



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

A Review of Low Cost Home Ownership Policies in Wales

communities
social inclusion
housing

Dadansoddi ar gyfer Polisi

YMCHWIL GYMDEITHASOL
Y LLYWODRAETH

CSR

GOVERNMENT SOCIAL RESEARCH

Analysis for Policy



Further copies of this document can be obtained free of charge from:

Research and Information Unit
Department for Social Justice and Regeneration
Welsh Assembly Government
Rhydycar
Merthyr Tydfil CF48 1UZ

Tel: 01685 729131

E-mail: SJ&R.research@wales.gsi.gov.uk

Website: www.wales.gov.uk/socialjusticeandregeneration

Contents

	Page No
Introduction	1
Chapter 1 Low Cost Home Ownership: the policy context	3
Chapter 2 House prices and the housing market cycle	9
Chapter 3 Affordability and the demand for Low Cost home ownership	17
Chapter 4 House prices and earnings	27
Chapter 5 Mortgages and affordability	33
Chapter 6 The Maximum Purchase Price limits for Homebuy	39
Chapter 7 Homebuy: stock and subsequent sales	49
Chapter 8 The Homebuy programme: a shift from urban to rural	55
Chapter 9 The characteristics of Homebuy purchasers	63
Chapter 10 Homebuy and the housing market: targeting scarce resources	71
Chapter 11 The impact of the Right to Buy	77
Chapter 12 Findings and conclusions	83
Bibliography	90
Appendix 1 Extract from Better Homes for People in Wales	91
Appendix 2 The Homebuy scheme operated by Cardiff Council	97
Appendix 3 The operation of Homebuy in England	99

Introduction

This project was commissioned by the Welsh Assembly Government to review the operation and effects of Low Cost Home Ownership in Wales, with particular focus on the principal scheme in current operation, Homebuy.

The phrase 'Low Cost Home Ownership' refers specifically to homes purchased either at less than open market value (mainly purchases by sitting tenants at a discount, overwhelmingly through the Right to Buy), or with some form of financial assistance or subsidy (primarily through the former Shared Ownership scheme and the current Homebuy scheme).

The project has reviewed the available statistical evidence, both for the Homebuy scheme itself and for the wider owner occupied housing market; interviewed a range of local authorities (responsible for the strategic direction of the Homebuy programme) and housing associations (responsible for the administration of the Homebuy scheme in each area); and examined over 250 case files of individual purchasers to analyse the characteristics of the households that have been assisted to become owner occupiers through the Homebuy scheme.

This report begins by setting out the national policy background on Low Cost Home Ownership and on the role of the land use planning system to secure affordable housing.

The report then reviews the changes that have occurred in the wider housing market since the introduction of Homebuy in 1995/96, and in particular the growing problems of affordability for first time buyers that have been created by the unprecedented rise in house prices that has taken place in recent years.

The report then analyses a number of key aspects of the Homebuy scheme, including the setting of the maximum purchase limits for each local authority area; the extent of subsequent sales of properties originally purchased through Homebuy; the changing geography of Homebuy and the shift that has taken place from urban to rural areas; the characteristics of purchasers, including the differences that have taken place over the last ten years, and that exist between urban and rural areas; the role of Homebuy in the wider housing market and the targeting of the scarce resources of the Homebuy scheme.

The report reviews the impact of the Right to Buy, both in the changes which have resulted in altering the size and composition of the social housing stock, and the restrictions on the resale of properties purchased by sitting tenants in many rural areas.

The report concludes with a summary of Key Findings, and identifies a number of areas for policy development.

An appendix outlines the current range of LCHO products currently being offered in England under the generic branding of 'Homebuy'.

Chapter 1 - Low Cost Home Ownership: The Policy Context

Introduction

This chapter sets out the national policy framework within which local authority and housing association policies for Low Cost Home Ownership must operate, in *Better Homes for People in Wales: The National Housing Strategy* (2001).

The chapter also outlines the key features of the land use planning system in the provision of affordable housing. This includes the overall planning framework of *Planning Policy Wales* (2002), the subsequent amendment of policy on housing in the Ministerial Interim Planning Policy Statement on Housing (MIPPS 01/2006), and the two relevant Technical Advice Notes (TAN 1 and TAN 2, 2006).

The National Housing Strategy

Better Homes for People in Wales: The National Housing Strategy (2001) sets out the National Assembly for Wales housing strategy. For ease of reference, the relevant text of Section E, *Sustainable Home Ownership*, is reproduced as Appendix 1.

The Strategy sets out the Assembly's strategic vision for housing in Wales in these terms:

'We want everyone in Wales to have the opportunity to live in good quality, affordable, housing; to be able to choose where they live and decide whether buying or renting is best for them and their families.'

and notes that:

'The diversity of housing supply in most parts of Wales means that people here generally have more choice over

housing to meet their requirements than elsewhere in the UK. We want to further promote this diversity by giving people better access and more choice over affordable housing that meets their needs.'

The National Housing Strategy notes that in 2001 Wales had a higher proportion of owner occupiers, at 72% of the stock, than England, with 68%, although the Strategy also noted that a higher proportion of the owner occupied stock was built before 1919 (37%, compared to 24% in England), and that an older stock would require correspondingly greater investment to combat ongoing deterioration and obsolescence.

The National Housing Strategy emphasises the role of low cost home ownership in promoting sustainable home ownership:

'We recognise the contribution that low cost home ownership can make to broader policy objectives by allowing more flexible tenure options and promoting mixed-tenure communities. We aim to review and develop existing low cost home ownership schemes to make them more relevant to local housing strategies.'

In pursuit of this aim, we intend to increase the accessibility of the Homebuy scheme to enable existing and prospective social housing tenants to buy their home on Homebuy terms. We will enable registered social landlords to repurchase properties sold under Homebuy so that they can continue to meet local needs.'

The National Housing Strategy emphasises the role of local authorities in developing a comprehensive local housing strategy:

'Local authorities have a key strategic role, supported by effective local partnerships, in ensuring that people in their area have access to a decent home in a sustainable community.'

The Strategy also promotes the use of Community Housing Agreements between local authorities and housing associations:

'It is important that local authorities harness the contribution that registered social landlords (RSLs) can make to meeting local housing need and demand. [Community Housing Agreements] are already used in some areas, providing an effective means of underpinning the strategic and operational relationship between local authorities and RSLs.'

The Strategy includes the assessment of housing requirements, land use planning and low cost home ownership as examples of the types of issues that might appropriately be covered in Community Housing Agreements.

The National Housing Strategy also focusses on the housing situation in rural areas, commenting that:

'While many of the housing issues confronting our rural communities are similar to those of valley and urban areas, there are markedly higher levels of unfit and disrepair than in other parts of Wales. In-migration and the purchase of second homes has been one of the most influential factors on community structures in some rural and coastal tourist areas of Wales, while Right to Buy sales have removed large

numbers of dwellings from the social housing stock.'

although the Strategy also notes that:

'[The Assembly] have introduced greater flexibility within the Homebuy scheme in rural areas, through a new 50% equity threshold.'

but also that:

'The availability of the Homebuy scheme is determined by the extent to which local authorities prioritise Homebuy in their Social Housing Grant programmes.'

The issue of the role of housing in rural areas was also developed in the context of the relationship between housing and the Welsh language in rural areas, where the Strategy states that:

'In many parts of rural Wales, the Welsh language is an essential part of the Welsh culture. It must be taken into account in developing effective housing strategies and planning new housing provision and services in these areas.'

The Strategy also outlines the role of the revised TAN 20, The Welsh Language - Unitary Development Plans and Planning Control, that:

'Policies and proposals to provide adequate housing, including affordable housing ... in relation to individual communities could help support those communities and thus benefit the Welsh language.'

Section E1, Sustainable Home Ownership, sets out the Assembly's policy stance:

'We are committed to sustainable home ownership - where householders can meet the long-term cost of buying and maintaining a home. We support the less well off and those who live in

areas where prices are relatively high to become owners through LCHO schemes.'

Section E2, *Home Ownership Programmes*, emphasises the need to ensure that home ownership is sustainable:

'We wish to work in partnership with people in Wales to enable them to achieve this goal, where home ownership is a sustainable option. We believe home ownership can make a major contribution in combating social disadvantage, by creating more stability and a better mix of incomes on otherwise large rented estates.

However, we must be cautious of encouraging home ownership at the margins, i.e. where people may have insufficient resources to meet normal household bills and to keep their home in good repair. An increase in repossessions would be most unwelcome, as it can have a very detrimental impact on health and family life.'

Section E3, *Low Cost Home Ownership*, briefly reviews the five main schemes (the Right to Buy, the Right to Acquire, Homebuy, Homefinder and Shared Ownership), before setting out a number of future proposals in Section E3.6. Broadly, these:

- confirm the cost floor and maximum discount provisions applied to the Right to Buy in 1999;
- preview the extensions to the definition of rural areas for both the Right to Buy and Right to Acquire;
- note that a variety of non-statutory schemes, such as DIY Shared Ownership, Transferable Discount and Home Release, may have had undesirable side effects by reducing the

number of economically active people living on social housing estates;

- preview the discontinuance of Shared Ownership in favour of a more flexible Homebuy scheme; and
- preview the introduction of 'tenure neutrality' for the social housing newbuild programme.

Low Cost Home Ownership and Planning Policy

Planning Policy Wales (Welsh Assembly Government, 2002) sets out the land use planning policies of the Welsh Assembly Government.

Planning Policy Wales, Technical Advice Notes (TANs) and Circulars together comprise national planning policy, which should be taken into account by local planning authorities in Wales in the preparation of development plans. Unitary Development Plans are being replaced, following the Planning and Compulsory Purchase Act 2004, by Local Development Plans.

Development plans by local authorities are expected to be drawn up within the overall spatial planning context of *People, Places, Futures - The Wales Spatial Plan* (Welsh Assembly Government, 2004).

Chapter 9 of *Planning Policy Wales*, on Housing, has recently been replaced by a Ministerial Interim Planning Policy Statement on Housing (MIPPS 01/2006).

Although land use planning policy refers to the potential for rehabilitation and conversion in the existing building stock, the primary focus of policy is on the provision of new housing, and the supply of land to achieve the required provision. The emphasis of land use planning policy in the context of low cost home ownership is, therefore, on the provision of affordable housing through the planning system.

It is a requirement of both *Planning Policy for Wales* and MIPPS 01/2006 that local planning authorities should promote mixed tenure communities.

MIPPS 01/2006 gives a definition of affordable housing:

'Affordable Housing for the purposes of the land use planning system is housing where there are secure mechanisms in place to ensure that it is accessible to those who cannot afford market housing, both on first occupation and for subsequent occupiers ... It includes social rented housing owned by local authorities and registered social landlords and intermediate housing where prices or rents are above those of social rent but below market housing prices or rents. All other types of housing are referred to as "market housing", that is private housing for sale or rent where the price is set in the open market and their occupation is not subject to control by the local planning authority' (Para. 9.1.2).

Local authorities are required to carry out, in conjunction with other stakeholders, a Local Housing Market Assessment (LHMA) to estimate the future demand for housing within their area, and the proportion of that demand which should be affordable.

Using the estimates of the need for new housebuilding produced by the LHMA, local planning authorities should:

'devise a settlement strategy which establishes housing policies in line with their local housing strategy and a spatial pattern of housing development balancing social, economic and environmental needs' (Para. 9.2.5).

Local authorities are then required to ensure that:

'sufficient land is genuinely available or will become available to provide a 5-year supply of land for housing judged against the general objectives and the scale and location of development provided for in the development plan' (Para. 9.2.3).

For land to be regarded as genuinely available, it must be included in a Joint Housing Land Availability Study. Technical Advice Note 1¹ 2006 (TAN1) provides guidance on the preparation of Joint Housing Land Availability Studies.

These are produced, on an annual basis, by Study Groups, co-ordinated by the Department for Enterprise, Innovation and Networks (DEIN) of the Welsh Assembly Government, and comprising the local planning authority, the relevant local authority departments (e.g. housing), housebuilders' representatives, statutory undertakings, infrastructure providers and other bodies as appropriate. To reflect local housing markets and the principles set out in the Wales Spatial Plan, regional groups may be established to undertake housing land availability studies across an area wider than an individual local planning authority.

When local authorities have carried out Local Housing Market Assessments, and identified an adequate supply of housing land, the local authority should then identify the proportion of affordable housing which should be provided on each site identified in the Joint Housing Land Availability Study.

1 Technical Advice Note 1: Joint Housing Land Availability Studies, Welsh Assembly Government, 2006.

Technical Advice Note 2² 2006 (TAN 2) provides guidance on the role of the planning system in providing affordable housing.

The guidance requires local planning authorities to:

- Include an affordable housing target in the Local Development Plan (LDP) which is derived from the local housing assessment.
- Indicate how the target will be achieved using the identified policy approaches.
- Monitor the provision of affordable housing against the target (via the Local Development Plan Annual Monitoring Report) and where necessary take action to ensure that the target is met.

TAN 2 defines affordable housing as:

'housing where there are secure mechanisms in place to ensure that it is accessible to those who cannot afford market housing, both on first occupation and for subsequent occupiers. It includes:

- *Social rented housing*
- *Intermediate housing.'*

The Glossary to TAN 2 defines intermediate housing as:

Housing 'where prices or rents are above those of social rented housing but below market housing prices or rents. This can include equity sharing schemes (for example Homebuy).'

The Glossary also notes that:

'Intermediate housing differs from low cost market housing, which the Assembly Government does not consider to be affordable housing for

the purposes of the land use planning system.'

TAN 2 also emphasises the contribution of affordable housing secured through the planning system to the creation of socially mixed (and mixed tenure) communities:

'The strong presumption is that affordable housing will be provided on the application site so that it contributes to the development of socially mixed communities.'

TAN 2 outlines four mechanisms for achieving the LDP targets for affordable housing:

1. The provision of an appropriate percentage of affordable housing on all sites over a given site capacity (the 'threshold'). The percentage of affordable housing, and the threshold, are matters for each local planning authority to determine.
2. The identification of site specific targets for affordable housing.
3. The identification of sites for 100% affordable housing, in accordance with criteria set out in the LDP, where this is necessary to secure balanced and sustainable communities. TAN 2 notes that such sites are likely to be small.
4. In addition:
'Affordable housing provision in rural areas must be supported by a rural exception site policy. Rural exception sites should be small (as locally defined in the LDP), solely for affordable housing and on land within or adjoining existing rural settlements which would not otherwise be released for market housing. The affordable housing provided on such sites should meet the

*needs of local people in perpetuity ...
Rural exception sites are not appropriate
for market housing.'*

TAN 2 suggests that the provision of affordable housing can be secured in perpetuity either through the involvement of an Registered Social Landlord (RSL), or through the use of planning conditions or obligations where the affordable housing is provided directly by a private sector developer.

TAN 2 also suggests the use of an 'occupancy cascade' in order to ensure that affordable housing continues to be let, or bought, by people with a local connection and a housing need, without causing undue delay and financial loss. The 'occupancy cascade' would widen either the degree of local connection, in accordance with a stipulated timescale, until a suitable occupier is identified.

Conclusions

All local authorities are required to produce a Housing Strategy for their area.

The Housing Strategy will determine, based upon the results of Local Housing Market Assessments, the need for new market and affordable housing in the area. Each local authority must then identify a sufficient land supply to meet these needs, based on the results of a Joint Housing Land Availability Study. Each local authority must also identify the sites on which a proportion of affordable housing is to be secured through the planning system.

An active approach to the provision of affordable housing through the land use planning system, including the use of S106 agreements, would bring additional resources into the provision of affordable housing, through the use of free or discounted land and would, therefore, enable the provision of Social Housing Grant to go further.

The balance within the overall provision of affordable housing between housing for rent and housing for sale is a matter for each local authority to determine in relation to its Housing Strategy.

Chapter 2 - House prices and the housing market cycle

Introduction

Any programme to promote the extension of home ownership through Low Cost Home Ownership takes place against the background of the housing market and its impact upon house prices and affordability.

Since the introduction of Homebuy in 1995/96, the housing market in Wales has experienced a boom of unprecedented size and duration, with price rises particularly accelerating after 2001/2.

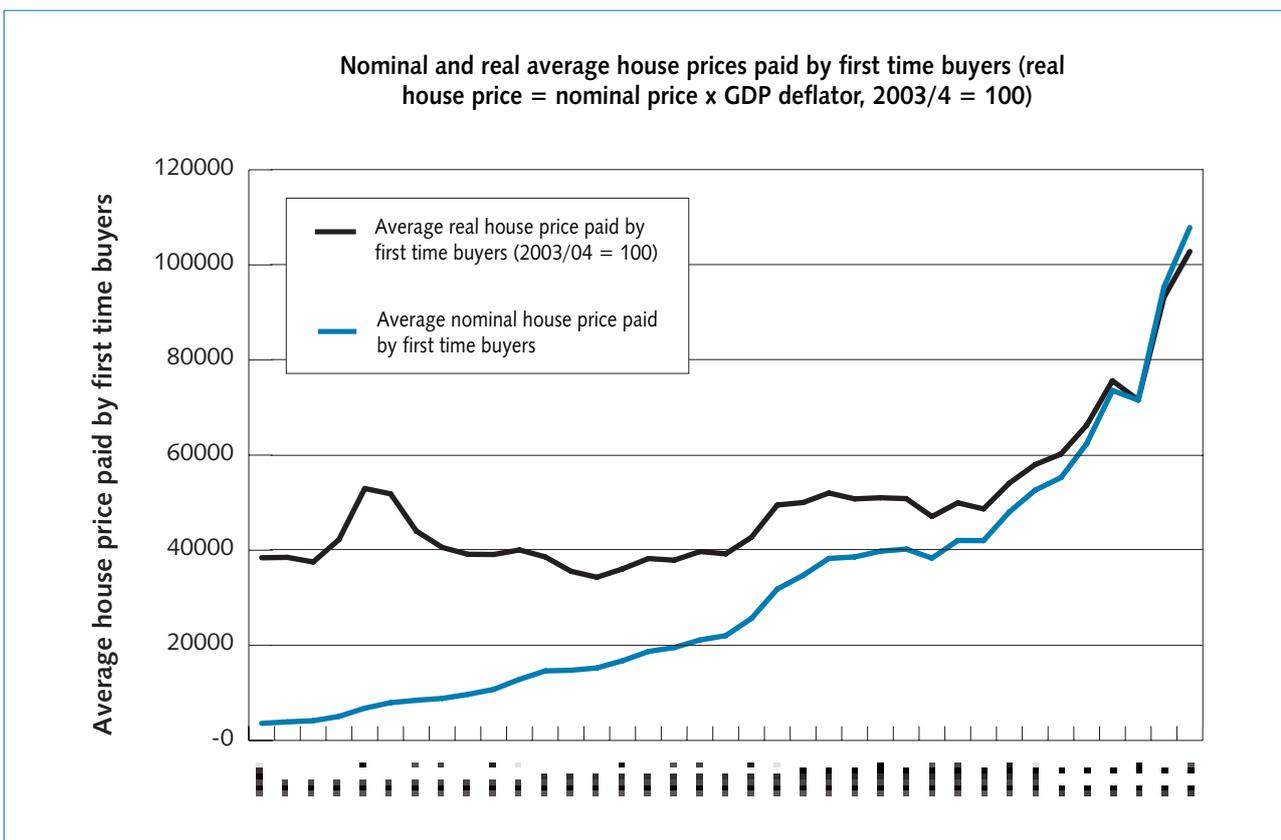
This chapter sets out the background facts about the housing market and house prices, the booms and slumps in house prices that have occurred over the past thirty five years, and analyses the 'ripple effect' of price rises (and falls) spreading outwards from London, across the English regions, to Wales.

The housing market cycle

A programme whose objective is to assist marginal purchasers to enter owner occupation by enabling them to purchase at less than the full market price is obviously dependent upon changes in full market prices. Since the introduction of Homebuy in 1995/96, house prices in Wales have gone through the trough of one housing cycle, and are now approaching the peak on the next cycle.

The existence of a cycle in the owner occupied housing market is well known, and the figure below shows the nominal and real average house price paid by first time buyers in Wales between 1969 and 2005.

Figure 1



The figure illustrates a number of features:

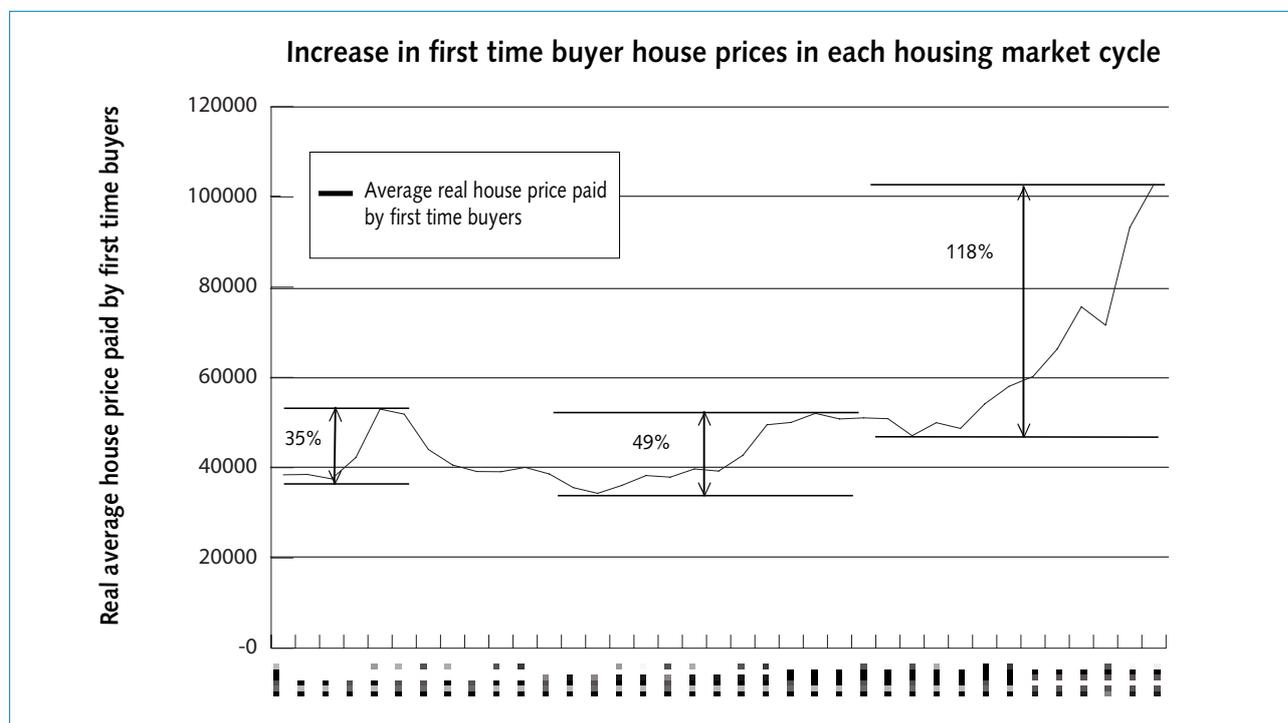
- The effects of price inflation during the 1970s and 1980s: nominal prices rose from £3,595 in 1969 to £22,038 by 1987, a rise of 613%. Over the same period however, real house prices had remained almost static at the equivalent of £38,416 in 1969 and £39,240 in 1987.
- Nominal prices then nearly doubled, from £22,038 in 1987 to £42,022 in 1997, a rise of 191%, although in real terms the main rise occurred in the first two years, with real prices

rising to an average of £49,508 by 1989, and fluctuating on a plateau to £48,689 by 1997.

- Both nominal and real prices have shown very steep increases since 1997, with nominal prices rising two and a half times to £107,857 by 2005, while real prices more than doubled to £102,832, a rise of 211%.

The figure below shows the extent of the increase in real prices that has occurred in the three major housing market cycles since the late 1960s.

Figure 2



Homebuy was introduced in 1995/96, at a low point in the housing market cycle, and continues to be offered at the current high point.

The existence of a 'ripple effect' in the housing market cycle is also familiar. Prices begin to rise first in London, spreading outwards through the South East, South West and East Anglia, then reaching the West and East Midlands, and finally spreading to the North West, Yorkshire and

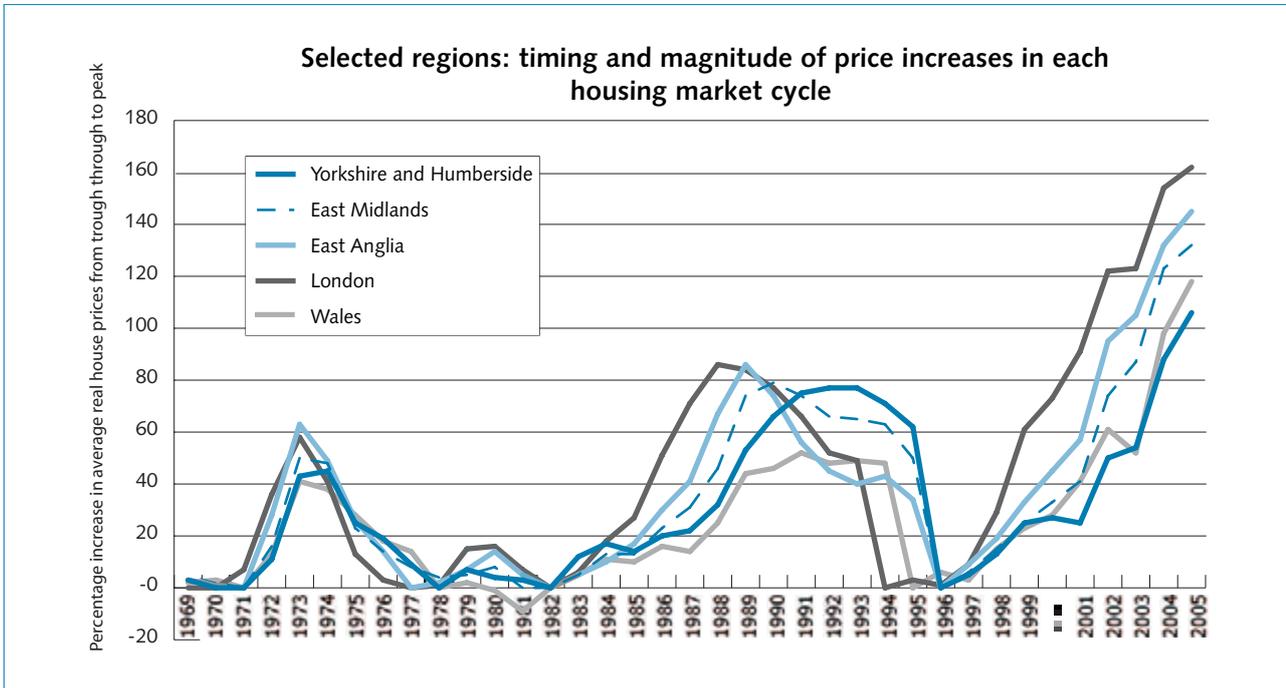
Humberside and the North. As the cycle turns, the rate of increases slackens first in London, and then subsequently spreading in a similar pattern across the country.

This can result in prices continuing to rise in peripheral regions at a time when price falls are already being experienced in London and the southern regions of England. In the house price boom of the late 1980s, the last complete cycle, prices peaked in London in 1988, and fell from 1989 to

reach their low point in 1994, but in the North, prices did not peak until 1993, followed by a much sharper decline to a low point in 1995.

The figure below shows the pattern of house price increases in each housing market cycle since 1969, for four selected English regions and Wales.

Figure 3



The figure shows that in the house price cycle of the early 1970s, all regions experienced a more or less simultaneous peak and decline in house prices. In the house price cycle of the late 1980s, the 'ripple effect' becomes apparent, and this appears to be a continuing feature of the current house price cycle, beginning in the late 1990s.

