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Welsh Assembly Government

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Welsh Assembly Government

Final Guidance

Rent First - intermediate rent - Final Guidance

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¹ Rates are calculated by Rent Officers Wales (ROW) and published by the Welsh Assembly Government

Rent First – intermediate rent

Introduction

The purpose and focus of the guidance

1. The Welsh Assembly Government is setting out the parameters for the delivery of intermediate rent properties via funding from the Social Housing Grant (SHG) programme.
2. *Rent First* is a subsidised intermediate rent solution providing people with a mid-market rental housing solution as well as potentially assisting them in the outright purchase of their home in the future.
3. By assisting people who cannot afford to buy on the open market, it could help to meet the need for affordable home ownership in areas of shortage and provide a further intermediate housing choice.
4. The overall aim of *Rent First* is to offer a flexible product that can provide local authorities and housing associations with the ability to create mixed income developments and communities in a market where home ownership and affordable rental is becoming an increasingly difficult option. It is aimed at assisting local authorities in meeting their strategic housing objectives.
5. It is also proposed as a flexible solution for households, where tenants can continue to rent if they are unable or not interested in purchasing the property and equally authorities do not have to apply a purchase option to the properties if it is felt not to be appropriate.
6. This final guidance should be used in conjunction with the current Social Housing Grant and Recycled Capital Grant procedures.
7. This final guidance;
 - provides background, context and rationale for *Rent First* intermediate rent
 - defines criteria for use with SHG funded intermediate rent
 - sets out the detail behind the implementation and operation of intermediate rent
8. The Welsh Assembly Government has not identified the size of the overall prospective intermediate rent programme or whether this is a short-term or continuing programme. It will be for local authorities to clearly identify the need for intermediate rent and provide evidence and support for proposals accordingly.
9. Providers are responsible for taking out their own advice to ensure that legal, tax and other considerations are fully assessed before any intermediate rent properties are progressed.

Strategic context

Essex workstreams and the National Housing Strategy

10. Published in June 2008, 'Affordable Housing in Wales' (the Essex Report) recommended wide-ranging changes to the way that the provision of affordable housing is regulated, funded, planned and delivered in Wales so that the housing

sector (and in particular the Welsh Assembly Government) could respond effectively and rapidly to the impact of the credit crunch on housing.

11. A number of workstreams were set up under the Essex Programme. They sought to develop new products, services and ways of working to implement the report's recommendations.
12. Two of the Essex workstreams influenced the development of an intermediate rent approach. Workstream A: the Credit Crunch and use of Existing Properties had the specific brief of looking at Homebuy and other intermediate housing market measures, particularly in the light of the current economic downturn, while the Affordable Housing Delivery Workstream reviewed how the delivery of Social Housing Grant (SHG) operated.
13. It was recognised by both workstreams that there was a need to move away from only supporting traditional social renting to more of a mixed tenure approach offering more choice. There was therefore agreement to pursue the intermediate market and look at options.
14. Work on the new Strategic Framework for Housing in Wales highlighted the need to develop a more flexible housing market, and to introduce a wider variety of housing products to meet a range of affordable housing needs.
15. "Improving Lives and Communities - Homes in Wales" (<http://wales.gov.uk/topics/housingandcommunity/housing/strategy/publications/strategydoc/?lang=en>) - highlights the need to develop a more flexible housing market, and to introduce a wider variety of housing products to meet a range of affordable housing needs, including those that allow tenants to move from renting to ownership where appropriate.

Background and development of *Rent First* - an intermediate rent model for Wales

16. In March 2009, Tribal Consulting was commissioned by the Essex Workstream A on the Credit Crunch and use of Existing Properties to prepare a financial model for intermediate rent in Wales.
17. The main objective was to undertake the financial modelling of this proposal, supported by a written report and analysis of the policy implications of the product.
18. The key outputs from the study were:
 - A financial matrix balancing the dynamics between rent and loan capital, with SHG meeting the gap funding requirement. The model could be used by local authorities and housing associations to model schemes
 - Modelling of rent levels as a percentage of the market rent level
 - Modelling the percentage of SHG in the scheme relative to the cost, and to establish broad criteria for acceptable schemes
 - Recommendations and modelling drawn from experience of the Homes and Communities Agency and housing associations who are already operating intermediate rent schemes in England as well as housing associations operating their own intermediate rent schemes in Wales
 - Suggested options to incentivise tenants to exercise the right to purchase, drawing on best practice models

19. The report went to the Programme Board and to the Strategic Board, chaired by the Deputy Minister for Housing, in July 2009. It was decided to progress the report and financial model into draft guidance which would be fully consulted upon.
20. The development of this guidance drew upon existing research to assess demand for the *Rent First* scheme.²

Rent First – Pilot Guidance - Consultation Results

21. The Welsh Assembly Government sought views from housing associations, local authorities and other key stakeholders on the principles of *Rent First*, to inform the development of the product, the operation of pilot schemes and a potential on-going programme of intermediate rent housing.
22. The Welsh Assembly Government issued *Rent First* pilot guidance in March 2010 to the housing sector to consult upon whether or not to adopt the *Rent First* model, in principle, as a mechanism for delivering intermediate housing for rent in Wales. The deadline for consultation responses was the end of May 2010.
23. The purpose and focus of the consultation paper was to:
 - Seek views on the pilot guidance for intermediate rent, *Rent First*
 - Provide background, context and rationale for *Rent First*
 - Consult with partners on key aspects of the proposed intermediate rent product
 - Set out pilot guidance for the introduction and operation of *Rent First*
24. Thirty five responses to the consultation paper were received from a wide range of consultees including, local authorities, housing associations, the Welsh Local Government Association, Community Housing Cymru, Chartered Institute of Housing, Council of Mortgage Lenders, amongst others.
25. There was overwhelming support for intermediate rent if considered a priority by local authorities, where there is evidence of need and it is financially viable. It was regarded as generally an efficient use of grant where it is appropriate to provide intermediate rental accommodation.
26. Respondents generally felt the determination of specific parameters, such as rent levels, a maximum income threshold for qualification and details around a future purchase should be the responsibility of the local authority in conjunction with the housing provider, including any jurisdiction to apply flexibility where appropriate.

² ***Can't Buy; Can Rent - The affordability of private housing in Great Britain.*** Hometrack. 2007
Can't Supply; Can't Buy - The affordability of private housing in Great Britain, Hometrack, 2008
Welsh Housing Market Report DVS - October 2009
 Assembly commissioned research for the consultation on Homebuy
 Assembly commissioned research for the current review of social housing rents
Living in Wales Survey. Welsh Assembly Government. Final draft, November 2009.

27. The consultation identified that a preferred model, even in outline form could be provided which was regarded as better than a wide variety of models, particularly for Registered Social Landlords working across multiple authorities.
28. However, whilst it was clear from the consultation results that a section of the consultees welcomed a prescriptive model, there was also a desire for some form of broader structured criteria that could be used and applied by local authorities to approach the application of intermediate rent as part of the main SHG programme in a strategic manner. These criteria would set the parameters within which local authorities and housing associations could deliver intermediate rent.
29. A summary of the responses to the consultation is provided at <http://wales.gov.uk/consultations/housingcommunity/rentfirst/?lang=en&status=closed>

Intermediate Rent pilot schemes funded via Strategic Capital Investment Fund 2

30. Funding was made available to deliver pilot schemes on an intermediate rent basis, funded through the Strategic Capital Investment Fund Tranche 2 (SCIF 2).
31. The evaluation of these pilots identified that most participating housing associations broadly used the *Rent First* model, but any differences were within the criteria set out in the SCIF2 funding criteria and were also agreed with the appropriate local authority.
32. The recent evaluation of the SCIF2 funded pilots alongside the consultation results suggests that an intermediate rent product would form an important part of the main SHG programme and can be used when local authorities feel it is strategically important to develop housing solutions on this basis.
33. A number of associations did not include a purchase option as it was agreed with the local authority that it was a strategic priority to retain properties as intermediate rental stock.

Rent First – intermediate rent - Guidance

34. It is important to the Welsh Assembly Government to consider as part of its overall offer to the intermediate market the role that rental programmes can play in meeting intermediate housing needs in the current economic and financial climate.
35. Whilst the *Rent First* name has been retained, this final guidance offers an intermediate rent approach based on the application of criteria which are detailed below.
36. This guidance applies to local authorities and housing associations, who are responsible for marketing and allocation of intermediate rental properties in their own areas.
37. The Welsh Assembly Government has developed a flexible intermediate rent approach following extensive modeling, consultation and scheme piloting. This

guidance provides an intermediate rent housing solution which can also potentially provide tenants access to a deposit, removing a barrier to those wishing to enter the home ownership market.

