



North Dorset District Council  
Planning Policy  
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Date: 16 January 2018  
Our Ref: MR M15/0715-172

**By email only:**  
[planningpolicy@north-dorset.gov.uk](mailto:planningpolicy@north-dorset.gov.uk)

Dear Sir / Madam

**RE: NORTH DORSET LOCAL PLAN REVIEW – ISSUES AND OPTIONS CONSULTATION**

We represent **Rentplus UK Ltd**, an innovative company providing affordable rent to buy housing for working people aspiring to home ownership with an accessible route to achieve their dream through the rent - save - own model.

Rentplus delivers affordable rent to buy housing across England. Thirty-three homes have been completed in Sherbourne in neighbouring West Dorset, while a further 56 are currently under construction in South Somerset and 12 in Shaftesbury, each in partnership with Tamar Housing. The Chief Executive of Tamar Housing, Julie Barnett, has said:

“We are delighted that our partnership with Rentplus will enable us to offer more new affordable rent to buy homes in the South West. We know that there is a huge demand for these homes and that initiatives such as Rentplus, which offers an alternative pathway to homeownership and security are crucial, especially at a time when thousands are unable to save enough for a deposit.

It is fantastic to be able to play a role in combatting the UK’s affordability crisis, and we look forward to continuing to work with Rentplus to deliver many more affordable rent to buy homes in the area.”

Across the South West, a total of 95 homes have been completed and occupied and a further 129 homes are under construction, including those noted above. Other successes across the South West region include partnering with Plymouth City Council as part of the Plymouth Housing Development Partnership (PHDP) to promote, develop and deliver new affordable housing. Rent to buy is included within the submitted Plymouth and South West Devon Joint Local Plan as an affordable housing tenure option within Policy DEV9:

“The following additional provisions for the delivery of a range and mix of housing to meet local housing needs shall apply to the Plan Area;

- 1. Affordable housing could include social and affordable rent, shared ownership, and innovative housing models that meet the local demand/need, such as rent-to-buy, starter homes and shared equity as appropriate.”

With this response we enclose an Affordable Housing Statement setting out the model’s compliance with the current NPPF definition of affordable housing, and how this boosts the supply of affordable housing and assisting hard working young families into home ownership.

**Section 12: Housing**

The Rentplus affordable rent to buy model addresses the primary barrier to home ownership – the lack of a mortgage deposit – through a combination of a secure rented period at an affordable rent, giving time to save, and a 10% gifted deposit to enable tenants to buy their own home in 5, 10, 15 or 20 years. In this way it extends the opportunity of home ownership to families who are otherwise unable to afford it and to do so within a timeframe to suit their circumstances.

These should recognise that for those households aspiring to home ownership, the main obstacle is being able to save enough for a mortgage deposit; research<sup>1</sup> has shown that:

“66% of private rented residents are unable to save anything towards a deposit for purchasing their own home ... [the] net result is that fewer people can cross the widening financial gap between renting ... and market homeownership in one leap: if ownership is to be extended to more people a substantial increase in ... options for people who can't afford to buy a suitable home is needed.”

As Rentplus is fully funded by institutional investors the model places no additional pressure on housing association funds or public subsidy, and by providing the homes in partnership with RPs, which manage and maintain each Rentplus home prior to purchase, the model also enables each partner housing association to make greater use of increasingly scarce resources.

Analysis of occupied Rentplus developments to date found over 60% of those moving into the new homes had come from the housing waiting lists, while at least 35% moved from existing affordable housing, releasing those homes for families in greater need. An analysis of the average age of tenants at six recent Rentplus developments indicates that the majority of tenants are aged under 34, with 64% within the 25-34 age group. This age group is recognised as the most affected by affordability constraints; areas with high numbers of young adults will benefit significantly from access to affordable home ownership.

The aim of the model is to help those hard working families unable to access shared ownership, starter homes or homes on the open market overcome the mortgage deposit 'gap' by enabling real savings to be built while renting at an affordable rent - 80% of open market rent (including any service charge) or Local Housing Allowance (whichever is the lower). The main differences with other affordable tenures, is that families are able to save for the mortgage deposit while renting that same home at an affordable rent, with a 10% gifted deposit, and are actively assisted into purchase in years 5, 10, 15 and 20.

The inclusion of affordable rent to buy as one of the routes to affordable home ownership provides greater choice and flexibility to reflect individual family circumstances and aspirations. Unlike starter homes, affordable rent to buy meets need for affordable housing by enabling those households who can afford an affordable rent to then save towards purchase of that very same home, enabling a much wider number of households to access full home ownership.