The figure also shows the extent to which real house prices in Wales were depressed in the early 1980s: the real average house price paid by first time buyers in 1982 was £34,316 or only 89% of the real average house price in 1969. The figure also shows that while prices recovered in Wales from 1983, the peak reached between 1989 and 1994 was markedly lower than that in any English region. In contrast, in the current cycle of price increases, Wales appears to be more closely integrated with the overall housing market.

Within Wales, a similar 'ripple effect' can be detected, with price increases starting in Cardiff and Monmouthshire, spreading out through urban areas in the south and east, before finally reaching the valley and rural areas.

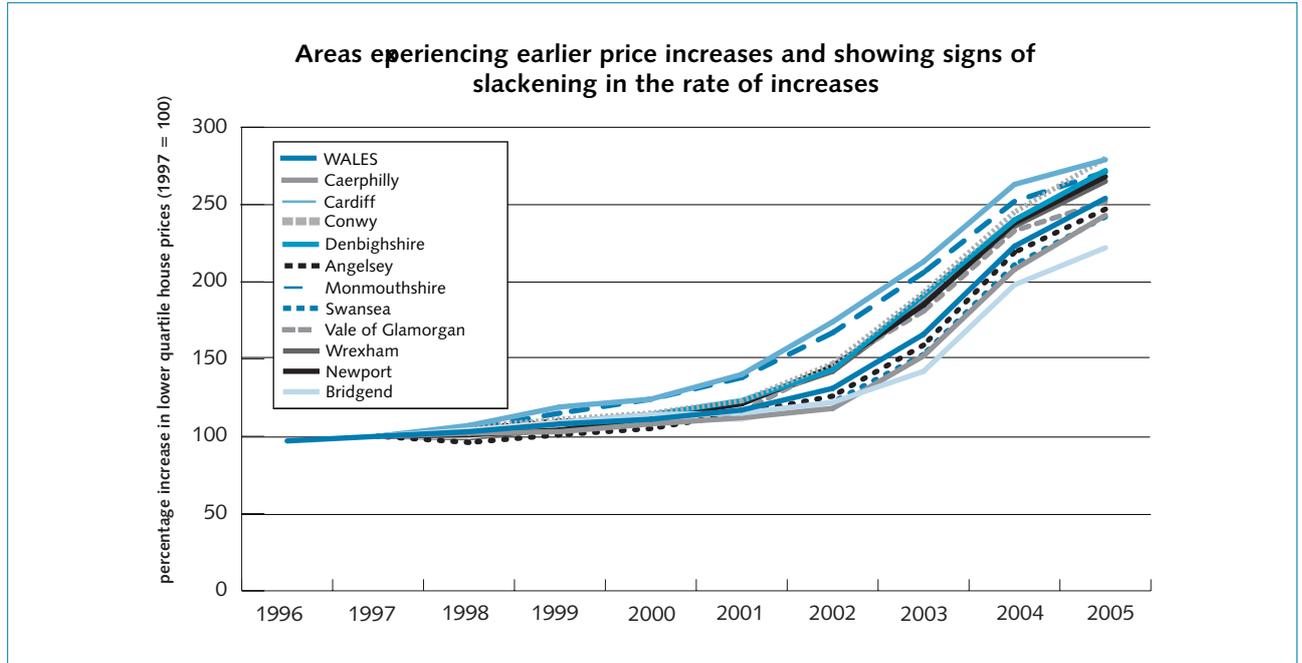
The figure overleaf shows those local authorities where the rate of price increases appears to have started earlier, and where the rate of price increases had begun to show signs of slackening.

Cardiff and Monmouthshire showed the earliest signs of price increases, becoming detached from the general pattern as early as 1998, with the rate of increase steepening from 2000 and particularly from 2001. In a further group of three areas, Newport, Vale of Glamorgan and Wrexham, prices started to increase sharply from 2001, while in a further group of four areas, Caerphilly, Bridgend, Swansea and

the Isle of Anglesey, price increases did not accelerate until 2002.

However, the rate of price increases in all eleven areas slackened from 2004.

Figure 4

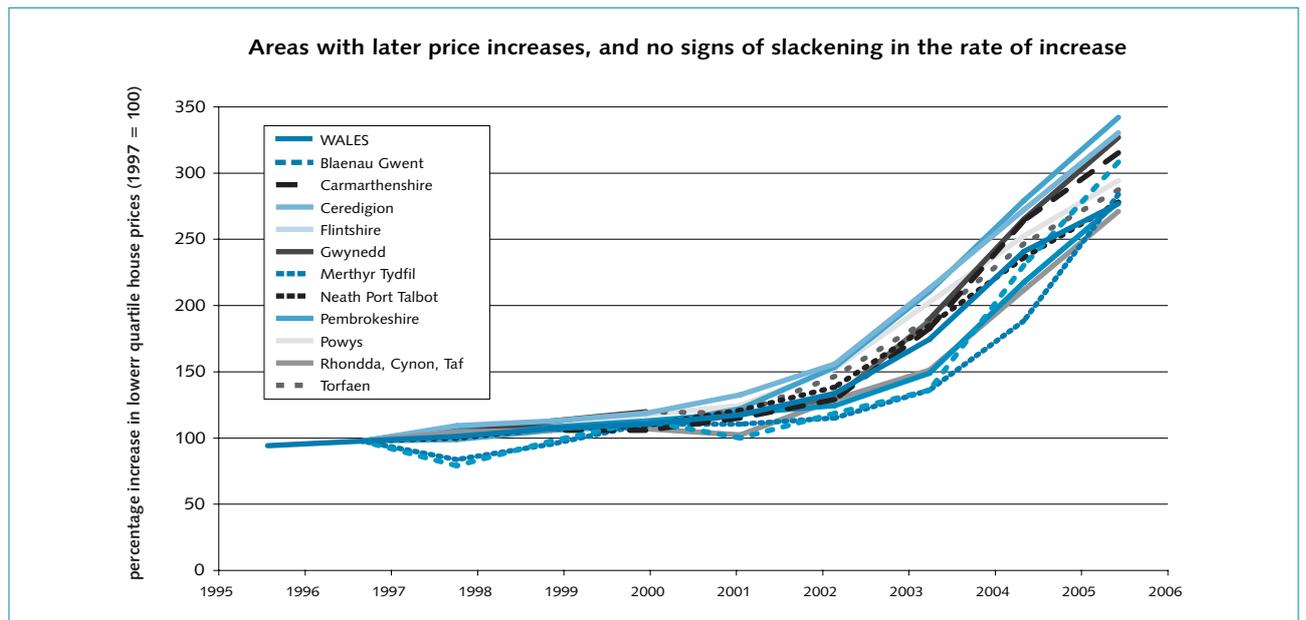


The figure below shows those local authorities where the rate of price increases both appears to have started later, and where the rate of price increases has not yet begun to show signs of slackening.

These areas fall into two clear groups. The first is the five rural areas of Powys, Carmarthenshire, Gwynedd, Ceredigion and Pembrokeshire, where prices began

to increase in 2001 and sharply from 2002. The second is the four urban areas of Merthyr Tydfil, Rhondda Cynon Taf, Neath Port Talbot and Blaenau Gwent. In these areas, price increases began in 2001 but did not increase sharply until 2003. In all ten areas, including the intermediate category of Flintshire, there has not yet been any apparent slackening of the rate of price increases.

Figure 5



The maps below show the extent of the change that has occurred. The maps show the average price of terraced houses sold in each postcode sector (approximately 3,000 postal addresses). Each map is coloured using the same colours for each price range, and the extent of change over the past ten years is clearly visible.

In Map 1, in 1996, the majority of the country is coloured blue, indicating average prices below £45,000. The areas in green, indicating average prices between £55,000 and £65,000 are largely confined to areas along the border with England, and scenic coastal areas. Prices above £65,000 are limited to the rural Vale of Glamorgan, although alterations to postcode boundaries after 1996 mean that data for Cardiff, Newport and Monmouthshire cannot be mapped.

In Map 2, using the same colour scheme, the picture is beginning to change. The blue area, with average prices below £45,000 has shrunk to an area from the Valleys to Llanelli, the mid section of Powys, and a northern band from Denbighshire through Gwynedd to the Isle of Anglesey. The green and yellow areas, with prices under £100,000, are spreading westwards from Monmouthshire, surrounding Cardiff, and appearing in Flintshire and the more pressurised coastal areas including Conwy, Beaumaris, the Llyn, Aberystwyth, Cardigan and north Pembrokeshire. Prices over £100,000 for a terraced house are confined to Cardiff, and the areas around Cowbridge and Saundersfoot.

In Map 3, again using the same colour scheme, the picture is transformed. Terraced houses under £65,000 are now confined to the upper parts of the Valleys. Across most of rural Wales, terraced houses are now priced between £75,000 and £125,000. Average prices in excess of £150,000 occur in Monmouthshire and along the Borders, and in Flintshire and the more pressurised coastal areas including Conwy, Beaumaris, the Llyn, Aberystwyth, Cardigan and north Pembrokeshire. Prices over £200,000 for a terraced house have appeared in Cardiff, and a handful of areas such as the Vale of Clwyd, Aberdyfi, Fishguard, Tenby and around Cowbridge.

Conclusions

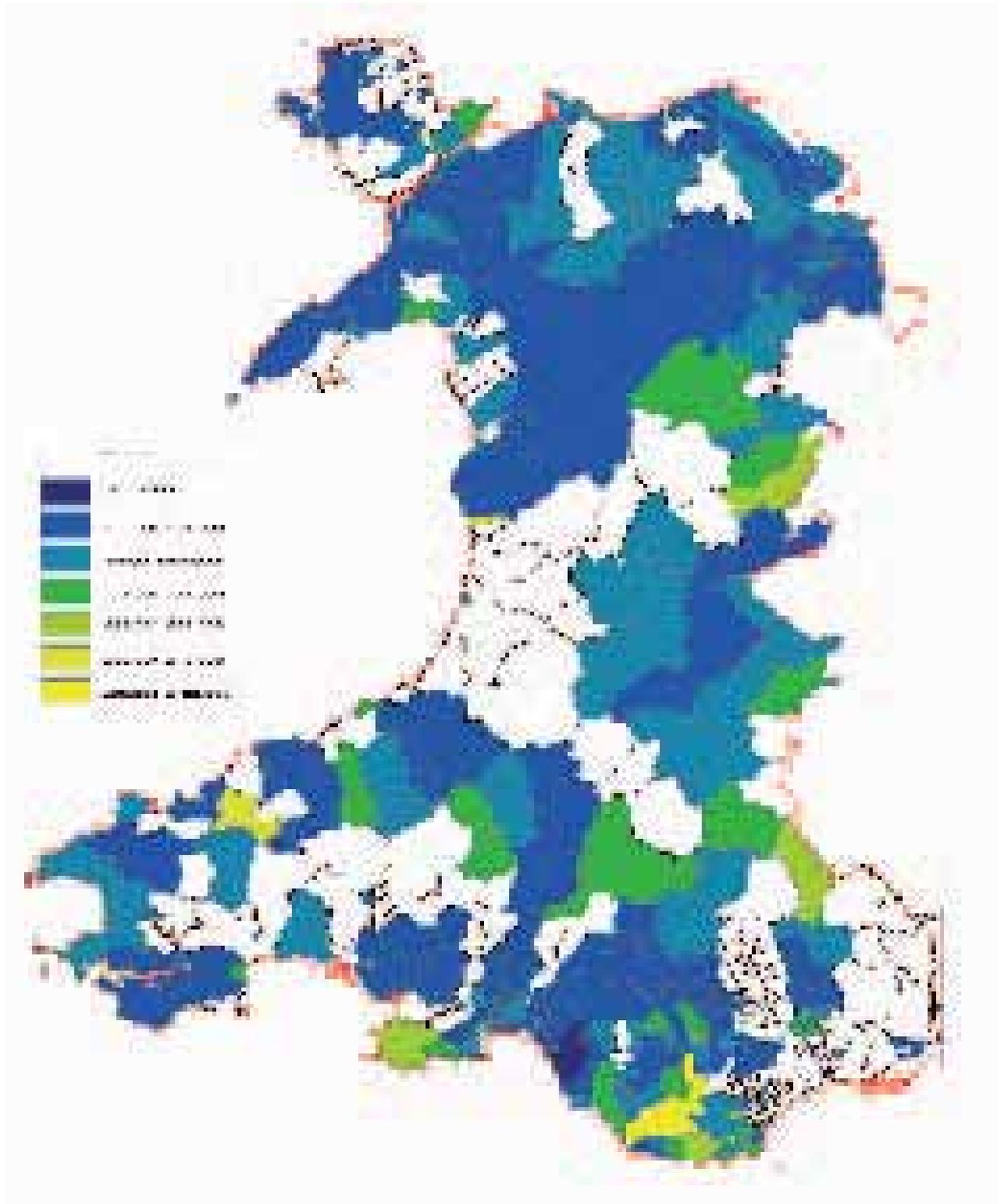
When Homebuy was introduced in 1995/96, it was at a period when prices were particularly low in relation to incomes. The Homebuy programme was initially intended as a means of extending owner occupation to wider sections of people previously unable to afford to buy on the open market.

Low cost home ownership, in the ordinary sense of the ability of people on relatively modest incomes to be able to afford to buy a house in the open market, was reasonably accessible across most parts of Wales. In all but the most expensive areas, terraced houses could be bought for less than £45,000.

By 2005, the housing market had been transformed. The only areas where a terraced house could be bought for less than £65,000 were now confined to the upper parts of the Valleys, while prices in excess of £150,000 and even £200,000 had become normal in the more desirable areas.

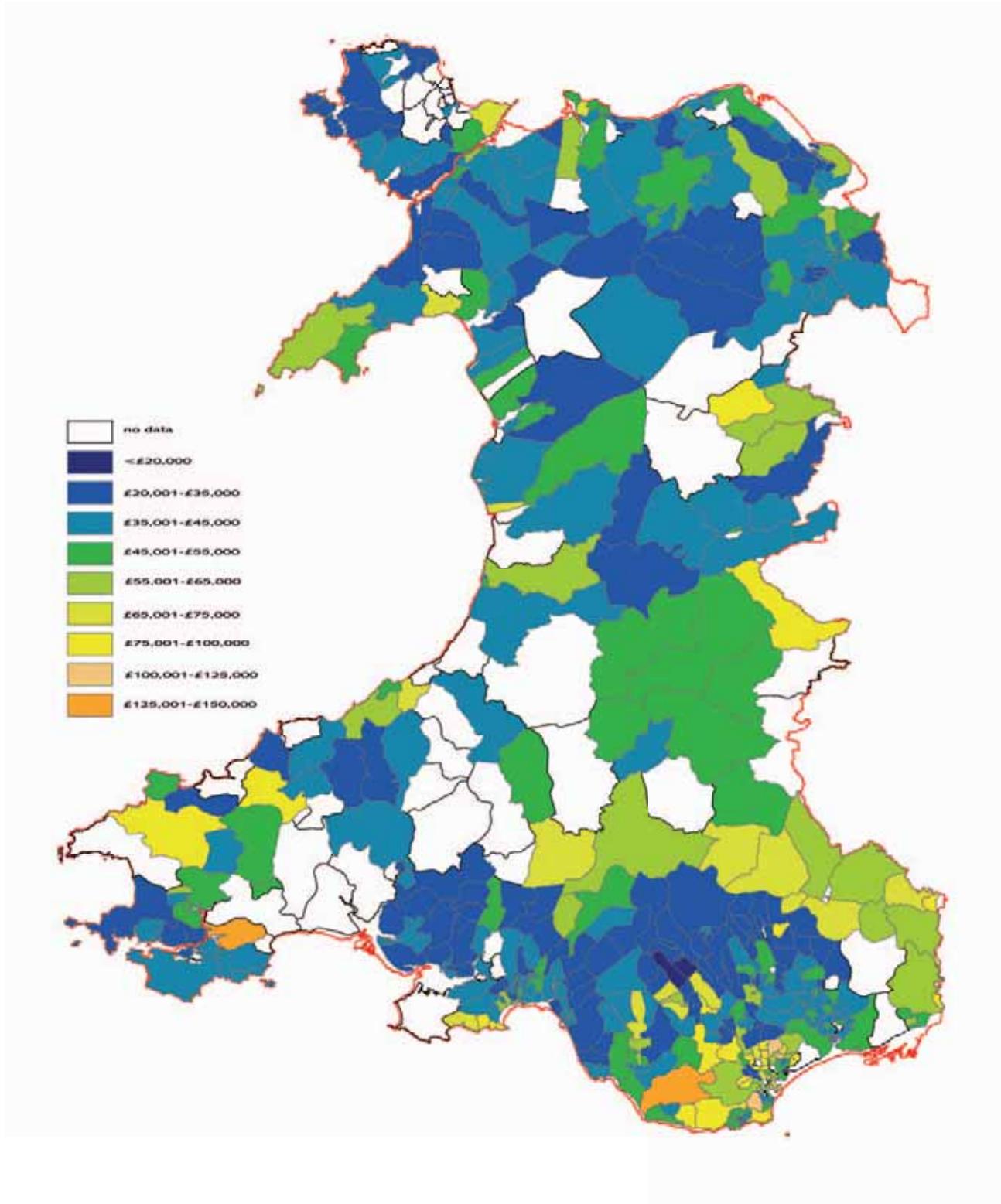
MAP 1

Average house prices (terraced) 1996



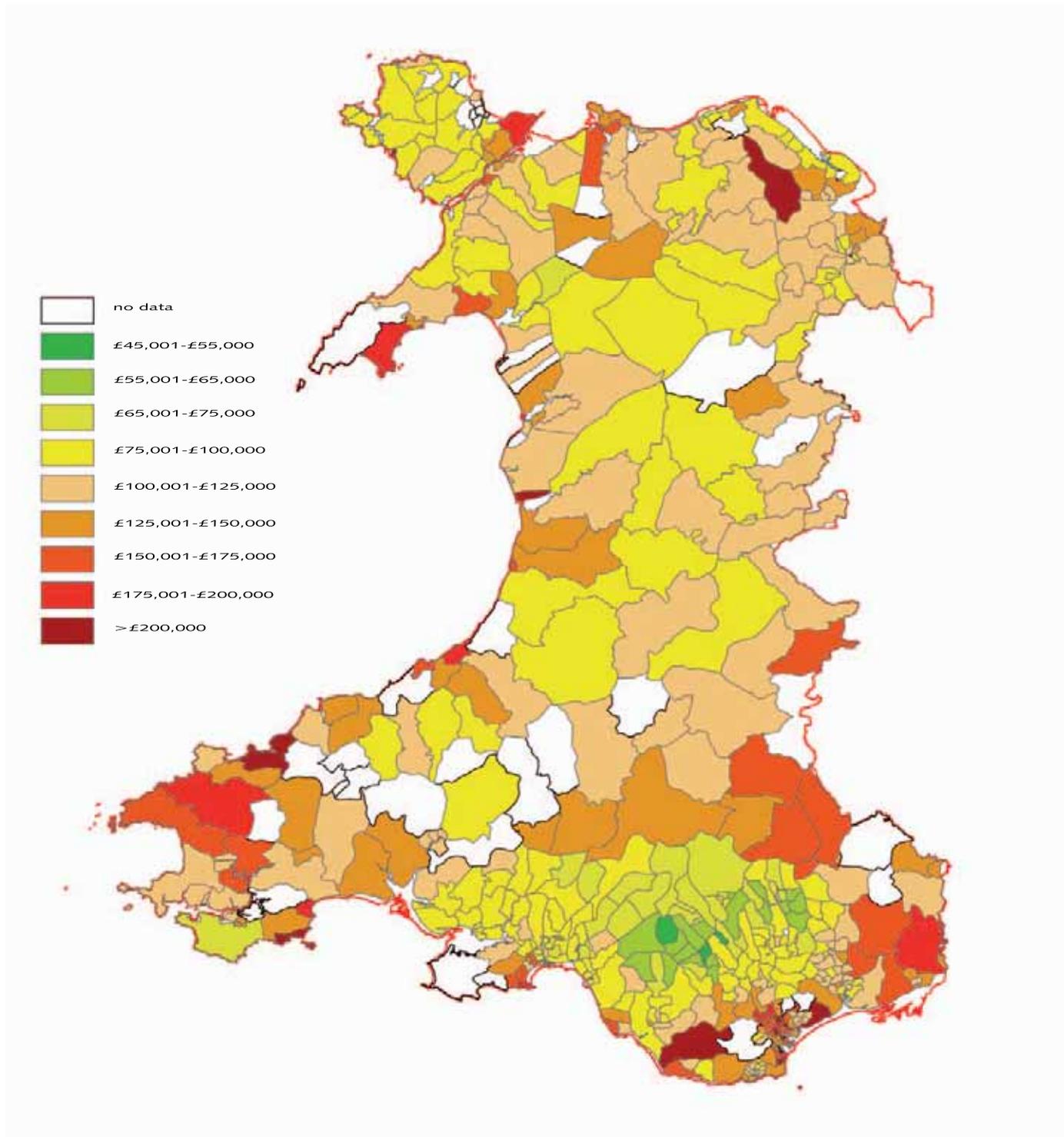
MAP 2

Average house prices (terraced) 2000



MAP 3

Average house prices (terraced) 2005



Chapter 3 - Affordability and the demand for Low Cost Home Ownership

Introduction

This chapter looks at the affordability of home ownership. The chapter provides, for the convenience of readers, a summary of the findings of research by Professor Steve Wilcox, of the University of York, which examined the relationship between earnings and house prices in every local authority area in Great Britain.

Affordability, house prices and earnings

A recent study of affordability, by Steve Wilcox for the Joseph Rowntree Foundation³, building on earlier work⁴, has provided estimates, for each local authority area, of the ratio of average earnings to average house prices for two and three bedroom dwellings; the numbers of households who fall into the 'intermediate' housing market, on the margins of affordability; and estimates of the household incomes required by households with a single earner or with multiple earners to be able to afford to buy a home in the lowest decile or the lowest quartile of house prices.

This section summarises Wilcox's findings, and reproduces his tables for local authority areas in Wales for ease of reference.

Wilcox's analysis of affordability ratios compares the household incomes of households where the 'household representative person' is aged between 20 and 39, the most likely age range for first time buyers, with the average (mean) cost of two and three bedroom properties.

To an extent, therefore, the analysis compares actual average earnings to aspirations in the housing market. First time buyers might be expected to purchase one bedroom properties initially (where there is a supply of flats or 'starter homes'), moving upmarket to a family sized dwelling at a later stage. The average price of two and three bedroom dwellings will also reflect the whole housing market, and will include more expensive properties such as detached houses, or more desirable locations, to which the average first time buyer can only aspire.

3 *Affordability and the intermediate housing market: local measures for all local authority areas in Great Britain*, Joseph Rowntree Foundation, 2005.

4 *Home ownership affordability in Wales*, Centre for Housing Policy, University of York, 2004; and *Can work - can't buy: local measures of the ability of working households to become home owners*, Joseph Rowntree Foundation, 2003.

Table 1: House price to income ratios by local authority, 2004

	Numbers of working households	Annual household earnings (£)	Average house prices (£)	House price to income ratios
Blaenau Gwent	7,810	25,213	66,939	2.65
Bridgend	14,327	27,582	98,708	3.58
Caerphilly	17,452	25,616	90,508	3.53
Cardiff	35,007	30,842	142,773	4.63
Carmarthenshire	14,968	27,195	95,079	3.5
Ceredigion	5,968	22,626	128,175	5.66
Conwy	5,596	30,765	126,314	4.11
Denbighshire	7,693	27,128	108,821	4.01
Flintshire	14,623	27,492	111,865	4.07
Gwynedd	8,601	21,735	111,536	5.13
Isle of Anglesey	4,527	24,181	102,394	4.23
Merthyr Tydfil	5,534	29,259	65,251	2.23
Monmouthshire	9,614	30,184	147,084	4.87
Neath Port Talbot	12,024	25,724	77,168	3.0
Newport	14,211	27,547	110,588	4.01
Pembrokeshire	9,701	21,682	120,524	5.56
Powys	11,447	23,598	115,200	4.88
Rhondda Cynon Taf	23,834	26,466	78,354	2.96
Swansea	20,577	25,701	104,073	4.05
Torfaen	7,505	29,777	92,435	3.1
The Vale of Glamorgan	11,199	30,908	138,019	4.47
Wrexham	9,535	25,716	104,474	4.06
Wales	271,753	27,039	107,864	3.99

Source: reproduced from Wilcox, 2005

The average house price to income ratio for Wales, at 3.99, is slightly lower than the average for Great Britain as a whole at 4.13, or for England at 4.2. However, Wales exhibits a particularly wide spread of affordability ratios between the least affordable areas and the most affordable. The house price to income ratio is highest in Ceredigion at 5.66 and in Pembrokeshire at 5.56. Both ratios are in the 30 highest ratios among all local authorities in Great Britain. By contrast, the lowest (most affordable) ratios in Wales are in

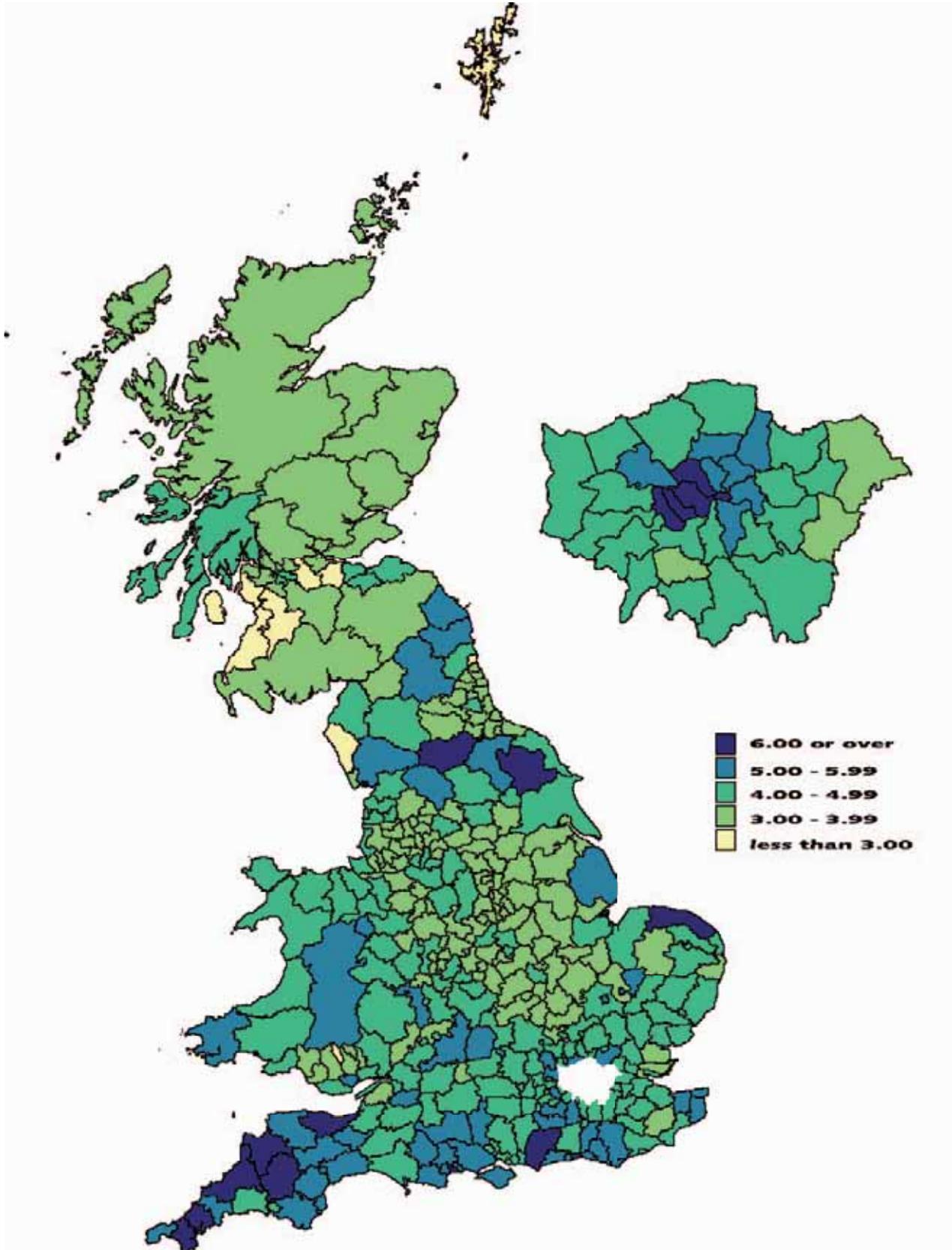
Merthyr Tydfil at 2.23 and in Blaenau Gwent at 2.65.

