



Team Limited

**Current “Affordable”
Housing Options**

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1. Introduction

As has been described in the report *Household Incomes, Spending and Housing Options*, London households with earnings of £25,000 to £45,000 are in a restricted situation regarding housing.

They may try to fathom the bewildering array of government initiatives intended to help them. They may search the internet for affordable private sector schemes. But, because of the way that information is made available, such a quest is likely to involve some confusion and frustration before a successful outcome is reached.

This report attempts to unravel the various initiatives currently available to intermediate earners and summarise them in one document. However, it should be noted that this is based on a desktop study only. More details and obstacles may be uncovered by applicants experiencing the process of obtaining affordable housing for real.



2. Government Initiatives

The government has created a number of initiatives aimed at improving housing options in London for key workers and others who cannot afford to pay the market rate. Most of these initiatives are aimed at providing applicants with a step on to the home ownership ladder although there is one scheme, *Intermediate Rent*, which provides key workers with accommodation at subsidised rents.

This section describes the groups targeted by the government, outlines each initiative and summarises the application procedure.

Most of the information has been drawn from the Government's *Housing Options* website. This information often seems incomplete or unclear and several other sources have been needed, such as the Metropolitan Home Ownership website or the Housing Corporation website in order to establish the full facts.

2.1. Target Groups

The initiatives described in Section 2.2 are generally aimed at people who cannot afford to buy housing at the market rate:

- Who are not able to buy a suitable home within a “reasonable” travel distance of work without assistance,
- Who have indefinite leave either to enter or to remain in the UK (with the exception of the *Intermediate Rent initiative*, see below),
- Who have savings or access to at least £4,000 to cover the cost of buying a home,
- Who are employed on a permanent contract,
- Who have a good credit history and have not been in rental arrears during the last 12 months. And,
- Who do not receive housing benefits.

However, 3 groups receive particular focus:

- Households currently residing in family sized Local Authority or Housing Association rental accommodation, to free up this stock for more needy tenants.
- Key workers, to ensure that key public services in London such as policing, healthcare and education are not compromised by staffing problems resulting from high housing costs.
- First-time-buyers. The Government's motives for encouraging first time buyers are not clearly stated except that “*Rising house prices have made it increasingly difficult for first time buyers to enter the housing market*”^(Department of Communities and Local Government, 2005)

Of these 3 groups “Key workers” need the most definition. Broadly speaking, permanent public sector employees within the following sectors will qualify if they are at least 5 years away from retirement and have a household income less than £60,000:

- NHS (except for Doctors and Dentists),



- Police,
- Education,
- Probation Service,
- Prison Service,
- Local Authority,
- Fire Fighters,
- Some Local Authority staff, including professional Town Planners and various types of qualified Social Services Staff.

It should be noted that each key-worker sector is subject to a variety of detailed conditions and qualifications.

2.2. Initiatives

The Government has tried to bring all the initiatives under one banner, *Housing Options*, which has a single website and a single route of entry described in Section 2.3.

The administration of these schemes has been delegated to a number of Zone Agents nationwide. In London the Zone Agents are Metropolitan Home Ownership (north of the river) and Tower Homes (south of the river).

According to the Housing Corporation the zone agents are responsible for:

- marketing the initiatives detailed below,
- processing all initial applications within their designated area,
- determining whether each applicant is eligible,
- directing applicants towards appropriate developments.

In practice all Housing Associations appear to be aggressively marketing both the various initiatives and their developments.

Initiative	Available to	Key Features
New Build Homebuy	“Anyone who cannot afford to buy a suitable home on the open market can apply” but priority will be given to Keyworkers and existing Council/Housing Association Tenants	Formerly known as “Shared Ownership”, successful applicants purchase a share of a new build flat from a Housing Association and pay a rent on the remaining share. The rent is discounted compared to market rates. The <i>Housing Options</i> website specifies that a minimum share of 25% can be purchased rising to a maximum of 75% initially. Within this range the exact maximum and minimum for each participating development will be set by the Housing Association involved. After a year there is usually the facility to “staircase” the share owned, up or down in 10% steps, at any time depending on the purchaser’s changing financial circumstances. When it comes to selling the unit, it can either be sold on the open market if the owner has bought 100% of