It is important to note that while the Council's Local Plan policies were adopted relatively recently, the Government has been proposing changes to the definition of affordable housing for some time now and this is due to be formalised in the publication of an updated NPPF imminently. The Council should therefore be mindful that adopted Local Plan **Policy 8** may require revision to reflect the latest definition of affordable housing. This is important as the definitions of individual tenures may be expanded to include a range of affordable housing models that can better reflect wide ranging needs, and aspirations for home ownership.

The Communities Secretary Sajid Javid suggested in a recent statement to the House of Commons that CLG is looking at including affordable rent to buy as a separate tenure in the update to the NPPF. This follows on from the housing White Paper, *Fixing our Broken Housing Market* which stated:

“Rent to Buy homes ... will enable thousands of households to access home ownership through a product that fits their circumstances. Rent to Buy will help hard-working households to benefit from a discounted rent set flexibly at levels to make it locally affordable so they can save for a deposit to purchase their home.” (Paragraph 4.28)

With the Prime Minister Theresa May announcing in a speech on 3 January 2018 that she has made it her “*personal mission to build the homes this country needs so we can restore the dream of home ownership for people up and down the UK*”, the way in which local plans are framed to assist with this ambition is crucial.

The supporting text to Policy 8 recognises the benefits of delivering affordable housing in delivering more sustainable, mixed communities, but also in maintaining a labour supply “*by providing school leavers, recent graduates and households on lower incomes with greater opportunity to remain in North Dorset*”. For a great many young working households social rent and affordable rented housing is not

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<sup>1</sup> England's 'rent-trap': just another reason housing is now a top 5 issue for voters (YouGov for Shelter, 2014)

appropriate, particularly in the long term. As already noted, affordable rent to buy bridges the gap for those households who would otherwise not have the opportunity to save for a mortgage deposit. The evidence supporting the adopted Local Plan recognised that access to capital is a substantial issue:

“The 2012 SHMA Update identified a need for 14% intermediate housing, although none of the households were found to be able to afford an equity-based product (e.g. shared ownership) due to very low levels of capital and mortgage lending restrictions at that time.”

Affordable rent to buy provides a very real alternative by removing the need for an upfront mortgage deposit, while ensuring that homes are provided to those with the ability to save. As affordability is recognised as a critical issue by the Council, ensuring that the Plan maximises the level of affordable housing that is delivered across North Dorset should be a central aim that is translated into suitably ambitious, flexible and effective policies.


In light of the Government’s proposed changes to the definition of affordable housing to include a wider range of tenures, including rent to buy, and the likely requirement for 10% of all development to be delivered as a home ownership tenure, we recommend the below changes to Policy 8 through this Local Plan Review:

Within the District as a whole, 70% to 85% of all new affordable housing should be provided as affordable rented and/or social rented housing in line with the definitions as set out in the NPPF and as meeting local housing needs. The remaining 15% to 30% should be provided as an affordable sale tenure, including intermediate housing. As a starting point for site-based negotiations, the Council will seek a tenure split within this range on individual sites, but a different split may be permitted if it can be justified by local circumstances, local needs or local viability considerations. Where local market conditions would make affordable rent unaffordable for those in housing need in that area, the Council will seek the provision of social rented housing, subject to local viability considerations.

In order to assist the Council with its understanding of affordable rent to buy and how need for this tenure can be assessed, a report by planning and development consultants Lichfields is enclosed alongside the Affordable Housing Statement. This sets out a proposed methodology for assessing the need for affordable rent to buy at an LPA level, and report concludes that affordable rent to buy housing can contribute towards existing NPPF requirements by offering an additional route to home ownership, a type of housing that responds to demographic and market trends, and a new tenure option that reflects local demand. We recommend that in setting any indicative expectations for housing mix that the Council ensure that tenure properly reflects the latest evidence – in the case of affordable rent to buy this will bridge needs, meeting an immediate need for affordable rent whilst also meeting need for affordable home ownership.

We would like to be notified when the Local Plan Review is next subject to public consultation, by email only to [consultation@tetlow-king.co.uk](mailto:consultation@tetlow-king.co.uk). Please ensure that **Rentplus** is retained on the consultation database, with **Tetlow King Planning** listed as their agents.