The affordability ratio in Ceredigion is 2.5 times higher than that in Merthyr Tydfil. In England, the only region with a similar spread is the North West, where the desirable location of South Lakeland has an affordability ratio of 5.32, or 2.8 times that of the adjoining district of Copeland, which has an exceptionally low affordability ratio of 1.91, the lowest of any local authority in Great Britain.

The map below shows the house price to income ratios for each local authority in Great Britain.

MAP 4

House price to income ratios, 2004, for every local authority in Great Britain



Source: Wilcox, 2005

The map shows that the most acute problems of affordability are in the three western counties of Gwynedd, Ceredigion and Pembrokeshire, resulting from a combination of low local wages and high house prices.

In the analysis of the size of the 'intermediate' housing market, estimates are made of the total number of working households, of all ages, in three categories:

- Those who **could not** afford to rent in the social housing sector without Housing Benefit and who **could not** afford to buy in the lowest decile of the market.
- Those who **could** afford to rent in the social housing sector without Housing Benefit, but who **could not** afford to buy in the lowest decile of the market.
- Those who **could** afford to rent in the social housing sector without Housing Benefit, who **could** afford to buy in the lowest decile of the market, but who **could not** afford to buy the lowest quartile property in the market.

The three categories together are defined as constituting the 'intermediate' housing market.

The analysis assumes an income multiple of 3.75 for a single earner and 3.25 for multiple earners, and an 18% deposit (the average deposit made by first time buyers over the past ten years).

One of the characteristics of households assisted by Homebuy is that very few have any deposit from their own resources.

The table opposite shows that at the house price levels of 2004 (and house prices rose further in 2005 across Wales), over a third (36.7%) of all working households in Wales could not afford to buy a house outside the lowest 10% of prices in the area in which they lived. Almost a quarter (23.5%) could not afford house purchase at all, and just under one in ten (8.7%) of working households could not afford the average rent in social housing, and would be dependent upon Housing Benefit. Particularly notable are the high proportions of working households dependent upon Housing Benefit in Gwynedd, and the one third (34.3) of working households in both Ceredigion and Monmouthshire who could not afford house purchase.

Table 2: Percentage of all working households in intermediate housing markets

	Percentage of working households			
	(A) % of households in work, on HB, and not able to afford lowest decile	(B) % of households in work, not on HB, but unable to afford lowest decile	(C) % of households in work, able to afford lowest decile, but not able to afford lowest quartile	Total intermediate housing market (A+B+C)
Blaenau Gwent	7.4	0.5	6.3	14.2
Bridgend	6.6	12.7	12.3	31.6
Caerphilly	7.2	6.9	12.0	26.1
Cardiff	8.8	26.6	19.1	54.6
Carmarthenshire	8.4	9.3	12.9	30.7
Ceredigion	8.8	34.3	14.7	57.8
Conwy	6.9	21.2	10.7	38.8
Denbighshire	7.3	15.9	16.4	39.6
Flintshire	9.1	16.7	15.2	41.0
Gwynedd	20.1	15.2	12.6	47.9
Isle of Anglesey	6.6	7.5	18.2	32.2
Merthyr Tydfil	5.7	1.4	6.7	13.7
Monmouthshire	8.1	34.3	8.8	51.2
Neath Port Talbot	8.8	0.7	11.1	20.6
Newport	10.6	16.5	13.7	40.8
Pembrokeshire	16.3	19.4	18.2	53.8
Powys	8.3	18.8	15.0	42.1
Rhondda Cynon Taf	6.3	2.2	7.7	16.2
Swansea	11.2	13.5	11.9	36.6
Torfaen	2.3	6.5	11.6	20.4
The Vale of Glamorgan	5.9	27.4	14.3	47.6
Wrexham	10.3	12.7	12.9	35.8
Wales	8.7	14.8	13.2	36.7

Source: Schedule 2 in Wilcox, 2005

Table 3: Number of all working households in intermediate housing markets

	Number of working households			
	(A) Number of households in work, on HB, and not able to afford lowest decile	(B) Number of households in work, not on HB, but unable to afford lowest decile	(C) Number of households in work, able to afford lowest decile, but not able to afford lowest quartile	Total intermediate housing market (A+B+C)
Blaenau Gwent	580	40	491	1,111
Bridgend	944	1,820	1,760	4,524
Caerphilly	1,260	1,199	2,103	4,562
Cardiff	3,097	9,327	6,690	19,115
Carmarthenshire	1,259	1,395	1,937	4,592
Ceredigion	528	2,047	876	3,451
Conwy	388	1,184	602	2,174
Denbighshire	565	1,223	1,261	3,050
Flintshire	1,332	2,437	2,226	5,995
Gwynedd	1,728	1,309	1,085	4,121
Isle of Anglesey	297	338	824	1,459
Merthyr Tydfil	313	77	371	761
Monmouthshire	779	3,295	846	4,920
Neath Port Talbot	1,059	885	1,337	2,481
Newport	1,509	2,340	1,950	5,799
Pembrokeshire	1,578	1,885	1,761	5,224
Powys	953	2,151	1,720	4,823
Rhondda Cynon Taf	1,495	534	1,827	3,855
Swansea	2,303	2,784	2,440	7,527
Torfaen	174	486	870	1,529
The Vale of Glamorgan	661	3,065	1,600	5,326
Wrexham	979	1,209	1,228	3,415
Wales	23,777	40,230	335,803	99,810

Source: Schedule 2 in Wilcox, 2005

The table shows the numbers of households in the three groups of the 'intermediate' housing market. The numbers are of course dependent

upon the overall size of the population in each area, and the table shows that the largest numbers of working households in the 'intermediate' market are in Cardiff.

Table 4: Average (mean), lowest quartile and lowest decile house prices in each area in 2004

	2004 house prices (£)			
	Average for two and three bedroom dwellings			
	Sample	Mean	Lower quartile	Lowest decile
Blaenau Gwent	272	66,939	47,500	37,500
Bridgend	612	98,708	76,100	58,000
Caerphilly	788	90,508	68,488	53,500
Cardiff	1,288	142,773	112,500	87,475
Carmarthenshire	631	95,079	70,000	53,000
Ceredigion	167	128,175	94,000	76,700
Conwy	421	126,314	92,500	73,200
Denbighshire	356	108,821	82,000	58,785
Flintshire	734	111,865	84,982	65,000
Gwynedd	427	111,536	72,813	55,250
Isle of Anglesey	237	102,394	67,375	45,750
Merthyr Tydfil	249	65,251	48,563	38,125
Monmouthshire	252	147,084	112,500	101,000
Neath Port Talbot	532	77,168	54,500	39,074
Newport	474	110,588	85,000	64,509
Pembrokeshire	346	120,524	83,000	61,745
Powys	400	115,200	79,000	60,500
Rhondda Cynon Taf	928	78,354	51,813	38,488
Swansea	826	104,073	75,975	58,700
Torfaen	276	92,435	67,500	52,500
The Vale of Glamorgan	465	138,019	105,125	85,000
Wrexham	612	104,474	75,000	55,600

Source: Schedule 3 in Wilcox, 2005

The table shows the wide differences in house prices which exist within the relatively small geographic distance within the housing market in Wales. In fourteen areas the average (mean) house price is in excess of £100,000, but in four areas a house could still be bought at the bottom end of the market for less than £40,000.

The table also shows the lack of differential, or the compression which can occur between the price of houses in the lowest tenth of the market and the lowest quarter. This is particularly noticeable in three of the highest priced rural and semi-rural areas, in Monmouthshire, Ceredigion and the Vale of Glamorgan.

Table 5: Incomes required by single and multiple earners to purchase lowest decile or lowest quartile price house

	Annual income required to purchase			
	Lowest decile prices		Lower quartile prices	
	Single earner	Multiple earner	Single earner	Multiple earner
Blaenau Gwent	8,200	9,462	10,387	11,985
Bridgend	12,683	14,634	16,641	19,201
Caerphilly	11,699	13,498	14,976	17,280
Cardiff	19,128	22,071	24,600	28,385
Carmarthenshire	11,589	13,372	15,307	17,662
Ceredigion	16,772	19,352	20,555	23,717
Conwy	16,006	18,469	20,227	23,338
Denbighshire	12,854	14,832	17,931	20,689
Flintshire	14,213	16,400	18,583	21,442
Gwynedd	12,081	13,940	15,922	18,371
Isle of Anglesey	10,004	11,543	14,733	16,999
Merthyr Tydfil	8,337	9,619	10,619	12,253
Monmouthshire	22,085	25,483	24,600	28,385
Neath Port Talbot	8,544	9,859	11,917	13,751
Newport	14,106	16,276	18,587	21,446
Pembrokeshire	13,502	15,579	18,149	20,942
Powys	13,229	15,265	17,275	19,932
Rhondda Cynon Taf	8,416	9,711	11,330	13,073
Swansea	12,836	14,810	16,613	19,169
Torfaen	11,480	13,246	14,760	17,031
The Vale of Glamorgan	18,587	21,446	22,987	26,524
Wrexham	12,158	14,028	16,400	18,923

Source: Schedule 3 in Wilcox, 2005

Reflecting the wide range of house prices between different local authority areas, the table shows the wide range of incomes which are required in different areas to purchase at the lowest decile or lowest quartile point in the market.

In the relatively low priced areas of Blaenau Gwent and Merthyr Tydfil, a single earner in full time work (39 hours per week) and on the Minimum Wage of £5.05 per hour could afford to buy in the lower quartile,

whereas in the high priced areas of Cardiff and Monmouthshire, a single earner in full time work would need to earn over £12 per hour in order to be able to afford to buy in the lower quartile.

Where there are two earners with similar earnings, each would have to earn between £13,000 and £15,000 per annum in order to afford to buy in the lower quartile in Cardiff or Monmouthshire, and these are the levels of earnings of many

households purchasing in these areas with the assistance of Homebuy.

Conclusions

Professor Wilcox's analysis shows that with the exception of the old mining and industrial areas in the Valleys and South Wales, the majority of Wales has high house prices in relation to earnings.

This results from a combination, across rural Wales, of a desirable and attractive environment, a restricted supply of housing from limited new housebuilding, and relatively low wage levels.

While the most acute problems of affordability are in the three western counties of Gwynedd, Ceredigion and Pembrokeshire, the research also shows that a significant proportion of households in all parts of Wales would be unable to purchase a home in the open market.

Even in 2004, over a third of all working households in Wales could not afford to buy a house outside the lowest 10% of prices in the area in which they lived, while almost a quarter could not afford house purchase at all, and just under one in ten (8.7%) of working households could not afford the average rent in social housing, and would be dependent upon Housing Benefit.



Chapter 4 - House prices and earnings

Introduction

This chapter examines the changes that have taken place in average earnings and average house prices between 1999, just before prices began their rapid rise, and 2005.

Changes in house prices and earnings

The rapid increases in house prices described in the previous section have significantly outstripped rises in earnings in recent years. House purchase has

become markedly less affordable, both relative to incomes and absolutely.

This section analyses the changes in the relationship between house prices and earnings, and the resulting impact on the types of households able to be helped by the Homebuy scheme.

The table below sets out the increase in average earnings between 1999 and 2005, and the increases in the price of the average (mean) house, the median house and the lower quartile house.

Table 6: Average gross weekly earnings in Wales 1999-2004

	1999	2000	2001	2002	2003	2004	2005
Average gross weekly earnings	£358.7	£372.8	£385.8	£405.2	£421.8	£438.7	£454.4
% change in average gross weekly earnings since 1999	100	104	108	113	118	122	127
% increase in average (mean) house prices 1997-2005	100	108	117	137	166	206	226
% increase in median house prices 1997-2005	100	106	112	131	164	215	234
% increase in lower quartile house prices 1997-2005	100	103	108	121	153	206	235

Source: ONS Statistical Bulletin 3/2006, Annual Survey of Hours and Earnings and DCLG Live Tables 587

The table shows that while earnings rose by barely more than a quarter between 1999 and 2005, the average house had increased in value by two and one quarter times, and lower priced houses had increased rather more, by two and one third times. However, as described in the previous section, house prices did not begin to accelerate until 2001, averaged across Wales, and the increase

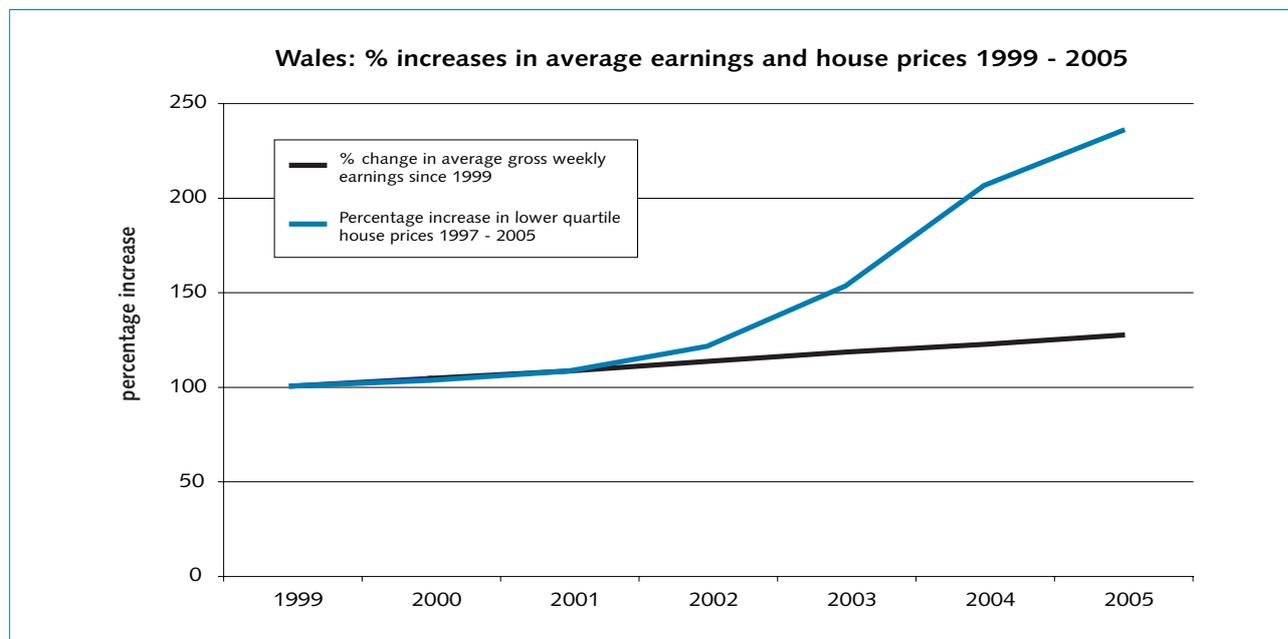
has been compressed into the last three to four years.

It should be noted that the table shows average earnings of all adults in full time employment. In 2005, average male earnings were £491.5 per week, or 109.5% of the average, while average female earnings were only £398.4 per week, or 87.6% of the average, and 18.5% less than average male earnings.

The extent of the increase, and its divergence from earnings increases,

is shown graphically in the figure below.

Figure 6



The table below shows the size of the deposit which would be required by a prospective purchaser on average earnings to purchase a property at three different price points, comparing 1999 and 2005.

The table shows average weekly earnings, annual income (assuming a 52 week working year), and the maximum mortgage

potential (assuming a 3.5 times income multiplier).

The maximum mortgage potential is then deducted from the three house price points, to show the size of the deposit (if any) which the prospective purchaser would require.

Table 7:

Average earnings, house prices and deposit required to purchase, 1999 and 2005 compared

	1999 (£s)	2005 (£s)
Average gross weekly earnings	358.7	454.4
Average gross annual earnings	18,652.0	23,629.0
Maximum mortgage @ 3.5 x single earner	65,283.0	82,701.0
Average (mean) house price	62,710.0	141,908.0
Median house price	53,500.0	124,995.0
Lower quartile house price	37,950.0	89,000.0

Deposit required: house price less maximum mortgage potential

Deposit required to purchase average house	-2,573.0	59,207.0
Deposit required to purchase median house	-11,783.0	42,294.0
Deposit required to purchase lower quartile house	-27,333.0	6,299.0

The table shows in 1999, a prospective purchaser on average earnings could afford to purchase a house some £2,500 above the price of the average (mean) house, or about 22% higher than the median house price.

However, by 2005 the same prospective purchaser would have required a deposit of nearly £60,000 to purchase the average (mean) house, and would require a deposit of over £6,000 even to buy the lower quartile house. This change has been compressed into the four years between 2001 and 2005.

The table below shows the implications of this dramatic shift in affordability for the types of household which the Homebuy scheme is able to assist in house purchase.

The table shows firstly the weekly income which would be required to purchase a house at each of the three price points, without requiring a deposit, secondly the reduction in income which would be possible with a 30% deposit, and thirdly the reduction in income which would be possible with a 50% deposit.

The table then shows the income that would be necessary for purchase as a percentage of average earnings in each year.

Table 8: Income required for house purchase utilising 30% or 50% Homebuy equity share, 1999 and 2005 compared

	Weekly income required for house purchase @ 3.5 x annual income		income required for purchase as % of average earnings	
	1999 (£s)	2005 (£s)	1999	2005
Income required to purchase average house without deposit	344.6	779.7	96	172
Income required to purchase median house without deposit	294.0	686.8	82	151
Income required to purchase lower quartile house without deposit	208.5	489.0	58	108
Income required to purchase average house with 30% deposit	241.2	545.8	67	120
Income required to purchase median house with 30% deposit	205.8	480.8	57	106
Income required to purchase lower quartile house with 30% deposit	146.0	342.3	41	75
Income required to purchase average house with 50% deposit	172.3	389.9	48	86
Income required to purchase median house with 50% deposit	147.0	343.4	41	76
Income required to purchase lower quartile house with 50% deposit	104.3	244.5	29	54

The table shows in 1999, houses below the average price, perhaps 60% of the housing market, were potentially available to people on average earnings. The lower quartile price house could be afforded, without a deposit, by a purchaser earning 58% of average earnings.

The standard measure for determining the 'poverty line' in Britain is usually taken to be that a household is in poverty if the equivalised net income of the household is less than 60% of the median income. This is roughly equivalent to half of gross earnings, assuming no other source of income.

A single earner, earning £208 per week gross, or 58% of average earnings, only marginally above the 'poverty line', would have been able to afford to buy a home in the bottom quarter of the market in 1999.

However, by 2005, a prospective purchaser on the average earnings of £454 per week would barely have been able to afford to buy the lower quartile price house. The income required to purchase in 2005 had more than doubled, while actual average earnings had risen by only a quarter.

The Homebuy scheme, offering the equivalent of a 30% deposit, in the form of the equity share, would have enabled a prospective purchaser in 1999 earning two thirds of average earnings to buy the average house, and a purchaser earning only 41% of average earnings (significantly below the 'poverty line') to purchase in the bottom quarter of the market.

In one case in 1995, a single parent whose previous relationship had broken down and who was being bought out by her former partner, was enabled to purchase a two bedroom newbuild terraced house, despite being on Income Support. The property was valued at £43,950, and the combination of the Homebuy 30% equity share of £13,185, equity from her former home of £5,688, and a mortgage from a mainstream lender of £25,077 based solely on her income from Income Support and Child Benefit, was sufficient to fund the purchase.

By 2005, a prospective purchaser on average earnings would have required a 30% deposit to afford the median price house, and a purchaser earning three quarters of average earnings would only have a choice in the bottom quarter of the market, even with a Homebuy 30% equity share.

The introduction of the 50% equity share in rural areas appears to enable a prospective purchaser on three quarters of average earnings to have a choice in the bottom half of the market, but the figures shown above are for house prices averaged across Wales as a whole. Lower quartile prices in rural areas are often above the Wales average: the lower quartile price is 135% above the average for Wales in Ceredigion, 124% in Pembrokeshire and 118% in Powys, although only 103% higher in Gwynedd and actually lower, at 97%, in Carmarthenshire.

In general, the introduction of the 50% equity share in rural areas has not enabled purchasers on below average earnings to regain the position they occupied in 1999.

Conclusions

Between 1999 and 2005, average full time earnings rose by just over a quarter, but the average house price more than doubled, rising by two and a quarter times, while the average price of a house in the bottom quartile rose by even more, to two and a third times the 1999 level.

As a result, a prospective purchaser on average earnings in 1999 could afford to buy the average priced house without any deposit. By 2005 however, the same purchaser would have needed a deposit of £60,000 to buy the same house.

A single earner, earning £208 per week gross, or 58% of average earnings, only marginally above the 'poverty line', would have been able to afford to buy a home in the bottom quarter of the market in 1999.

By 2005, only prospective purchasers earning the average wage or salary would have been able to afford to buy a house in the bottom quartile of the market.

It is clear that the mainstream Homebuy programme, offering the equivalent of a 30% deposit, is assisting an entirely different group of households into owner occupation than those assisted in the second half of the 1990s. Even the extension of the scheme to provide the equivalent of a 50% deposit in rural areas is now assisting households with relatively higher incomes than those who were helped to buy with the 30% scheme only five years ago.

Chapter 5 - Mortgages and affordability

Introduction

This chapter reviews the detailed rules of the Homebuy scheme, which require the housing associations administering the scheme to undertake a financial assessment of applicants for Homebuy, and compares these to the lending practices of the mainstream mortgage lenders.

Assessing the affordability of home ownership

A continuing concern with all schemes promoting Low Cost Home Ownership to purchasers unable to buy a home on the open market, through a conventional combination of deposit and mortgage, is that the costs of home ownership may prove unaffordable, leading to potential arrears and repossession or forced sale of the property.

The Welsh Assembly Government *Assisted Home Ownership Procedure Guide (Draft)* requires RSLs to carry out a financial assessment of applicant eligibility:

'16.1 RSLs must carry out a financial assessment of all applicants to ensure that they meet the qualifying criteria for the scheme. Applicants must be able to demonstrate that:

- they are unable to buy a suitable home without assistance from the RSL*
- they are able fund the required mortgage and have sufficient savings to pay for the associated legal costs etc*

16.2 In deciding whether an applicant or joint applicant can afford to buy an equity share of 70% (or, where applicable, 50%), the RSL will be required to take account of:

- the capacity of prospective purchasers to sustain the financial demands of home ownership. This should be based on an assessment of disposable income and assets, and financial commitments, including all costs associated with home ownership;*
- any history of rent or mortgage arrears.*

16.3 The RSL may wish to interview the applicant or see evidence of income in checking that the applicant meets the requirements of the scheme.'

In practice, RSLs had developed a variety of procedures, some more stringent than others, to meet this requirement.

Only in isolated cases were any distinct attempts made to assess whether an applicant could have purchased a home without assistance from Homebuy. It is difficult to see how a RSL could establish whether suitable properties might have been available in the market which the applicant might have been able to afford without assistance.

However, the use of the highest Acceptable Cost Guidelines (ACG) band in each local authority area as the upper limit for Homebuy purchases has resulted in Homebuy applicants in the majority of local authority areas being able to access at least the lower half of the housing market, and in some local authority areas to purchase at prices considerably in excess of the average house price. The implications of this are discussed in Chapter 6.

In practice, RSLs appear to have accepted that if the proposed purchase is within the ACG limits, then the choice of property

and location is a matter for the prospective purchaser.

RSL policy is, therefore, generally to accept that applicants will be using the Homebuy scheme as a confirmation in itself that they are unable to purchase outright. (In other words, RSLs are assuming that the terms of Homebuy are inherently less attractive than open market purchase, and that this will select out those purchasers who are able to meet their needs in the open market).

In assessing income, outgoings and affordability, RSLs adopted a range of approaches. Some effectively relied upon the credit scoring approach of the lenders: if a qualifying lender was prepared to lend a certain sum, then the lender's criteria were assumed to be adequate.

Others conducted their own affordability assessments. In some cases, these were based on assessing the maximum mortgage which it was felt reasonable for the prospective purchaser to afford. Other RSLs used a more comprehensive approach, with a detailed questionnaire itemising outgoings to assess the extent of the 'free cashflow' which would be available to service a mortgage. The scheme administrator at one RSL commented on the need for this approach with younger applicants still living with their parents, who were often unaware of the existence of Council Tax, or had not considered the need to budget for utility bills and similar inescapable outgoings.

RSLs attempting to assess the maximum mortgage which a prospective purchaser could afford had found that their efforts to make these assessments were undermined by the degree and rapidity of change in the mortgage market. There are over 100 lenders active in the UK mortgage market, offering over 4,000 mortgage products between them, and the 'traditional' criteria for mortgage lending, such as rigid income multiples to determine lending, have increasingly broken down, to be replaced by credit scoring or cashflow approaches.

The three tables below show the mortgage lending assessments available from three of the main mortgage lenders in May 2006, from their online mortgage calculators.

The most striking feature is the extent of variation in the approach to lending criteria taken by the three lenders, and the variation in the resulting mortgages potentially available to applicants.

HSBC bank offers the most 'traditional' approach, with a simple income multiplier applied to the gross household income. Interestingly, the calculation method for a joint mortgage for two working people gives a smaller multiple, of 3 times joint income, where the incomes are both similar, rising proportionately to 3.75 times income as the income of one partner rises as a proportion of joint income and that of the other partner falls to zero.

Table 9: HSBC

	Income	Mortgage amount	Multiple of income
Single person	£10,000	£37,500	3.75
	£15,000	£56,250	3.75
	£20,000	£75,000	3.75
Couple	£10,000 + £5,000	£46,250	3.08
	£10,000 + £10,000	£60,000	3.00
	£20,000 + £5,000	£83,750	3.35

Abbey National offers a higher lending multiple of income as the percentage deposit increases, a policy which would

obviously benefit Homebuy applicants, where the equity share provides the equivalent of at least a 30% deposit.

Table 10: Abbey National

	Income	Mortgage amount with 5% deposit	Multiple of income	Mortgage amount with 10% deposit	Multiple of income	Mortgage amount with 25% deposit	Multiple of income
Single person	£10,000	£30,000	3.00	£33,000	3.30	£36,000	3.60
	£15,000	£45,000	3.00	£49,500	3.30	£54,000	3.60
	£20,000	£68,000	3.40	£76,000	3.80	£84,000	4.20
Couple	£10,000 + £5,000	£37,500	2.50	£42,000	2.80	£45,000	3.00
	£10,000 + £10,000	£56,000	2.80	£60,000	3.00	£68,000	3.40
	£20,000 + £5,000	£70,000	2.80	£75,000	3.00	£85,000	3.40

Halifax offers significantly higher income multiples for single applicants and childless joint applicants, but the multiples reduce with one or more children. Interestingly, the

website would apparently offer a higher multiple to a single parent than to a couple with children, but whether this would be sustained in a formal application is unclear.

