

	<b>Cabinet</b> 17 July 2023
	<b>Report from the Corporate Director,  Resident Services</b>
<b>Release of 23 Shared Ownership Homes</b>	

<b>Wards Affected:</b>	Alperton
<b>Key or Non-Key Decision:</b>	Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Part Exempt – Appendix 1 is exempt as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: “Information relating to the financial or business affairs of any particular person (including the authority holding that information)”
<b>No. of Appendices:</b>	One Appendix 1: (Exempt) Offers received
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Emily-Rae Baines, Head of Affordable Housing and Partnerships 020 8937 1131 <a href="mailto:Emily-Rae.Baines@brent.gov.uk">Emily-Rae.Baines@brent.gov.uk</a>  Zak Rezig, Senior Development Manager, <a href="mailto:Zak.Rezig@brent.gov.uk">Zak.Rezig@brent.gov.uk</a>

## 1. Purpose of the Report

- 1.1. The purpose of this report is to provide an overview of the 23 shared ownership homes that form part of the acquired Grand Union (Block D) site and seek authority to dispose of these homes on the open market.

## 2. Recommendation(s)

That Cabinet note the content of this report and:

- 2.1. Authorises the proposed disposal of the 23 shared ownership homes at Block D, Grand Union (the Property) in accordance with the Council’s Constitution;

- 2.2. Recognise that in order to proceed with the proposed disposal of the Property reliance may be placed on the Secretary of State's general housing consent;
- 2.3. Recognise that Heads of Terms will need to be agreed with relevant third parties in respect of the proposed disposal of the Property and authorises officers to negotiate and agree such Heads of Terms as may be necessary with the relevant third parties in relation to the same (which may include agreeing terms in respect of any variation which may need to be negotiated and agreed with regard to existing deeds).
- 2.4. Support the recommendation to proceed with the preferred option, offer 3 (as detailed in appendix 1).

### **3. Background**

- 3.1. In April and July 2020, authority was obtained approving the purchase of 115 homes of which 92 were Social Housing for London Affordable Rent (in Blocks A and B) and 23 for Shared Ownership (in Block D). These homes were Phase One of the Grand Union development by St George (Berkeley Group). The Council took handover of the 92 homes for London Affordable Rent in December 2021 (for Block A) and in January 2022 (for Block B). The Block D Shared Ownership leases completed in 2 phases. Twenty-two were completed in October 2022 and the final remaining shared ownership lease in June 2023.
- 3.2. The purpose of this acquisition was to unlock the 92 homes for London Affordable Rent, rather than the Council having ambitions to move into the Shared Ownership market. It is recognised by the Council that whilst there is an established leasehold team, the knowledge, experience and the capacity of the Council to effectively sell and manage processes such as staircasing is minimal. This is particularly important when comparing to well-established peers in the sector whom have dedicated sales teams and a clear brand for marketing shared ownership homes as well as incentives to buy.
- 3.3. The Council did however consider selling homes and retaining them within the Housing Revenue Account (HRA). However, the market and demand for Shared Ownership, particularly in the latter quarter of 2022 was and has remained turbulent. This is both in terms of too many shared ownership homes available in the market and appetite and demand for these homes reducing.
- 3.4. Registered Providers who work closely with Brent have shared concerns about a saturation of shared ownership in the market. Many Registered Provider include shared ownership as a form of cross subsidy for social housing for rent, this has been under further pressure following last year's economic and supply challenges to make schemes viable. The Council also put forward a paper to Cabinet in November 2022 proposing cross-subsidy as a means for reducing the financial viability gap within the New Council Homes programme, though politically shared ownership was not considered a favourable tenure and was only considered as a potential means of protecting the much needed social housing.

- 3.5. The impact of the mini-budget back in September 2022, rising inflation and growing cost of living crisis has led to uncertainty in the market. From a practical perspective, shared ownership offers residents who still want to buy and benefit of stability that homeownership provides and a route to do so whilst mortgage rates are high as residents can purchase a smaller percentage to keep costs down.
- 3.6. The affordability of shared ownership has however also come into question within the housing sector. Research into the ongoing cost of living crisis and housing shows shared owners are more likely to be vulnerable to financial hardship than other home owners. This is a result of both mortgage offers and the rent payments on properties being linked to inflation. Shared owners pay a mortgage on the proportion owned, which now can be as little as 10% of a property depending on when the property was built, and then pay rent which starts at 3% of the value of the property still owned by the Landlord. Generally 25-35% is the standard amount of equity first purchased. Contractually shared ownership rents rise by the Retail Price Index (RPI) plus 0.5% each year which would have seen rises of 15.7% as of December 2022 (it should however be noted Not for Profit Registered Providers capped the rent increase at 7%). Generally mortgage offers for Shared Ownership homes have higher interest rates than regular mortgages too, meaning inflation has an even greater impact when mortgage payments and rent is combined.
- 3.7. A study into Affordable Housing Products in Brent was commissioned in 2017 and whilst the market has changed since this point, the data around shared ownership demand and accessibility still provides valuable insights. The report found in Brent the following households could afford a shared ownership home:
- 14% of single person households could afford to purchase 25% of a £400K shared ownership home;
  - 40% households of two working adults with no children could afford to purchase 25% of a £400K shared ownership home;
  - 30% of households including a couple and 1 child could afford to purchase 25% of a £400K shared ownership home;
  - 25% of households including a couple and 2 children could afford to purchase 25% of a £400K shared ownership home;
  - 15% of households including a couple and 3 children could afford to purchase 25% of a £400K shared ownership home;
  - 0 single parent households with children could afford to purchase 25% of a £400K shared ownership home.
- 3.8. A worked example of a £400K home from Nottingham Genesis shows a breakdown of costs where a 25% share has been purchased:
- 25% share = £100,000
  - Estimated mortgage = £532 (this is not based on current mortgage rates)
  - Rent = £688
  - Service charge = £200