Yours faithfully



**MEGHAN ROSSITER BSc (Hons.) MSc MRTPI**  
**PRINCIPAL PLANNER**

For and On Behalf Of  
TETLOW KING PLANNING

**Enc.:** Affordable Housing Statement (Tetlow King Planning)  
Affordable Rent to Buy Homes: Proposed Methodology for Assessment of Need (Lichfields)

**Cc:** Sue Coulson and Anthony Eke, Rentplus

# RENTPLUS: AN AFFORDABLE MODEL

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Affordable Housing Statement



# AFFORDABLE HOUSING STATEMENT

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Rentplus

January 2016

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TETLOW KING PLANNING



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## Executive Summary

George Osborne pledged in his Autumn Statement to “*choose to build the homes that people can buy*”. The pledge to build 10,000 affordable homes to buy that will allow a tenant to save for a deposit while they rent provides explicit Government support for a new model of housing provision, enabling working households to enter the housing market with assistance not already offered.

Rentplus is a new model that seeks to provide a route to home ownership for those households aspiring to home ownership, but unable to afford to save for a mortgage. It is an affordable, privately financed alternative to the private rented sector, providing a managed route to home ownership in collaboration with housing associations. The delivery of Rentplus will be managed through S106 agreements tailored specifically to the product, and can act as a catalyst for bringing forward stalled developments.

The Government has stated its intention to diversify the form of affordable housing being delivered to meet the needs of those families aspiring to home ownership. This report confirms that the model conforms to the definitions of affordable housing, as set out in the Annex to the NPPF, by providing a hybrid product spanning affordable rent and intermediate affordable housing. As a product complementary to those models of affordable housing already being provided by housing associations, Rentplus will contribute to the NPPF’s aims of boosting housing supply and creating mixed and balanced communities.

This report describes the significant shortfall in affordable housing nationwide and the steady decline in the availability of grant funding over the past decade. Together with the rent reductions to housing associations taking effect from April 2016, it is likely that affordable housing delivery from this sector will be constrained, and so it is clear that there remains a need for further assistance in the market. This has been supported by organisations such as Shelter, which in a 2014 report on improving access to housing makes clear that public and private investment will have multiple, stabilising benefits, including reduced welfare dependency. The social benefits for



those aspiring to home ownership but unable to achieve this security whilst trapped in often prohibitively expensive private rented sector accommodation are numerous.

As housing associations come under strain from reduced public funding, rent reductions and the extension of Right to Buy this new model, which can be delivered quickly and in high volumes with no recourse to public funding, has been explicitly supported by the Government. It should be encouraged on a local level for its clear ability to make a significant contribution to improving lives and communities. The Government's proposed amendments to the definition of affordable housing in the NPPF to include rent to buy housing only confirms this.

Owing to the fixed period of tenancy at affordable rents for Rentplus dwellings before purchase, households have the ability to save for a deposit on the home they have rented. This offers a new product to those households whose needs are not already met by the market, whilst also diversifying the local housing stock and contributing to the development of mixed and balanced communities. Changes to local planning policy both generally and relative to individual sites should be prioritised to encourage early, accelerated delivery.

The Rentplus product has a wide pool of prospective households for whom saving towards a home purchase is not currently possible due to falling outside eligibility for current affordable housing stock. Rentplus should be considered a route towards a more diverse housing sector by local authorities seeking to provide mixed, balanced communities whilst reducing the number of households on the local housing register. The Rentplus model would make a valuable, NPPF-compliant contribution towards significantly boosting housing supply, and most importantly in meeting need for affordable housing without public sector funding. With full Government support, Rentplus will deliver the national aim to turn *Generation Rent* into *Generation Buy*.

# Introduction

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## Section 1

- 1.1 **Tetlow King Planning Ltd.** has been commissioned by **Rentplus** to prepare this Affordable Housing Statement to accompany its promotion of a new affordable housing model aimed at delivering discounted rented homes to buy for people who are unable to acquire a property on the open market. This report sets out Tetlow King Planning's expertise and credentials in the field of affordable housing, and confirms our professional opinion that the Rentplus model fully meets the need for affordable housing.

### **Who We Are: Qualifications and Experience**

- 1.2 Tetlow King Planning Ltd. is a town planning and housing consultancy, co-founded by the current Chairman, Robin Tetlow, in 1985. Over the past 30 years the company has accumulated specialist expertise in affordable housing, becoming acknowledged leaders in the field.
- 1.3 Tetlow King Planning Ltd. provides strategic and detailed advice to *inter alia* housing associations, developers, landowners and investors on numerous sites and developments located throughout the UK. The company has been retained more generically by national research organisations, such as the Joseph Rowntree Foundation, representative/trade organisations, such as the National Housing Federation, professional institutions, such as the Royal Institution of Chartered Surveyors and government/ government related organisations, such as the Housing Corporation/ Homes and Communities Agency. The company is also regularly employed by local authorities.
- 1.4 The principal individual authors of this report have provided expert evidence to courts of law, tribunals and to parliamentary committees and groups; and appeared nationwide at Regional Planning Guidance, Regional Spatial Strategy and Structure Plan examinations in public, Local Plan / Unitary Development Plan inquiries and Local Development Document public examinations.
- 1.5 The principal individual authors of this report have also provided expert evidence extensively at S77/S78 inquiries, including many relating to planning appeals and called-in applications of regional and national significance.