38. It is a sub-market rental product that could provide people with greater choice, as well as enabling people to 'rent first' before they consider buying a home. While the deposit/equity element is dependent on housing market performance, if exercised, the purchase option provides a route to outright home ownership which, in a constrained financial environment, is potentially attractive to both purchaser and retail lenders.
39. **Annex 1** provides background information on the context and potential demand for intermediate rent in Wales.
40. In summary, this guidance provides an intermediate housing approach that could:
 - Provide a sub-market housing solution for people on low to moderate incomes
 - Ease the demand and pressure on social rented housing
 - Assist people in trying to build up a deposit/equity to buy a home
 - Provide a housing solution to those that are unable to commit to an assisted house purchase due to economic uncertainty
41. While in the short term *Rent First* – intermediate rent, is seeking to respond to some of the ongoing issues presented by the economic downturn, the Welsh Assembly Government anticipates that the model will contribute in the long term to meeting intermediate housing needs across Wales, in accordance with local authorities' housing priorities.
42. The guidance sets out the parameters to be used for intermediate rent properties qualifying for Social Housing Grant. These fall under the following criteria:
 - **Meeting evidenced housing need**
 - **Eligibility for and levels of Social Housing Grant**
 - **Rent levels – including guidance on rent relationship to Local Housing Allowance/Housing Benefit**
 - **Tenancy type**
 - **Property build standards**
 - **Financial viability and value for money**
 - **Option to Purchase**
43. The guidance provides information and detail around each of these criteria. It is recognised – and was evidenced via consultation – that certain criteria may need to be agreed locally to ensure any intermediate rent properties are viable and attractive in a given area. For example, not all local authorities may wish to provide

a purchase option within their intermediate rent approach due to differing housing needs across Wales.

44. With this in mind, the guidance provides parameters that providers should work within, with a view to housing associations and local authorities agreeing any particular local approaches.
45. *Rent First* - intermediate rent, developed by the Welsh Assembly Government has the following characteristics:
- The housing association acquires/builds a home with grant assistance which it offers to eligible persons on an assured shorthold tenancy basis, charging an 'intermediate' sub-market rent (i.e. target no greater than 80% of private market rent and within relevant Local Housing Allowance).
 - The housing association enters into the tenancy agreement and, if considered appropriate, a separate purchase option agreement with the prospective occupier (this is optional – if agreed with the local authorities, housing associations do not have to provide a purchase option).
 - The tenant is obliged to maintain a good rent account to be able to exercise any purchase option in future (the details would be set out in the purchase option agreement).
 - If a tenant exercises their option to purchase and there has been an improvement in the market value of the property from the date when they began their tenancy, a 50% share of this value improvement will be treated as an equity share for the tenant in the form of a pre-paid deposit, potentially reducing the loan-to-value ratio of any mortgage maintained³.
 - On any purchase of the home by the tenant, grant can be fully recycled with any surplus Social Housing Grant (SHG) being used by the housing association as Recycled Capital Grant (RCG) for affordable housing purposes only.
 - In this situation, the tenant becomes a home owner, funding their purchase by obtaining a standard mortgage from a retail lender, with the potential benefit of the pre-paid deposit/equity share.
 - Any purchase option agreement is provided with the agreement of the housing association and local authority. The purchase option does not have to be exercised by the tenant at any stage.
46. A worked example of Rent First – intermediate rent, (which assumes a purchase option is provided and exercised) is at **Annex 2**. This is for information only and does not have to be adopted as an exact or prescriptive approach. There is flexibility in how the scheme operates at a local level, as long as the criteria set out below are adopted.

³ It should be noted that retail lenders have historically viewed LCHO housing products slightly differently. Shared equity offered via government assisted programmes has generally been considered lower risk, due to the loan to value being calculated against the entire value of the property, whereas with shared ownership, the loan to value is measured against the proportion of the property purchased.

Meeting evidenced housing need

47. Local authorities will need to assess whether intermediate rent is a strategic priority in their area. It is important that local authorities are able to clearly demonstrate the need for intermediate rent alongside social housing for rent and other grant funded products such as Homebuy.
48. Local authorities will need to assess the need for intermediate housing. This will come from a number of sources, including Local Housing Market Assessments, Housing Waiting Lists and from other work e.g. work of Rural Housing Enablers. It might be expected that relevant evidence, for example, an assessment of the need for intermediate housing in the area, will be set out in Local Housing Strategies and/or Affordable Housing Planning Policies.
49. Local authorities could also consider seeking up-to-date information from the Rent Officer Service on private sector rent levels and use this information to evaluate affordability.
50. The Welsh Assembly Government would like to see intermediate rent targeted at a range of people in housing need, including;
 - Households and individuals on the waiting list for local authority or housing association social rented housing, or those who would be eligible for the waiting list. The Welsh Assembly Government provides further guidance at the Code of Guidance for local authorities on allocation of accommodation and homelessness.
 - Those on local authority or housing association waiting lists for Low Cost Home Ownership or Homebuy properties
 - Those re-entering the property market who are essentially in the same financial position as first-time buyers (such as owner occupiers who are going through relationship breakdown)
 - Those whose housing needs cannot currently be met through the market place in their local area.
 - In line with the commitments set out in the July 2008 Service Command Paper ***The Nation's Commitment: Cross-Government Support to our Armed Forces, their Families and Veterans***⁴, service people are a priority group within intermediate housing schemes. In the light of this, the Welsh Assembly Government would like intermediate rent to be targeted, where possible, at service personnel provided they meet the other eligibility criteria for the scheme. However, any lump sums paid to eligible members of the armed forces as a result of illness or injuries are to be disregarded when assessing eligibility and affordability.
 - Priority should also be given for service personnel partners and ex-partners for intermediate rent where housing problems result from events linked to service.

⁴ Available at www.army.mod.uk/documents/general/Command_Paper.pdf

51. Intermediate Rent is not intended for people who can afford to rent a property suited to their needs at a market rent, or people who can afford to purchase a property without assistance. It is not intended for those who are adequately housed.
52. The determination of a maximum income threshold for qualifying households should be the responsibility of the local authority in conjunction with the housing provider, including any jurisdiction to use flexibility where appropriate. However, it should be targeted to be a maximum of the relevant median income for the local authority area.

Eligibility for and levels of Social Housing Grant

53. Local authorities can allocate funding for *Rent First* - intermediate rent based on their strategic housing priorities, from Social Housing Grant (SHG) made available.
54. Eligibility for SHG will be determined according to the prevailing SHG procedures at any time and will be paid to a maximum of 25% of total eligible scheme costs.
55. This guidance should be used in conjunction with the current Social Housing Grant and Recycled Capital Grant procedures.
56. Where a tenant leaves a property without purchasing it, it will be for the local authority and housing association to agree whether the property should be relet via *Rent First* - intermediate rent. If the property is not to be continued to be offered for rent via *Rent First*, they will be free to dispose of the property and recycle any grant in line with RCG procedures and in conjunction with the local authority strategic housing priorities.
57. Eligible on-cost allowances are as per the published Acceptable Cost Guidance /On Costs for use with SHG funded Housing in Wales.

Rent levels

58. Providers are targeted to charge rents below or at a maximum of 80% of average private market rents for comparable properties in the relevant locality within the local authority area.
59. Rents should be targeted to be at or below the appropriate Local Housing Allowance (see **Annex 4**).
60. Housing associations and local authorities should agree intermediate rents that are supported by Social Housing Grant and should provide robust evidence and rationale where rents are outside of the expectations detailed at paragraphs 48 and 49 of this guidance.
61. Housing associations may wish to consult with the Rent Officer Wales service to assist in determining the appropriate rent level for any local authority area.
62. Households must be able to afford the housing costs ('rent' inclusive of any service charges) and these should equate to no more than approximately 30% of gross income.

63. Housing associations should apply affordability thresholds with clear criteria for defining the eligibility of applicants to manage their housing costs.
64. Households may potentially be eligible for a house purchase in future via any purchase option agreement. Where tenants choose to exercise any option to purchase, the housing association should ensure the household has sufficient income to raise and sustain a mortgage; assessing both the 3.5 times income measurement and ensuring the household has sufficient disposable income after housing costs are taken into account.
65. Providers may levy service charges, but the sum of service charges and rent must be at or below a target maximum of 80% of average private market rents for comparable properties in the relevant locality within the local authority area (defined as the Market Rent Envelope). The service charge and the rent should however be separately identified.
66. Providers are permitted the following maximum allowances to be deducted from the annual rent to cover costs associated with managing and maintaining the units:
 - Management costs (maximum £500 per unit per annum)
 - Maintenance costs (maximum £500 per unit per annum)
 - Voids allowance (maximum 3% of annual rental stream)
 - Service charges at cost.
67. Providers may increase rents annually in keeping with the Welsh Assembly Government's current policy on uplifting affordable rents, but should bear in mind that intermediate rent levels on and after first let should be targeted to be at or below 80% of the prevailing market rent for comparable properties in the relevant locality and within the relevant Local Housing Allowance.
68. Rent First properties are excluded from the current Welsh Assembly Government Rent Benchmarking system.

Tenancy type

69. A standard Assured Shorthold Tenancy (AST) may be used for intermediate rent. While this is not a secure form of tenancy, it can be renewed and reissued by mutual agreement. The Welsh Assembly Government suggests that the local authority and housing association decide upon the most appropriate form of tenancy and should ensure that they are not potentially make people homeless when ending their AST.
70. Where the purchase option is offered, the provider should keep a separate schedule of the tenancy periods and rent account records, as these will show whether the tenant will be eligible to exercise any purchase option.