- Total = £1,420
- Guidance household income required = £51,160

3.9. It should be noted, the average salary for a working household in Brent for 2021 was £36K.

3.10. The purpose of this context is to guide the rationale for disposing of these homes to the open market. Shared ownership is not a product the Council currently has experience in selling, marketing and managing i.e. staircasing. Whilst the Council has the ability to upskill and recruit appropriate skills the size of this portfolio does not warrant this level of resourcing. There are also no current plans nor is there political appetite for the Council to move into shared ownership. Demand for these homes is wavering and so Registered Providers are increasing marketing, incentives and rationalising development programmes in order to sell homes.

#### **4. Release of the 23 Shared Ownership homes**

4.1. In December 2022, the Council commissioned marketing company Site Sales to sell the homes as a package on the market to Registered Providers. Registered Providers invited to bid include: Clarion, Guinness, Heylo, HSPG, Keep Homes, Legal and General, MTVH, Network, Newlon, Notting Hill Genesis, OHGO, Octavia, Origin, Peabody, PA Housing, Sage, St Arthur Homes.

4.2. Most of the providers who responded stated the package of homes was too small to meet their organisations acquisition criteria. Expressions of interest were received from a range of Registered Providers. Offers in full received by the Council are set out in Appendix 1 (classified as exempt).

4.3. Each offer was assessed against the two key criteria for the Council when considering affordable housing opportunities, the financial requirements of the Council and meeting housing demand. This includes comparing the offer against the cost incurred to the Council for the initial purchase. Using this criteria it was deemed out of the three offers received only one was considered viable, details are contained in Appendix 1.

4.4. From a housing demand perspective, Offer 3 is most reflective of the current demand, specifically affordability within Brent and offers a unique opportunity to pilot the model in Brent. It also presents the opportunity to influence the shared ownership market at a local level and use this model and an exemplar of best practice. The recommendation of this report is to approve Offer 3, this is due to concerns about the existing shared ownership model and its ability to meet Brent Residents Housing Need.

#### **5. Financial Implications**

5.1. Details of the offers received for the homes and associated costs are included in Appendix 1.

- 5.2. The proceeds of the disposal will be a capital receipt. As the properties were held in the HRA, the capital receipt will be earmarked for the HRA to fund new capital expenditure or the provision of repayment of debt.

## **6. Legal Implications**

- 6.1. The report recommends the disposal of 23 shared ownership leases in Block D Grand Union (the Property) to a Registered Provider. The leases earmarked for disposal are within the housing portfolio and held in the Housing Revenue Account.
- 6.2. Under paragraph 13 of Part 3 of the Council's constitution the cabinet member with responsibility for the portfolio (in consultation with the Leader) has delegated authority to enter into and grant leases for a term of 125 years or less in circumstances where the premium is more than £2m and/or the annual rent more than £500k and either best consideration is obtained and a general or specific consent can be relied on.
- 6.3. The 23 shared ownership leases were granted to the Council for a term of 999 years.
- 6.4. If the Council intends to dispose of these leases and intends to grant leases of 125 years or more to a Registered Provider the proposed disposal may be authorised by Cabinet (as the term of the lease exceeds that which can be authorised by way of delegated authority).
- 6.5. Cabinet may authorise the disposal of leases which are to be granted for a term of 125 years or more. The requirement to comply with the relevant general consent (or obtain specific consent from the Secretary of State) also applies where the term of the lease which the Council intends to grant is 125 years or more.
- 6.6. Under paragraph A3.1.1. of the Secretary of State's General Housing Consent 2013 local authorities may dispose for a consideration equal to market value.
- 6.7. The general consent defines market value as follows:
- "market value" means the amount for which a property would realise on the date of the valuation on a disposal between a willing buyer and a willing seller in an arm's-length transaction after proper marketing where the parties had each acted knowledgeably, prudently, and without compulsion and where the market value is assessed not earlier than 3 months before the buyer applies or agrees to an offer in writing;"*
- 6.8. Where the proposed disposal satisfies the market value criteria (as defined above) reliance may be placed on the General Housing Consent 2013.

## **7. Equality Implications**

- 7.1. No equality implications have been identified for the purpose of this report.

**8. Human Resources / Property Implications**

8.1 N/A

**Report sign off:**

***Peter Gadsdon***

Corporate Director, Resident Services