- 1.6 Since the inception of the National Planning Policy Framework in 2012, Tetlow King Planning's input on the need for and the provision of affordable housing as part of planning application and appeal proposals has become of even greater importance in demonstrating the social and economic benefits of developments which decision makers are obliged to weigh in the overall planning balance.

**This Report**

- 1.7 The report comprises six sections, setting out the national planning policy framework; the evidence calling for a more diverse affordable housing sector; the proposed affordable housing model; how we consider this fits within the planning definition of affordable housing; and our recommendations for how this can best be utilised to help meet diverse housing needs.

# Affordable Housing as a Material Consideration and the National Planning Policy Framework

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## Section 2

### Introduction

- 2.1 It is useful to put any affordable housing offer in its historic, legal and planning appeal context. This section sets out the importance of affordable housing as a material consideration, and highlights a number of relevant legal and planning appeal decisions.

### Affordable Housing as a Material Consideration: Historic Context

- 2.2 The importance of affordable housing as a material consideration has long been established, originating from PPG3 (1992). A community's need for affordable housing is a material planning consideration which may properly be taken into account in formulating development plan policies; authorities may also seek to negotiate with developers for the inclusion of an element of affordable housing in new schemes and it is Government policy that this approach is appropriate on-site unless off-site provision or a financial contribution can be robustly justified. Where there is a policy as to the provision of affordable housing in the development plan, the willingness of a developer to include an element of such housing in accordance with the policy will be a material consideration. The essence, however, is **reasonable flexibility**; policies should not seek to impose a uniform quota on all developments, regardless of market or site conditions.
- 2.3 As set out in Section 38(6) of the Planning and Compulsory Purchase Act 2004 and the National Planning Policy Framework (NPPF, 2012), where an adopted or approved development plan contains relevant policies an application for planning permission or an appeal should be determined in accordance with the plan unless material considerations indicate otherwise. Account can also be taken of policies in emerging development plans which are going through the statutory procedures towards adoption or approval; the weight to be attached depends upon the stage of plan preparation and the nature of representations relative to particular policies. Most adopted or approved and emerging development plans now include policies on affordable housing. Furthermore affordable housing can be regarded as a '*material*

*consideration*' in its own right as per the provisions of the NPPF and other Government advice. Supplementary Planning Documents and Housing Strategies may also be '*material*' subject to the level of public consultation and the extent to which they are broadly consistent with development plan policies.

### **Affordable Housing as a Material Consideration: Legal Context**

- 2.4 The importance of affordable housing has been reflected in a number of court cases including *Mitchell v Secretary of State for the Environment and Another* (1994); *ECC Construction Limited v Secretary for the Environment and Carrick District Council* (1994); and *R v Tower of Hamlets London Borough Council, ex parte Barratt Homes Ltd* (2000). Of particular relevance is the case of *Harry Rowlinson and Lynda Rowlinson as Trustees of the Linson Construction Pension Fund v Warrington Borough Council and the Department of Transport, Local Government and the Regions* (2002).
- 2.5 In this case, the Inspector had concluded that the opportunity to provide 100 affordable dwellings to address unmet need for affordable housing across the Warrington Borough Council area provided an overriding justification for immediately releasing a substantial Greenfield site at Lymm, with a capacity for approximately 200 dwellings, on the edge of the settlement. In reaching this conclusion, the Inspector had weighed other facets of PPG3, in particular the sequential approach towards site selection. This decision was challenged by Warrington Borough Council, with the consent of the Secretary of State.
- 2.6 The High Court initially quashed the Inspector's decision but the Court of Appeal subsequently upheld it, with leave to appeal to the House of Lords refused. Paragraph 45 of the Court of Appeal judgement concludes that the Inspector's reasoning was perfectly clear:
- "The provision of affordable housing is a material planning consideration. His assessment was that the assessed need for affordable housing was not likely to be met in the foreseeable future and meeting it was a compelling material consideration in the proposals favour which outweighed the general principle of sequential approach to development land."*
- 2.7 In a more recent case, of *Oadby and Wigston Borough Council v CLG and Bloor Homes Limited* (2015) the Council sought to challenge the grant of permission at appeal for up to 150 dwellings at Oadby. The Council brought the challenge on the ground that the Inspector failed in his assessment of the full objectively assessed