Table 11: Halifax

	Income	No children	Multiple of income	One child	Multiple of income	2+ children	Multiple of income
Single name	£10,000	40k - 46k	4 - 4.6	40k - 46k	4 - 4.6	35k - 41k	3.5 - 4.1
	£15,000	60k - 69k	4 - 4.6	60k - 69k	4 - 4.6	52.5k - 61.5k	3.5 - 4.1
	£20,000	80k - 92k	4 - 4.6	80k - 92k	4 - 4.6	70k - 82k	3.5 - 4.1
Joint name	£10,000 + £5,000	46.5k - 54k	3.1 - 3.6	42k - 48k	2.8 - 3.2	37.5k - 42k	2.5 - 2.8
	£10,000 + £10,000	74k - 79k	3.7 - 3.95	70k - 79k	3.5 - 3.95	66k - 76k	3.3 - 3.8
	£20,000 + £5,000	92.5k - 98.75k	3.7 - 3.95	87.5k - 98.75k	3.5 - 3.95	82.5k - 95k	3.3 - 3.8

It is clear the multiplicity of mortgages available in the current market means any attempt by local authorities, at the strategic level, or RSLs, at the operational level, to impose their own affordability criteria are unlikely to be successful.

In addition to the variety between lenders, traditional standard income multiples no longer give an accurate indication of affordability, due to the decline in nominal interest rates in recent years and the wide

variety of discounted interest rates on offer for the early years of a mortgage. These factors have reduced the monthly costs of mortgage payments (at least in the first few years of the mortgage period), allowing lenders to increase their income multiples without increasing monthly repayments.

The rapidity of these changes within the mortgage market meant that RSLs which attempted to make affordability

assessments were forced to change the basis of the assessment, in order to reflect the commercial offers being made to prospective purchasers.

One RSL had increased its income multiple for affordability assessments from 3x single incomes and 2.25 joint in April 2004, to 3x single and 2.5 x joint by April 2005, and to 3.75x single and 3.5x joint by September 2005. The maximum mortgage estimates which the RSL was making of prospective purchasers' capacity were failing to keep up with the mortgage certificates which prospective purchasers were able to obtain from mainstream high street lenders.

Examples of this problem included the case of a machine operator, earning £19,500 p.a. in 2004, who was assessed by the RSL as having a maximum mortgage capacity of £56,220, but who obtained a mortgage certificate from the Halifax for £63,523. In another example, an agency support worker earning £18,300 in 2004 was assessed by the RSL as having a maximum mortgage capacity of £62,727, but obtained a mortgage certificate from the Halifax for £70,530.

Interestingly, both purchasers actually borrowed less than the maximum: the first borrowing £52,500 and the second borrowing £54,320. The first purchaser, who had a wife and three children, bought a mid terrace ex-council house with three bedrooms. The second purchaser, who was separated and whose child visited at weekends, also bought a mid terrace ex-council house with three bedrooms.

The figures given by prospective purchasers for their income were, in some cases, remarkably vague. One couple, applying in 1995, initially gave his earnings as £7,392 per annum (the subsequent employer's reference gave a figure

of £9,752), while her earnings were initially given as £7,800 (the subsequent employer's reference gave a figure of £4,220). The RSL assessed their maximum mortgage capacity as £36,043, based on earnings of £10,795 and £4,740 respectively, and the couple successfully obtained a mortgage of £37,380 from one of the qualifying lenders.

The application forms used by RSLs to make these assessments were, in most cases, adapted from the standard application forms used for rented housing, and the income questions were neither detailed nor precise. Typically, they did not clearly distinguish between gross and net pay, there was sometimes obvious confusion over whether pay was being quoted weekly or monthly, basic pay and variable pay from sources such as overtime, bonus or commission were not distinguished, and income from other sources such as Tax Credits, Child Benefit and child maintenance payments was not clearly laid out, despite the fact that at least the first two of these are included by many lenders in their assessment of total income.

Overall, the examination of files gave little indication that purchasers were experiencing any significant financial problems as a consequence of house purchase. It is possible that some of the sales of property, resulting in the redemption of the second charge and the repayment of the equity share, may have been the result of financial difficulties. However, in the vast majority of cases, the RSL merely received a cheque through the post, often from a solicitor rather than directly from the previous purchaser, indicating that a sale of the property had been completed but without any further comment or explanation. In these cases, it is not possible to ascertain the reason for the sale.

The Assisted Home Ownership Procedure Guide (Draft) also lays down a number of eligibility criteria that have financial implications:

17.1. RSLs must ensure that applicants meet the following requirements:

17.1.1. Applicants must be tenants of a RSL or local authority or be eligible for a tenancy with the RSL. Their circumstances should be such that in other circumstances the RSL would offer them a tenancy.

17.1.2. Applicants must be unable to buy a suitable home without assistance. This may apply to those who currently own their own home but have a genuine need to move (e.g. for employment or family size).

17.1.3. Applicants who already own or part own a residential property must sell their interest (i.e. have exchanged contracts or completed the sale) in their existing property at the same time as purchasing through Homebuy.

17.1.4. Applicants must be able to qualify for a mortgage from a qualifying lender (see Appendix 5) or have sufficient savings if no mortgage is required. If the funds are borrowed from another source, e.g. a family member, then the RSL must secure the equity loan as a first charge on the property.

17.1.5. Applicants must not be receiving Housing Benefit.

17.1.6. Applications from owner occupiers whose houses are required for demolition and who would otherwise need to be re-housed in alternative RSL or local authority accommodation may be accepted providing they meet the other eligibility criteria.

Some commentary on the applicability of these criteria is appropriate.

Para. 17.1.1: it did not appear that any RSL was applying any form of housing need prioritisation to applicants. Applicants' cases were generally dealt with in date order of application, in the absence of any other method of prioritising applicants, or of rationing the scarce resource of Social Housing Grant (SHG) Homebuy funds. Any household has the right to register with a local authority for rehousing. Given that most RSLs would accept applications on the same basis, and do not impose maximum income or savings bars to eligibility, it is not clear how this criteria could be usefully operated.

Para 17.1.2: the examination of files did not reveal any cases where an existing owner wished to move using Homebuy, except where relationship breakdown (or in one case widowhood) caused the sale of a previous property, and one partner was enabled to re-enter owner occupation through Homebuy.

Para 17.1.3: given the length of time that many applicants must wait before Homebuy funds become available, and the subsequent time required for house purchase, previous owner occupiers had all sold their previous properties, and were either renting or lodging with parents.

Para 17.1.4: the examination of files did not reveal any case where the loan

was obtained from a relative or other non commercial source. Partial financial assistance was provided by families in a small number of cases, but RSLs did not establish whether the assistance was in the form of a gift or a loan. Since all purchases used a commercial loan, which was secured by a first charge on the property, with the equity share secured as a second charge, this was probably not material.

Para 17.1.5: it is not clear that this criterion is necessary. A household which would not be eligible for Housing Benefit if renting from a local authority or housing association might become eligible if renting from a private landlord at market rents, although the income of the household might be unchanged. This requirement was perceived as illogical by a number of RSLs. A similar criterion was used in England, but abolished in July 2003.

Para 17.1.6: the examination of files showed cases where Homebuy had been used to rehouse former owner occupiers whose homes were being demolished. In one case, a couple in their 70s were able to move from a former council

house that was being demolished with the aid of a special 50% Homebuy equity share, together with the compensation of £32,500 received for their former home.

Conclusions

Although housing associations are required to carry out a financial assessment of applicants for the Homebuy scheme, to check their financial eligibility and the capacity of prospective purchasers to sustain the financial demands of home ownership, it was clear that many found this a difficult requirement to implement in practice.

Housing associations generally saw their role as requiring a relatively conservative approach to assessing the ability of a prospective purchaser to sustain the payments on a mortgage, but found their assumptions undermined by the willingness of mainstream lenders to lend at increasingly higher multiples of income.

The detailed rules of the Homebuy scheme are in some cases anomalous, and the chapter suggests a number of areas where these might be reviewed.

Chapter 6 - The maximum Purchase Price limits for Homebuy

Introduction

This chapter examines the maximum purchase price set in each local authority area for Homebuy purchases, the way in which these limits are set, and the sometimes anomalous consequences that result.

Maximum purchase price limits

The Welsh Assembly Government *Assisted Home Ownership Procedure Guide* (Draft) stipulates that:

19. Value limits

19.1 *Properties purchased through the homebuy scheme must be within the published value limits which are contained in the current Tariffs, Multipliers and Allowances for the Payment of Social Housing Grant publication.*

The value limits for the Homebuy scheme are the same as those used for the Acceptable Cost Guidelines (ACG) which are used for the new housebuilding programme of RSLs.

The value limits applicable in 2005/06 are set out in the Table below.

Table 12: DIY LCHO - Maximum purchase price limits 2005/06

Family size	Band 1	Band 2	Band 3	Band 4	Band 5	Band 6
Family +5 children	£136,200	£151,300	£166,300	£186,400	£211,500	£236,700
Family +4 children	£120,700	£133,500	£146,200	£163,200	£184,500	£205,700
Family +2 children	£104,000	£115,100	£121,600	£140,800	£159,300	£177,700
Family +1 children	£98,500	£108,900	£119,200	£133,000	£150,300	£167,600
Couple	£92,800	£103,200	£113,500	£127,400	£144,600	£161,900
Single person	£75,600	£80,700	£85,900	£92,800	£101,500	£110,100

In practice, no local authority is in ACG Band 1.

The Table below shows the maximum purchase price limits in each ACG Band as a percentage of the limit for a family with one child.

Table 13: Maximum purchase price limits as % of limit for family with one child

Family size	Band 1	Band 2	Band 3	Band 4	Band 5	Band 6
Family +5 children	138	139	140	140	141	141
Family +4 children	123	123	123	123	123	123
Family +2 children	106	106	102	106	106	106
Family +1 children	100	100	100	100	100	100
Couple	94	95	95	96	96	97
Single person	77	74	72	70	68	66

The relationship between the ACG limits for different sizes of property / household are reasonably consistent, with the exception of the limits for single people, which show a significant proportional decline as the ACG Band limit increases. In Blaenau Gwent, the only local authority area in ACG Band 2, a single person is eligible to buy a property worth 74% of the limit for a family with one child. However, in the areas in ACG Band 6 (Caerphilly, Cardiff, Monmouthshire, Newport, Rhondda Cynon Taf, Swansea and the Vale of Glamorgan), a single person is only eligible to buy a property worth 66% of the limit for a family with one child.

The application of ACG limits to open market purchases may not reflect the pattern of prices in the market. The ACG limits are intended to reflect the total cost of newbuild provision for households of different sizes in different parts of Wales. The ACG limits, therefore, reflect the relative costs of construction as well as land values between different housing markets. In any housing market, a significant proportion of the existing stock is likely to be available at prices below that of new construction, reflecting both

the physical depreciation of older property and the obsolescent character of older stock. In some cases, locations may be sufficiently unattractive as to attract no new housebuilding, and this will further depress the price of the existing stock in these areas.

In the case of new housebuilding, ACG limits are set for each Community Council in Wales, to reflect local circumstances. However, in the case of Homebuy, the ACG limits are set for each local authority area at the highest ACG Band found in that area. For example, in Ceredigion, there are 51 Community areas: 40 of these are in ACG Band 1, 10 are in ACG Band 2, and only one, Aberystwyth, is in ACG Band 3. The maximum purchase price in Ceredigion is, therefore, set at the ACG Band 3 level. In some cases, the degree of variation in ACG limits across the local authority area covers all six bands. An example of this is Rhondda Cynon Taf, where out of 37 Community areas, 4 are in ACG Band 1, 14 are in ACG Band 2, 8 are in ACG Band 3, 3 are in ACG Band 4, 6 are in ACG Band 5, and only one, Taffs Well, is in ACG Band 6. The maximum purchase price in Rhondda Cynon Taf is, therefore, set at the ACG Band 6 level.

Table 14: Maximum purchase prices in each local authority area 2005/06

	Highest ACG Band	Single person	Couple	Family +1 child	Family +2 or 3 children	Family +4 children	Family +5 children
Blaenau Gwent	2	£80,700	£103,200	£108,900	£115,100	£133,500	£151,300
Carmarthenshire	3	£85,900	£113,500	£119,200	£121,600	£146,200	£166,300
Ceredigion	3	£85,900	£113,500	£119,200	£121,600	£146,200	£166,300
Merthyr Tydfil	3	£85,900	£113,500	£119,200	£121,600	£146,200	£166,300
Neath Port Talbot	3	£85,900	£113,500	£119,200	£121,600	£146,200	£166,300
Pembrokeshire	3	£85,900	£113,500	£119,200	£121,600	£146,200	£166,300
Denbighshire	4	£92,800	£127,400	£133,000	£140,800	£163,200	£186,400
Gwynedd	4	£92,800	£127,400	£133,000	£140,800	£163,200	£186,400
Bridgend	5	£101,500	£144,600	£150,300	£159,300	£184,500	£211,500
Conwy	5	£101,500	£144,600	£150,300	£159,300	£184,500	£211,500
Flintshire	5	£101,500	£144,600	£150,300	£159,300	£184,500	£211,500
Isle of Anglesey	5	£101,500	£144,600	£150,300	£159,300	£184,500	£211,500
Powys	5	£101,500	£144,600	£150,300	£159,300	£184,500	£211,500
Torfaen	5	£101,500	£144,600	£150,300	£159,300	£184,500	£211,500
Wrexham	5	£101,500	£144,600	£150,300	£159,300	£184,500	£211,500
Caerphilly	6	£110,100	£161,900	£167,600	£177,700	£205,700	£236,700
Cardiff	6	£110,100	£161,900	£167,600	£177,700	£205,700	£236,700
Monmouthshire	6	£110,100	£161,900	£167,600	£177,700	£205,700	£236,700
Newport	6	£110,100	£161,900	£167,600	£177,700	£205,700	£236,700
Rhondda Cynon Taf	6	£110,100	£161,900	£167,600	£177,700	£205,700	£236,700
Swansea	6	£110,100	£161,900	£167,600	£177,700	£205,700	£236,700
The Vale of Glamorgan	6	£110,100	£161,900	£167,600	£177,700	£205,700	£236,700

Setting the maximum purchase price for Homebuy at the highest ACG Band in each local authority area creates anomalous results.

For example, in Ceredigion, the highest priced area is Aberystwyth, an urban centre surrounded by an otherwise largely rural county. If Aberystwyth were designated as urban, then the 30% equity share would apply, whereas in the rest of the otherwise rural county the 50% equity share would apply. Less assistance would be available in the area with the highest prices. It is unsurprising that the Council has decided to apply the 50% rate across the whole

county, irrespective of distinctions between 'urban' and 'rural'.

In Rhondda Cynon Taf, the combination of a Band 6 ACG limit and relatively low house prices across much of the area results in the maximum purchase price in Rhondda Cynon Taf being significantly in excess of the average (mean) house price in the area. A family with one child is eligible to buy a property over £70,000 more than the average house price of £96,700, while a family with two or three children is eligible to buy a property over £80,000 more than the average house price. Even a single person

in Rhondda Cynon Taf is eligible to buy a property over £13,000 more than the average house price of £96,700.

A single person purchasing a property with the maximum purchase price for a single person in Band 6 of £110,100, with a 30% equity share, would require a maximum mortgage (assuming that the applicant had no savings for a deposit) of £77,070. A mortgage loan using the income multipliers adopted by the Halifax would require an annual income of £17,125. In May 2006, the website of a local estate agent was offering over 40 two or three bedroom terraced or semi-detached houses in Rhondda Cynon Taf at less than £78,000, mainly in the areas of Ferndale, Tonypany and Treorchy.

It is not clear that the function of Homebuy is to enable house purchase in the most expensive, and presumably desirable, parts of an area.

Although data are available for the average price of houses sold in small areas at the postcode sector level (a postcode sector covers about 3,000 postal addresses), data for lower quartile prices are only available at the local authority level.

The table overleaf shows three measures of house prices in each local authority area.

- The first is the average price of all sales in the area that took place in 2005. The average price is the mean price, calculated by dividing the total value of all sales by the total number of sales.
- The second is the median price, the price of the property in the middle of the range of all prices. 50% of all prices are, therefore, at or below the mean price.
- The third price measure is the lower quartile price. This is the price of the property in the middle of the range between the median price and the lowest price. 25% of all prices are, therefore, at or below the lowest quartile price.

Table 15: House price measures by local authority area 2005

	Average (mean)	Median (50% of prices lower than)	Lower quartile (25% of prices lower than)
Blaenau Gwent	£85,410	£73,750	£59,000
Bridgend	£132,462	£116,000	£82,000
Caerphilly	£113,176	£100,000	£80,000
Cardiff	£170,114	£149,995	£120,000
Carmarthenshire	£136,385	£120,000	£86,000
Ceredigion	£167,240	£153,000	£120,000
Conwy	£160,386	£142,000	£105,000
Denbighshire	£138,287	£120,000	£95,250
Flintshire	£146,021	£127,000	£102,000
Gwynedd	£149,755	£130,000	£92,000
Isle of Anglesey	£155,524	£134,975	£90,000
Merthyr Tydfil	£89,166	£75,000	£58,500
Monmouthshire	£204,109	£176,250	£131,500
Neath Port Talbot	£105,675	£88,000	£70,000
Newport	£147,875	£127,750	£98,000
Pembrokeshire	£163,750	£146,000	£110,000
Powys	£163,744	£145,000	£105,000
Rhondda Cynon Taf	£96,711	£81,000	£58,000
Swansea	£137,629	£120,000	£87,000
The Vale of Glamorgan	£171,480	£141,250	£108,488
Torfaen	£118,678	£100,500	£84,000
Wrexham	£144,888	£125,000	£97,875
Wales	£141,908	£124,995	£89,000

The table overleaf shows the extent to which the maximum purchase price in each local authority area is above, or below, the mean, the median and the lower quartile price in each area.

A: ACG limit minus the average (mean) house price

B: ACG limit minus the median house price (50% of all house prices are below the median)

C: ACG limit minus the lower quartile house price (25% of all house prices are below the lower quartile).

The extent of the shaded areas in the table overleaf shows the extent to which property prices are above the ACG limits for each size of household.

Table 16: The range of property prices below the ACG limits in each local authority in 2005/06

Local Authority	ACG area	Single person (£s)	Couple (£s)	Family +1 child (£s)	Family +2 or 3 children (£s)	Family +4 children (£s)	Family +5 children (£s)
Blaenau Gwent	A	4,710	-17,790	-23,490	-29,690	-48,090	-65,890
	B	-6,950	-29,450	-35,150	-41,350	-59,750	-77,550
	C	-21,700	-44,200	-49,900	-56,100	-74,500	-92,300
Carmarthenshire	A	50,485	22,885	17,185	14,785	-9,815	-29,915
	B	34,100	6,500	800	-1,600	-26,200	-46,300
	C	100	-27,500	-33,200	-35,600	-60,200	-80,300
Ceredigion	A	81,340	53,740	48,040	45,640	21,040	940
	B	67,100	39,500	33,800	31,400	6,800	-13,300
	C	34,100	6,500	800	-1,600	-26,200	-46,300
Merthyr Tydfil	A	3,266	-24,334	-30,034	-32,434	-57,034	-77,134
	B	-10,900	-38,500	-44,200	-46,600	71,200	-91,300
	C	-27,400	-55,000	-60,700	-63,100	-87,700	-107,800
Neath Port Talbot	A	19,775	-7,825	-13,525	-15,925	-40,525	-60,625
	B	2,100	-25,500	-31,200	-33,600	-58,200	-78,300
	C	-15,900	-43,500	-49,200	-51,600	-76,200	-96,300
Pembrokeshire	A	77,850	50,250	44,550	42,150	17,550	-2,550
	B	60,100	32,500	26,800	24,400	-200	-20,300
	C	24,100	-3,500	-9,200	-11,600	-36,200	-56,300
Denbighshire	A	45,487	10,887	5,287	-2,513	-24,913	-48,113
	B	27,200	-7,400	-13,000	-20,800	-43,200	-66,400
	C	2,450	-32,150	-37,750	-45,550	-67,950	-91,150
Gwynedd	A	56,955	22,355	16,755	8,955	-13,445	-36,645
	B	37,200	2,600	-3,000	-10,800	-33,200	-56,400
	C	-800	-35,400	-41,000	-48,800	-71,200	-94,400

Table 16: (Continued)

Local Authority	ACG area		Single person (£s)	Couple (£s)	Family +1 child (£s)	Family +2 or 3 children (£s)	Family +4 children (£s)	Family +5 children (£s)
Bridgend	5	A	30,962	-12,138	-17,838	-26,838	-52,038	-79,038
		B	14,500	-28,600	-34,300	-43,300	-68,500	-95,500
		C	-19,500	-62,600	-68,300	-77,300	-102,500	-129,500
Conwy	5	A	58,886	15,786	10,086	1,086	-24,114	-51,114
		B	40,500	-2,600	-8,300	-17,300	-42,500	-69,500
		C	3,500	-39,600	-45,300	-54,300	-79,500	-106,500
Flintshire	5	A	44,521	1,421	-4,279	-13,279	-38,479	-65,479
		B	25,500	-17,600	-23,300	-32,300	-57,500	-84,500
		C	500	-42,600	-48,300	-57,300	-82,500	-109,500
Isle of Anglesey	5	A	54,024	10,924	5,224	-3,776	-28,976	-55,976
		B	33,475	-9,625	-15,325	-24,325	-49,525	-76,525
		C	-11,500	-54,600	-60,300	-69,300	-94,500	-121,500
Powys	5	A	62,244	19,144	13,444	4,444	-20,756	-47,756
		B	43,500	400	-5,300	-14,300	-39,500	-66,500
		C	3,500	-39,600	-45,300	-54,300	-79,500	-106,500
Torfaen	5	A	17,178	-25,922	-31,622	-40,622	-65,822	-92,822
		B	-1,000	-44,100	-49,800	-58,800	-84,000	-111,000
		C	-17,500	-60,600	-66,300	-75,300	-100,500	-127,500
Wrexham	5	A	43,388	288	-5,412	-14,412	-39,612	-66,612
		B	23,500	-19,600	-25,300	-34,300	-59,500	-86,500
		C	-3,625	-46,725	-52,425	-61,425	-86,625	-113,625
Caerphilly	6	A	3,076	-48,724	-54,424	-64,524	-92,524	-123,524
		B	-10,100	-61,900	-67,600	-77,700	-105,700	-136,700
		C	-30,100	-81,900	-87,600	-97,700	-125,700	-156,700

Table 16: (Continued)

Local Authority	ACG area		Single person (£s)	Couple (£s)	Family +1 child (£s)	Family +2 or 3 children (£s)	Family +4 children (£s)	Family +5 children (£s)
Cardiff	6	A	60,014	8,214	2,514	-7,586	-35,586	-66,586
		B	39,895	-11,905	-17,605	-27,705	-55,705	-86,705
		C	9,900	-41,900	-47,600	-57,700	-85,700	-116,700
Monmouthshire	6	A	94,009	42,209	36,509	26,409	-1,591	-32,591
		B	66,150	14,350	8,650	-1,450	-29,450	-60,450
		C	21,400	-30,400	-36,100	-46,200	-74,200	-105,200
Newport	6	A	37,775	-14,025	-19,725	-29,825	-57,825	-88,825
		B	17,650	-34,150	-39,850	-49,950	-77,950	-108,950
		C	-12,100	-63,900	-69,600	-79,700	-107,700	-138,700
Rhondda Cynon Taf	6	A	-13,389	-65,189	-70,889	-80,989	-108,989	-139,989
		B	-29,100	-80,900	-86,600	-96,700	-124,700	-155,700
		C	-52,100	-103,900	-109,600	-119,700	-147,700	-178,700
Swansea	6	A	27,529	-24,271	-29,971	-40,071	-68,071	-99,071
		B	9,900	-41,900	-47,600	-57,700	-85,700	-116,700
		C	-23,100	-74,900	-80,600	-90,700	-118,700	-149,700
The Vale of Glamorgan	6	A	61,380	9,580	3,880	-6,220	-34,200	-65,220
		B	31,150	-20,650	-26,350	-36,450	-64,450	-95,450
		C	-1,613	-53,413	-59,113	-69,213	-97,213	-128,213

The table shows the use of the highest ACG limit within each local authority area as the upper limit for purchase through Homebuy creates an uneven pattern of eligibility between different local authority areas.

The areas in which a significant part of the market is above the relevant ACG limit are all rural: Ceredigion, Pembrokeshire, Carmarthenshire, Monmouthshire, Gwynedd and Powys. In Ceredigion, a family with one child would not be eligible to buy a house at the lowest quartile price, and while larger families would theoretically be eligible to buy a house in the lowest quartile, it is unlikely that many larger, suitable properties are to be found in the bottom quarter of the market.

In contrast, in urban areas almost the whole market is available to prospective purchasers: in Rhondda Cynon Taf, all sectors of the market are within the ACG limits, while in both Blaenau Gwent and Merthyr Tydfil, only single people would be ineligible to buy a house at the average house price (although in both cases a single person would be eligible to buy a house at or above the mid-point of the market).

Conclusions

The current Homebuy scheme uses the Acceptable Cost Guideline (ACG) limits, which are used to control the costs of new housebuilding by housing associations, as the maximum purchase price for properties bought using Homebuy.

However, the application of ACG limits to open market purchases may not reflect the pattern of prices in the market. In any housing market, a significant proportion of the existing stock is likely to be available at prices below that of new construction, reflecting both the physical depreciation of older property and the obsolescent character of older stock.

Although ACG limits for new housebuilding are set for every Community Council area in Wales, to reflect local circumstances, the ACG limits used for Homebuy are set across each local authority area at the highest ACG Band found in that area. In Rhondda Cynon Taf, for example, the ACG limit is set at the level of the highest Band, Band 6, even though most of the county borough is covered by lower ACG bands.

The use of ACG limits as the limits for Homebuy purchases results in large anomalies between different local authority areas. At one extreme, in Rhondda Cynon Taf, a family with one child is eligible to buy a property worth £70,000 more than the average (mean) property price in the area, whereas at the other extreme, in Ceredigion, a family with one child would only be able to purchase a property in the bottom quarter of the market.

Chapter 7 - Homebuy: stock and subsequent sales

Introduction

This chapter examines the statistics of Homebuy loans and purchases, and provides estimates of the extent to which homes purchased with the assistance of Homebuy have subsequently been sold, and the resulting financial consequences for housing associations administering the scheme.

The Homebuy programme

The table below shows the number of Homebuy units (both purpose built and

DIY) in each local authority area between 1998/99 and 2004/05, in which housing associations retained an equity stake.

The figures are taken from the annual statistical returns made by each housing association, on the RSL1 form. In both 1998/99 and 1999/00, a few housing associations either did not submit a return, or their returns contained obvious discrepancies. These have been adjusted, where obvious, to give the 'Adjusted total' of stock in the bottom line of the Table.