Property build standards

71. Housing associations, working in liaison with local authorities, will identify and develop or purchase appropriate homes to offer for intermediate rent.
72. Intermediate rent units can be provided by housing associations as new build or “off the shelf” properties.
73. Flats, houses and bungalows are eligible for intermediate rent.
74. Properties of two or more bedrooms will be eligible; the Welsh Assembly Government will only consider applications for one-bedroom properties where this is supported by clear evidence of local demand.
75. To assist long-term viability and increase the affordability of properties to potential residents, as well as meeting the maximum Market Rent Envelope, providers should seek to acquire properties with minimal service charges wherever possible.
76. Where new build intermediate rent schemes are provided they must comply with Welsh Assembly Government’s Design Quality Requirement (DQR).
77. Where existing units are being provided for intermediate rent, either second-hand or new “off the shelf”; they should meet the standards in the SCIF Off the Shelf Procurement Guide 2008 at **Annex 5**.
78. Where planning consent has been granted sustainability standards prevailing at the time the scheme was designed will be acceptable.

Financial viability and value for money

79. Schemes must demonstrate value for money and should fall within Acceptable Cost Guideline levels.
80. There is no minimum required programme size for *Rent First* – intermediate rent. The Welsh Assembly Government sees intermediate rent as a component of providing mixed and balanced communities in line with the National Housing Strategy - “Improving Lives and Communities - Homes in Wales”.
81. Local authorities and housing associations will need to consider the level that would be appropriate to their areas, taking into account the level of intermediate housing need and the relative priorities of other affordable housing programmes in line with their Local Housing Strategies.
82. The Welsh Assembly Government is keen to see grant funded properties retained in the affordable housing sector wherever possible. As such, it will be preferable that tenants who exercise the option to purchase will be obliged to offer the property to the housing association, in the first instance, if they choose to sell the property in future.
83. The housing association can control this with appropriate re-sale conditions similar to those attached to homebuy properties. This obligation can be set out in the Purchase Option Agreement and a restriction registered on the title of the property upon sale to the tenant.

84. Where grant resources are not available to assist the purchase, the association will not be required to repurchase the property. Should an association acquire the property with its own resources, it will not be required to make the property available under *Rent First* – intermediate rent, or any other grant funded programme.
85. The following elements should form part of any value for money assessment by housing associations and local authorities when assessing whether to proceed with a *Rent First* – intermediate rent scheme:
- Property type and size to be acquired
 - Grant availability sought; grant of 25% of total eligible scheme costs will be the maximum level granted
 - Rent levels
 - Management costs
 - Maintenance costs
 - Void allowance
 - Service charges.
86. Providers will need to satisfy themselves that intermediate rent is viable for their organisation, and should be able to demonstrate this through a long-term (10 – 20 year period) revenue cashflow model incorporating scheme costs, loan funding costs & repayments, rents and permitted allowances (management, maintenance, etc).
87. Housing associations will need to demonstrate and justify assumptions made on the following aspects when bidding for funding to deliver intermediate rent:
- **Proposed rent levels:** an assessment of market rents for the specific locality and Local Housing Allowances for the local authority area. The targets for both of these are detailed under Rent Levels. Local authorities and housing associations should consider consulting with the Rent Officer Wales service when assessing market rent levels for specific localities
 - **Property purchase costs:** an assessment of lower quartile to mid market property costs for the specific locality. Housing associations are expected to use sources such as housing intelligence and Land Registry as well as estate agents currently marketing properties to support this assessment.
 - **Amount of grant requested:** the need for the grant required must be demonstrated. A grant rate of 25% of total eligible scheme costs should not be exceeded and schemes in many local authority areas are expected to be below this level.

Option to purchase

88. It is recognised that not all local authorities and housing associations will wish to provide a purchase option due to strategic housing priorities and for other localised reasons.

89. As such, a purchase option does not have to be provided on all intermediate rent schemes, but any intermediate scheme that does not include one should be agreed by the local authority and housing association and this should be supported by evidence around specific housing need.
90. Where a purchase option is included, tenants should meet pre-agreed eligibility criteria and other conditions in order for their purchase option to be exercised. These are broadly covered by:
- **Compliance with tenancy conditions:** The tenant will have complied with the general conditions set out in their tenancy, in particular, the tenant will ensure quiet enjoyment of the property, and not permit anyone residing in the property to cause nuisance or annoyance to neighbours.
 - **Minimum tenancy periods:** The tenant will need to have maintained tenancy periods covering a period pre-agreed by the local authority and housing association.
 - **Satisfactory rent account:** A satisfactory rent account for a pre-agreed minimum period of time should be necessary to exercise the purchase option. For these purposes, 'satisfactory' rent account means that:
 - the tenant has a clear account and has made payments as they are due; or
 - if housing benefit is being paid and this clears the rent account; or
 - if the tenant is in arrears but has agreed to clear them, and has kept to this agreement during the whole of the previous 12 months prior to wishing to exercise their purchase option.
 - **Minimum purchase price:** The value of the property should be determined by an independent market valuation undertaken by a Royal Institute of Chartered Surveyors (RICS) qualified valuation surveyor, paid for by the tenant. Regardless of the assessed market value, the tenant must be prepared to pay the Minimum Purchase Price for the property, prior to commissioning a valuation.
 - **Income level and affordability:** The tenant will need to have sufficient income to raise and sustain a mortgage and their housing and other costs. This will be determined by an assessment of disposable income, assets and financial commitments/debts, including all costs associated with home ownership. The assessment should include general living costs and financial commitments such as purchase and maintenance costs as well as any service charges that will apply. As a minimum, the tenant should have sufficient disposal income after living costs such as the following are taken into account:
 - Mortgage repayments
 - Service charges
 - Council tax
 - Water meter/rates
 - Gas and electricity
 - Insurance

- Student loan repayments
- Other loan repayments
- Credit cards
- Child minding/maintenance

91. The Welsh Assembly Government is aware of the expertise of housing associations to undertake such assessments and the work that local authorities are doing to define local affordability measures and thresholds. In addition Independent Financial Advisers (IFA) provide independent assessments and help people access the mortgage market; these can be used to support assessments.
92. In rare circumstances, a tenant who has exercised the purchase option may do so and later find themselves in financial difficulties. If this situation were to arise the Welsh Assembly Government would encourage the housing association to step in and re-purchase the property (subject to availability of funding) and where possible, provide the owner occupier the opportunity to become a tenant again at an appropriately affordable rent.
93. Any equity share achieved via improvement in a property's value is not a portable benefit for the tenant; the improvement in value is locked into the purchase of the specific property the tenant is renting.
94. Equally, the tenant is not required to have to use equity share to purchase the property. They may use a deposit raised from their own sources to assist their purchase. As Rent First aims to assist people into home ownership, providers should agree with local authorities the maximum percentage of a property's value that they considered should be permitted to use as a deposit along with an equity share.
95. The tenant is not obliged, at any time, to purchase the property. If there is no improvement in the property's market value over the length of time the tenant stays in the property, no equity will be available to assist his or her purchase. In this circumstance, the tenant will not be obliged to purchase, and the housing association will not be obliged to sell the property for less than the value of the outstanding loan plus the grant used to acquire the property.
96. If the tenant becomes unemployed during a tenancy, the expectation is that he or she will become eligible for housing benefit to cover rent. Target rents are to be below or at Local Housing Allowances to enable this.
97. In the development of this guidance the option to purchase agreement was examined. A separate Purchase Option Agreement can be used which can be exercised by the tenant should they wish to purchase the property.
97. An example Purchase Option Agreement is provided at **Annex 3**. This is for information only and providers can use their own agreements where required.
98. Whilst the example Purchase Option Agreement may not specifically do so, any agreement could also seek to set out, among other details, the following:
- Address of property
 - Property value at the start of first tenancy period

- An explanation of the Purchase Option:
 - When it can be exercised
 - Conditions applicable, e.g. improvement in value, tenant's obligation to maintain good rent account during the tenancy etc.
 - An explanation of how any improvement in property value will be shared between the provider and the tenant
 - Minimum Purchase Price (i.e. minimum amount to be recovered by the provider upon sale of the property to the tenant, and which must be deducted from the value of the property at the point of sale, before any improvement in value can be shared between the provider and the tenant)
 - A long-stop date for exercising the Purchase Option, which should cover a period of at least ten years
 - Schedule of tenant's rental periods (i.e. start and finish dates of tenancies)
 - Grant recovery amount (as the grant will be registered against the title of the property)
 - Any obligation requiring the tenant, once they have purchased the property, to offer the housing association the option to purchase the property within a pre-agreed period of time of being informed by the owner that they wish to sell the property.
 - Any obligation requiring the tenant to repay the equity share if they sell the property within a pre-agreed period of time.
99. The Welsh Assembly Government recommends that providers obtain their own legal, taxation and other applicable advice, in determining the full implications of participating in intermediate rent and use of any associated agreements.