need for housing. The claim failed, and the application to quash the decision was dismissed on the grounds that the Inspector had not failed in his decision making. . In this case the local planning authority's Strategic Housing Market Assessment (SHMA) had confirmed that private rented sector housing is not affordable housing, however the local authority had sought to rely upon this sector for meeting the shortfall in affordable housing provision to satisfy the full objectively assessed need. The decision reinforces the principle that private rented accommodation does not fall within the definition of affordable housing.

### **Secretary of State appeal decision: Addlestone, Surrey**

2.8 A number of important planning appeal decisions demonstrate that affordable housing should meet a wide range of housing needs beyond a local authority's 'Reasonable Preference' obligations, and that permanence is not a prerequisite to appropriate affordable housing provision. An example of this is set out in a Secretary of State appeal decision<sup>1</sup> for 350 dwellings, 100% affordable, on a greenfield site identified as suitable for housing in the Local Plan for development considered the issue of whether a suitable mix of development would be provided. Whilst the development was proposed for 100% affordable housing, the tenure mix was offered as 49% social rented and 51% intermediate affordable housing. The Inspector's Report notes that the proportions of social rented and intermediate housing were "*at odds with the proportions identified as needed in the Council's own Housing Needs Assessment*" and in local policy (paragraph 3.65). One of the issues at the heart of the appeal was therefore the Council's intention for affordable housing to be delivered that would meet their Reasonable Preference groups.

2.9 Reasonable Preference groups are defined as those households with high levels of assessed housing need. The law requires that reasonable preference is given to the following categories:

- People who are homeless, including those who are intentionally homeless and in priority need;
- People who are owed a re-housing duty under the homelessness legislation, where this duty has not been discharged by an offer of suitable accommodation, which may be to a letting in the private sector;
- People occupying insanitary or overcrowded housing or otherwise living in unsatisfactory housing conditions;

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<sup>1</sup> Appeal decision relating to Land at Franklands Drive, Addlestone ref. APP/ Q3630/A/05/1198326

- People who need to move on medical or welfare grounds, including grounds related to a disability; and
- People who need to move to a particular locality, where failure to meet that need would cause hardship to themselves or to others.

2.10 In other words they are those households in most priority need. The Housing Register is a limited source for identifying the full current need for affordable housing. The Inspector drew an important distinction between the narrow statutory duty of the Housing Department in meeting priority need, and the wider ambit of the planning system to meet the need for affordable housing. As such the number of households on the Register will only be an indication of those in priority need and who the housing department have a duty to house. But it misses thousands of households who are in need of affordable housing, a large proportion who will either be living in overcrowded conditions with other households or turning to the private rented sector and paying unaffordable market rents.

2.11 Paragraph 7.13 of the Inspector's Report on the Secretary of State appeal decision states:

*"The case advanced by the Borough Council was founded on the long established experience of the Council in grappling with issues of 'housing need'. This has long been an area of concern for local authorities, initially through the active twentieth century tradition of Council House building and transformed, via the process of producing Housing Investment Programmes (HIPs), into a general concern with Social Housing and the production of local housing strategies.*

*The direct link between such local housing strategies and assessment of 'housing need' is made explicit within the Department of the Environment, Transport and the Regions' "Local Housing Needs Assessment: A Guide to Good Practice" (CD199). This document published in 2000 remains the source of guidance for Runnymede's January 2005 Housing Needs Assessment (CD72) carried out by Fordham Associates. However, while I recognise that this approach will have value in identifying groups most in need of assistance in realising their housing aspirations, I regard the approach as retaining a relatively narrow and unduly restrictive approach to the concept of what comes within the ambit of the term Affordable Housing."*

2.12 In this case, the Inspector noted evidence that most households in the Borough aspired to home ownership but many would be unlikely to purchase for a significant

period, or not at all, remaining instead in the private rented sector. As summarised by the Inspector, such households:

*“should not be confused with those who can only afford social rented or intermediate housing. Ignoring the private rented sector as part of the housing market ... not only deprives the more hard pressed household of appropriate intermediate housing, but frustrates Government’s intention to develop a ‘ladder’ up which those able to do so may ‘climb’ to full owner occupation.”* (Paragraph 3.116)

