downloaded from the Housing Corporation website.

41. Bids should be submitted on the basis of one per region, based on where your stock is located or where the targeted homes are located, i.e. if your stock spans across three Housing Corporation regions, we would expect three bids if making Social HomeBuy available stock-wide. Bids should not be cross-regional. You will need to provide local authority specific information when submitting online. Please refer to online bidding guidance.
42. Bids must be submitted in terms of the overall funding applied for and not the number of proposed output homes.
43. A full list of the information required to satisfy the bidding criteria are set out in Appendix A. In particular we are looking to understand:
- the association's overall approach to managing the sales of properties within the programme, e.g. whether it will target specific estates or open up the scheme across its stock generally on a first come, first served basis;
  - the benefits to be achieved through this approach, e.g. breaking up a mono-tenure estate;

- how receipts will be spent, in particular how these will be used to create new social lettings, alleviate overcrowding and or homelessness, e.g. this might include schemes to encourage tenants to free up homes or to purchase on the open market, for example, larger homes, where this is a pressing local need;
- how the association will maximise affordability for potential homebuyers (e.g. by selling larger shares, charging lower rents, or making a viable case for charging on less than 100% of the un-owned equity;) and
- an assessment of likely take up based on local research/affordability.

44. The launch of the second bidding round will be 30 October 06. The closing date will be the 30 November 2006. Decisions on grant awards are likely to be January 2007.

# Appendix A

## Bidding criteria

Candidates applying for the second round of the Social HomeBuy programme will be asked to submit the following information;

- A RSL name; and
- B Region.

## For each local authority

- C Local authority within which the properties to be made available for sale are located;
- D Number of properties to be made available for sale in the local authority; showing 2006-07 and 2007-08 separately;
- E Anticipated sales in the local authority; showing 2006-07 and 2007-08 separately;
- F Estimated average equity stake taken by purchasers in the local authority area, as a % of unit value;
- G RTA discount available in the local authority;
- H Total grant sought; showing 2006-07 and 2007-08 separately; i.e.  $G \cdot F / 100 \cdot E$  aggregated across all local authorities in which your programme is operating.

## For the programme

- I Briefly describe the research and assumptions underpinning your expected level of demand, including about the affordability of your proposals to buyers;
- J Are your proposals dependent on funding for this volume of Social HomeBuy and how would you adapt to a smaller or larger scale project?
- K What level of rent will be set for the retained share, as a percentage of the original capital value of the retained equity?
- L On what percentage of the retained share will rent be charged?
- M At what point after sale will rental charging begin?
- N Estimate the range of service charges which will be levied after sale;
- O Describe your overall approach (e.g. whether you will target specific estates or open the scheme across properties);
- P Describe the benefits to be achieved (e.g. breaking up a mono tenure estate);
- Q Give an estimate of the receipts generated;
- R Describe how receipts will be spent, and the timetable for expenditure. Describe other subsidy required to meet these intentions; and

S Our default assumption is that receipts will be used to increase the supply of social rented homes. If this is not the case, explain your exceptional circumstances (all uses must comply with the Disposal Proceeds Fund General Determination, shown in the Corporation's Capital Funding Guide).

It is against this information that bids will be assessed.

Key programme output statistics from the pre-pilot associations' returns.

Participating RSL	Number of tenants marketed	Initial expressions of interest	Formal applications	Final stage*
Places for People	2,400	250	115	9
Notting Hill Housing Group	10,000	650	184	24
Guinness Trust	2,141	N/A	29	11
Sovereign Housing Group	770	90	15	0
<b>Total</b>	<b>15,311</b>	<b>990</b>	<b>343</b>	<b>44</b>

\*Note included within final stage, numbers are actual completions and those nearing completion.