Annex 1: The context for intermediate rent

Background and context

- A1. Historically, Low Cost Home Ownership (LCHO) has been the mainstream alternative to social rented housing that has enabled people on low to moderate incomes to achieve home ownership. Traditionally, it provided a 'stepping stone' into full home ownership with many households 'staircasing' (or buying out the remaining equity in their property) at a point when housing needs changed, their life stage evolved, and/or their financial circumstances permitted.
- A2. The housing market in the UK has seen some of the highest house price increases in recent history. In Wales, this has fuelled a significant affordability gap and, despite falling house prices, there continues to be a major affordability problem with home ownership across the country.
- A3. A report by Steve Wilcox and HomeTrack in 2007⁵ identified that, across Wales, average house prices were over four times average income, and in areas such as Cardiff, Ceredigion and Pembrokeshire, they were as much as six times local income. The report also showed that 26% of all working households could not afford to buy at lower quartile house prices for two and three bedroom dwellings, and that a further third could only just afford to purchase at lower quartile house prices. The work also looked at the intermediate housing market within each local authority area. This analysis highlighted the need to ensure a supply of affordable housing for those working households unable to buy their own home
- A4. A subsequent report⁶ found that approximately one in four younger working Welsh households could not afford to buy at lowest decile house prices for two/three-bedroom dwellings within their current local authority area, but at the same time could afford to pay more than a social sector rent.
- A5. Updated analysis for the Welsh Assembly Government⁷ last year estimated that the proportion of working households in Wales in this category had reduced to just under a fifth over the year.
- A6. A report from the District Valuer⁸ showed that all-Wales average house prices fell by 16.12% in 2008 but rose by 2.77% in the period January to August 2009. These averages mask some significant variations between local authority areas. For example, house prices continued to fall by over 10% in Neath Port Talbot between January and August 2009 whereas in Conwy they rose by over 4.5%.
- A7. The Living in Wales Survey⁹ found, unsurprisingly, that households with higher incomes were more likely to own their homes than households with lower incomes: 91% of households earning £31,200 or more lived in owner occupied homes and 7% lived in privately rented accommodation.

⁵ **Can't Buy; Can Rent - The affordability of private housing in Great Britain.** Hometrack. Winter 2007

⁶ **Can't supply: Can't Buy— The affordability of private housing in Great Britain,** Hometrack, 2008 quoted in Working Paper on Homebuy in Wales

⁷ **Working Paper on Homebuy in Wales** Tamsin Stirling, Steve Wilcox and Peter Williams, March 2009

⁸ **Welsh Housing Market Report** DVS. October 2009

⁹ **Living in Wales Survey, Chapter 12 - Tenure.** Welsh Assembly Government. Final draft, November 2009.

- A8. It also found that the number of households earning £31,200 or more and living in local authority or housing association properties was too low to be statistically reliable. Less than half of households earning less than £15,599 were owner occupiers. 20% lived in local authority housing, 15% lived in housing association properties and 16% lived in privately rented accommodation.
- A9. The market for intermediate rented products is likely to be aimed at people with incomes above £16,000 and below £30,000.
- A10. Recent research into rents by Peter Williams and Steve Wilcox¹⁰ points to marked differences in the profiles of house prices and social sector rents in different local authority areas. In all areas the costs of house purchase are significantly greater than the costs of social sector rents; even when comparing the costs of purchasing dwellings at the low end of the housing market in 2007 (lowest decile prices) with average social sector rents in 2008/09.
- A11. Data from a range of sources therefore points to an affordability gap with a significant proportion of households unable to afford to purchase a property but able to pay more than a social rent.

Fiscal environment and economic conditions

- A12. The credit crunch and adverse economic conditions seen over the last three years present a sobering backdrop to the current housing market. Over the last two years in particular, we have seen clear indicators of the impact of the credit crunch on the overall house purchase market:
- **Mortgage accessibility:** liquidity strains and the high rate of LIBOR (when compared with the UK base rate of interest) in the overall banking sector fundamentally affects how the retail lending sub-sector operates, and drives the terms on which they are prepared to offer residential mortgages. Where lenders are prepared to provide loans, the terms and conditions have become increasingly restrictive and seek to ensure that the lender is exposed to the absolute minimum of risk – the latter being defined entirely on their terms, rather than the ‘sector norms’ we have seen develop over the last five to ten years. Lenders are therefore able to pick and choose on what and to whom they will lend, withdrawing from lending on previously ‘acceptable’ products without notice, and requiring significant levels of equity or cash deposits where loans are approved. With the housing purchase market so heavily reliant on mortgage finance, the lack of lending appetite has severely curtailed the ability of people to buy homes. First-time buyers have been disproportionately affected.
 - **Economic uncertainty suppressing desire to purchase:** the combined effect of the lack of mortgages, uncertain economic prospects and falling housing prices has quelled the general desire to purchase and has been a significant influence on buyer behaviour. Many people are adopting a ‘wait and see’ approach. Furthermore, while many parts of the UK are affected by falling house prices, there are localities where there have been stable and moderately rising house prices (generally due to a lack of supply in highly desirable areas) and this is particularly true of some of the more expensive areas of Wales.

¹⁰ *Working paper on social sector rents.* Peter Williams and Steve Wilcox. December 2009

However, what is clear is that in areas of falling house prices, concern over market uncertainty is causing purchasers to offer significantly below asking prices, which is further fuelling the cycle of house price reductions. Additionally, with the government's extensive cost reduction programme and the resultant increasing unemployment levels, people feel less certain about their own employment situations, and therefore may feel nervous about entering into the commitment of a long-term mortgage.

- **Slowdown in housing supply pipeline:** over the last two to three years the house building sector has seen significant job losses due to a major slowdown in activity. Across the sector, developers have not been starting new developments, have suspended activity on sites that were just about to start (or are in the early stages) and generally have only continued developments where they are irrevocably committed. However, the housing market has begun to stabilise over the past few months after seeing substantial falls in value from its 2007 peak. We are now seeing recent house-builders' trading statements generally reporting stability and an indication that they are gearing up for further land purchases. Mortgage approvals have also started to rise, but the lack of affordable finance continues to constrain the market and, overall, total transactions are down 42% on the previous year. This slowdown in the housing pipeline not only makes current demand more acute, but also has the potential to present greater supply and demand strain when the UK returns to economic stability.

A13. The Low Cost Home Ownership (LCHO) market has always been similarly affected by changes in the overall house purchase market; however some of the effects are far more acute. For example, low mortgage availability disproportionately affects the LCHO sector as there are fewer lenders offering mortgage products to this group. Two underlying issues affecting low cost home ownership are:

- A smaller number of mortgage providers
- A lack of savings and inability to raise sufficient deposit due to high housing/living costs relative to income.

A14. LCHO presents other fundamental issues for lenders:

- Lenders' views on LCHO as a risk are fractured and misleading – there is generally low awareness in the retail lending sector of the true nature of the LCHO market
- Some lenders will claim that affordable housing carries a higher default rate than their standard – often termed 'vanilla' – lending; however, this is not borne out by empirical evidence from LCHO providers
- LCHO is often seen as a non-standard suite of products. Introducing non-standard products can be logistically difficult because of the lack of human intervention in the approval process (the majority of mortgage applications are vetted by automated credit scoring/administrative software).

Potential demand

A15. The general state of the credit market, and the increasing level of mortgage defaults and repossessions, is causing lenders to apply more stringent risk criteria when

considering credit scoring and mortgage applications for all products. High deposit or equity levels are now a pre-requisite for being successful in any mortgage application.

- A16. There were 1,100 loans to first-time buyers in Wales in the first quarter of 2009, a 35% decline from the previous quarter and 48% down on the same quarter of 2008¹¹; this was the lowest quarterly volume of loans in the 34 years the Council of Mortgage Lenders (CML) has been collecting data. The average first-time buyer had a deposit of 20% and borrowed 2.94 times their income in the first quarter of 2009, compared with 10% and 3.23 times income a year earlier¹²; saving for such large deposits is a stumbling block for many would be first-time buyers. The average income of a first-time buyer in the first quarter of 2009 was £29,400, compared with £30,956 a year earlier.
- A17. Looking, for example, at the LCHO market in England (where detailed data is available on the characteristics of intermediate market sales), during 2009/10¹³, 61% of LCHO purchasers had a deposit of 15% or less, and of this group 40% had zero deposit. A further 10% had a deposit of 5% or less. This demonstrates that a significant number of LCHO purchasers require mortgages of 95% and above. It also contributes to lenders' general perception of the LCHO sector being a high risk lending proposition. This opinion on LCHO lending risk often conflicts with records maintained by the housing association sector, which show very low levels of repossessions. However, records maintained by housing associations do not capture detail and trends on mortgage arrears and defaults with respect to lenders' first mortgagees.
- A18. One of the fundamental elements feeding into the credit scoring process is the level of savings/deposit/equity that forms part of any purchaser's mortgage application. Individual lenders, as well as the CML, maintain detailed records on arrears, mortgage defaults and repossessions, and these often demonstrate that there is a significantly higher level of default and repossession among high loan to value (i.e. 95% and above) mortgages. Hence, this evidence base underpins lenders' general view that mortgage advances of 95% and above represent high risk lending.
- A19. *Homebuy* – reintroduced in Wales in May 2009 – being an equity product, gives some assistance to purchasers by providing equity support in the form of an interest free loan. This reduces the level of deposit needed by purchasers. Recent data analysis by Hometrack demonstrates that, taking the example of a two-bedroom flat in Wales, the weekly cost (around £96¹⁴) of buying a 70% *Homebuy* property is almost twice the price of the average social housing rent (£54¹⁵). This weekly cost is equal to the cost of buying a lower quartile priced property. With the average private market rent for a two- bedroom property in Wales being £126¹⁶, it is demonstrable that there is potential to meet the housing needs of people unable to access *Homebuy*, but who could pay more than a social housing rent, as the graph on the next page shows:

¹¹ **CML Cymru factsheet: housing and mortgage market update, 2009**

¹² **CML Cymru factsheet: housing and mortgage market update, 2009**

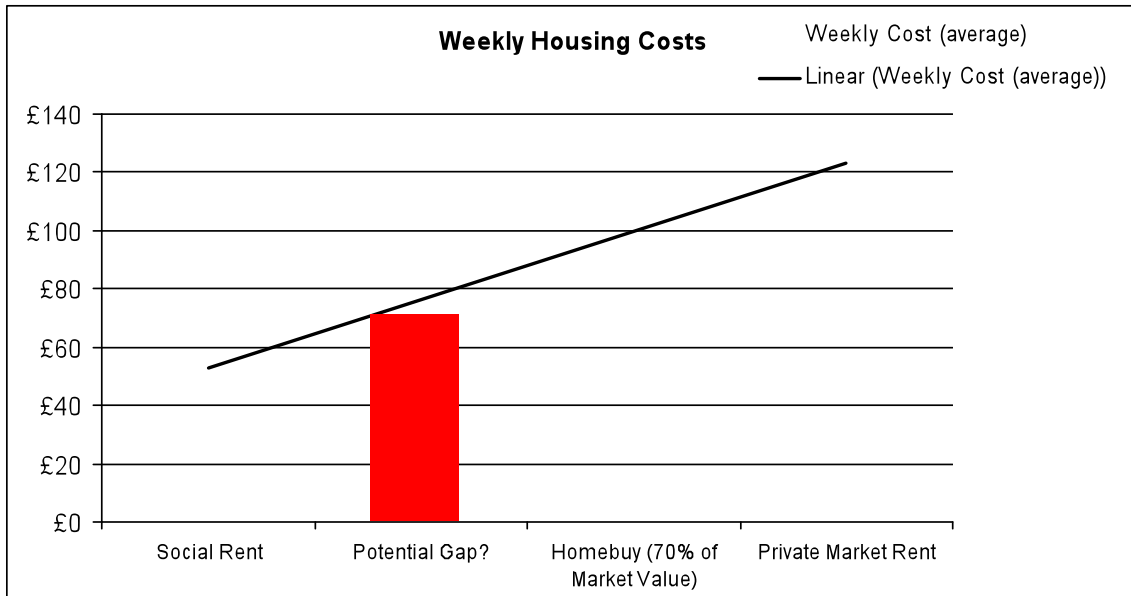
¹³ **Continuous Recording System data – 2009/10 data**

¹⁴ **Can't Buy; Can Rent; the affordability of private housing in Great Britain, Hometrack Winter 2007**

¹⁵ **Can't Buy; Can Rent; the affordability of private housing in Great Britain, Hometrack Winter 2007**

¹⁶ **Can't Buy; Can Rent; the affordability of private housing in Great Britain, Hometrack Winter 2007**

A20. Considering all these issues, it is clear that there is now a more significant barrier to home ownership for many people on low to moderate income: the availability of a sufficient deposit.



Annex 2: A worked example of *Rent First* – intermediate rent (assuming a purchase option)

The example modelled by Tribal Consulting for the Welsh Assembly Government assumed an acquisition programme of 45 units across five regions of Wales: Cardiff, Denbighshire, Neath Port Talbot, Merthyr Tydfil and Swansea (nine units acquired in each), taking into account the sale prices of new and existing properties currently being marketed. The model can accommodate smaller programmes in specific local authority areas.

A21. *The property types used for the model were two-bedroom flats and two- and three-bedroom houses. The average property price used for the model ranged from £68,000 – £133,000 (the average property prices were derived by looking at lower quartile house prices for homes currently being marketed, adjusted by ‘Sale Price to Asking Price’ ratios as published by Hometrack). The example below shows the average per unit cost/value.*

Scheme Costs	
Total Number of Units	1
Total Property Cost (including 3% on costs)	£96,179
Property Value	£93,378

Grant Funding	
Grant % of cost	25.0%
Grant per Unit	£24,045

Loan Funding	
Loan	£72,135
Annual Loan Repayment	£3,607

Rents	
Average Market Rent per week	£119
Starting Average Intermediate (Cost Rent) per week	£94
Starting Average Intermediate (Cost Rent) as % of Market Rent	79%
Starting Cost Rent* (Intermediate) per annum	£4,901
Element of 'value growth' converting to equity stake	50.0%

Affordability	
Average Annual Income required for Rent First	£16,337
Average Annual Income required for Market Rent	£20,653
Average Annual Income for Homebuy Purchase in Year 1	£19,325
Average Annual Income for Outright Purchase in Year 1	£26,680

Sales	
Assumed Year of Sale	8
Sale Price	£117,039
Sale Price/Proceeds Cap Minimum Purchase Price	£96,179
Property Value	£137,899
House Price Inflation (from acquisition)	47.7%
Purchaser's equity/rent credit	£20,860
SHG Equity Loan (as a % of grant 'in' the property)	0%
SHG Equity Loan (amount)	£0

Purchaser's "cash" deposit required (Stamp Duty Land Tax (SDLT), legal fees, etc)	£2,379
Mortgage at point of sale	£117,039
SDLT liability at point of sale	£1,379
Loan to Value (at point of sale)	84.9%
Sale Cash proceeds	£117,039
Surplus from Sale Proceeds (after loan and grant repayment)	£20,860

Benefit to Tenant/Purchaser	
Equity Stake (from growth in market value)	£20,860
Mortgage Required	£117,039
Income Required to Buy at point of sale	£39,400
Maximum Income multiple at point of sale	3.5
Base salary (at Year 1)	£26,000
Assumed income at point of sale (based on inflation increases)	£31,822
Actual Income multiple at point of sale	3.7

Benefit to Developer Partner on Sale	
Loan Repayment	£72,135
Surplus	£20,860
Cumulative Rent Surplus	£2,421

Benefit to WAG on Sale	
Grant Recycled	£24,045

A22. *In this example, a property is acquired in Year 1 for £93,378 (£96,179 including fees) and let at a weekly rent of £94. The minimum required household annual income to afford this rent is £16,337. The property acquisition is supported by grant of £24,045 and a loan of £72,135. In this example the tenant exercises their Option to purchase in Year 8, when the property value has increased to £137,899; and the tenant would need a household annual income of £39,400 at that stage in order to purchase the property. The improvement in value of just over £40,000 is shared between the tenant and the housing association; therefore the purchase price paid by the tenant is £117,039. The improvement in value to the tenant is referred to as the Rent First Equity Share. In terms of the mortgage obtained by the tenant, the sale price of £117,039 represents just under 85% of the full market value; therefore the value improvement since the initial purchase of the property has provided the necessary equity in the property to facilitate a purchase. Once the property is sold to the tenant, the housing association can repay its loan, benefit from the surplus generated by the improvement in value, and recycle the grant.*

A23. *In this example, as the full market value of the property is above £125,000, the tenant has a Stamp Duty Land Tax liability (£1,379) on purchase.*

Scheme costs and capital funding profile

A24. *The main costs associated with the programme are:*

- *Property costs*
- *Legal fees*
- *Stamp Duty Land Tax (where applicable)*

- *Contingencies and holding costs.*

A25. *Grant is assumed at 25% of total eligible scheme costs, as a maximum.*

Medium-term revenue funding profile

A26. *The main ongoing revenue costs associated with the programme include the standard criteria assumed by housing associations:*

- *Loan servicing costs*
- *Management costs*
- *Maintenance costs*
- *Void costs*
- *Service charges/costs.*

A27. *The rent to be charged is calculated by determining the cost rent needed in Year 1 to cover all of the above costs, and comparing this to the private market rents, with the target of being below 80% of private market rents or at Local Housing Allowances.*

A28. *Year-on-year cost increases vary and are linked to the Retail Price Index (RPI).*

Rent First Equity Share

A29. *The Rent First Equity Share generated in the model is directly linked to house price inflation. Essentially, if there is no increase in the market value of the property, no equity share can be made available to the tenant. This means the tenant can only exercise the Purchase Option and access the Rent First Equity Share if there has been an improvement in market values since the unit was acquired.*