Table 17: RSL 1 returns: Stock at 31 March

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Isle of Anglesey	18	19	31	51	80	98	106
Blaenau Gwent	53	39	27	48	22	20	34
Bridgend	20	71	76	96	88	92	81
Caerphilly	85	82	79	89	102	101	111
Cardiff	77	254	247	240	212	199	216
Carmarthenshire	76	93	64	57	58	65	67
Ceredigion	46	38	42	73	90	107	108
Conwy	82	113	90	95	105	136	130
Denbighshire	89	101	86	91	95	103	111
Flintshire	107	92	117	123	107	117	118
Gwynedd	61	63	84	125	163	179	195
Merthyr Tydfil	21	27	26	25	18	15	13
Monmouthshire	29	31	27	24	25	33	68
Neath Port Talbot	73	65	63	61	58	53	47
Newport	116	104	96	89	101	115	130
Pembrokeshire	83	83	98	97	116	115	139
Powys	33	31	29	29	42	54	60
Rhondda Cynon Taf	95	110	105	103	95	72	63
Swansea	290	286	283	273	239	220	173
Torfaen	39	36	32	28	38	50	47
Vale of Glamorgan	9	66	64	60	57	46	76
Wrexham	55	56	51	50	48	48	47
Total	1157	1860	1817	1927	1959	2038	2140
Adjusted total*	1867	1893					

* 1998/99 310 units added (no return by Hafod Housing Association, owning 310 units in 1999/00)
1999/00 30 units added (no return by Mid Wales Housing Association (8 units) and United Welsh Housing Association (12 units), 10 units appear to be omitted from Cantref Housing Association return)

The table shows that the total numbers of Homebuy units remaining in which housing associations still hold an equity stake have only increased by 273 over the six year period.

The Homebuy programme 1999/00 to 2003/04

Over the six years, 897 additional Homebuy units have been provided utilising SHG, at a cost of some £17.5m in grant.

The table below shows the distribution of these additional Homebuy units in each local authority area by year of acquisition.

Table 18: Welsh Assembly Government statistics: Homebuy units provided with Social Housing Grant

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	TOTAL
Isle of Anglesey	1	11	26	34	22	4	98
Blaenau Gwent							0
Bridgend		15					15
Caerphilly		13	17	16	19	7	72
Cardiff			20	11			31
Carmarthenshire				12	9	11	32
Ceredigion			25	45	14	16	100
Conwy	5	5	12	19	20	17	78
Denbighshire			6	11	11	10	38
Flintshire	12	10	9	7	5	6	49
Gwynedd	3	22	49	54	31	21	180
Merthyr Tydfil						5	5
Monmouthshire			1	3	10		14
Neath Port Talbot			2				2
Newport					13	7	20
Pembrokeshire			15	33	11	13	72
Powys			3	13	6	6	28
Rhondda Cynon Taf						8	8
Swansea			2		7	5	14
Torfaen		15		1	15		31
Vale of Glamorgan					3		3
Wrexham			1	1		5	7
Total	21	91	188	260	196	141	897

The subsequent sale of Homebuy properties

It is clear that a significant number of Homebuy dwellings have either been staircased to 100% ownership, voluntarily sold on the open market, or sold by

the mortgagor following repossession. The table below gives an estimate of the number of Homebuy units that have been lost to the Low Cost Home Ownership market in these ways.

The table shows that 100% sales in the six years between 1999/00 and 2004/05 have amounted to nearly one third of the total Homebuy stock of 1,867 units that existed at the end of 1998/99, and between a fifth and a quarter (22.1%) of the total stock of 2,746 units that had been funded by the end of 2004/05.

The estimate of 606 100% sales from the Homebuy stock amounts to over two thirds (67%) of all the 897 additional units provided under the programme since 1999/00.

Table 19

	(Adjusted) base stock at end 1998/99	Additional units 1999/00 to 2004/05	Base stock plus additional units	Actual stock at end 2004/05	Implied 100% sales	Implied sales as % of total provision	Implied sales as % of base stock
Merthyr Tydfil	27	5	32	13	19	59.4	70.4
Rhondda Cynon Taf	111	8	119	63	56	47.1	50.5
Swansea	290	14	304	173	131	43.1	45.2
Carmarthenshire	76	32	108	67	41	38.0	53.9
Neath Port Talbot	73	2	75	47	28	37.3	38.4
Blaenau Gwent	53	0	53	34	19	35.8	35.8
Torfaen	39	31	70	47	23	32.9	59.0
Caerphilly	85	72	157	111	46	29.3	54.1
Ceredigion	46	100	146	108	38	26.0	82.6
Flintshire	107	49	156	118	38	24.4	35.5
Cardiff	254	31	285	216	69	24.2	27.2
Wrexham	55	7	62	47	15	24.2	27.3
Gwynedd	61	180	241	195	46	19.1	75.4
Conwy	82	78	160	130	30	18.8	36.6
Denbighshire	89	38	127	111	16	12.6	18.0
Pembrokeshire	83	72	155	139	16	10.3	19.3
Isle of Anglesey	18	98	116	106	10	8.6	55.6
Bridgend	71	15	86	81	5	5.8	7.0
Newport	118	20	138	130	8	5.8	6.8
Powys	33	28	61	60	1	1.6	3.0
Vale of Glamorgan	67	3	70	76	-6	-8.6	-9.0
Monmouthshire	29	14	43	68	-25	-58.1	-86.2
Total	1840	897	2737	2140	597	21.8	32.4

Note: Table sorted in descending order of sales as % of total provision. There are discrepancies in the figures available for Vale of Glamorgan and Monmouthshire, where the reported stock in 2004/05 appears to more than the total of the stock held in 1998/99 plus subsequent provision.

The highest proportion of sales appears to have occurred in the more urban areas, with only Ceredigion among the rural areas appearing in the top half of the table. The more rural areas all appear to have experienced a lower proportion of subsequent sales, but this may simply reflect the later development of the Homebuy programme in rural areas.

The table also implies that a significant proportion of 100% sales occur within three, if not two, years of the original Homebuy purchase. Sales in areas that had small Homebuy stocks at the end of 1998/99, such as the Isle of Anglesey, Caerphilly, Ceredigion, Gwynedd and Torfaen, but which have expanded rapidly since, show 100% sales as a relatively low proportion of the stock accumulated by the end of 2004/05, but a very high proportion of the stock that existed at the end of 1998/99, implying that a significant number of 100% sales have come from the Homebuy stock purchased between 1999/00 and 2004/05.

For example, in Gwynedd, the Homebuy stock was only 61 units in 1998/99; 180 additional units were provided using SHG over the next six years (61 + 180 = 241), but the stock remaining at the end of 2004/05 was only 195, implying that 46 properties have become 100% sales over the six year period.

It is not known how many Homebuy properties became 100% sales prior to 1999/00, but the volume of sales after that year has presumably been influenced by the turn in the housing market cycle and the rapid price increases that have been experienced since.

The subsequent sale of Homebuy properties: policy implications

In policy terms, it is not clear that the rapid resale of properties purchased under the Homebuy scheme is achieving the main objectives of the scheme:

- *To help meet the need for affordable housing in areas of shortage by assisting people who would otherwise have priority for social housing to buy a home on the market.*
- *To help create balanced communities by offering tenure options to residents of new and existing social housing developments.*

An unknown proportion of 100% sales will be the result of the owner purchasing the outstanding equity stake. However, if a significant proportion of 100% sales are of recently purchased properties, in rural areas, utilising the 50% equity stake available under the rural Homebuy scheme, it would seem improbable that owners would be in a financial position to purchase the remaining equity stake within a few years of the original purchase. In a rising market, in which prices have doubled between 2000 and 2004, the value of the remaining equity stake will also have doubled, whereas incomes on average have only risen by some 25% over the same period.

The above estimate of 100% sales numbers suggests that an important effect of the Homebuy scheme is to enable Homebuy purchasers to trade up in the market within a short period of their initial purchase.

However, the resale of a home originally purchased under the Homebuy scheme does not cause any loss from the public expenditure point of view, since the original SHG required is repaid on resale. In a rising market, there may be a substantial

gain to the sponsoring housing association from the increase in value (or price) of the equity share.

Increases in value and repayment of equity loans

The estimate given in the table above, that some 585 Homebuy properties have been subsequently sold in the five years from 1999/00 to 2003/04, implies that a substantial repayment of equity loans has taken place. The dates at which these properties were first purchased are not known, but if the average Homebuy equity loan was just under £20,000 in 2000/01, this suggests that somewhere between £10-£12 million in SHG might have been repaid, and recycled, over the five year period.

Given the rapid rise in house prices that has occurred since 2000, it is likely that the value of the average equity share in a sold Homebuy property will also have increased. If the average equity share had increased in value to £30,000, this would imply that between £5-£6 million may have been repaid to housing associations over and above the repayments of the original equity share funded by SHG.

The subsequent sale and repurchase of Homebuy properties

At present, there is no requirement for housing associations to repurchase properties previously sold on LCHO terms⁵.

The Assisted Home Ownership Procedure Guide allows for properties to be repurchased:

32.2 Any property currently provided on LCHO terms may be repurchased with SHG or Recycled Capital Grant where the local authority has

confirmed this as a housing priority and has made provision within the agreed development programme.

32.3 Any property currently provided on LCHO terms which was previously provided through housing for rent procedures may be repurchased with Recycled Capital Grant without reference to the local authority.

The conditions in para. 32.2 of the Guide would appear to apply to DIY Homebuy, and those in para. 32.3 to any Homebuy sales under the 'tenure neutral' approach to purpose built stock.

The conditions, particularly those in para. 32.2, appear to be so restrictive as to be of little practical benefit. The resale, by the owner occupier, of a property purchased under the Homebuy scheme is unlikely to be predictable, and certainly unlikely to be known sufficiently far in advance for a local authority to include a contingency sum in its Approved Development Programme (ADP) bid for the following financial year.

However, the growth of the rural Homebuy scheme over the past five years, and its linkage to the policy desire to enable local people both to stay in their communities and to become owner occupiers, implies that the properties purchased through the Homebuy scheme should not become available for subsequent sale on the open market, potentially to 'outsiders' and in-migrants, and thereby nullifying the purpose, and application, of the rural Homebuy scheme.

Conclusions

In 1998/99, housing associations held an equity stake in 1,867 homes purchased

⁵ Assisted Home Ownership Procedure Guide (Consultation Draft) National Assembly for Wales, December 2001, para. 32.1.

with the assistance of Homebuy. Since 2004/5, a further 897 additional homes had been purchased with the assistance of Homebuy.

However, it is also clear the turnover, or resale, of properties purchased with the assistance of Homebuy is relatively high. Over the same period, 606 homes originally purchased with the assistance of Homebuy had been sold, and the equity loan redeemed.

In a rising market, there have been substantial gains to both the original purchaser and to the housing association which made the original Homebuy loan. The chapter estimates that between £5-£6 million has probably been repaid to housing associations over and above the repayments of the original equity share funded by SHG. These funds are available

to housing associations to recycle into further Homebuy loans, or to apply to any of their approved functions.

Since it appears unlikely that house prices will increase over the next ten years at the same rate as in the last ten, more recent Homebuy loans by housing associations are unlikely to result in similar surpluses on repayment.

At present, there are no restrictions placed on Homebuy purchasers when they come to sell their homes. This appears anomalous, particularly in rural areas, where the assistance of Homebuy may have been restricted to prospective purchasers with a local connection. At present, such purchasers are free to sell the property on the open market, without any similar restriction on its resale.

Chapter 8 - The Homebuy programme: a shift from urban to rural

Introduction

This chapter examines the changing geography of the Homebuy scheme since 1998/99 and the present, and the rapid growth of the programme in rural areas over this period.

The geography of Homebuy

The six years from 1999/00 to 2004/05 saw a very significant shift in the geography of the Homebuy programme.

In 1998/99, the majority of the Homebuy stock was held by essentially urban local authorities. The nine rural counties had a total stock of 517 units, or just over a quarter (28%) of the total. By 2004/05, the nine rural counties had a total stock of 984 units, or nearly half (46%) of the national total.

The table below shows the changes in the ranking order of local authorities by the size of their Homebuy stock.

Table 20: Changes in local authority Homebuy stocks 1998/99 to 2004/05

Local authorities ranked in descending order	(Adjusted) base stock at end 1998/99	Rises and falls	Local authorities ranked in descending order	Actual stock at end 2004/05
Swansea	290		Cardiff	216
Cardiff	254		Gwynedd	195
Newport	118		Swansea	173
Rhondda Cynon Taf	111		Pembrokeshire	139
Flintshire	107		Conwy	130
Denbighshire	89		Newport	130
Caerphilly	85		Flintshire	118
Pembrokeshire	83		Caerphilly	111
Conwy	82		Denbighshire	111
Carmarthenshire	76		Ceredigion	108
Neath Port Talbot	73		Isle of Anglesey	106
Bridgend	71		Bridgend	81
Vale of Glamorgan	67		Vale of Glamorgan	76
Gwynedd	61		Monmouthshire	68
Wrexham	55		Carmarthenshire	67
Blaenau Gwent	53		Rhondda Cynon Taf	63
Ceredigion	46		Powys	60
Torfaen	39		Neath Port Talbot	47
Powys	33		Torfaen	47
Monmouthshire	29		Wrexham	47
Merthyr Tydfil	27		Blaenau Gwent	34
Isle of Anglesey	18		Merthyr Tydfil	13
Total	1867		Total	2140

Source: RSL 1 Part 4 returns

Note: The 2004/05 figure for Swansea appears to be low.

All the local authorities whose position in the ranking has risen are rural, with the exception of Torfaen. Among rural local authorities, only Carmarthenshire had a lower ranking in 2003/04 than in 1998/99.

The table below shows the actual and percentage change in the stock of each local authority that occurred between 1998/99 and 2004/05.

Table 21: Adjusted RSL1 returns: Homebuy stock at 31 March

	1998/99	2004/05	Increase (decrease)	Percentage
Isle of Anglesey	18	106	88	489
Gwynedd	61	195	134	320
Ceredigion	46	108	62	235
Monmouthshire	29	68	39	234
Powys	33	60	27	182
Pembrokeshire	83	139	56	167
Conwy	82	130	48	159
Caerphilly	85	111	26	131
Denbighshire	89	111	22	125
Torfaen	39	47	8	121
Bridgend	71	81	10	114
Vale of Glamorgan	67	76	9	113
Flintshire	107	118	11	110
Newport	118	130	12	110
Carmarthenshire	76	67	9	88
Wrexham	55	47	-8	85
Cardiff	254	216	-38	85
Neath Port Talbot	73	47	-26	64
Blaenau Gwent	53	34	-19	64
Swansea	290	173	-117	60
Rhondda Cynon Taf	111	63	-48	57
Merthyr Tydfil	27	13	-14	48
Total	1849	2140	291	116

Source: RSL 1 Part 4 returns

All the local authorities which have increased their net holdings of Homebuy stock by more than 25% are rural.

A number of urban local authorities, Torfaen, Bridgend, Vale of Glamorgan, Flintshire, and Newport, have marginally

increased their stock. All the local authorities with a smaller Homebuy stock in 2004/05 than in 1998/99 are urban, with the exception of Carmarthenshire. Carmarthenshire is the only rural local authority which had a smaller Homebuy stock in 2004/05 than in 1998/99.

The rapid increases in the Homebuy stock, even after the effect of 100% sales is taken into account, is notable, especially in Monmouthshire and Ceredigion (more than doubling), Gwynedd (nearly trebling) and Isle of Anglesey (more than quintupling).

Similarly, the effect of 100% sales in diminishing net holdings of Homebuy stock is clearly seen in the declines which have occurred in the urban counties. Between 1998/99 and 2004/05, only Cardiff among the urban authorities funded any significant number of Homebuy units (31). Otherwise, Swansea, Neath Port Talbot and Wrexham each funded 2, while the remainder funded no additional Homebuy units during these years.

The table below shows the Homebuy programme, funded by SHG, for each local authority over the three years 2003/04 to 2005/06.

Table 22: Homebuy units provided with Social Housing Grant 2003/04 to 2005/06

	2003/04	2004/05	2005/06	Total
Gwynedd	31	24	33	88
Isle of Anglesey	22	11	39	72
Monmouthshire	10	34	8	52
Conwy	20	11	15	46
Pembrokeshire	11	14	18	43
Caerphilly	19	14	10	43
Swansea	7	19	15	41
Ceredigion	14	9	18	41
Cardiff	0	34	0	34
Denbighshire	11	8	12	31
Torfaen	15	1	12	28
Newport	13	5	10	28
Carmarthenshire	9	7	12	28
Powys	6	5	8	19
Rhondda Cynon Taf	0	0	15	15
Merthyr Tydfil	0	1	12	13
Flintshire	5	3	4	12
Blaenau Gwent	0	2	6	8
Wrexham	3	0	0	3
Vale of Glamorgan	0	0	0	0
Neath Port Talbot	0	0	0	0
Bridgend	0	0	0	0
Total	196	202	247	645

Source: data supplied by WAG

The three latest years of the Homebuy programme have seen nearly half the programme developed by five rural counties: Gwynedd, Isle of Anglesey, Monmouthshire, Conwy and Pembrokeshire. If the programmes in the other four rural counties, Ceredigion, Carmarthenshire, Denbighshire and Powys are included, then two thirds of the Homebuy programme has been developed by rural local authorities.

The reappearance of Homebuy as a constituent of urban local authority

Approved Development Programmes, particularly for the programmes proposed for 2005/06, is seen in Rhondda Cynon Taf, Merthyr Tydfil and Blaenau Gwent.

As a consequence of these geographic shifts in local authority programmes, the pattern of Homebuy stock in which housing associations have an equity stake also changed.

The table below shows the consequences of these geographic shifts for housing association Homebuy stocks.

Table 23: Homebuy stock at 31 March 2005 as % of Homebuy stock at 31 March 1999

	1998/99	2004/05	Increase (decrease)	Percentage
Gwerin (Cymru) Housing Association	8	54	46	675
Cymdeithas Tai Cantref	24	130	106	542
Cymdeithas Tai Eryri Cyf	100	324	224	324
Mid Wales Housing Association	10	29	19	290
United Welsh Housing Association	13	27	14	208
Cymdeithas Tai Clwyd	106	168	62	158
Newydd Housing Association (1974)	47	64	17	136
Pembrokeshire Housing Association	85	115	30	135
Clwyd Alyn Housing Association	190	201	11	106
North Wales Housing Association	17	17	0	100
Charter Housing Association	226	210	-16	93
Hafod Housing Association	310	279	-31	90
Bro Myrddin Housing Association	58	46	-12	79
Glamorgan & Gwent Housing Association	164	124	-40	76
Newtown Housing Association	29	20	-9	69
Wales and West Housing Association	8	5	-3	63
Gwalia Housing Group	287	176	-111	61
Swansea Housing Association	138	79	-59	57
Cynon Taf Housing Association	18	9	-9	50
Rhondda Housing Association	10	2	-8	20
Cymdeithas Tai Dewi Sant	0	2	2	n/a
Gwent Homes Ltd	0	9	9	n/a
Merthyr Tydfil Housing Association	-	1	1	n/a
Newport Housing Trust Limited	0	49	49	n/a
Total Homebuy Stock	1848	2140	292	116

Source: RSL 1 Part 4 returns

Nearly all the housing associations which have significantly increased their net holdings of Homebuy stock over the five year period are operating in the rural counties. The only exceptions to this are United Welsh, which funded 15 units in Caerphilly in 2002/03, Newport Housing Trust which has been funding Homebuy sales since 2001/02 as part of a tenure diversification policy, and the marginal numbers of units funded by Gwent Homes and Dewi Sant.

As a consequence, the holder of the largest number of Homebuy equity stakes is

now Eryri, overtaking Hafod and Gwalia which had the largest stocks in 1999/00. The Homebuy stock of Hafod has shrunk by a net 10% in the five years, from 310 to 279, while the stock of Gwalia has shrunk significantly from 287 to 176, a fall of 61% in six years. Charter is now the third largest Homebuy stock holder after Hafod, with 210 units.

The provision of new Homebuy units through the Approved Development Programme

The Approved Development Programme for 2005/06 is set out in the table below.

Table 24: Approved Development Programme 2005/06

	Proposed total new units	Of which, Homebuy	Homebuy as % of new units	Total SHG (£s)	Of which, Homebuy (£s)	Homebuy as % of SHG	Homebuy SHG per unit (£s)
Isle of Anglesey	39	6	15.4	2159	250	11.6	41,667
Blaenau Gwent	13	6	46.2	498	150	30.1	25,000
Bridgend	45	0	0.0	2587	0	0.0	n/a
Caerphilly	71	10	14.1	2737	300	11.0	30,000
Cardiff	412	0	0.0	12223	0	0.0	n/a
Carmarthenshire	67	12	17.9	3202	500	15.6	41,667
Ceredigion	31	18	58.1	1228	500	40.7	27,778
Conwy	28	15	53.6	1846	500	27.1	33,333
Denbighshire	68	12	17.6	1990	484	24.3	40,333
Flintshire	68	4	5.9	2900	200	6.9	50,000
Gwynedd	53	33	62.3	2414	1200	49.7	36,364
Merthyr Tydfil	19	12	63.2	680	275	40.4	22,917
Monmouthshire	38	8	21.1	1998	484	24.2	60,500
Neath Port Talbot	67	0	0.0	4606	0	0.0	n/a
Newport	61	10	16.4	4226	540	12.8	54,000
Pembrokeshire	155	18	11.6	4517	550	12.2	30,556
Powys	55	8	14.5	2774	480	17.3	60,000
Rhondda Cynon Taf	48	15	31.3	2628	450	17.1	30,000
Swansea	332	15	4.5	4979	300	6.0	20,000
Torfaen	48	12	25.0	2546	550	21.6	45,833
Vale of Glam	62	0	0.0	2193	0	0.0	n/a
Wrexham	17	0	0.0	1240	0	0.0	n/a
Total	1797	214	11.9	66171	7713	11.7	36,042

Note: The table does not include the numbers of units, nor the SHG, where these are last tranche grant payments on Practical Completion.

The Homebuy programme only includes DIY Homebuy, for the purchase of existing properties already in the private market. The 'tenure neutral' policy of the Assembly means that any of the 1,214 units for general needs or low demand/regeneration programmes may be offered by housing associations for purchase through the Homebuy scheme.

However, it appears local authorities and housing associations have generally not yet developed operational policies to offer properties on a 'tenure neutral' basis. Most appear, in practice, to be maintaining separate funding streams and waiting lists for general needs renting and Homebuy developments.

61% of the Homebuy DIY programme was proposed in the nine predominantly rural counties: Isle of Anglesey, Carmarthenshire, Ceredigion, Conwy, Denbighshire, Gwynedd, Monmouthshire, Pembrokeshire and Powys. The Homebuy DIY programme forms a significant proportion of all

additional housing provision in three of these: Gwynedd (62%), Ceredigion (58%) and Conwy (54). Using SHG to support DIY Homebuy forms a substantial proportion of the total SHG programme in Gwynedd (50%) and Ceredigion (41%).

However, in four urban authorities with programmes for small numbers of additional units, a high proportion of the additional new units is also proposed through DIY Homebuy: Merthyr Tydfil (63%), Blaenau Gwent (46%), Rhondda Cynon Taf (31%) and Torfaen (25%). The use of SHG to support DIY Homebuy is 40% of the ADP in Merthyr Tydfil and 30% in Blaenau Gwent.

All four of these authorities are also characterised by the existence of low house prices.

The table overleaf compares each local authority's decision on the size of its Homebuy programme, and its priority for SHG resources, with the lower quartile house price in that area in 2005.

Table 25: Homebuy programmes compared to average lower quartile house prices in 2005

	Total Homebuy units 2003/04 to 2005/06	Homebuy as % of SHG in 2005/06	Average lower quartile house price 2005	
Gwynedd	88	50	92,000	Gwynedd
Isle of Anglesey	72	12	90,000	Isle of Anglesey
Monmouthshire	52	24	131,500	Monmouthshire
Conwy	46	27	105,000	Conwy
Caerphilly	43	11	80,000	Caerphilly
Pembrokeshire	43	12	110,000	Pembrokeshire
Ceredigion	41	41	120,000	Ceredigion
Swansea	41	6	87,000	Swansea
Cardiff	34	0	120,000	Cardiff
Denbighshire	31	24	95,250	Denbighshire
Carmarthenshire	28	22	86,000	Carmarthenshire
Newport	28	13	98,000	Newport
Torfaen	28	16	84,000	Torfaen
Powys	19	17	105,000	Powys
Rhondda Cynon Taf	15	17	58,000	Rhondda Cynon Taf
Merthyr Tydfil	13	40	58,500	Merthyr Tydfil
Flintshire	12	7	102,000	Flintshire
Blaenau Gwent	8	30	59,000	Blaenau Gwent
Wrexham	3	0	97,875	Wrexham
Bridgend	0	0	82,000	Bridgend
Neath Port Talbot	0	0	70,000	Neath Port Talbot
Vale of Glamorgan	0	0	108,488	Vale of Glamorgan
Wales	645	12	89,000	WALES

Source: ODPM, Housing Statistics Live Tables, Table 587 and Welsh Assembly Government data.

Notes:

1. The lower quartile price is defined by ODPM as the median of the lower half of all house prices: a quarter of all houses are, therefore, lower in price than the figures in the table.

The Homebuy programmes in the three lowest priced areas, Rhondda Cynon Taff, Blaenau Gwent and Merthyr Tydfil appear particularly anomalous. It is not clear that additional assistance for house purchase is required when house prices are low in relation to incomes.

For example, a single person in full time work, working 39 hours per week at the Minimum Wage (£5.05 from October 2005) would have an annual income of £10,241, and could borrow (at 3.5 times annual income, the current maximum income multiple offered by the Principality Building Society) £35,800. A 10% deposit would, in theory, give such an individual a choice of 25% of the housing market in Merthyr Tydfil.

Conclusions

The six years from 1999/00 to 2004/05 saw a very significant shift in the geography of the Homebuy programme.

In 1998/99, the majority of the Homebuy stock was held by essentially urban local authorities. The nine rural counties had a total stock of 517 units, or just over a quarter of the total. By 2004/05, the nine rural counties had a total stock of 984 units, or nearly half of the national total.

The three latest years of the Homebuy programme have seen nearly half the programme developed by five rural counties: Gwynedd, Isle of Anglesey, Monmouthshire, Conwy and Pembrokeshire. If the programmes in the other four rural counties, Ceredigion, Carmarthenshire, Denbighshire and Powys are included, then two thirds of the Homebuy programme has been developed by rural local authorities.

As a consequence of these geographic shifts in local authority programmes, the pattern of Homebuy stock in which

housing associations have an equity stake also changed. Nearly all the housing associations which have significantly increased their net holdings of Homebuy stock over the five year period are operating in the rural counties.

Although the Assembly's 'tenure neutral' policy would allow any of the 1,200 newbuild units for general needs or low demand/regeneration to be bought using Homebuy, it appears that local authorities and housing associations have generally not yet developed operational policies to offer properties on a 'tenure neutral' basis. Most appear, in practice, to be maintaining separate funding streams and waiting lists for general needs renting and Homebuy developments.

The extent of recent house price increases appears to have stimulated a renewed interest in Homebuy among urban local authorities, although it is not clear that additional assistance for house purchase is required in areas where house prices are low in relation to incomes.

Chapter 9 - The characteristics of Homebuy purchasers

Introduction

This chapter examines the characteristics of the households that have bought with the assistance of Homebuy, and the way in which the type of households assisted by the programme appear to have changed since its inception.

The sample of Homebuy purchasers

An element of the project examined individual case files of Homebuy purchasers in order to collect data on a range of topics, including:

- Current and former address (to estimate the distance moved)
- Former tenure
- Household type
- Employment and occupation(s)
- Household income, and source of income, and details of any savings
- The financing of the purchase through savings, mortgage and equity share.

In all, some 250 files were examined, from five housing associations and a local authority, reflecting different aspects of the Homebuy and LCHO programmes:

- Charter and Hafod (urban, 30% Homebuy, active since 1995)
- Cantref and Eryri (rural, predominantly 50% Homebuy)
- Cardiff (local authority, predominantly S106 funding)
- Clwyd Alyn (continuing programme of Shared Ownership, internally funded)

The selection of files was designed to give a coverage of different approaches, rather

than to be a statistically representative sample of purchasers. Nevertheless, the number of files examined in relation to the overall size of the programme, gives a reasonable spread of examples.