		the unit, or the owned share is sold to a buyer nominated by the Housing Association.
Open Market Homebuy –for Public Sector Tenants	Council and Housing Association tenants in homes with 2 bedrooms or more	Successful applicants buy a 75% share of a home of their choice on the open market (terms and conditions apply). The remaining 25% is raised through an 'equity loan' from their Housing Association. There are no payments made on the 25% loan, instead 25% of the value of the home at the time of sale is returned to the Housing Association at the time of sale.
Open Market Homebuy –for Keyworkers	Key workers only	<p>Housing Associations provide equity loans of up to £50,000 to successful applicants to enable them to buy a home on the open market. The applicant funds the rest of the purchase through a normal mortgage. Lenders involved include HBOS, Nationwide Building Society and Yorkshire Building Society.</p> <p>The Equity Loan is repaid either within 2 years of the applicant ceasing to be a keyworker, or on sale of the property. The amount to be repaid is determined through an independent valuation.</p> <p>Currently Higher-value equity loans of up to £100,000 may be made available for a small group of school teachers with the potential to become “<i>leaders of London’s education system in the future</i>”.</p>
Intermediate Rent	Key workers	Successful applicants will be able to rent accommodation in participating developments at a discounted rent equivalent to a maximum level of 80% of the market level. This initiative is unique, not just because it is rental based, but also because it is the only initiative for which applicants do not need to have indefinite leave to remain in the UK.
First Time Buyer Initiative (FTBI)	First-time-buyers, who cannot afford full market prices. NB: 50% of FTBI developments are reserved for Keyworkers.	<p>Another shared equity scheme that will become available in 2007. It is intended to enable first time buyers, who cannot otherwise afford to buy a home outright, to buy a minimum of 50% of a new home on a designated FTBI development. Participating housing associations will hold the remaining equity of the home with buyers raising the mortgage and making repayments just on the portion they own.</p> <p>For the first three years of occupancy the first time buyer will make no payment towards the un-owned equity portion. After three years buyers will pay a charge of 1% per annum on the equity they don't own. This charge rises by 1% annually reaching a maximum of 3% after five years in the property.</p> <p>FTBI homeowners will be able to increase their equity share at any time in 10% steps.</p>



		When owners sell their FTBI home, they will repay the un-owned equity share to the Housing Association.
Social Homebuy	Council and Housing Association Tenants	Public sector tenants can buy their council or housing association home on a part buy part rent basis receiving a discount on the initial purchase price. Eligibility criteria are set on a local level by landlord. It is not a statutory scheme and not all landlords participate. There is no evidence on the Borough website that this is available in Tower Hamlets
Re-sales	Not defined	The "Re-sales" initiative is particularly poorly defined and is only mentioned in a few sources. Basically it would appear that when units are sold by part owners under the above initiatives, the units will then sometimes be made available to new applicants.

2.3. Application Route

In theory there is a single application route for all of the initiatives described above:

1. Applicants complete a *Housing Options* application form. This is done either on-line via the *Housing Options* website or by posting a completed hard copy form to the relevant Zone Agent.
2. Applicants wait for the Zone Agent to contact them, either with queries or to give notification of eligibility.
3. If applicants are successfully declared eligible for one or more of the initiatives then they can apply to individual housing associations. In theory the Zone Agents will put successful applicants in touch with housing associations with schemes in the right area.

In practice applications can also be made via housing associations, who then forward them on to the zone agents. A telephone call to one housing association revealed that there might be a benefit in doing this because the housing association has a vested interest in making sure that applications are processed promptly.

Another point to consider is that housing associations are also under pressure to relieve local authority waiting lists. The telephone call mentioned above also revealed that making a prior application to be registered on the relevant local authority housing waiting list was also to be recommended as this prioritises both the initial application and also subsequent acceptance on individual housing association developments.

A final point to note is that it would appear that in some cases applicants will only be able to apply for developments either in the borough where they currently live or in the borough where they work. However, there does not seem to be a consistent rule in this respect.



3. Private Sector Initiatives

Private Sector Initiatives could be expected to emerge from 2 directions: Private Sector Developers building flats and houses and Mortgage Institutions who provide the finance that enables occupiers to buy this accommodation.