Affordability

A30. *Two key measures of affordability are used within the model:*

- *Housing costs to be within 30% of gross income (both for rent and purchase)*
- *Affordable mortgage, to be no more than 3.5 times household income multipliers (purchase only).*

A31. *In the model example, the entry level household income for renting under Rent First is £15,380. It is anticipated that, with salary inflation and potential improvements in employment and household income, the income level required to purchase could be achieved by the tenant in time, if they choose. In the example, the income required to purchase at Year 9 is just over £31,000 (£26,000 at 2011 prices).*

Annex 3: Example Purchase Option Agreement

OPTION TO BUY PROPERTY AGREEMENT

This Agreement is made on the ____ day of _____ []

Between

- 1) _____(the "Seller"); and
- 2) _____ (the "Buyer").
- 3) ----- (the "Mortgagee") (if applicable)

WHEREAS:

The Seller now owns _____(the "Property")

NOW IT IS HEREBY AGREED SUBJECT TO VALUATION as follows:

- 1) In consideration of the sum of £250, (the "Option Payment") receipt of which is hereby acknowledged by the Seller upon execution of this agreement, the Seller grants to the Buyer the exclusive option to buy the Property for the following price and on the following terms (the "Option"):

Purchase price will be whichever is the greater of :

- (a) [] [the "Minimum Purchase Price"]; or
- (b) the amount agreed or determined as being the Market Value of the Property

Market Value means the price for which the Property should exchange as at the date of the exercise of the Option assuming: -

- (a) a willing buyer and a willing seller in an arm's length transaction wherein the parties have each acted knowledgeably, prudently and without compulsion; and
 - (b) that the parties have agreed the valuation of the Property based on the Royal Institution of Chartered Surveyors "Red Book"
- 2) The Option Payment will be credited against the purchase price of the Property if the Option is exercised by the Buyer.
- 3) If, after signing this Agreement, the Seller fails to complete the sale of the Property to the Buyer, the Seller will reimburse the Buyer with all the costs that the Buyer has incurred including the Option Payment.
- 4) The Option Period will be for [6] months from the date of this Agreement subject to such extensions of time as may be agreed in writing between the Seller and the Buyer [and Mortgagee]("the Option Period"). The Option shall be exercised by the service of written Notice by the Buyer on the Seller at any time within the Option Period in the form set out in

the Schedule [and the Seller by way of security appoints the Buyer his attorney for the sole purpose of signing the Option Notice for the Seller]

- 5)
- i. Upon the service of the written Notice from the Buyer to the Seller exercising the Option this Agreement shall constitute a Contract for the Sale and Purchase of the Property with the terms and conditions hereunder provided.
 - ii. Completion shall take place on the later of:
 - (a) the date four weeks after the date of service of the Option Notice; or
 - (b) the date 4 weeks after the date that the Purchase Price is agreed or determined
 - iii. If the parties reach agreement on the Purchase Price within 28 days after the date of exercise of the Option, they will immediately endorse and date a memorandum of the Purchase Price on the Option Notice and the date of the memorandum will be the date of agreement of the Purchase Price for the purpose of clause 5 ii (b)
 - iv. If the parties fail to agree on the Market Value within 28 days after the exercise of the Option either party may refer the matter to an independent Chartered Surveyor appointed jointly by the parties with at least 10 years' experience in valuing properties similar to the Property
 - v. In the event that the parties cannot agree on the identity of the independent Chartered Surveyor within 28 days after the date of exercise of the Option either party may apply to the President of the Royal Institution of Chartered Surveyors requesting that an appointment be made
 - vi. The Chartered Surveyor will act in accordance with the Arbitration Act 1996 [and the costs of the arbitration will be payable in the proportions determined by the Chartered Surveyor. The parties agree to pay their respective share of the costs as so determined]
 - vii. In default of agreement pursuant to clause 5 iii the Market Value will be the figure determined by the Chartered Surveyor and the date of issue of the Chartered Surveyor's written decision will be taken as the date of determination of the Purchase Price for the purposes of clause 5 ii(b). In the event that the Market Value is less than the Minimum Purchase Price the Minimum Purchase Price shall be the Purchase Price and the Chartered Surveyor's decision shall be non binding on the parties
 - viii. In the event that the Minimum Purchase Price is greater than Market Value the Minimum Purchase Price shall be the Purchase Price and completion shall take place 4 weeks after the date of issue of the Chartered Surveyor's written decision
 - ix. The Standard Conditions of Sale (Fourth Edition) shall apply and are incorporated herein save as varied by this Agreement
 - x. The Option Agreement is non-assignable and the Buyer may not assign, sublet, share or part with the benefit of this agreement
 - xi. The Seller shall transfer with Full Title Guarantee.
 - xii. The Seller confirms that they are the registered owner of the Property under Title Number]and is able to sell the Property [free from encumbrances/SUBJECT To the matters referred to on the Property and Charges Registers of title save for financial charges]

- xiii. The Buyer having investigated the Seller's title up to the date of this Option Agreement shall be deemed to have accepted that title and may only investigate the subsequent title.
- xiv. The Seller may apply for any mortgages or secured loans on the Property at any time during the Option Period SAVE THAT any mortgage or secured loan shall be discharged on completion of the sale of the Property
- xv. The Seller consents to a notice of this Agreement in the Charges Register of the Seller's title to the Property and shall do all things necessary to enable a notice under the Land Registration Act 2002 Section 32 to be registered
- xvi. (i) The Mortgagee consents to the Seller entering into this Agreement and agrees to be bound by its terms
 - (ii) The Mortgagee shall give to the Buyer not less than 28 working days prior notice of its intention to exercise any of its powers under its charge or by statute
 - (iii) If the Mortgagee shall exercise its power of sale it shall procure that immediately upon completion of any such sale or other disposal and prior to the grant of any other interest in the Property the buyer or transferee from it shall execute and deliver to the Buyer a deed in the form of this Agreement containing all the terms and conditions of this Agreement except only that the Option Period shall be redefined and shall be for such period as equals the unexpired residue of the Option Period at the date the deed is completed and delivered to the Buyer
 - (iv) If the Buyer exercises the Option the Mortgagee will release the Property from its charge on completion of the sale of the Property on receipt of the amount payable on completion or such part as is properly payable to the Mortgagee
- 6. If the Option is not exercised within the time herein provided the Option herein granted shall be null and void the Seller will retain the Option Payment and the Buyer shall forthwith cancel any registrations made by it in any registers to protect this Agreement and by way of security appoints the Seller his attorney for the purpose of effecting such cancellations
- 7. No modification of this agreement will be effective unless it is in writing and is signed by both the Buyer and Seller. This agreement binds and benefits both the Buyer and Seller and any successors. This document, including any attachments, is the entire agreement between the Buyer and Seller and shall be governed by English and Welsh Law.
- 8. For the purposes of the Contracts (Rights of Third Parties) Act 1999 it is agreed that with the exception only of clauses 5(iii) and 5(x) nothing in this Agreement shall confer on any third party any right to enforce or any benefit of any term of this Agreement

SCHEDULE

Form of Option Notice

To: (seller's name and address)

From: (buyer's name and address)

Property: (insert details)

IN ACCORDANCE with the terms of the Option Agreement dated [] made between [yourself] (1) and [ourselves] (2) relating to the Property described above [I/We] GIVE NOTICE to you that [I/We] exercise our option to buy the Property on the terms of the Option Agreement

Signed by (buyer)

Date:

Signed by or on behalf of the Seller

Signed by or on behalf of the Buyer

in the presence of (witness)

in the presence of (witness)

Name _____

Name _____

Address _____

Address _____

Occupation _____

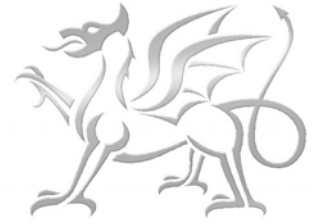
Occupation _____

Signed by the Mortgagee

Annex 4: 30th Percentile Local Housing Allowances¹⁷, as at March 2011

30th Percentile calculation - Wales					
Broad Rental Market Area	Shared 1 bedroom	1 bedroom	2 bedroom	3 bedroom	4 bedroom
	Mar-2011	Mar-2011	Mar-2011	Mar-2011	Mar-2011
Blaenau	£43.31	£65.00	£80.00	£87.69	£107.31
Brecon and Radnor	£45.00	£64.62	£88.85	£103.85	£121.15
Bridgend	£54.00	£80.00	£98.08	£109.62	£150.00
Caerphilly	£60.00	£71.54	£96.00	£103.85	£133.85
Cardiff	£55.38	£100.38	£126.92	£150.00	£190.38
Carmarthen	£52.50	£71.54	£87.69	£100.00	£120.00
Ceredigion	£65.00	£85.00	£101.54	£115.38	£126.92
Flint	£55.00	£75.00	£103.85	£126.92	£150.00
Merthyr Cynon	£43.31	£69.23	£80.00	£90.00	£132.69
Monmouth	£55.38	£91.15	£114.23	£132.69	£173.08
Newport	£53.08	£78.00	£103.85	£115.38	£150.00
North Clwyd	£55.00	£75.00	£94.62	£114.23	£150.00
North Powys	£51.69	£61.15	£80.77	£95.00	£115.38
North West Wales	£51.00	£65.00	£87.69	£103.85	£121.15
NPT	£44.00	£76.15	£90.00	£100.00	£115.00
Pembroke	£55.00	£78.46	£95.00	£115.38	£144.23
South Gwynedd	£50.00	£60.00	£75.00	£90.00	£98.08
Swansea	£54.00	£88.85	£103.85	£113.08	£156.92
Taff Rhondda	£43.31	£69.23	£87.69	£92.31	£126.92
Torfaen	£60.00	£80.77	£98.08	£114.23	£137.31
Vale of Glamorgan	£60.00	£98.08	£115.38	£132.69	£173.08
Wrexham	£63.46	£80.00	£103.85	£114.23	£144.23

¹⁷ Rates are calculated by Rent Officers Wales (ROW) and published by the Welsh Assembly Government



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

SCIF OFF THE SHELF PROCUREMENT GUIDE

Dec 2008

Off The Shelf Procurement Guide

The guidance sets out criteria to assist Registered Social Landlords (RSLs) in making decisions about the purchase of new and partially completed properties in response to specific housing market circumstances and will only apply when market conditions are conducive to RSLs obtaining significant benefits.