There is no standardised method used by housing associations or local authorities to collect information on prospective purchasers. Each organisation has developed its own method, having general regard to the requirement in the Welsh Assembly Government *Assisted Home Ownership Procedure Guide (Draft)* requiring RSLs to carry out a financial assessment of applicant eligibility.

Some organisations collected very little information, relying mainly on the assessments made by mortgage lenders. Others collected data on gross earnings, and used an income multiple approach to assess financial viability. Others adopted a 'cashflow' approach, and collected data on net earnings and expenditure. Some collected data on other sources of income, such as child benefit, child maintenance payments and income from Tax Credits, while others did not.

The quality of information on individual files was of variable quality, with key items of information often omitted, or unclear (confusion between gross and net earnings, between weekly and monthly pay, and between variable elements of pay such as bonus and overtime, was common).

Nevertheless, the data collected gives a reasonably clear picture of the households that have been assisted by Homebuy, and some clear differences between the types of households that are being assisted in different parts of Wales emerged.

The changing characteristics of Homebuyers over ten years

When Homebuy was introduced, in 1995, the average price of houses bought by first time purchasers was £38,336, and the average weekly earnings of full time male workers were £321. By 2005, the average price of houses bought by first time purchasers was £107,857, an increase of 281%, and the average weekly earnings of full time male workers were £462, an increase of 44%.

Since the Homebuy scheme has remained unaltered in urban areas over the ten year period, offering prospective purchasers a 30% equity share, it is clear that either the incomes of purchasers must rise by more than the increase in average earnings, or that the price of property purchased using Homebuy must fall very significantly relative to the average price of houses in the market.

In practice, the average price of a house purchased using Homebuy has remained very close to the average for all first time buyers, although the type of house purchased has changed significantly. The most significant change, however, has been in the type of household purchasing through Homebuy.

The characteristics of Homebuy purchasers in 1995 and in 2005 can be compared from data obtained from a sample of files of sales administered by Charter Housing Association (currently by Fairlake Properties Ltd., a member of the Seren Group).

In this sample, the early Homebuyers⁶ in 1995 bought houses with an average price of £42,650, slightly higher than the average for all first time buyers in Wales, although the Charter

programme is concentrated in Newport, Monmouthshire and Torfaen, which may account for the difference. By 2005, Homebuyers were purchasing houses with an average price of £107,228, or almost exactly the same as the average for first time buyers in Wales. The average price had, therefore, increased by 251%.

Total household incomes in the sample had also risen, from an average of £11,732 in 1995 to an average of £27,412 in 2005, an increase of 241%, slightly less than the increase in house prices, but significantly more than the increase in average earnings over the period of 144%.

The average income multiple had risen slightly, from 2.58% in 1995 to 2.68% in 2005, and this enabled the purchasers to continue to buy 70% of the increased house average house price.

The type of household assisted by Homebuy had also changed markedly between 1995 and 2005. In 1995, 50% of the sample were either single people (all female) or single parents. By 2005, the proportion of purchasers who were single people, or single parents, had shrunk to 20%, and the single people were all male.

This shift in household type resulted in a sharp increase in the proportion of households with two earners. In 1995, 70% of purchasing households had only one earner. By 2005, 70% of purchasing households had two earners. In 1995, just over half of the couple households had either a non-earning partner, or a partner in only part-time employment. By 2005, less than 10% of couple households had a non-earning partner, and less than 10% had a partner in part-time work.

6 'Homebuyer', with a capital letter, is used to refer to purchasers using the Homebuy scheme.

This shift reflects not only an increased proportion of women in work, but also the necessity of two incomes to support house purchase. Out of eighteen couples where both members were in work, 7 had roughly equal incomes for each partner, while in eleven cases one partner earned twice as much or more than the other. The equality, or disparity, of incomes can affect the amount borrowed, dependent upon the policy of the lender.

The nature of employment had also clearly changed over the ten year period. From the evidence on case files of job titles, it is possible to make some estimate of the extent of the change in earnings and occupations that has occurred.

- In 1995, a fork lift truck driver earned £9,500, whereas in 2005, a fork lift truck driver earned £24,500.
- In 1995, a warehouseman earned £11,020, whereas in 2005 the two warehousemen in the sample earned £23,000 and £20,125 respectively.
- In 1995, a community support worker earned £11,052, whereas in 2005 a support worker earned £20,000.
- In 1995, a phonebank clerk earned £9,752: in 2005 the nearest equivalent was a call centre manager, earning £26,167.
- In 1995, an area sales manager for Avon cosmetics earned £13,374: in 2005 the nearest equivalent was a sales manager for a major hotel earning £32,514.
- In 1995, a design engineer earned £13,500 and had a non-working partner, whereas in 2005 an electronic engineer earned £26,000 and had a working partner earning £13,717 as a rehousing officer, while a mechanical

engineer earned £35,500 and had a working partner earning £12,000 as a supply teacher.

The evidence shows that the Homebuy programme is assisting households whose pay, for apparently similar work, is at least double that of 1995, or households whose jobs are significantly higher graded, or both.

Despite this shift in the characteristics of the households assisted by Homebuy, the extent of borrowing and indebtedness had hardly changed over the ten years, with the average mortgage rising as a multiple of income from 2.58 times household income in 1995 to 2.68 times in 2005.

In 1995, the lowest multiple, of 1.59 times earnings, and the highest, of 3.32 times earnings, were both obtained by single nurses.

In 2005, income multiples ranged from a low of 1.94 times household income for a household with two earners with a joint gross income of £47,500, to a high of 3.88 times income, although this was a case of a dual earning household where only one income could be taken into account, because one partner was self employed with less than three years of accounts to prove income.

This suggests that the Homebuy programme has adjusted to the change in house prices relative to incomes by shifting up the income scale, and by supporting dual earner households, rather than by assisting lower paid households borrowing at the higher multiples of earnings that are available in the current mortgage market.

This may reflect the emphasis on assessing affordability operated by housing associations, although in practice most

accepted the judgement of mortgage lenders, or it may reflect the fact that Homebuyers, with the equivalent of a 30% deposit, could then afford to take a more risk averse approach to borrowing.

Interestingly, the average age of Homebuy purchasers had fallen, from 34 in 1995 to 31 in 2005. The trend among first time buyers in this period has been the reverse, but there is no indication of any reason why this age shift took place.

The immediately previous tenure of Homebuy purchasers was fairly similar between 1995 and 2005. The most significant change was a rise in the proportion of purchasers who were private sector tenants, presumably reflecting the growth in the private rented sector itself that has occurred over the last ten years.

A significant shift also occurred in the type of property bought by Homebuy purchasers.

In 1995, purchasers were buying in a falling market. All except one bought houses on private developments, often by national housebuilders such as Westbury and Barratt. Two bought newbuild homes. Only one purchaser bought a former council house, previously sold under the Right to Buy. All bought two or three bedroom homes, with just over 40% buying two bedroom homes. Nearly 60% bought semi-detached or end terraced properties, and one purchaser was able to buy a detached house.

In 2005, again nearly all purchasers bought two or three bedroom homes, except for 2 who bought four bedroom homes (one a single parent with one child, the other a couple with 4 children). Over 80% bought a three bedroom home, and nearly half bought either a semi-detached or end terraced property.

Only one bought a flat. However, there was a clear shift in the market segment in which purchasers were buying: in 2005, 60% of purchasers had bought a former council property, previously sold under the Right to Buy.

Homebuy purchasers in rural areas

Case files of purchases in 2004/05, administered by Cantref, ten in Ceredigion and ten in Carmarthenshire, showed significant differences between the households assisted in these areas, and those in the SE Wales area administered by Charter.

Only two of the purchasers were single, a proportion even lower than in SE Wales, at 10%, and neither was 'young and single': one had a child visiting at weekends, the other had two adult children. Four households were childless couples, and the remaining fourteen households all had children. Two of these households were single parents.

Overall, 80% of purchasers were in couple households, a similar proportion to SE Wales, but a higher proportion had children. However, a noticeably smaller proportion of couple households had two earners, at just over 60% compared to the 90% in SE Wales, and a number of the second earners had very low earnings. Only in two cases were the earnings of the lower earning partner more than two thirds of the earnings of the higher earner. These differences may have reflected differences in the age of children, the availability of childcare, the availability of work, and social attitudes.

Incomes also appeared to be lower than in SE Wales. Cantref have a reasonably comprehensive financial assessment, collecting data on net monthly earnings and also other sources of income such

as child benefit, Working Tax Credit/Child Tax Credit and maintenance payments. An attempt is also made to assess household expenditure, and to estimate the 'free cashflow' available to service a mortgage.

Although it is not possible to calculate gross earnings directly from net, multiplying net earnings by 1.2 as a possible grossing up average produces a reasonable estimate. There were very significant differences in average earnings between Homebuyers in South East Wales and those in Ceredigion/Carmarthenshire, which are shown in the table below.

Table 26: Average earnings of Homebuyers

Average gross earnings	SE Wales	Ceredigion & Carmarthenshire
Main earner	£20,877	£15,500
Second earner	£10,313	£1,285
Average household earnings	£27,165	£18,500

The data collected by Cantref also included details of income from benefits and child maintenance, and these contributed very significantly to raising household incomes for households with children. Overall, income from these additional sources in households with children added nearly 50% to earnings, and constituted almost a third (31.6%) of net household income. Since most mortgage lenders now take these additional sources of income into account when assessing lending multiples, it is clear that this income adds very significantly to the ability of qualifying households to afford house purchase. Conversely, the lack of such additional income diminishes the ability of childless households to compete in the housing market.

The average price paid by purchasers in Ceredigion was £123,000, and in Carmarthenshire was £110,000. In both areas, the average price paid was above the average price paid in Wales by all first time buyers.

Even with the higher percentage of Homebuy loan available in rural areas, households needed to borrow more in relation to income than in SE Wales. Income multiples (grossing net earned income up to gross by multiplying by 1.2) were significantly higher than those in SE Wales: 3.03 in Carmarthenshire and 3.61 in Ceredigion, even though these include income from benefits, unlike the figures in SE Wales.

However, mortgage payments (at least in the first two to three years of the mortgage) were only 23% of total net household income in Ceredigion, and 21% in Carmarthenshire.

80% of households were able to buy a semi-detached or end terraced house and 70% were able to buy a three bedroom (or in one case, a four bedroom) property. As in urban areas, 60% of all purchases were of former council houses previously sold under the Right to Buy.

Households in Carmarthenshire were the same age as those in SE Wales, at 31, but those in Ceredigion were noticeably older, at 36.

The previous tenure of purchasers also showed significant differences to SE Wales. 90% of purchasers in Ceredigion were previously living in the private rented sector, as were 50% of purchasers in Carmarthenshire. Only 15% (3 households) were living with parents, compared to a third in SE Wales, and only 15% of households were social housing tenants, again compared to a third in SE Wales.

Although Cantref is operating in Ceredigion, Carmarthenshire (and Pembrokeshire), areas substantially covered by the 'rural' definition, and hence offering the 50% Homebuy scheme, none of the locations in which Homebuy purchasers bought a home could be described as 'deep rural'.

In Ceredigion, five of the sample of ten purchasers had bought in Aberystwyth, with a further two buying in adjacent villages (Bow Street and Borth). One purchaser had bought in Cardigan, and of the remaining two, one had bought in Llanrhystud, within easy commuting distance of Aberystwyth, and the other in Aberporth, within easy commuting distance of Cardigan.

In Carmarthenshire, two purchasers had bought in Llanelli, one in Burry Port, two in Carmarthen, two in villages immediately outside Carmarthen, two in villages adjacent to market towns (Cwmann outside Lampeter and Ty Croes outside Ammanford). The nearest to a rural location was a purchase in Pont y Berem, halfway between Llanelli and Carmarthen.

The 'Homebuy' scheme operated by Cardiff Council

Cardiff Council operates a scheme virtually identical to Homebuy, but without using Social Housing Grant. The scheme is only available for newbuild housing, because

it relies on the provision of land made available by developers under Section 106 planning agreements, combined with some further subsidy from funds recycled from previous sales, to achieve a 30% reduction in the price to purchasers.

As might be expected, the purchasers exhibit more 'metropolitan' characteristics than those in other schemes, and these are analysed in Appendix 2.

Deposits

A very noticeable feature of purchasers in all areas was that very few put down any deposit from their own resources. Almost all purchases were entirely funded by mortgages, and by the very substantial 'deposit' represented by the equity share.

The role of the equity share in acting as a deposit is important, because it allows Homebuy purchasers to access the cheaper mortgage terms which are available to purchasers with smaller Loan to Value ratios.

Less than one in five (19%) of purchasers contributed any deposit towards the cost of purchase, and nearly two thirds of the deposits were for sums less than £5,000. Only 7 out of 93 purchasers surveyed contributed a deposit in excess of £5,000. Four of these came from savings, two from parental gifts, and only one from equity from the sale of a former owner occupied home.

There were a small number of additional cases where prospective purchasers were including reasonably significant amounts of savings on their application forms, but there is no requirement in the Homebuy scheme that purchasers should be obliged to contribute all or part of their savings towards the purchase, and these purchasers chose to limit their purchase to the total of

the equity share plus their mortgage, and chose to keep their savings intact.

This is not a choice open to purchasers who are unable to access Homebuy.

It seems clear that one of the functions of the Homebuy scheme has been to supply very substantial deposits to purchasers without any significant personal savings.

Conclusions

In urban areas, Homebuy has continued to offer the same product since its inception in 1995/96, despite the almost trebling of house prices that has occurred since, while average earnings have risen by less than half over the same period.

As a consequence, there has been a significant change in the type of households able to buy, their earnings, and the type of property that they bought.

In 1995, half of all purchasers were single, but by 2005, only 20% of purchasers were single.

This shift in household type resulted in a sharp increase in the proportion of households with two earners. In 1995, 70% of purchasing households had only one earner. By 2005, 70% of purchasing households had two earners. In 1995, just over half of the couple households had

either a non-earning partner, or a partner in only part-time employment. By 2005, less than 10% of couple households had a non-earning partner, and less than 10% had a partner in part-time work. By 2005, the jobs of purchasers were both better paid, and higher graded, than in 1995.

In 1995, nearly all purchasers were able to buy on private developments, but by 2005, 60% of all purchases were of ex-council houses, previously sold under the Right to Buy.

In rural areas, the introduction of the 50% Homebuy share has enabled a different group of households to purchase. There was a higher proportion of couple households, but a lower proportion of second earners, and a number of the second earners had very low earnings.

Purchasers in rural areas were also buying in the larger towns, or in nearby villages: none of the locations in which Homebuy purchasers bought a home could be described as 'deep rural'.

A very noticeable feature of purchasers in all areas was that very few put down any deposit from their own resources. Almost all purchases were entirely funded by mortgages, and by the very substantial 'deposit' represented by the equity share.

Chapter 10 - Homebuy and the housing market: targeting scarce resources

Introduction

This chapter examines the role played by Homebuy programme in relation to the wider owner occupied market, and assesses whether the assistance provided through the Homebuy programme may have any inflationary effect on house prices.

The chapter also examines a number of individual cases assisted by Homebuy, and discusses the extent to which the assistance offered by Homebuy represents value for money.

The chapter also discusses an apparent anomaly in the relationship between purchasers' deposits and the amount of assistance required from Social Housing Grant.

The Homebuy programme and the overall housing market

The total number of homes provided or purchased through Homebuy is only a small fraction of the total owner occupied market, and investment in the Homebuy programme is only a small proportion, 11.5% in 2005/06, of the total Social Housing Grant programme.

The table below shows the total number of house sales between 1995 and 2005, broken down by dwelling type, and the Homebuy programme from 1999 to 2005 as a percentage of sales of semi detached and terraced houses, the dwelling types mostly commonly purchased through Homebuy.

Table 27: Homebuy purchases as % of all transactions in the housing market

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
detached	6039	7227	8968	11005	13927	13162	14227	19066	17935	15579	12584
semi-detached	9476	10954	12192	12632	14711	14259	15579	19184	18397	16150	13529
terraced	10670	12259	14688	14987	17011	17051	18630	24362	24017	21045	17810
flat/ maisonette	853	765	1235	1456	1607	1801	2041	3689	3681	3849	3688
Total Sales	27038	31205	37083	40080	47256	46273	50477	66301	64030	56623	47611
Homebuy purchases					21	91	188	260	196	202	247
Homebuy as % of sales of semi-detached and terraced					0.07	0.29	0.55	0.60	0.46	0.54	0.79
Homebuy as % of terraced sales					0.12	0.53	1.01	1.07	0.82	0.96	1.39

Source: Land Registry annual sales by postcode sector (Note: postcode sectors do not match exactly to administrative boundaries)

Even in Gwynedd, where Homebuy purchases were programmed to be 50% of all SHG investment in 2005/06, providing 33 of the 53 units in the Approved Development Programme, the proportion

of Homebuy purchases was only 2.79% of all sales of semi detached and terraced houses in 2005, and only 4.23% of all sales of terraced houses.

The figures are shown in the table below.

Table 28: Homebuy purchases as % of all transactions in the housing market

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
semi-detached	9476	10954	12192	12632	14711	14259	15579	19184	18397	16150	13529
terraced	10670	12259	14688	14987	17011	17051	18630	24362	24017	21045	17810
Total Sales	27038	31205	37083	40080	47256	46273	50477	66301	64030	56623	47611
Homebuy purchases					21	91	188	260	196	202	247
Homebuy as % of sales of semi-detached and terraced					0.07	0.29	0.55	0.60	0.46	0.54	0.79
Homebuy as % of terraced sales					0.12	0.53	1.01	1.07	0.82	0.96	1.39

Source: Land Registry annual sales by postcode sector.

These figures suggest two primary conclusions:

1. The Homebuy programme is most unlikely to be exerting any inflationary effect on the housing market.
2. The Homebuy programme occupies an extremely marginal position in the owner occupied housing market.

This suggests that, in order to represent value for money, the programme should be clearly focussed on areas where the relatively small numbers and investment can have the greatest impact.

Targeting scarce resources

Three examples of individual cases assisted to purchase through Homebuy illustrate

the range of different functions which the Homebuy programme appears to be fulfilling.

Example 1:

In 2003/04, a housing association tenant, a single parent with one child, working as a nursing assistant in the NHS and earning £13,040 basic and a total of £16,000 including overtime, was able to buy a two bedroom terrace house for £87,500, with a mortgage for £70,000 and a 20% equity share of £17,500.

Comment:

This appears to represent very good value: the equity share was provided through a S106 agreement, without the need for

public funds, and had the dual benefit of helping one household into owner occupation and of creating an additional social housing letting.

Even had a 30% SHG contribution been required, the expenditure of £26,250 would still appear to represent good value for money in relation to the total benefit created.

Example 2:

In another case in 2003/04, a couple without children, a researcher in the voluntary sector, and a part-time teacher, earning £37,386 between them, were able to buy a two bedroom house for £140,000, with a mortgage for £98,000 and a 30% equity share of £42,000.

Comment:

The equity share was again provided through a S106 agreement, and had no public expenditure implications. However, it is not clear that the use of £42,000 of resources to enable a childless couple to purchase a three bedroom house is a focussed use of scarce resources. In 2004, the price of the lower quartile property in Cardiff was £112,950: 25% of the housing market was cheaper than this. Assuming an income multiple of 3.25 times joint income, the couple could have obtained a loan of £120,000. It would appear implausible that a professional couple could not afford to buy without assistance.

Example 3:

In another case in 2005/06, a couple, each aged 21 and without children, both in administrative jobs and earning £27,700 between them, were able to buy a two bedroom house for £120,000, with a mortgage for £84,000 and a 30% equity share of £36,000. Both were living with their parents, and had no savings.

Comment:

It is not clear that the purpose of the scheme is to provide deposits equating to eighteen months' net earnings to 21 year olds living at home with their parents.

The Homebuy programme might be focussed to address primarily housing need. This would imply the extension of the 'tenure neutral' approach to all social housing lettings. Applicants would continue, as at present, to be offered, or allocated, property according to their relative housing need. Those who are in employment, but unable to afford to purchase in the open market, would be offered the opportunity to purchase their home through Homebuy. This would require the use of conditions, or covenants, in the sale agreement, giving the landlord the right to repurchase the property if the Homebuy purchaser chose to sell. The social landlord would then have a choice as to whether to repurchase the property and offer it again to an applicant in housing need, to resell the property as a Homebuy purchaser, or to allow the sale of the property on the open market and take a receipt from the repayment of the equity share.

Alternatively, Homebuy could continue as a 'stand alone' programme to promote home ownership among those unable to afford to purchase in the open market, but who might have no other priority in housing need terms.

The gearing effect of deposits

Where a purchaser provides a deposit as part of their contribution towards the overall purchase, the deposit has the effect of raising the amount of SHG that is made available. This has a 'gearing' effect on the contribution made by SHG, which rises in proportion to the deposit made.

In practice, this is a relatively minor anomaly, because of the very limited use of deposits by purchasers, discussed in Chapter 9.

The Homebuy scheme stipulates a maximum equity stake of 30% in urban areas and 50% in rural areas. If a purchaser is able to put down a deposit, then the deposit plus their mortgage can be 70% or 50% of the purchase price, depending upon the scheme variant.

The effect is that the equity stake will also rise in proportion to the deposit. In the case of the rural scheme, the increase in the equity stake effectively doubles any deposit which the purchaser is able to put down.

The table below shows the effect for a purchaser able to afford a £70,000 mortgage, currently costing £100.16 per week to service.

Table 29: The effect of deposits in increasing equity stakes

	Weekly mortgage repayment	Value of mortgage	Value of deposit	Value of property affordable	Equity stake
Purchase at full market value					
Weekly repayment with 100% mortgage	£100.16	£70,000	£0	£70,000	£0
Weekly repayment with 90% mortgage and 10% deposit	£100.16	£70,000	£7,500	£77,500	£0
Weekly repayment with 80% mortgage and 20% deposit	£100.16	£70,000	£17,500	£87,500	£0
70% Homebuy scheme					
Weekly repayment with 70% mortgage	£100.16	£70,000	£0	£100,000	£30,000
Weekly repayment with 70% mortgage and 10% deposit	£100.16	£70,000	£7,000	£110,000	£33,000
Weekly repayment with 70% mortgage and 20% deposit	£100.16	£70,000	£17,500	£125,000	£37,500
50% Homebuy scheme					
Weekly repayment with 50% mortgage	£100.16	£70,000	£0	£140,000	£70,000
Weekly repayment with 50% mortgage and 10% deposit	£100.16	£70,000	£7,500	£155,000	£77,500
Weekly repayment with 50% mortgage and 20% deposit	£100.16	£70,000	£17,500	£175,000	£87,500

The effect of putting down a 20% deposit is to raise the equity stake, and hence the cost in SHG, by 25%.

This can be illustrated by the case, in a rural area with the 50% Homebuy rate, of a household with a single earner with a gross annual salary of £14,500, and

a deposit (a gift from a parent) of £32,500. The purchaser obtained a mortgage for £44,500, which together with the deposit of £32,500 totalled £77,000. This in turn attracted an equity share of £77,000 and enabled the purchaser to buy a four bedroom home costing £154,000.

This appears to be an anomalous result of the Homebuy scheme. The scheme is intended to assist households who cannot afford to purchase in the open market to become owner occupiers. It is not intended to be a scheme that rewards saving with a top-up from the taxpayer.

The anomaly arises because in the DIY scheme, the purchaser can maximise the 50% or the 70% of the open market price they are willing, or able, to pay. The balance of the price is then made up by SHG.

In the case of the scheme run by Cardiff council, the amount of the equity share is set in advance, by the open market value of the newbuild scheme. How purchasers then divide the 70% which they are to fund between borrowing and saving is their choice.

Again, a case illustrates the difference. In a scheme in Cardiff, a household with a single earner with a gross annual salary of £13,500 but savings of £37,000, was able to purchase a property worth £140,000 with a mortgage of £54,000 and an equity share of £49,000. A household with dual earners, purchasing on the same estate, with gross annual earnings of £13,500 each but no savings, required a mortgage of £98,000 to purchase a property at the same price.

One solution might be to limit the proportion of the price to be met by SHG to a proportion of the mortgage raised,

either 30% or 50%. Given the very small proportion of purchasers who have deposits, this would have little effect on the overall take up, but would eliminate the open ended commitment to match savings in proportion.

Conclusions

There are roughly 56,000 homes bought every year in Wales: therefore, there are about 14,000 homes purchased in the bottom quarter of the market, and 5,600 purchased in the bottom decile.

The Homebuy programme, currently averaging roughly 200 purchases every year, is therefore extremely small in relation to the size of the housing market in Wales.

It is, therefore, unlikely the assistance provided by Homebuy is exerting any inflationary pressure on house prices.

Even in Gwynedd, where Homebuy is 50% of the Social Housing Grant programme, the proportion of Homebuy purchases in 2005 was only 2.79% of all sales of semi-detached and terraced houses, and only 4.23% of all sales of terraced houses.

Where a purchaser provides a deposit as part of their contribution towards the overall purchase, the deposit has the effect of raising the amount of SHG that is made available. This has a 'gearing' effect on the contribution made by SHG, which rises in proportion to the deposit made, although in practice, this is a relatively minor anomaly, because of the very limited use of deposits by purchasers.

However, under present rules, any move to increase the deposit made by purchasers would result in an equivalent increase in the amount of SHG required, and current policy in this area may require reconsideration.



Chapter 11 - The impact of the Right to Buy

Introduction

This chapter examines the largest contributing programme to the expansion of home ownership over the past twenty five years, the Right to Buy.

The chapter also outlines the complex, and varying, rules that exist in rural areas to govern the circumstances under which prospective purchasers are able to acquire homes for owner occupation at less than open market prices.

The Right to Buy

Although there have been a number of schemes developed in Wales over the past twenty five years to promote home ownership, by far the largest contribution has come from the Right to Buy.

Introduced by the Housing Act 1980, the Right to Buy has led to 128,069 sales to sitting tenants (nearly all by local authorities), or 89% of all sales, including Homebuy. The Right to Buy has had a very significant impact on the size of the social housing sector in three main areas:

- Firstly, on the size of the social housing sector itself, with sales amounting to some 44% of the local authority stock that had existed in 1980.
- Secondly, in changing the mix of dwelling types in the social housing sector: 97% of the homes sold to sitting tenants were family sized accommodation.

- Thirdly, there has been a considerable turnover of the sold stock: figures are not available for Wales, but the Survey of English Housing estimated that by 2004/05, some 45% of all homes sold under the Right to Buy had been sold again. This has affected the social character of former council estates: in some cases, with new owners moving in, and in others with properties being transferred to the private rented sector.

In 2004/05 in both SE Wales and West Wales, 60% of all properties purchased through Homebuy were former Right to Buy properties.

Estimating the stock lost through the Right to Buy

Data are not collected on the bedsize of the local authority stock, but an attempt can be made to reconstruct the housing stock as it was in 1980, and to estimate the impact of the Right to Buy in changing the bedsize composition of the housing stock by 2004.

During 2002/03, data were collected from local authorities on the bedsize of their stock for the project 'Social Housing Rents in Wales'⁷, and the sum totals of the local authority returns are shown in the table below.

Table 30

	Bedsit	1 bed	2 bed	3 bed	4 bed	5+ bed	Total
LA stock @ mid 2002/03	619	31679	55558	78013	3126	160	169155

⁷ *Social Housing Rents in Wales*, Jones, M. for Welsh Assembly Government, 2005 (HRR1/05).