3.1. Mortgage Institutions

CML data shows that for UK first-time-buyers the median ratio of mortgage loan to gross earnings has increased from 2.34 in the Quarter 1 1996 to 3.13 in Quarter 1 2006. This implies a relaxation in lending criteria that, in itself, would effectively enable the median first-time-buyers to borrow roughly 34% more than if the loan to earnings ratio had stayed put.

This sort of relaxation is all very well but some people might argue that it merely drives first time buyers in to deeper debt. In any case it has very little meaning in a market such as Tower Hamlets where the average flat price has increased by 224% over the same period, from £77,719 to £252,077.

Statistics at such a national level are obviously somewhat limited when considering individual situations and it is worth noting that first time buyers who can demonstrate good credit history and prospects will be able to borrow at much greater earnings multiples and put down much smaller deposits.

- Via their websites the Halifax and Nationwide currently advise that it is possible to borrow up to 5 times the applicant's gross earnings if all lending criteria are satisfied.
- First Rung Now, a mortgage broker specialising in finance for first time buyers, are currently advertising 100% mortgages through the Bradford & Bingley Building Society.

As an aside, lenders now advertise a variety of mortgages intended to match a variety of applicant needs and preferences, from "Fixed Rate Mortgages" that enable borrowers to plan their finances with more certainty over a defined period to "Tracker Rate" mortgages, which float at a defined margin over Official Bank Rate. The following table compares mortgage rates currently offered by the Halifax to First time buyers, all cases revert to a "Standard Variable Rate" (currently quoted as 6.5%) on the defined date:

Mortgage Type	Interest Rate
Standard Tracker Mortgage until 31 July 2008 (max loan to value = 97% for loans up to £250,000)	0.49% above Official Bank Rate (ie 4.99% at present)
Fixed rate (max loan to value = 97% for loans up to £250,000)	5.19%
Fixed rate until 31 July 2011 (max loan to value = 97% for loans up to £250,000)	5.59%
Fixed rate until 31 July 2016 (max loan to value = 97% for loans up to £250,000)	5.65%



As described in previous reports, by itself, none of this is particularly helpful for people with modest incomes trying to purchase accommodation in East London where the market is simply too expensive.

3.2. Private Sector Developers

Private developers are trying to appeal to first-time-buyers and modest earners in a number of ways. Here are some examples:

- George Wimpey are currently marketing their *Altius* scheme on Mount Pleasant Hill, E5. Prices are not particularly high (in the £380/ft²) but then they are probably not particularly low for the area. Instead George Wimpey's angle has been to arrange a mortgage deal through UK Home Finance that offers a fixed rate of 2.99% for 2 years, after which the rate reverts to a standard variable rate.
- Via their *Intro Homes* label Laing Partnership are marketing their *Millfields* scheme on Southwold Road, E5 (almost next to George Wimpey's *Altius*). The Intro Homes brand is intended specifically for first time buyers and the first launch was only advertised in the local paper (Hackney Gazette). Prices average out at £355/ft². Flat sizes are fairly average (475-504 ft² for 1-beds and 650-670ft² for 2-beds) and a major contributor to the reduced price may be the level of specification. For example, flooring in wet areas is marmoleum rather than tiled, carpets to other areas are not included and the white goods manufacturer is not named. Importantly for the target market, prices might be relatively low, but at £183,995 the cheapest 1 bedroom flat is still going to require a minimum gross income of almost £40,000 just to qualify for a mortgage.
- Alongside a number of other developers, Laing have also played an active role in the regeneration of £194,950 Peckham. At their *Evolution* scheme 705ft² 2-bed units were priced from £194,950 (£277/ft²). However, this scheme and its neighbours have been very much subject to pricing conditions imposed by Southwark Borough Council as part of the underlying land deal. Anecdotal evidence suggests that prices in the area have been suppressed over the duration of the regeneration by the volume of supply of new units at similarly discounted prices. Agents are apparently expecting prices to rise rapidly once the project finishes, as will soon be happening.
- In March 2006 Barratt Homes announced its *iPad* initiative in the national press. The key economy driving feature of these flats appears to be their size: 1-bed flats will be "just over 380 square feet". There are no published plans to build *iPad* flats within Greater London but units in Reading and Slough will apparently be priced at £120,000 to £125,000 (£316/ft² to £329/ft²).
- Barratt are not the only house builder using diminutive proportions as a means of delivering "affordable" open market units. Other examples are Wilson Bowden's *iLiFE* range, priced from £65,000, and Redrow Homes' *Debut* range, priced from £50,000. In both cases 1-bed flats will be in the 300ft² ballpark. However, no developments are planned in London by either company.
- A number of private developers are building housing for housing associations. Bellway Homes in particular has been very active in this respect in East London. They have recently completed East Homes' *The Maltings* scheme and have also been involved with East Homes, Newlon Housing Trust and Labo Housing