In recognition of the fact that most new homes built in the private sector do not achieve current Development Quality Requirements (DQR), the guidance provides base line criteria to assist RSLs in making judgements about the functionality and value for money of properties offered by Private House Builders.

Under the tenure neutral policy properties can be purchased for either social-rented or Low Cost Home Ownership/Homebuy.

In making judgements about the suitability of properties RSLs should ensure and record documentary evidence that:

1. The homes are of a type and are in a location that meets the needs of the Local Authority
2. Costs have been negotiated to obtain the best possible deal and having regard for current market conditions, reduced specification and building performance, will be expected to be significantly below WAG Acceptable Cost Guidelines .
3. Homes meet acceptable standards that will not disadvantage tenants. In particular adequate space for every day living is provided
4. The reduced specification is acceptable, maintenance issues have been considered and any additional maintenance budget is manageable

Guidance proposals

(See also worked example attached and decision making flow chart)

The following guidance is intended to assist RSLs in selecting suitable Off The Shelf (OTS), private sector homes & establish the appropriate Acceptable Cost Guidance figure (ACG)*1 assuming they are of a type and are in a location that meets the needs of the Local Authority

In calculating grant Associations should note;

- The grant rate will be the current published rate
- On costs should be a maximum of 4% (OTS procurement—ACG Guidance 2007)

The proposals are based on the Welsh Housing Quality Standard (WHQS) and it is anticipated that most properties under consideration would meet this standard, with the exception of space standards.

Step 1

Establish if properties are completed or under construction. If under construction access any opportunities to practically or cost effectively improve them to DQR or if DQR not achievable WHQS.

Step 2

If properties are complete, establish if they meet DQR or if not the primary requirements of WHQS (i.e. those that impact on the safety of residents)

Step 3

Check properties against secondary requirements of WHQS and establish in which areas (if any) they fail. If they fail consider the improvements that could be made immediately or in the longer term to make the properties acceptable.

Step 4

If the properties fail step 3 check they have sufficient space for every day living. In particular check the most critical area (i.e. bedroom space) against the benchmark used in WHQS Revised Guidance (July 2008 Appendix 2) which gives nominal occupancy levels as follows:

- Double bed 10m²
- Single bed 6m²

If the above standards are not achievable with an acceptable tolerance or by re-designating rooms (e.g. following functional assessment a bedroom of 9m² or less might be re-designated as a single bedroom) provide justification for selecting property.

Step 5

Set unit designation i.e. (5 persons, 3 bedroom) 5p3b

Step 6

Choose appropriate ACG from current circular (extract attached at Table 1a) using the designation assigned in step 4 with reference to the nearest notional DQR designated area (See Table 1)

(This could result in a property being given an ACG on a designation lower than that established at step 4)

Ascertain ACG for scheme

Note

- *ACG's are based on the designation of the dwelling notional floor area in table 1. The specification will generally be higher than the equivalent dwelling in the private sector*1.

This should be considered in the negotiation*

Table 1

DQR Designation	Notional Area M2)
7P 4B h	111
6P 4B h	107
5P 3B h	92
4P 3B h	86
4P 2B h	80.5
3P 2B f	58
2P 1B f	45

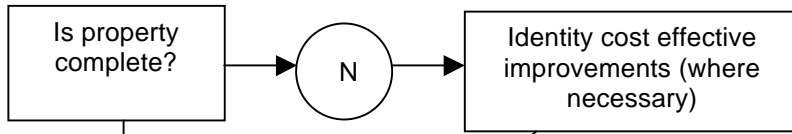
Table 1a

ACG 2007 (Extract)

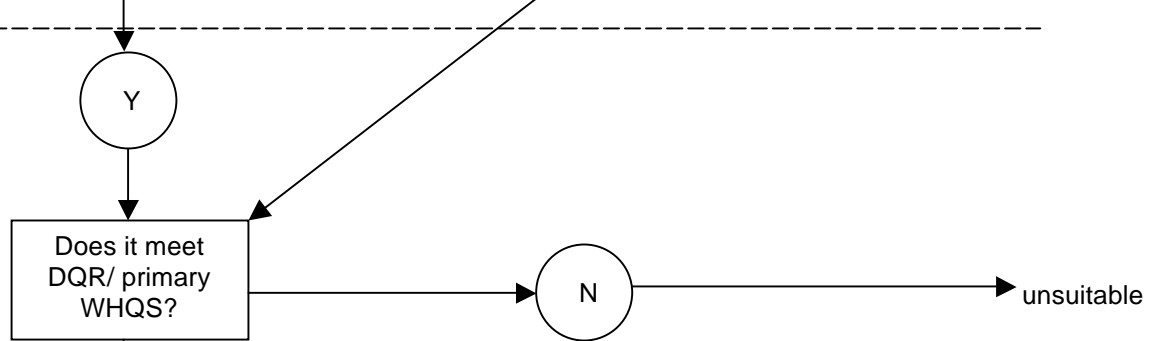
UNIT		Band 1	Band 2	Band 3	Band 4	Band 5	Band 6
7P4B	HOUSE	154200	166800	179300	204500	224600	244600
6P4B	HOUSE	136600	147200	157900	179100	196100	213100
5P3B	HOUSE	117700	126900	136100	154500	169300	184000
4P3B	HOUSE	111500	120100	128700	146000	159800	173600
4P2B	HOUSE	105200	113800	122400	139700	153500	167300
3P2B	HOUSE	86500	93800	101000	115600	127200	138800
3P2B	BUNGALOW	94800	105400	116000	137300	154300	171300
3P2B	FLAT	85200	89500	93800	102400	109300	116200
2P1B	FLAT	73100	77000	80900	88700	94900	101200
1P1B	BEDSIT	55400	58500	61600	67800	72700	77700
SHARED	Abbeyfield	73300	75900	78500	83700	87900	92000

Decision Making Flow Chart

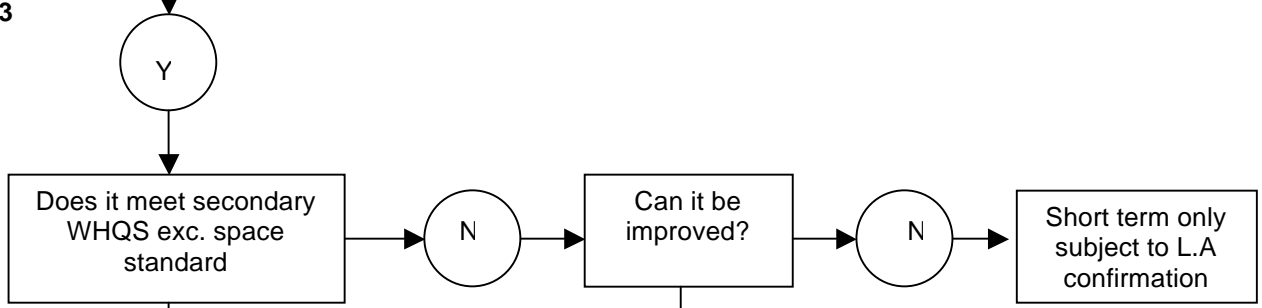
Step 1



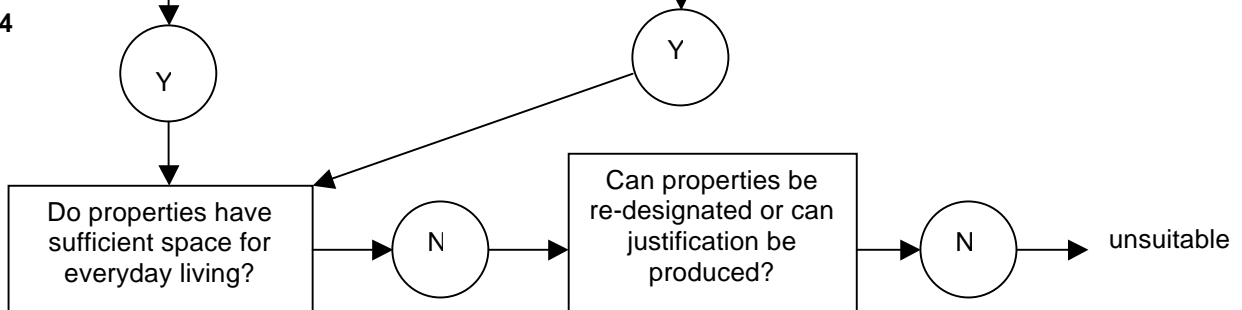
Step 2



Step 3



Step 4



Step 5



Step 6

Select ACG

Worked Example

Private Sector Scheme Details

The example scheme of 14 Units comprises 4 House types which have been designated as follows; **T1, T2 & T3** Houses; **T4** Flat

The scheme is complete and has not been occupied. The homes are built to the developers' standard specification and meet current building regulations

Step 1

Establish if properties are completed or under construction. If under construction access any opportunities to practically or cost effectively improve them to DQR or if DQR not achievable WHQS.