The total stock, of 169,155 is less than the estimated stock at mid 2002/03 of 180,000. (Welsh Housing Statistics gives a stock of 183,000 at 1st April 2002 and of 177,000 at 1st April 2003.) This is the result of the omission by some local

authorities of dwellings designated for the elderly. The table below shows the numbers of bedsit and 1 bed units adjusted for this omission, to accord with the total stock at mid 2002/03.

Table 31

	Bedsit	1 bed	2 bed	3 bed	4 bed	5+ bed	Total
Adjustment for 1 bed undercount	43143		55558	78013	3126	160	180000

The percentage of stock in each bedsize sold under the Right to Buy in Wales is not known, but an estimate of the equivalent figure is available from the Survey of

English Housing 2004/05. The table below shows the percentage of Right to Buy sales that have occurred in England by bedsize.

Table 32

	Bedsit	1 bed	2 bed	3 bed	4 bed	5+ bed	Total
% of stock sold under RTB (from SEH)	3%		21%	70%	5%	1%	100%

There were 11,052 sales of local authority stock in Wales in 2002 and 2003, and

these are apportioned by bedsize in the table below.

Table 33

	Bedsit	1 bed	2 bed	3 bed	4 bed	5+ bed	Total
Sales in 2002 & 2003	332		2321	7736	553	111	11052

These sales can be deducted from the estimated stock at mid 2002/03 shown

above to give the estimated bedsize of the stock at 1st April 2004.

Table 34

	Bedsit	1 bed	2 bed	3 bed	4 bed	5+ bed	Total
LA stock @ 1.4.2004	42811		53237	70277	2573	49	168948

The total estimated stock compares reasonably with the total of 162,276 given in Welsh Housing Statistics, plus the 6,398

units transferred by Bridgend to Valleys to Coast in September 2003, an overall total stock of 168,674.

The bedsize distribution of the 132,614 sales that have occurred between October 1980 and the end of 2003 (126,087 of

these being through the Right to Buy) can be calculated using the estimates from the Survey of English Housing.

Table 35

	Bedsit	1 bed	2 bed	3 bed	4 bed	5+ bed	Total
Sales 1980 - 2003	3978		27849	92830	6631	1326	132614

The numbers of sales in each bedsize can then be added to the estimated stock at

1st April 2004 to give an estimated bedsize distribution for mid 1980.

Table 36

	Bedsit	1 bed	2 bed	3 bed	4 bed	5+ bed	Total
Stock in 1980	46789		81086	163107	9204	1375	301562

This compares reasonably with the estimated local authority housing stock six months later, at 1st April 1981, of 298,000 given in Welsh Housing Statistics.

Therefore, some 44% of the local authority housing stock in 1980 had been sold by 2004. The table below shows the estimated percentage of each bedsize that has been sold.

Table 37

	Bedsit	1 bed	2 bed	3 bed	4 bed	5+ bed	Total
% of stock in each bedsize sold	9		34	57	72	96	44

Just over one in three of the two bedroom stock, and nearly three out five of the three bedroom stock has been sold. The figures for sales of larger family homes may be implausibly high, and may reflect a difference in the original distribution of the stock in England, compared to that in Wales.

Acquisition at sub market prices and resale by owner occupiers in rural areas

The development of policy over the past twenty five years has led to a complex and varying set of rules governing the circumstances under which prospective

purchasers are able to acquire homes for owner occupation at less than open market prices.

In National Parks, Areas of Outstanding Natural Beauty, and areas designated by the Assembly as 'rural' under Section 157 of the Housing Act 1985 (Community Councils with an average population density of two persons or less per hectare, and those with a population of 3,000 or less), as shown on the map below, the current rules are as follows:

- For secure tenants of local authorities:

- All secure tenants in rural areas have the Right to Buy (unless the particular dwelling itself is exempt).
- For all Right to Buy purchases after 18 January 2005, the local authority must either:
 - Insert a covenant (as a local land charge) into the conveyance requiring that, during the period of 10 years from the date of the conveyance, the purchaser must make an offer of first refusal to his former landlord, or to another social landlord in the area (S.156A, Housing Act 1985, as inserted by S.188(1), Housing Act 2004).
 - Or, impose a covenant requiring the property, if sold within the first three years after purchase, to be sold to someone who has been living or working in the area for the previous three years (S.157, Housing Act 1985, as amended by S.188(2), Housing Act 2004).
- For local authorities:
 - Local authorities retain the power to sell property to sitting tenants that existed prior to the introduction of the Right to Buy in 1980.
 - Local authorities also have the power to dispose of vacant properties, subject to the consent of the Assembly.
- Across Wales as a whole, local authorities have sold 5,887 properties between 1980 and 2003⁸, but it is not known how many of these were of tenanted or vacant property, nor how many may have been in rural areas, nor whether any covenants on resale were imposed in these areas.
- For assured tenants of housing associations:
 - No tenant whose tenancy began before 1 April 1997 has the Right to Acquire; those whose tenancies began between 1 April 1997 and 7 February 2003 do not have the Right to Acquire in National Parks, Areas of Outstanding Natural Beauty and areas designated as rural under Statutory Instrument 1997 No. 685⁹; those whose tenancies began between 7 February 2003 and 24 April 2003 do not have the Right to Acquire in designated rural areas¹⁰, but, by administrative error, do have the Right to Acquire in National Parks and Areas of Outstanding Natural Beauty, an omission corrected in S.I. 2003 No. 1147; while those whose tenancies commenced after 24 April 2003 do not have the Right to Acquire in National Parks, Areas of Outstanding Beauty and areas designated as rural, under Statutory Instrument 2003 No. 1147¹¹.
 - Assured tenants of housing associations who were formerly

8 Welsh Housing Statistics 2004 (the above total excludes 206 dwellings transferred to Clwyd Alyn HA, and 434 dwellings transferred to Newydd HA, but includes 419 sales by New Towns).

9 The Leasehold Reform and Housing (Excluded Tenancies)(Designated Rural Areas)(Wales) Order 1997.

10 Statutory Instrument 2003 No. 54, The Housing (Right to Acquire and Right to Buy)(Designated Rural Areas and Designated Regions)(Wales) Order 2003.

11 Statutory Instrument 2003 No. 1147, The Housing (Right to Acquire and Right to Buy)(Designated Rural Areas and Designated Regions)(Amendment)(Wales) Order 2003.

secure tenants of local authorities, and whose homes have been transferred to the ownership of a housing association, have the 'preserved' Right to Buy: any purchases after 18 January 2005 will, therefore, be subject to the covenant requirements of the Housing Act 2004 which apply to Right to Buy purchases. This would only appear to affect tenants who have transferred on the Oldford Estate in Welshpool, and those living in the Community Council areas of Coychurch Higher, Llangynwyd Lower and Merthyr Mawr in Bridgend.

- For housing associations:
 - Housing associations possess the power to sell dwellings to sitting tenants who do not have the Right to Acquire, and to make sales at discounted prices funded by Voluntary Purchase Grant. In recent years, there has been some expenditure on Voluntary Purchase Grant, although it is not known whether any of these sales were in rural areas.¹²
 - Housing associations also have the power to sell vacant property, although it is not known whether any such sales have occurred in the last five years.

Conclusions

Despite the number of Low Cost Home Ownership programmes and products that have been introduced in Wales over the past twenty five years, by far the largest contribution to expanding home ownership has come from the Right to Buy.

Since 1980, the Right to Buy has led to 128,069 sales to sitting tenants (nearly all by local authorities), or 89% of all Low Cost Home Ownership sales, including Homebuy.

The Right to Buy has had a very significant impact on the size of the social housing sector in three main areas:

- Firstly, on the size of the social housing sector itself, with sales amounting to some 44% of the local authority stock that had existed in 1980.
- Secondly, in changing the mix of dwelling types in the social housing sector: 97% of the homes sold to sitting tenants were family sized accommodation.
- Thirdly, there has been a considerable turnover of the sold stock: figures are not available for Wales, but the Survey of English Housing estimated that by 2004/05, some 45% of all homes sold under the Right to Buy had been sold again. This has affected the social character of former council estates: in some cases, with new owners moving in, and in others with properties being transferred to the private rented sector.

There are a number of restrictions in rural areas, National Parks and Areas of Outstanding Natural Beauty on the resale of properties purchased under the Right to Buy, or the Right to Acquire.

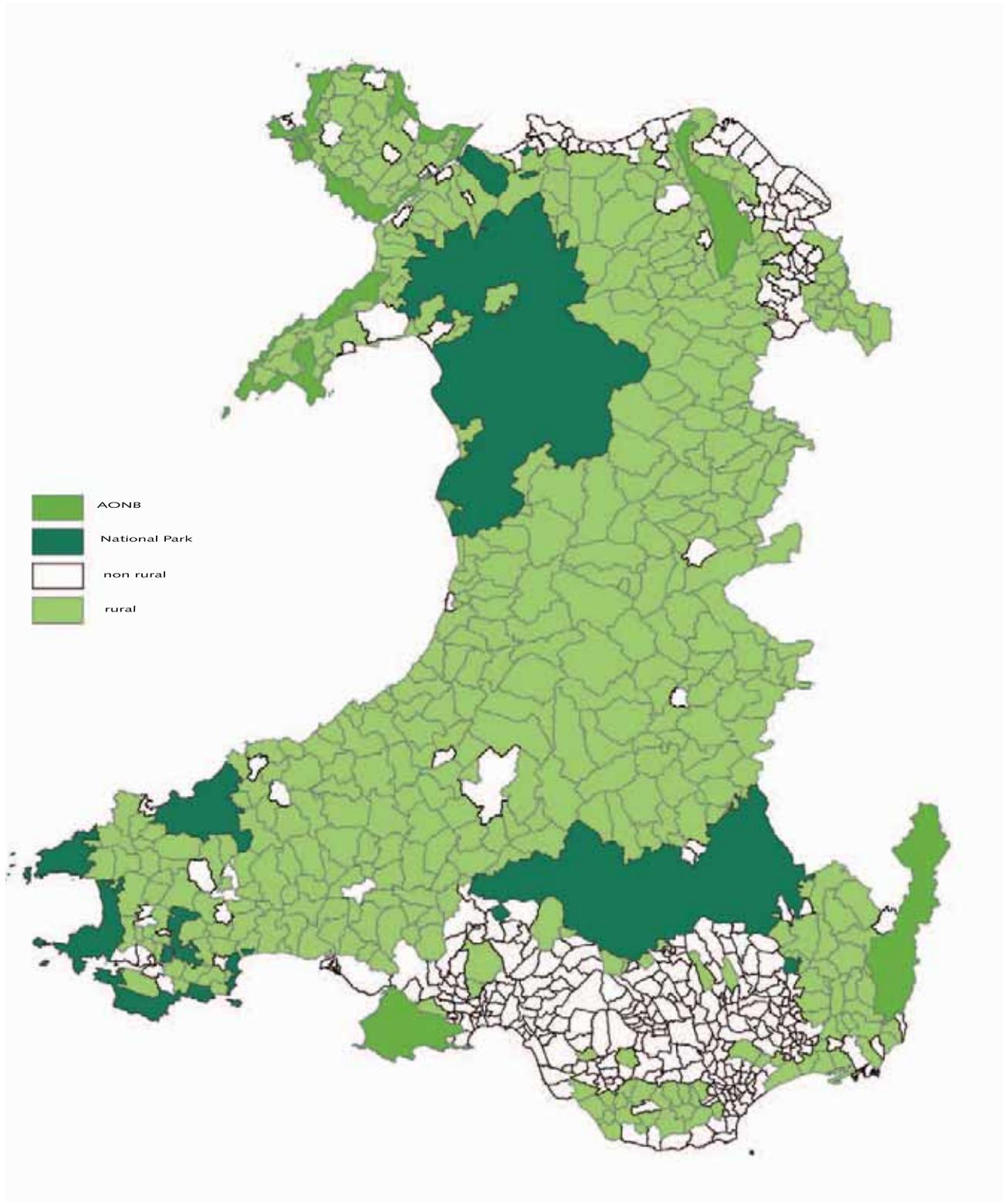
However, there do not appear to be any similar restrictions on the resale of properties acquired with the assistance of Homebuy.

This appears to be a policy anomaly.

12 In England, homes in rural settlements with a population of 3,000 or less are exempt from these provisions.

Map 5

National Parks, Areas of Outstanding Natural Beauty and designated rural Community Councils



Chapter 12 - Finding and Conclusions

Introduction

This chapter provides a summary of the key findings of the project, and identifies a number of issues which have policy implications for consideration.

The extent of Low Cost Home Ownership

Nearly 90% of all Low Cost Home Ownership in Wales has been supplied by the sale of existing homes, at a discount to their market value, to sitting tenants, under the Right to Buy. Over 128,000 homes were sold under the Right to Buy between 1980 and 2004.

This programme has led to a loss to the social rented sector of 44% of the local authority stock that existed in 1980. Nearly all the dwellings sold have been family houses. As a result, the proportion of the local authority housing stock consisting of one bedroom accommodation has risen from one in six (15.5%) to one in four (25.3%).

Over the past twenty five years, a variety of other programmes have been initiated in order to extend owner occupation. The most successful of these schemes has been Homebuy, which is now the only programme available, although Clwyd Alyn Housing Association has a continuing programme of newbuild shared ownership, funded from internal resources.

Prior to the introduction of Homebuy, other Low Cost Home Ownership programmes had provided some 6,000 homes since 1980, while Homebuy has provided a further 3,000 homes.

An interesting finding of the project was that in present market conditions, in some areas as much as 60% of DIY Homebuy purchases were of former council houses, previously sold under the Right to Buy.

The housing market and house prices

The ten years since the introduction of Homebuy in 1995/96 have seen the housing market move from the low point in its cycle, in the mid 1990s, to a new high point in the mid 2000s.

During this time, the average house price paid by first time buyers has risen by over two and a half times, from £42,022 at the low point of the cycle in 1997, to £107,857 in 2005. Even after adjusting for the effects of inflation, real house prices have more than doubled in that time.

Reflecting these changes, in 1996, the average terraced house across the majority of Wales cost less than £45,000. By 2005, the average terraced house in most areas cost between £75,000 and £125,000, and average terraced house prices in excess of £200,000 had appeared in Cardiff, and a handful of areas such as the Vale of Clwyd, Aberdyfi, Fishguard, Tenby and around Cowbridge. Even in the upper Valleys, the only areas where 'cheaper' terraced houses could still be purchased, the average price had risen to around £60,000.

However, earnings have not kept pace with house price increases: the average weekly earnings, before deductions, of full time male workers were £321 in 1995, and £462 in 2005, an increase of 44%, or rather less than half, compared to the more than doubling of house prices.

These changes have had a serious effect on the affordability of house purchase for people on lower incomes. Other research, by Professor Steve Wilcox¹³, has shown that the combination of low wages and high house prices in the scenically desirable areas of Gwynedd, Ceredigion and Pembrokeshire has made these among the least affordable areas in Britain for house purchase.

The impact of Homebuy on the housing market

Over the three years 2003 to 2005, there were an average of 56,000 sales of homes each year in Wales. Therefore, the bottom quartile of the housing market has 14,000 sales, and there are 5,600 sales every year in the bottom tenth of the market.

Over the three years, there has been an average of 215 Homebuy purchases per annum. This is 1.5% of the bottom quartile of the market, and 3.8% of the bottom decile. Even in Gwynedd, where 50% of the SHG programme is targeted to Homebuy, the average of 30 purchases each year is only 6.6% of the lower quartile of the market.

The Homebuy scheme is, in fact, quite marginal in relation to the size of the market for home ownership, and this suggests there can be very little impact from the Homebuy programme in adding to inflationary pressures in the housing market.

The operation of the Homebuy scheme

Previous governments had experimented with a range of Low Cost Home Ownership products in Wales since the 1980s, with a view to extending owner occupation to groups unable to afford to buy in the open market. These were mainly based on a part

buy, part rent combination, often offering leasehold rather than freehold ownership.

The most successful of these schemes has been Homebuy, which is now the only programme available, although Clwyd Alyn Housing Association has a continuing programme of newbuild shared ownership, funded from internal resources.

Homebuy is a simple and straightforward scheme. The purchaser buys a property, with the assistance of a Homebuy loan from a housing association. The loan can be up to a maximum of 30% of the purchase price in urban areas, and up to 50% in rural areas. The Homebuy loan is effectively a substantial deposit, and enables purchasers to borrow on more favourable terms from mortgage lenders.

The loan is interest free, but if the property is sold, the loan is repayable at the same percentage of the sale price as the loan was of the original purchase price. The loan is secured by a second charge on the property, and therefore ranks behind any mortgage in the event of a default by the purchaser.

The 'deposit' is provided by Social Housing Grant (SHG). SHG is provided by the Assembly, and distributed by local authorities to housing associations operating in their area. Local authorities are responsible for setting the strategic aims of Homebuy in their areas, and housing associations are responsible for the day to day administration of the Homebuy scheme.

When a Homebuy purchaser sells the property, the SHG is repaid to the housing association at the same percentage of the sale price as of the original purchase price. If prices in the housing market have risen,

13 Affordability and the intermediate housing market: local measures for all local authority areas in Great Britain, Joseph Rowntree Foundation, 2005.

the housing association will recover the original SHG and may make a surplus. Any surplus can be recycled to provide further Homebuy loans. If prices have fallen in the housing market, there is a risk that the original SHG may only be repayable in part, and the housing association would then make a loss on the loan.

Given the sharp rise in house prices that occurred since the introduction of the Homebuy scheme in 1995/96, sales of properties purchased through Homebuy have not only repaid the original loan from SHG, but have provided a significant surplus to housing associations, estimated at some £6m to date. As the housing market slows from its peak, it is unlikely that similar surpluses will be generated from recent Homebuy loans to purchasers.

The Homebuy scheme

The principles of the Homebuy scheme are clear, transparent and understandable for the purchaser. The scheme offers very substantial assistance to aspiring purchasers, combined with the desirability of freehold ownership from the outset.

As a consequence, there is far more demand for the scheme than current resources can satisfy.

The project identified a number of issues and problems with the scheme, which are summarised below. It should be noted, however, that these problems are ones of success, and result from a greater demand for Homebuy than the supply of funding.

These problems could not be solved by any practicable expansion of the Homebuy scheme. The current level of funding supports an average of 215 loans every year: doubling or trebling the size of the programme would still only represent less than one tenth of the bottom decile of the housing market.

The characteristics of the households purchasing through Homebuy

Since the Homebuy scheme has remained unaltered in urban areas over the ten year period, offering prospective purchasers a 30% equity share, it is clear that either the incomes of purchasers must rise by more than the increase in average earnings, or that the price of property purchased using Homebuy must fall very significantly relative to the average price of houses in the market.

In practice, the average price of a house purchased using Homebuy has remained very close to the average for all first time buyers, although the type of house purchased has changed significantly.

The most significant change, however, has been in the type of household purchasing through Homebuy. Because the Homebuy scheme has offered the same product at the top of the housing market cycle as well as at the bottom, the type of households who can afford to purchase with Homebuy at the top of the market are very different from those who could afford to purchase with Homebuy at the bottom.

Purchasers in urban areas

A sample of purchasers in SE Wales showed that in 1995, 50% were either single people (all female) or single parents. By 2005, the proportion of purchasers who were single people, or single parents, had shrunk to 20%, and the single people were all male.

This shift in household type resulted in a sharp increase in proportion of households with two earners. In 1995, 70% of purchasing households had only one earner. By 2005, 70% of purchasing households had two earners. In 1995, just over half of the couple households had either a non-earning partner, or a partner in only part-time employment. By 2005,

less than 10% of couple households had a non-earning partner, and less than 10% had a partner in part-time work.

Analysis of the job titles of purchasers shows the Homebuy programme is assisting households whose pay, for apparently similar work, is at least double that of 1995, or households whose jobs are significantly higher graded, or both.

Despite this shift in the characteristics of the households assisted by Homebuy, the extent of borrowing and indebtedness had hardly changed over the ten years, with the average mortgage rising as a multiple of income from 2.58 times household income in 1995 to 2.68 times in 2005.

This suggests the Homebuy programme has adjusted to the change in house prices relative to incomes by shifting up the income scale, and by supporting dual earner households, rather than by assisting lower paid households borrowing at the higher multiples of earnings that are available in the current mortgage market.

Purchasers in Cardiff, using the City Council's own Homebuy scheme (funded using 'Section 106' agreements with developers, rather than SHG), were more typically 'metropolitan' than elsewhere.

Rather less than half (42%) of all purchasers in Cardiff were single, contrasting with 13% in SE Wales and 10% in rural west Wales, and nearly three quarters of all purchasers (72%) were either single people or childless couples. This contrasts sharply with SE Wales, where just under half (47%) of purchasers were childless households, and with rural west Wales, where only a quarter of purchasers were childless.

Purchasers in rural areas

In rural areas, fewer purchasers were single (10%), and none were 'young and single': they tended to be either separated, with visiting children, or had adult children.

Similarly, a higher proportion than in urban areas of couple households had children, but a noticeably smaller proportion of couple households had two earners, at just over 60% compared to the 90% in SE Wales, and a number of the second earners had very low earnings. Only in two cases were the earnings of the lower earning partner more than two thirds of the earnings of the higher earner.

Reflecting this, household incomes were also markedly lower, with average gross earnings of £15,500 for the main earner, average earnings for the second earner of £1,285, and an average household income from earnings, for both one and two earner households, of £18,500. This was in sharp contrast to SE Wales, where the average gross income for the main earner was £20,877, the average earnings of the second earner were £10,131, and where average household incomes from earnings, across both one and two earner households, were £27,165.

The characteristics of the homes purchased through Homebuy

Homebuy enabled most households to purchase a home larger than their immediate requirements: three quarters of all single people, and all couples without children, were able to buy two or three bedroom houses. A quarter of all single people and half of all couples without children were able to buy three bedroom houses.

Homebuy also enabled people to buy better quality, or more desirable, homes: 60% of all homes bought in SE Wales and west Wales were either end terrace or semi-detached.

Even in Cardiff, where there is a greater supply of one bedroom homes, no childless couple purchased a one bedroom property, and nearly three quarters (71%) of all two bedroom properties were bought by childless households, as were just over half (55%) of all three bedroom properties.

In rural areas, purchases were in or near the large towns and the larger market towns, rather than in 'deep rural' villages.

The role of Homebuy in providing 'deposits'

A noticeable feature of purchasers in all areas was that very few put down any deposit from their own resources. Almost all purchases were entirely funded by mortgages, and by the very substantial 'deposit' represented by the equity share.

Less than one in five (19%) of purchasers contributed any deposit towards the cost of purchase, and nearly two thirds of the deposits were for sums less than £5,000. Only 7 out of 93 purchasers surveyed contributed a deposit in excess of £5,000. Four of these came from savings, two from parental gifts, and one from equity from the sale of a former owner occupied home.

The advertising of Homebuy

As a result of the excess demand for Homebuy over the supply of resources, there is little advertising of the availability of the scheme. Occasional advertising,

word of mouth, and referrals from estate agents have been more than enough to provide housing associations with long waiting lists.

However, few local authorities or housing associations had any strategic policy on how the scarce resources of Homebuy should best be targeted.

As a result, most housing associations administering the Homebuy scheme were simply working through their existing waiting list of applicants in date order.

Homebuy and housing need

Housing associations administering the Homebuy programme are required to ensure that applicants are either already social housing tenants, or be eligible to be a tenant.

In practice, housing associations kept separate waiting lists for Homebuy applicants, and it appeared clear that applicants were applying for Homebuy, not for rehousing. Housing associations were, in general, dealing with applications in date order, rather than by applying any test of housing need or likely priority of rehousing.

A high proportion of Homebuy purchasers were household types which were unlikely to have been in circumstances which would lead to an offer of rehousing. In urban areas, the proportion of single people and childless couples assisted by Homebuy varied between nearly half in SE Wales and nearly three quarters in Cardiff.

Policy Issues

The project identified a number of issues which have policy implications for consideration.

These can be grouped into three areas:

- Focussing the Homebuy programme to meet strategic housing objectives.
- Reviewing the criteria of the Homebuy programme to support strategic objectives.
- Using the Homebuy programme in rural areas to support wider social objectives.

1. Focussing the Homebuy programme to meet strategic housing objectives

Given the inevitably limited resources which can be allocated to the Homebuy programme, and the almost unlimited potential demand from aspiring house purchasers, it would seem desirable to focus Homebuy resources to maximise the strategic housing benefits of the programme.

This suggests that resources might be focussed on:

- Reducing the demand for social housing, and preventing homelessness, by assisting existing home owners to remain in owner occupation following a change in their circumstances such as relationship breakdown, loss of earning capacity, or other similar threat.
- Releasing social housing for reletting by assisting existing social housing tenants to buy in the open market.

A refocusing of the Homebuy programme to support these objectives would require a closer link with local authority and other housing advice services, and a more 'reactive' programme, able to respond to

need as it arises, rather than a programme responding purely to ever-lengthening waiting lists.

2. Reviewing the criteria of the Homebuy programme to support strategic objectives

At present, the Homebuy programme appears to be enabling purchasers to acquire properties which are larger than their current requirements, and which are certainly above the bottom decile, and probably the bottom quartile, of the market.

This suggests that a number of the criteria for the Homebuy programme should be reviewed:

- Should the maximum purchase price continue to be linked to the highest ACG band in each local authority area, potentially encouraging more 'upmarket' purchases?
- Should there be a more effective review of alternative properties available to potential purchasers (the very low proportion of mid terraced houses purchased suggests that lower cost alternatives may be available)?
- Should the size of property purchased be more closely related to the immediate needs of the household?
- Should the assistance available through the Homebuy programme be linked to any saving by the purchaser towards a deposit (e.g. by a 'pound for pound' matching scheme, or similar)?

3. Using the Homebuy programme in rural areas to support wider social objectives

There appeared to be little use made of the Homebuy scheme by rural local authorities to support other social objectives.

These might include:

- The use of resale covenants, parallel to those required for Right to Buy purchases, to ensure that property purchased with the assistance of Homebuy is sold to another eligible purchaser.
- The use of the Homebuy programme to support villages or small towns where local services are 'at risk' due to population change.
- In particular, the use of the Homebuy scheme to support local primary schools, where the sustainability of Welsh language medium education may be threatened by population decline, ageing, or other change.

Bibliography

Jones, M., (2005) *Social Housing Rents in Wales* (Welsh Assembly Government: Cardiff)

National Assembly for Wales (2003) *Assisted Home Ownership Procedure Guide (Consultation Draft)*

Statutory Instrument 1997, No.685 *The Leasehold Reform and Housing (Excluded Tenancies) (Designated Rural Areas) (Wales) Order 1997*

Statutory Instrument (2003) No. 54 *The Housing (Right to Acquire and Right to Buy) (Designated Rural Areas and Designated Regions) (Wales) Order 2003*

Statutory Instrument (2003) No. 1147 *The Housing (Right to Acquire and Right to Buy) (Designated Rural Areas and Designated Regions) (Amendment) (Wales) Order 2003*

Technical Advice Note 1: Joint Housing Land Availability Studies (Welsh Assembly Government: Cardiff, 2006)

Technical Advice Note 2: Planning and Affordable Housing (Welsh Assembly Government: Cardiff, 2006)

Welsh Housing Statistics 2004 (National Assembly for Wales: Cardiff)

Wilcox, S., (2003) *Can Work - Can't Buy: Local measures of the ability of working households to become home owners* (Joseph Rowntree Foundation: York)

Wilcox, S., (2004) *Home Ownership Affordability in Wales* (Centre for Housing Policy: University of York)

Wilcox, S., (2005) *Affordability and the intermediate housing market: local measures for all local authority areas in Great Britain* (Joseph Rowntree Foundation: York)

Appendix 1 - Extract from Better Homes for People in Wales: the National Housing strategy

E. SUSTAINABLE HOME OWNERSHIP

'Better Homes for People in Wales' said:

In Chapter 8, we set out proposals for supporting home-owners and helping others into home ownership where this was a sustainable option. The consultation document mirrored proposals in the UK Government's Housing Green Paper for reform of the home renovation grant regime, to give local authorities greater flexibility and freedom to decide priorities for the use of resources in accordance with local needs. It pointed to an on-going role for low cost home ownership (LCHO) schemes, where they accorded with locally identified need and priorities. We also highlighted proposed changes to the home buying and selling process, leasehold reform and the introduction of 'commonhold' (the subject of previous separate consultations).