Association in the Harford Street Gasworks redevelopment in E1. Other examples are the contractor Willmot Dixon, which has developed *Fabrika* and *East Side* in E3 for Circle 33 Housing group under the badge *Widacre Homes*, and Lovell Partnerships which has developed *Heart of Bow* for the Guinness Trust and Tower Hamlets Housing Action Trust. Recently Berkeley Homes have introduced a *Berkeley First* label specifically to produce developments for Housing Associations and are developing sites in Brentford and Isleworth for Ajanta Homes.

Importantly, the majority of the accommodation built in these schemes is marketed under one of the Government Initiatives described in Section 2. The remainder is not sold cheaply because social developers ostensibly want to achieve a level of tenure balance. An amount of cross-subsidisation is also often required.

- 53 organisations entered the former ODPM's *Design For Manufacture Competition*, the objective of which was to demonstrate that "*it is possible to build sustainable, well-designed, good quality homes for a construction cost of £60,000*". The unit size for the competition was set at 76.5m² (823ft²). 6 of the 53 starters were selected to build their designs in 9 pilot projects across England. However, none of these pilot projects is in Central London, none of the pilot projects are particularly large, and not many of units will be available to the market. Furthermore the pricing of the few on-market units has yet to be revealed.

In conclusion it appears that private sector developers are not currently making significant moves to increase affordability for East London purchasers within Team Limited's target earnings band.



4. Comparable Developments

The following table is a compendium of Housing Association developments within Tower Hamlets and adjacent boroughs. All are being marketed under the Government initiatives listed in Section 2 above.

The Annual Total Cost in the final column is a total of Rent, Service Charge and interest based on a 100% mortgage on the purchaser's equity share attracting interest at 5%.

H.A.	Scheme, Postcode	Type	Min "Market" Price	Min. Share	Annual Rent on HA Share	Annual Service Charge	Specified Min. Gross Income	Total Annual Cost
Swan	Express Wharf, E14	1-bed	£180,000	£63,000 (35%)	£3,510 (3%)	£1,473	£29,000	£8,133
	41 Millharbour, E14	2-bed	£245,000	£98,000 (40%)	£4,410 (3%)	£1,423	£32,400	£10,733
	Canary South, E14	Studio	£152,500	£76,250 (50%)	£2,669 (3.5%)	£1,147	£24,500	£7,629
		1-bed	£170,000	£85,000 (50%)	£2,975 (3.5%)	£1,940	£27,200	£9,165
		2-bed	£210,000	£105,000 (50%)	£3,675 (3.5%)	£1,585	£33,600	£10,510
	New Providence Wharf, E14	1-bed	£190,000	£57,000 (30%)	£3,990 (3%)	£818	£20,276	£7,658
		2-bed	£267,500	£80,250 (30%)	£3,745 (2%)	£1,166	£26,700	£8,924
Landmark Housing	Tarling Street, E1	1-bed	£160,000	£64,000 (40%)	£1,920 (3%)	Not Sated	£21,166 single, £24,213 joint	£5,120 excl. service charge
	Sailacre House, SE10	1-bed	£167,500	£67,000 (40%)	£3,015 (3%)	£1,261	£23,308 single, £25,031 joint	£7,626
	One SE8, SE13	1-bed	£170,000	£42,500 (25%)	£3,168 (3%)	£1,058	£17,026 single, £27,309 joint	£6,351
		2-bed	£245,000	£61,250 (25%)	£5,513 (3%)	£1,058	£19,372 single, £27,309 joint	£9,634
	Galleria Court SE15	1-bed	£152,500	£61,000 (40%)	£2,748 (3%)	£1,065	£21,250 single, £26,003 joint	£6,863
		2-bed	£180,000	£72,000 (40%)	£3,240 (3%)	£1,345	£25,157 single, £30,767	£8,185