- 2.13 In this case, the Inspector concluded that the scheme for 100% affordable housing would provide an acceptable mix of tenures, and that the range of house types would therefore not produce a uniformity of house types. The Inspector posed the question of whether the *“households residing in this development would be a sufficient mix of social and economic groups”* (IR7.18), taking account of the mix that would result from the particular cascade arrangement for this scheme. The total mix on the scheme, the Inspector concluded, would be:

*“likely to accommodate households of differing character, such that the overall development would be accommodating a range and variety of households. Even if the mix of tenures being made available by the operation of the cascade mechanism, were to alter the balance of these tenure groups, the result would be to increase the proportion of equity sharing households and I see no reason to anticipate that there would be any unusual concentration of socially disadvantaged households.”* (IR7.19)

- 2.14 The Inspector’s overall conclusions found that the scheme represented a *bona fide* 100% affordable housing scheme which would *“result in a mixed development, accommodating households of different sizes and with a variety of socio-economic characteristics”* (IR7.72). He recommended that planning permission be granted. The Secretary of State agreed with her Inspector’s conclusions, noting in particular that:

*“if the mix of tenures being made available by the operation of the cascade mechanism secured in the Unilateral Undertaking were to alter the balance of the proposed tenure groups, the result would be to increase the proportion of equity sharing households. She therefore agrees with the Inspector that there is no reason to anticipate that the proposed scheme would result in any unusual concentration of socially disadvantaged households.”* (DL16)

- 2.15 The appeal was allowed on this basis.



## Appeal Decision: St Albans

- 2.16 An appeal decision<sup>2</sup> considered the 6 units of affordable housing offered as part of an approved scheme for 55 dwellings in St Albans. There was an issue as to whether the proposed key workers accommodation would meet the need for affordable housing in the area. The appellants proposed the freehold sale of 6 units to a housing association at 60% of market value. The housing association would then liaise with local employers and let the units to key workers at affordable rents to those with incomes below £25,000 per annum. The local authority argued that such housing would not meet priority needs. The Inspector agreed but ruled that the needs of key workers were not being addressed in the District, noting that the Council's housing evidence had not investigated the needs of key workers, and that it was legitimate to provide for the full range of housing needs, not just those with priority needs.
- 2.17 The appellants referred to the 'polarisation' that can result if only those who can afford market prices and rents, and those with priority needs for affordable housing, have access to local housing stock. The Inspector agreed that the scheme would offset that tendency, meeting the national objectives to provide for the housing needs of the whole community and to increase choice. The Inspector concluded on this point that the Council should "*aim to meet a wide range of housing needs for middle as well as low income earners*" (paragraph 19). As local housing prices are too high and private renting too expensive, the needs of key workers were not being met. The scheme would meet this need.
- 2.18 The local authority also objected to the fact that the housing would not be secured *in perpetuity* as affordable housing. The Inspector noted that the privately financed model indicated that they would be lost as affordable units at the end of 20 years. However, it was concluded that permanence was not a realistic objective for affordable housing even when a housing association is involved; it is worth quoting these paragraphs at length:
- "When a RSL uses Social Housing Grant to provide dwellings for rent, every tenant has the right to purchase by virtue of the Housing Act 1996. Every 'shared owner' has the right to 'staircase' to 100% ownership. ...*
- The Council brought no evidence to the Inquiry to support its judgment that 20 years was not a sufficiently long period of time for the provision of affordable housing on a*

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<sup>2</sup> Appeal decision relating to Old Albanians Sports Ground, St Albans ref. APP/B1930/A/01/1073344

*site. I consider that this is a long period in development plan terms. Also, there would be a reasonable prospect of the units being retained for affordable housing for a longer period as they would be in the hands of a RSL ... The Council argued that the scheme should be differentiated from one wherein the tenant exercised the right to buy, because that would benefit someone in housing need. However, I agree with the Appellants that the tenant exercising the right to buy would be no longer in need.*

*On permanence, I conclude that this is not a realistic objective for affordable housing even where a RSL is involved. I consider that the scheme, in the hands of a RSL operating under the auspices of the Housing Corporation, would offer benefits to the District for a substantial period of 20 years.” (Paragraphs 24-26)*

- 2.19 The Inspector also rejected the Council’s concerns about enforceability in relation to rent control and the timing of individual sales of units, since the scheme would be run by a housing association.