The example properties are all complete

Step 2

If properties are complete establish if they meet DQR or if not the primary requirements of WHQS (i.e. those that impact on the safety of residents)

Cross checking the developers' proposals confirms they will not meet DQR but will meet the primary requirements of WHQS.

An example pro forma that could be used to assist in the checking process is attached below (table 2)

Table 2

Comparison between Development Quality Requirements (DQR) and Private Sector Scheme

DQR STANDARD	DQR Requirements	Typical Private Sector Homes	COMMENT
Space	DQR (m2) notional floor areas 7P 4B h - 111 6P 4B h - 107 5P 3B h - 92 4P 3B h - 86 4P 2B h - 80.5 3P 2B f - 58 2P 1B f - 45	Type 1 —74.7m2 Type 2 —83.0m2 Type 3 —60.0m2 Type 4 -- 33.4m2	PS types 1,3,4 smaller than equivalent DQR floor area.
Internal Layout	Min. bed width 2.1m. No specific room sizes – size derives from furniture requirements	Min. bed width 1.8m.(T1) Kitchen provision does not meet DQR	Some bedrooms will not accommodate furniture (see worked example)
Accessibility	Lifetime homes Standards (LTH) required. Ground floor accessible shower required. Specific requirements	Not designed to LTH No Ground Floor shower Garden access via	The individual layouts fall short of LTH standards. Parking also not to LTH. Fails garden access criteria.

	for rear access	lounge, no alternative access.	
Storage	5m ³ —house 3m ³ -- flat 2m ² --shed	T1- 1.3m ³ ; T2- 3.2m ³ ; T3 -5.0m ³ ; T4- 2.0m ³	Only T3 meets standard
Gardens	Fencing to Secured By Design standard. Min 40m ² 9m ² patio	1.8m high fence Gardens okay Patio provided No external space for T4 (no drying area or bin stores)	
Garages	Not required	Garages under flats	Garages currently not funded by Social Housing Grant
Safety	Winders not allowed	Stair winders on Types 1,2,3	Implications for safety
External Space	Layout dictated by Secured By Design (SBD) requirements	No detail requirements- relies on LA	Will not achieve SBD Certification
Sustainability	Code for Sustainable Homes level 3	Built to current Building Regulations	Major implications for design and specification

Step 3

Check properties against secondary requirements of WHQS and establish in which areas (if any) they fail.

The check establishes that the proposals fail to meet the secondary requirements of WHQS.

The check establishes that the secondary requirements can be met with the exception of 'space for every day living' but that it is not practically possible or cost effective to make changes that would result in compliance

Step 4

If the properties fail step 3 check they have sufficient space for every day living.

The check establishes that the properties are suitable by re-designating some bedrooms as singles and that functionality is not compromised on the bedrooms that require use of the tolerance.

Step 5

Set unit designation

Table 3 below shows how the unit designation is established

Table 3

UNIT Type	Area m2	Beds	Beds Single*	Beds Double*	Kitchen / dining	Lounge / dining	Designation	Comment
Type 1(h)x4	75	3	8.4 5.7	9.3		24	4P3B	double bed and one of the single beds slightly below WHQS floor areas.
Type 2(h)x2	83	3	6.3 6.0	12.0	17		4P3B	
Type 3(h)x4	60	2	9.8	10.1		16.4	3P2B	
Type 4(f)x4	33.6	1	8.9				1P1B	Functions as a Single Bed

*WHQS Revised Guidance (July 2008) Appendix 2 sets nominal occupancy areas for bedrooms; double min. 10m²; single 6m².

h = house

f = flat

b = bungalow

Step 6

Choose appropriate ACG from current circular..... Ascertain ACG for scheme

The appropriate ACG is selected as shown in table 4 below

Table 4

(ACG based on designation and nearest floor area to equivalent notional DQR house)

DQR Unit Designation	DQR area m2	ACG band 4 (£)	OTS Type	OTS Designation	OTS Area
7P4B	111	204500			
6P4B	104	179100			
5P3B	88.5	154500			
4P3B	83	146000	Type 2	4P3B	83.0
4P2B	77.5	139700	Type 1	4P3B	74.5
3P2B (h)	68	115600	Type 3	3P2B	60.0
3P2B (b)	58	137300			
3P2B (f)	58	102400			
2P1B (f)	45	88700			
1P1B (bedsit)	33	67800	Type 4	1P1B	33.6

In the example the Type 1 Unit designated as a 4P3B will have the ACG for a DQR 4P2B unit

The resultant ACG from which to negotiate is;

OTS Type	OTS unit Area (m2)	DQR area (m2)	ACG (Band 4)	No of Units	Total
Type 1	74.5	77.5	139700	4	558800
Type 2	83.0	83.0	146000	2	292000
Type 3	60.0	68.0	115600	4	462400
Type 4	33.6	33.0	67800	4	271200
				14	1,584,400

Glossary

Equity Share	This term refers to the tenant's 50% share of the improvement in value of the Rent First property between the time of initial purchase by the housing association and the point at which the tenant chooses to buy the home.
Intermediate Housing	This term is increasingly being used to describe affordable housing beyond social rented housing. It can be defined as sub-market housing substantially above Welsh Assembly Government rent benchmark levels, but below open market levels. This category includes low-cost home ownership schemes, and sub-market rented properties.
LIBOR	London Inter-Bank Offer Rate. The interest rate that the banks charge each other for loans. This rate is applicable to the short-term international interbank market, and applies to very large loans borrowed for anywhere from one day to five years.
Loan to Value Ratio	A financial measure used by retail lenders in assessing mortgage applications. This is the amount of a mortgage or loan advance over the market value of the property, expressed as a percentage. For private residential and shared equity properties the Loan to Value (LTV) is expressed as a percentage of the full market value, whereas for shared ownership, the LTV is expressed as a percentage of the share purchased.
Low Cost Home Ownership	Low cost home ownership (LCHO) offers those eligible the opportunity to purchase part of their home and begin building their own equity. It is a term used in this report, (particularly in reference to the lending sector) to refer to the range of affordable housing for sale products; historically, being shared ownership (part rent, part buy) but more recently mainly this encompasses shared equity products, such as Homebuy.
Market Rent Envelope	Intermediate rents are to be charged within the Market Rent Envelope, calculated as the sum of service charges and rent, which must be at or below 80% of average private market rents for that local authority area and should also be targeted to be below the Local Housing Allowance.
Minimum Purchase Price	This is the minimum amount to be recovered by the housing association upon sale of the property to the tenant. It is the amount that must be deducted from the value of the property at the point of sale, before any improvement in value can be shared between the provider and the tenant

Purchase Option	This is a purchase option, set out in an agreement between the housing association and the tenant, showing how they can exercise their option, any applicable conditions and purchase details.
RCG	Recycled Capital Grant
Retail Lenders	Financial lenders offering mortgage products to home buyers.
Shared Equity	This refers to equity loan based products that assist people into home ownership. The property is 100% owned by the purchaser, and a % loan is provided and registered as a second mortgage on the property, which is repaid when the property is sold. The product operates in different forms: in Wales as Homebuy, in England as Open Market Homebuy, and across the UK as Builders/Developers' Equity schemes.
Shared Ownership	This is the historic name for a part buy, part rent product offered in England and Wales, where properties are sold on the basis of a joint – or shared – ownership lease between the housing association and the purchaser. This has now been replaced with New Build HomeBuy, although the retail lending sector is more familiar with the term 'shared ownership', and often uses this as a generic term to describe both shared ownership and shared equity housing.
Stamp Duty Land Tax	Stamp Duty Land Tax (SDLT) replaced Stamp Duty on land and buildings in 2003. It is a tax on land transactions involving any estate, interest, right or power over land in the UK. From 1 January 2010, the threshold for SDLT applies to residential house purchases over £125,000.
SCIF (1+2)	Strategic Capital Investment Fund from the Welsh Assembly Government
SHG	Social Housing Grant