							joint	
	60 Queens Road, SE15	2-bed	£187,500	£56,250 (30%)	£3,936 (3%)	£1,406	£21,209 single, £23,888 joint	£8,155
East Homes	The Maltings, E3	1-bed	£177,500	£71,000 (40%)	£3,278 (3.5%)	£783	Not Stated	£7,611
		1-bed	£128/week Intermediate Rent		N/A	N/A	Not Stated	£6,656
		2-bed	£218,000	£87,200 (40%)	£4,578 (3.5%)	£783	Not Stated	£9,721
		2-bed	£157/week Intermediate Rent		N/A	N/A	Not Stated	£8,164
	East One, E1 (Harford Street)	1-bed	£180,000	£54,000 (30%)	Not Stated	Not Stated	Not Stated	-
		2-bed	£220,000	£66,000 (30%)	Not Stated	Not Stated	Not Stated	-
	Cedar Wharf	2-bed	£220,000	£88,000 (40%)	Not Stated	Not Stated	Not Stated	-
Toynbee	Sexton Court, E14 (Re-sale only)	2-bed	£280,000	£112,000 (40%)	£5,221 (3%)	£1,447	Not Stated	£12,268
	Umberton Street, E1	1-bed	£175,000	£61,250 (35%)	£3,705 (3.3%)	£1,200	Not Stated	£7,968
	Virginia Quay, E14 (Re-sale)	2-bed	£260,000	£65,000 (25%)	£5,944 (3%)	£1,447	Not Stated	£10,641
	Virginia Quay, E14 (Re-sale)	1-bed	£175,000	£61,250 (35%)	£3,412 (3%)	£900	Not Stated	£7,375
Newlon Homes	East Central, E8 (Re-sale)	1-bed	£225,000	£112,500 (50%)	£3,087 (2.7%)	£1,170	£32,000	£9,883
Tower Homes	Augustus Court, SE1	1-bed	£200,000	£70,000 (35%)	£2,795 (2.2%)	£1,178	£23,973 Single £27,306 Joint	£7,473
		2-bed	£235,000	£82,250 (35%)	£3,284 (2.2%)	£1,178	£27,962 Single £31,879 Joint	£8,575
	Bow Central, E3	1-bed	£170,000	£59,500 (35%)	£4,548 (4.1%)	£1,128	£22,755 Single £26,084 Joint	£8,651
		2-bed	£215,000	£75,250 (35%)	£5,748 (4.1%)	£1,128	£28,479 Single £32,689 Joint	£10,639
Southern	Lewis Gardens,	1-bed	£175,000	£52,500	£3,675	Not	Not Stated	£6,300 excl.



Housing	N16			(30%)	(3%)	Stated		service charge
		2-bed	£235,000	£70,500 (30%)	£4,935 (3%)	Not Stated	Not Stated	£8,460 excl. service charge
	Royal Arsenal, SE18	1-bed	£170,000	£42,500 (25%)	£3,825 (3%)	Not Stated	Not Stated	£5,940 excl. service charge
		2-bed	£257,500	£64,375 (25%)	£5,794 (3%)	Not Stated	Not Stated	£9,013 excl. service charge
	Nightingale Estate, E8	1-bed	£145,000	£58,000 (40%)	£2,610 (3%)	Not Stated	Not Stated	£5,510 excl. service charge
		2-bed	£230,000	£92,000 (40%)	£4,140 (3%)	Not Stated	Not Stated	£8,740 excl. service charge
Hyde Housing	Symons Close, SE15	1-bed	£125,000	£62,500 (50%)	£1,875 (3%)	£879	£20,612 Single £25,482 Joint	£5,879
		2-bed	£159,000	£79,500 (50%)	£2,385 (3%)	£879	£25,979 Single £32,174 Joint	£7,239
Galleons Housing	College Quarter SE18	1-bed	£175,000	£70,000 (40%)	£3,150 (3%)	£1,244	Not Stated	£7,894
		2-bed	£220,000	£88,000 (40%)	£3,960 (3%)	£2,128	Not Stated	£10,488