Consultees said:

There was general support for the aim of supporting sustainable home ownership, particularly where householders could meet the long term cost of buying and maintaining a home. Respondents pointed to a need for an adequate supply of decent, affordable, rented accommodation in the private and social sectors to facilitate choice at the margins of home ownership. Existing safety nets for homeowners were not considered to be working. We were urged to lobby the UK Government to introduce a new Mortgage Benefit scheme, alongside more accessible industry Mortgage Payment Protection Insurance products. The introduction of a tenure-neutral, means-tested, Housing Tax Credit was advocated to underpin home ownership at the margins and redress the balance between the public and social sectors. The need for an impartial advice service to advise on housing options was stressed. The ability to "staircase" between tenures without moving home was advocated. Problems faced by disabled people, in receipt of long-term state benefits, in securing mortgage funding for home purchase also needed to be addressed.

There was extensive support for the proposed changes to private sector renewal arrangements, but it was felt that significant additional resources were required to tackle the scale of the stock condition problem in the private sector effectively. Some concerns were voiced about the potential consistency with which authorities might apply the freedoms available to them. It was suggested that we should set clear, measurable, targets for authorities, and that authorities' decisions should be transparent. Concern was also expressed that the emphasis on area renewal schemes could work in favour of urban areas (where poor condition was more visible) at the expense of rural communities. Some concern was expressed that means testing of the grant system was undermining and slowing down action in renewal areas. It was suggested that there should no longer be a requirement for residents to contribute to the cost of work where this was being done as part of an area renewal programme.

Our commitment to LCHO schemes was welcomed, though additional resources were needed to support their utilisation. It was suggested that we should establish a repurchasing fund, to enable landlords to repurchase LCHO properties on resale, so that properties are recycled for future use. LCHO schemes should be promoted more widely, to raise public knowledge about their existence. Local housing strategies should give more priority to funding LCHO schemes, where there was evidence of need. There were a number of calls for research and evaluation of the impact of existing LCHO schemes to inform future policy options. Any revised arrangements for LCHO schemes should also be required to meet the needs of disabled people.

Increased flexibility within the operation of Homebuy in rural areas (announced during the consultation period) was welcomed, though the view was expressed that it should also be extended to urban areas. Some responses agreed that the (largely unpopular) Shared Ownership scheme should be dropped in favour of improved flexibility and accessibility under the Homebuy/Homefinder schemes, while others saw it having a potential ongoing role. Restrictions on the resale of former Right to Buy properties in rural areas were supported. However, it was felt that there should be a fundamental review of the impact, and subsequent reform, of the Right to Buy legislation. Although requiring primary legislation, a view was expressed that the Right to Buy and Right to Acquire schemes should be unified. The concept of “tenure-neutral” housing (enabling prospective social housing tenants either to rent or purchase on LCHO terms) was generally thought worthy of further investigation and development.

A small number of responses welcomed the proposed introduction of commonhold and other leasehold reforms. Improvements to the home buying/selling process were welcomed, though there were some concerns about the cost implications of the proposed seller’s pack in areas of low value housing or slow markets.

E.1 SUSTAINABLE HOME OWNERSHIP

We are committed to sustainable home ownership – where householders can meet the long-term cost of buying and maintaining a home. We support the less well off and those who live in areas where prices are relatively high to become owners through LCHO schemes. A number of other measures, detailed below, support this aim. We aim to improve housing conditions in Wales by ensuring suitable help and advice is available to owners, landlords and tenants in the private sector.

A major potential factor on sustainable home ownership is the concept of ‘Lifetime Homes’. We have introduced Lifetime Homes principles for all new social housing from April 2001 (see Chapter I). We will also continue discussions with private sector house builders with a view to adoption of the principles by that sector.

E.2 HOME OWNERSHIP PROGRAMMES

Wales has the highest proportion of home ownership (72 per cent) in the UK. It also has the highest proportion of homes built before 1914, and 98,200 (8.5 per cent) homes classified as unfit. A Council of Mortgage Lenders’ survey showed that 87 per cent of adults surveyed aspired to home ownership within ten years. We wish to work in partnership with people in Wales to enable them to achieve this goal, where home ownership is a sustainable

option. We believe home ownership can make a major contribution in combating social disadvantage, by creating more stability and a better mix of incomes on otherwise large rented estates.

However, we must be cautious of encouraging home ownership at the margins, i.e. where people may have insufficient resources to meet normal household bills and to keep their home in good repair. An increase in repossessions would be most unwelcome, as it can have a very detrimental impact on health and family life.

A range of means tested grants and assistance is available to those homeowners, private landlords and tenants in greatest need to repair and improve their homes. These include individual renovation grants, home repair assistance, area based renewal and grants to landlords (including houses in multiple occupation grants). Local authorities are also able to develop strategic area based renewal schemes involving renewal areas, group repair, relocation grants and targeted individual renovation grants.

Help is also available to enable disabled and older people to remain in their own homes. Disabled Facilities Grants provide help with adaptations to disabled peoples' homes, and home repair assistance provides help to carry out minor repairs and adaptations for older people and those on income related benefits.

E.3 LOW COST HOME OWNERSHIP

A number of schemes are available to support low cost home ownership.

E.3.1 Right to Buy

The Right to Buy has contributed to a significant increase in the proportion of home owners since its introduction 20 years ago. The scheme has enabled 109,811 tenants (of local authorities, new towns and RSLs) in Wales to purchase their own homes between October 1980 and December 1999. However, the scheme has resulted in many of the more desirable properties being removed from the social rented sector, with authorities being left with a smaller stock of poorer quality homes to rent to people needing their assistance. It has also led to many people facing difficulties in maintaining their homes.

Some respondents argued for restricted access to the Right to Buy. This is not a devolved matter and would require changes to primary legislation affecting both England and Wales. We are able to change the areas to which restrictions apply on the resale of properties purchased under the Right to Buy. We are consulting on the case for extending the restrictions to a wider range of rural areas. The consultation also invites views on the case for restricting access to the Right to Acquire in the same rural areas.

E.3.2 Right to Acquire

The Right to Acquire gives qualifying tenants of RSLs a right to purchase their home, if the property was provided using Social Housing Grant or transferred from a local authority on or after 1 April 1997. Qualifying tenants are entitled to a discount of 25 per cent of the value of the property, up to a maximum of £16,000. Levels of activity are relatively low.

E.3.3 Homebuy

The Homebuy scheme is operated by RSLs. It assists people who are unable to meet their housing needs in the market to purchase a suitable property with the aid of an interest free equity loan that is repayable when the property is sold. The equity loan is currently fixed at 30 per cent of the value of the property (now 50 per cent in rural areas). Funding for Homebuy may be made available to RSLs where the local authority identifies this as a priority for the use of Social Housing Grant. Although popular, especially in DIY form, few local authorities currently give priority to LCHO, with the result that activity is relatively low.

Since consulting on our housing strategy proposals, we have introduced a new 50 per cent equity threshold for the 'Homebuy' scheme in rural areas. This has been broadly welcomed by respondents. We are making available additional resources to match the amounts of Social Housing Grant local authorities target for this purpose in 2001-2002. The programmes proposed by local authorities that are making use of the new flexibility and resources should allow up to 150 households in rural communities to purchase homes within their communities in the current financial year. The programme will be monitored to measure the extent to which outcomes match expectations, and we will review the success of the programme at the end of the year with participating RSLs and local authorities.

E.3.4 Homefinder

The 'Homefinder' scheme is similar to the Homebuy scheme, but is operated by local authorities. It also has to compete with other local authority spending priorities.

E.3.5 Shared Ownership

The 'Shared Ownership' scheme is operated by RSLs. It allows people to own a minimum share of 40 per cent of the value of their property and to pay rent on the portion that remains in the ownership of the landlord. The combined outgoings on mortgage repayments and rent on a 40 per cent share are similar, in most cases, to the mortgage repayments on 70 per cent of the value of an equivalent property under the Homebuy scheme. Consequently, 'Shared Ownership' is now rarely used.

E.3.6 Future Proposals

We wish to continue to support LCHO. A community's need for affordable housing is an essential element in contributing to community regeneration and strengthening social inclusion. It may be desirable, in planning terms, that new housing development in both rural and urban areas should incorporate a reasonable mix and balance of house types and size, to cater for a range of housing needs. Local authorities should ensure that planning policies for affordable housing are in line with the strategic planning objectives of the development plan.

The 'Right to Buy' and 'Right to Acquire' are statutory schemes, and the National Assembly has limited powers to make separate provisions for Wales. Changes were introduced to the cost floor rule and maximum discount cash limit applying to the 'Right to Buy' scheme in 1999, to improve its value for money and ensure that it only encourages sustainable home ownership. We are currently consulting on a proposal to extend restrictions on the 'Right to Buy' and 'Right to Acquire' in rural areas to safeguard the accessibility of low cost housing for local people.

Non-statutory schemes (such as 'DIY shared ownership', 'Transferable Discount' and Home Release) have been used mainly to give economically active people (who would otherwise be tenants) the opportunity of home ownership. While this may offer benefits to the participants and to the public purse (as it requires less subsidy than a rented dwelling), it has done little to promote mixed tenure and may have reduced the number of economically active people living on social housing estates.

There was general agreement with the proposition that the 'Shared Ownership' scheme should be discontinued in favour of a more flexible 'Homebuy' scheme.

The idea of providing housing that was "tenure neutral" was thought to have potential among respondents to the consultation. However, difficulties were recognised in reconciling the principle of customer choice inherent in offering housing according to "the needs, means and preferences" of individuals, with existing allocation policies that are based on priority needs alone.

There was qualified support for giving existing and prospective tenants the option to purchase using more flexible Homebuy equity loans. Some respondents saw it as an aid to achieving more sustainable communities. Others were concerned that it could lead to the loss of more popular rented stock, while doing little to combat social disadvantage in areas of low demand.

Although welcoming the introduction of a lower minimum Homebuy equity threshold, many respondents recognised the risk that some people on the margins of affordability could face difficulties in sustaining ownership in the long term.

There was substantial support for the introduction of flexible Homebuy that would enable people to move between tenures without moving house. The ability to staircase down as well as up, or to convert to rent and back to Homebuy in response to, for example, periods of unemployment or marital breakup, could offer an alternative to the destabilising effect of mortgage repossession or homelessness.

We will review existing procedures and grant schemes to remove obstacles to the more flexible use of 'Homebuy' to facilitate "tenure neutral" housing and to allow:

- social landlords to offer existing tenants the option to purchase their existing dwellings;
- social landlords to offer a prospective tenant the option to purchase the offered dwelling;
- allow 'Homebuy' owners to staircase down as well as up; and
- RSL to repurchase properties sold under 'Homebuy'.

Revised procedures will be published in draft form for consultation as soon as practicable, with a view to their early introduction. The existing 'Shared Ownership' scheme will be discontinued when the new 'Homebuy' procedures are published.

The aim will be to facilitate, not to impose. It is not envisaged that the options to purchase outlined above would be appropriate or desirable in all cases. It will be for local authorities and RSLs to determine the most appropriate way of meeting local needs. We will wish to treat any early proposals for "tenure neutral" housing as pilots, and will agree monitoring arrangements with RSL local authority partners.

Appendix 2 - The Homebuy scheme of Cardiff council

The scheme operated by Cardiff council is different to the Homebuy scheme using Social Housing Grant and administered by housing associations. The Cardiff scheme has used Section 106 agreements with developers to secure a proportion of affordable housing on new developments. A proportion of the affordable housing element on each site is then offered for sale at a discount to the market price, usually at a 20% or 30% discount, depending upon the S106 agreement. The discount to the full market price is then held as an equity share, transferred by the developer to the Council, and repayable on any subsequent sale in the same manner as Homebuy equity share.

The prices of properties offered are, therefore, fixed by the open market price less the discount obtained through the S106 agreement. The mix of bedsizes and dwelling types will be the result of negotiation with the developer. As a result, the range of households likely to be eligible for the type of dwelling offered, and able to afford the discounted price, will be determined by the nature and location of the development. A scheme in Cardiff Bay might, therefore, be offering a one bedroom flat at £120,000 or a two bedroom flat at £125,000, while a development in a suburban location might be offering a two bedroom terraced house for £120,000 or a three bedroom terraced house for £140,000.

The council operates a separate waiting list for the Homebuy schemes, and when a new development is nearing completion and reaching its marketing phase, the council will write to households on the Homebuy waiting list to ask if they are interested in the new development. In early 2006, the council was writing to around 400 households to offer a new scheme, and receiving some 40 expressions of interest, a figure indicating the extent to which households had other options in the housing market.

The council then 'scores' each application, using a matrix agreed some years ago. The matrix gives points for previous tenure (20 points for council tenants, 18 for HA tenants, 10 points for private tenants or those living with parents), for housing need (5 points for overcrowding above the bedroom standard), for local links such as giving or receiving care in the area, having children at school in the area, or having family living in the area (5 points for having 1 link, 8 points for 2 links and 10 points for 3 links), and for 'sustainability', essentially a measure of travel distance (5 points for living or working within 2 miles of the site, 2.5 points for living or working elsewhere in Cardiff, and 0 for living or working outside Cardiff). Each of the four groups is given a weighting, and a total score calculated.

The results of the matrix can be gauged by some examples. A council tenant, living within 2 miles of the site, whose parents also lived within 2 miles of the site, and whose children attend the local school, would score 68 points. A council tenant living anywhere else in Cardiff, and with no other local connection, would score 50 points. An overcrowded private sector tenant living more than 2 miles from the site would score 40 points. An applicant living at home with their parents within 2 miles of the site would also score 40 points. In cases where points are equal, the longest registered applicant takes priority.

The effect of the matrix appears to be that households living within the immediate area of a new development receive priority. Out of 43 purchasers, three were previously council

tenants and four were previously housing association tenants. The other 84% of purchasers were in the lower pointed groups: 23 lived with parents or relatives, and 13 were private sector tenants.

The matrix approach is currently under review by the council.

Rather less than half (42%) of all purchasers were single, contrasting with 13% in SE Wales and 10% in West Wales. This partly reflected the mix of properties available, with 9% of properties being either studio or one bedroom flats, compared to none in either SE or West Wales. However, over half (56%) of single people purchased two bedroom flats or terraced houses.

Nearly three quarters of all purchasers (72%) were either single people or childless couples. This contrasts sharply with SE Wales, where just under half (47%) of purchasers were childless households, and with West Wales, where only a quarter of purchasers were childless. No childless couple purchased a one bedroom property: just over half bought two bedroom properties, and just under half purchased three bedroom properties.

As a result, nearly three quarters (71%) of all two bedroom properties were bought by childless households, as were just over half (55%) of all three bedroom properties.

Among couple households, 95% were dual earning households (in the only couple household with one earner, the partner was disabled), an even higher proportion than the 90% in SE Wales, and markedly different to the 60% in West Wales.

The average gross annual income of the sole or higher earner was £17,920, and that of the second or lower earner was £10,377. The average household income, for both single and dual earner households, was £22,728. These averages are below the average earnings for the main earner in SE Wales of £20,877, and the resulting higher average household income of £27,165.

The lower incomes of the main earner in Cardiff, compared to that in SE Wales, may be the result of the slightly lower average of purchasers in Cardiff at 28, compared to 31 in SE Wales. Interestingly, the average age of single purchasers was 29, while that of couples was 27.

Appendix 3 - The Operation of Homebuy in England

Introduction

This appendix gives a brief survey of the diverse range of Low Cost Home Ownership products currently being offered in England under the generic branding of 'Homebuy'.

The range of Homebuy products

From 1 April 2006, a new structure for the operation of a range of LCHO products under the generic title of Homebuy has been introduced in England. Not all of these products utilise the underlying principle of Homebuy. As a consequence, Homebuy in England has become more of a generic marketing term than a specific product.

The range of products is complex, as are the eligibility rules for each product. Some of the products are not yet available, and information on these is only at a preliminary stage.

In other cases, there appears to be confusion between different providers as to which rules are currently in force.

In addition to any eligibility criteria specified for each Homebuy product, Regional Housing Boards have also prioritised groups for assistance. The regional priorities decided upon by Regional Housing Boards are set out in the Table at the end of this chapter.

General conditions

There are a number of general conditions which apply to most of the proposed Homebuy product range. Three of these general conditions are commented on below.

1. Affordability guidelines and income multiples

Affordability guidelines are issued by the Housing Corporation, which assess the affordability of house purchase by using an income multiple of 3.5 times single and 3 times joint incomes. The use of the traditional 'income multiple' approach for assessing affordability in Wales has been commented on earlier.

In the case of most English Homebuy products, which require the prospective purchaser to acquire a 75% share of the value of the property, and to pay a charge of 2.75% on the value of the 25% equity share, the value for money of using Homebuy rather than outright ownership, becomes more marginal.

An individual earning £28,570 would be assessed as being able to afford a mortgage of £100,000 at 3.5 times income. Purchasing a property worth £135,000, with a mortgage for £100,000 and an equity share of £35,000, would cost £132.10 per week for a 25 year tracker repayment mortgage and £18.55 per week as the equity charge, a total of £150.65 per week, or 37% of net income after tax and National Insurance.

The same individual, purchasing a property worth £135,000 outright, on an income multiple of 4.72, currently available from mainstream lenders, with a similar 25 year tracker repayment mortgage, would pay £178.33 per week, or 44% of net income.

Whether the additional expenditure of £27.68 per week, or a further 7% of net income, is unaffordable, or might represent better value for money, would be a matter for personal judgement.

The illustration above shows that the use of a high minimum percentage (75%) for the share bought by the purchaser, and the charge for the equity share, combined with a (currently) low income multiple, makes the decision to opt for Homebuy, rather than outright purchase, relatively marginal.

2. Maximum size of property

One bedroom in excess of the bedroom standard is permitted. This would permit a single person or childless couple to purchase a two bedroom property, and a family with one child to purchase a three bedroom property.

3. Housing Benefit receipt and eligibility

There is evident confusion over whether applicants in receipt of Housing Benefit are eligible. The Housing Corporation Capital Funding Guide for Homebuy (April 2006 version) states that: 'with effect from July 2003 applicants in receipt of Housing Benefit are no longer excluded from Homebuy'. However, the Housing Options website (the Homebuy Agent for London) states that 'you will not qualify for these schemes if you are in receipt of housing benefit or you are receiving housing benefits (sic)'.

Social Homebuy

This is scheme which social landlords can choose to offer to their tenants, although they are encouraged to do so by the government.

The scheme enables tenants who either do not have the Right to Buy or the Right to Acquire, or who cannot afford to exercise these rights, to purchase a share of 25% or greater of the discounted value of their home. The discount is the same as that used for the Right to Acquire, and is applied in proportion to the share purchased by the tenant.

All properties are sold leasehold, and the social landlord will levy a charge of 2.75% per annum on the value of the retained equity.

The scheme subsumes the former Voluntary Purchase Grant scheme.

To be eligible, social tenants must have at least two years' tenancy, rising to five years for tenancies commencing after 18 January 2005. If the property is sold within 5 years' of purchase, a proportion of the discount becomes repayable.

Properties exempt from the Right to Acquire scheme in designated rural areas or adapted for special needs remain exempt from Social Homebuy.

The cost of acquisition of a 50% share in a property with an open market value (OMV) of £100,000 and a Right to Acquire (RTA) discount of £9,000 would therefore be £60.10 per week for a 25 year repayment mortgage on £45,500 (50% of £100,000, less 50% of the £9,000 discount), plus £26.50 for the charge on the equity share of £50,000, a total of £86.60 per week. The cost of purchasing an initial 75% share would be £90.16 per week for a 25 year repayment mortgage on £68,250 (75% of £100,000, less 75% of the

£9,000 discount), plus £13.25 for the charge on the equity share of £25,000, a total of £103.41 per week.

It is not known at this stage how many social landlords propose to offer Social Homebuy, or what the take-up rate might be.

Open Market Homebuy

This scheme is for the purchase of existing homes on the open market, and appears to come in two forms.

The first is open only to social housing tenants, and possibly to households on the housing register. The definition on Homebuy Agents' websites differ, but the London scheme refers to 'in some areas those considered a high priority on their council's housing waiting list', while the Yorkshire and Humberside scheme refers to 'You may also be nominated for the scheme if you are registered on your local authorities waiting list'. It appears that only registration with the local council confers eligibility: housing association waiting lists are not mentioned.

This scheme is similar to the operation of Homebuy in Wales. The purchaser buys 75% of the property, and the Homebuy Agent provides a 25% equity share, repayable at the same share of any sale price if the property is sold. It does not appear that there would be a levy charged on the equity share.

The second form is available to key workers, first time buyers, and other groups prioritised by Regional Housing Boards.

In this scheme, purchasers also buy 75% of the property, and an equity share of 25%, up to maximum of £50,000, is provided by the Homebuy Agent. (It appears that the £50,000 maximum does not apply to the first scheme, but this may be an omission.) The Homebuy Agent will levy a charge of 2.75% per annum on the value of the retained equity. From October 2006, 50% of the equity share will be provided by three commercial lenders, HBOS, Nationwide BS and Yorkshire BS.

The cap of £50,000 on the size of the equity share is also an effective cap of £200,000 on the maximum value of a property which can be purchased under the Homebuy scheme.

The cost of acquisition of a 75% share in a property with an OMV of £100,000 would therefore be £99.01 per week for a 25 year repayment mortgage on £75,000, plus £13.25 for the charge on the equity share of £25,000, a total of £112.26 per week.

New Build Homebuy

Again, this appears to come in two forms.

The first is described on the Department of Communities and Local Government website as a scheme in which the purchaser can acquire a 25% or greater initial share of a property, with a housing association or developer holding the remainder of the equity. The housing association or developer will levy a charge of 2.75% per annum on the equity share.

Purchasers may staircase upwards by purchasing further shares at market value.

The scheme is described somewhat differently on the Housing Corporation website: 'Homes are sold as leasehold properties on shared ownership terms - they can be flats or houses. The minimum share you can purchase is 25%, and 75% is the usual maximum. You will need to be able raise a mortgage for the share you want to purchase, and you will pay rent on the share you don't own. Rents are calculated to be affordable.'

The Housing Corporation Capital Funding Guide for Homebuy (April 2006 version) however states that the maximum grant available is 25%. Therefore, the purchaser must acquire at least 75% of the value of the property (the Guide also states that the purchaser may not purchase more than 75% of the value of the property). Homebuy Agents were of the view that this guidance was already out of date, and under review.

The Housing Corporation website also refers to the use of a pre-emption clause on resale: 'your landlord may want to buy the property back from you to offer to other households who want to enjoy low-cost home ownership. They will tell you if they want to do this when you tell them that you want to sell', but the Capital Funding Guide for Homebuy procedures make no reference to any requirement for RSLs to include a pre-emption clause in the funding agreement.

The literature for Newbuild Homebuy also refers to the sale of second homes through resales as forming part of the Newbuild scheme rather than the Open Market scheme.

The second scheme is known as the First Time Buyer's Initiative, or FTBI. This scheme is run by English Partnerships (EP). It provides for purchasers to acquire a 50% or larger share of the value of a property, and for a charge to be levied on the equity share, but only after three years have elapsed since the original purchase. The amount of the charge has not yet been announced.

English Partnerships have identified three routes for delivering the FTBI: through current EP programmes such as the Hospital Sites Programme, through surplus public sector land not in EP's ownership, and 'via private sector schemes, where developers could receive FTBI funding to allow them to sell a portion of their market sale homes at discounted prices to first-time buyers'. No further details of this arrangement are available, and English Partnerships do not indicate whether any interaction between FTBI funding and the provision of affordable housing through S106 agreements is envisaged.

Key Worker Living

Key Worker Living is a government-led initiative to provide assistance to defined groups of key workers in London and parts of the south of England. It operates to define groups eligible for Homebuy in the relevant geographic areas, but also offers two additional schemes.

The first is a larger cap on equity shares of £100,000, targeted to certain groups of teachers in London.

The second is the provision of Intermediate Rent, at rents around 75-80% of market levels. This product is available to all groups of key workers, but is the only product available to key worker foreign nationals, other than those from the EU/EEA, who do not have indefinite leave to enter or remain in the UK.

England: First time buyer groups prioritised for assistance by Regional Housing Boards

London	Employed with a local connection i.e working or living in the area and servicing a community in the area or nearby. Maximum household income of £49K.
South East	People making a direct contribution to the local economy, including other workers essential to providing frontline public services (not already covered by Key Worker Living). Maximum household income of £60K allowing for families as well as smaller households to be helped.
East	The following public sector workers: medical secretaries, medical receptionists, teaching assistants, learning assistants, care workers employed by local authorities. Maximum household income of £60K.
South West	Key public sector workers providing essential public services. Other first time buyers maximum household income of £60K. Those on lower incomes will be prioritised for assistance.
West Midlands	<p>First time buyers will be targeted for assistance in:</p> <ul style="list-style-type: none"> • areas of large scale clearance and re-provision (Renew and Urban Living) to provide multi tenure 'pathway of choice'; • areas suffering in-migration pressures (South Housing Market Area (HMA), commuter belt in Central HMA) where there is no accessible low cost housing and where new affordable housing is being provided to meet local needs. <p>First time buyers will be targeted for assistance in order to extend tenure choice and geographical areas for the Black and Minority Ethnic population</p> <p>First time buyers will be targeted for Open Market Homebuy in areas with restricted housing numbers/land supply for new build (South, West & commuter belt Central HMAs). Prioritisation will be given to people on low incomes.</p>
East Midlands	People who need help to access their local housing markets, whatever their occupation. The average household income level of those being helped is expected to be around £20,000.
Yorkshire & Humberside	<p>Under Homebuy priority will be given to:</p> <ul style="list-style-type: none"> • workers key to the local economy in areas where the house price to earnings is above 4:1; • supporting sustainable tenure diversification in specific geographical areas where mix is crucial to sustainable communities; • supporting "restructuring households" i.e created after divorce or separation; and supporting home owners displaced by clearance schemes. <p>Under FTBI support will be given to:</p> <ul style="list-style-type: none"> • workers key to the local economy who are unable to afford market housing; • other workers in employment locally who are unable to afford market housing; • restructuring households and households affected by clearance schemes as described above.

<p>North East</p>	<p>People with a local connection, including responsibilities for family care. Restructuring households (including assistance for partner who leaves the family home). Private sector tenants in areas targeted for demolition or re-structuring. New graduates from the region's universities and colleges. People needing to live in the deep rural areas for reasons of transport accessibility, shift working etc. Maximum household income limit of £25,000. Existing owner occupiers from areas undergoing transformation who are often elderly or on limited incomes.</p>
<p>North West</p>	<p>Existing owner occupiers affected by clearance; the elderly who require accommodation suitable for their needs but cannot afford to buy an alternative property without assistance; people with a local connection; and key workers.</p>

Conclusions

Although the range of products on offer in England is in its early days, with many detailed aspects not yet fully worked out or publicised to potential purchasers, the diversity and complexity of the range of products on offer may prove inhibiting to potential purchasers.