#### **National Planning Policy Framework (NPPF, 2012)**

- 2.20 The National Planning Policy Framework (NPPF) is a material planning consideration, central to setting out the role of affordable housing in the planning and decision making process. The delivery of sustainable development, encompassing social, economic and environmental roles, is at the heart of the NPPF; the paragraphs below set out the key points in relation to affordable housing.
- 2.21 Fundamental to the social role is *“supporting strong, vibrant and healthy communities, by providing the supply of housing required to meet the needs of present and future generations”* (paragraph 7).
- 2.22 Paragraph 8 is clear that these roles *“should not be undertaken in isolation, because they are mutually dependent”*. Therefore, to achieve sustainable development, economic, social and environmental gains should be sought jointly through the planning system.
- 2.23 In pursuit of sustainable development paragraph 9 notes the importance of *“widening the choice of high quality homes”*.
- 2.24 Paragraph 14 sets out a presumption in favour of sustainable development, stating:  
*“at the heart of the National Planning Policy Framework is a presumption in favour of sustainable development, which should be seen as a golden thread running through both plan-making and decision taking.*

*For decision taking this means:*

- *Approving development proposal that accord with the development plan without delay; and*
- *Where the development plan is absent, silent or relevant policies are out-of-date, granting permission unless:*
  - *any adverse impacts of doing so would significantly and demonstrably outweigh the benefits, when assessed against the policies in this Framework taken as a whole; or*
  - *specific policies in this Framework indicate development should be restricted.”*

2.25 Paragraph 17 sets out 12 core principles which underpin both plan making and decision taking. These include that planning should:

- *“be genuinely plan-led, empowering local people to shape their surroundings, with succinct local and neighbourhood plans setting out a positive vision for the future of the area. Plans should be kept up-to-date, and be based on joint working and co-operation to address larger than local issues. They should provide a practical framework within which decisions on planning applications can be made with a high degree of predictability and efficiency;*
- *not simply be about scrutiny, but instead be a creative exercise in finding ways to enhance and improve the places in which people live their lives;*
- *proactively drive and support sustainable economic development to deliver the homes, businesses and industrial units, infrastructure and thriving local places that the country needs. Every effort should be made objectively to identify and then meet the housing, business and other development needs of an area, and respond positively to wider opportunities for growth. Plans should take account of market signals, such as land prices and housing affordability, and set out a clear strategy for allocating sufficient land which is suitable for development in their area, taking account of the needs of the residential and business communities;*
- *... actively manage patterns of growth to make the fullest possible use of public transport, walking and cycling and focus significant development in locations which are or can be made sustainable; and*

- *take account of and support local strategies to improve health, social and cultural well being for all, and deliver sufficient community and cultural facilities and services to meet local needs.”*
- 2.26 There is a clear emphasis on supporting enterprise, including the statement at paragraph 19 that planning *“should not act as an impediment to sustainable growth”*, and at paragraph 21 that investment in business *“should not be over-burdened by the combined requirements of planning policy expectations”*.
- 2.27 Section 6 sets the Government’s agenda for delivering a wide choice of high quality homes. Paragraph 47 clearly sets out the Government’s aim to *“boost significantly the supply of housing”* through a number of methods. Local Planning Authorities (LPAs) should *“use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing”* and identify and update annually a five year supply of housing.
- 2.28 The NPPF is clear that delivering sufficient housing is a key consideration for LPAs; and in particular that this should widen opportunities for home ownership and create sustainable, inclusive and mixed communities. LPAs should:
- *“plan for a mix of housing based on current and future demographic trends, market trends and the needs for different groups in the community (such as but not limited to, families with children, older people, people with disabilities, service families and people wishing to build their own homes);*
  - *identify the size, type, tenure and range of housing that is required in particular locations, reflecting local demand; and*
  - *where they have identified that affordable housing is needed, set policies for meeting this ... and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time.”* (Paragraph 50)
- 2.29 The section on plan-making emphasises the need for LPAs to reflect the vision and aspirations of local communities in Local Plans (paragraph 150), and for Plans to be aspirational but realistic (paragraph 154). Opportunities should be sought to achieve the economic, social and environmental dimensions of sustainable development, and net gains across all three.
- 2.30 The NPPF is clear that LPAs should have a *“clear understanding of housing needs in their area”* by assessing *“their full housing needs”* (paragraph 159) through a

Strategic Housing Market Assessment (SHMA). This should *“identify the scale and mix of housing and the range of tenures that the local population is likely to need over the plan period”*, including *“the need for all types of housing, including affordable housing.”*

2.31 Paragraph 173 states that Plans should be deliverable, with developments not subject to *“such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs ... [should] provide competitive returns to a willing land owner and willing developer”*.

2.32 The NPPF encourages a positive and proactive approach to the delivery of development through positive decision-taking. Paragraphs 186 and 187 indicate:

*“Local Planning Authorities should approach decision-taking in a positive way to foster the delivery of sustainable development. The relationship between decision-taking and plan-making should be seamless, translating plans into high quality development on the ground.*

*Local planning authorities should look for solutions rather than problems, and decision-takers at every level should seek to approve applications for sustainable development where possible. Local planning authorities should work proactively with applicants to secure developments that improve the economic, social and environmental conditions of the area.”*

2.33 The NPPF also notes that planning conditions and obligations should be used to address unacceptable impacts or otherwise unacceptable development. Planning obligations should only be sought where they *“meet all of the following tests:*

- *necessary to make the development acceptable in planning terms;*
- *directly related to the development; and*
- *fairly and reasonably related in scale and kind to the development”*

2.34 **Annex 2: Glossary** defines affordable housing for planning purposes as follows:

*“Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.*

*Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.*

*Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).*

*Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.*

*Homes that do not meet the above definition of affordable housing, such as 'low cost market' housing, may not be considered as affordable housing for planning purposes."*

### **National Planning Practice Guidance (PPG)**

2.35 The Planning Practice Guidance (PPG) was first published in 2014 to complement the NPPF in providing guidance on its practical implementation. The PPG is an online-only resource divided into 47 sections. The principal section relevant to this statement is the section entitled *Housing and economic development needs assessments*.

2.36 The guidance is clear that there should be an objective and unconstrained assessment of the total housing need. It states:

*"The assessment of development needs is an objective assessment of need based on facts and unbiased evidence. Plan makers should not apply constraints to the overall assessment of need, such as limitations imposed by the supply of land for new development, historic under performance, viability, infrastructure or environmental constraints. However, these considerations will need to be addressed when bringing evidence bases together to identify specific policies within development plans."*

- 2.37 A methodological approach is set out for assessing housing need. Councils are required to take into account under-supply and worsening affordability of housing, with assessments needing to reflect past under delivery of housing. Affordability is highlighted as a key factor in assessing overall housing targets.
- 2.38 Under the heading *How should plan makers respond to market signals?* the guidance states that *“A worsening trend in any of these indicators will require upward adjustment to planned housing numbers compared to ones based solely on household projections.”*
- 2.39 It goes on to state:
- “Assessing affordability involves comparing house costs against the ability to pay. The ratio between lower quartiles house prices and the lower quartile incomes or earnings can be used to assess the relative affordability of housing. The Department for Communities and Local Government publishes quarterly the ratio of lower quartile house prices to lower quartile earnings by local authority district.”*
- 2.40 Other factors to be considered are land prices, house prices, rents, rate of development and overcrowding.
- 2.41 The Viability section of the PPG notes that Local Plans’ visions for an area should *“not undermine ambition for high quality design and wider social and environmental benefit”* (Paragraph: 001 Reference ID: 10-001-20140306).
- 2.42 The Government introduced the Starter Homes model through a new section in the PPG. This enables exception sites to come forward specifically to meet the housing needs of first time buyers through the provision of below open market value homes. This product is to be delivered on under-used or unviable industrial and commercial land not currently identified for housing. The Government encourages LPAs to make these sites exempt from affordable housing and tariff-style contributions. The introduction of this model shows the Government’s clear intention to widen the availability of home ownership through more affordable models of delivery.

### **Summary**

- 2.43 Over the past 30 years, the need for affordable housing has been recognised as being integral to the planning system. A consistent thread has run through various policy documents, with the need now firmly stated in the NPPF and the PPG.
- 2.44 The Courts have confirmed that affordable housing is capable of being a compelling material consideration in the determination of planning applications, the weight

attached to any material consideration being at the discretion of the decision maker. As confirmed by a Secretary of State appeal decision, housing provision need not be exclusively for the benefit of those households at the extremes of need. Affordable housing such as Rentplus rent to buy will, as with the schemes referenced above, accommodate a range and variety of households of different character while freeing up existing social rented housing for those in need.

- 2.45 There is no requirement for all affordable housing to be retained *in perpetuity*. As set out in the St Albans appeal decision, it is unrealistic to expect affordable housing to be retained for a period longer than 20 years, due to the Right to Buy for social housing tenants and for shared ownership occupiers to 'staircase' to full ownership. Even though these homes are lost from the general affordable housing stock, housing associations are not required to replace each home on a one-for-one basis in the local authority area, nor to recycle receipts for future investment. The commitment by Rentplus to replace each home sold on a one-for-one basis, securing long term delivery of homes to rent to local people, will fulfil local authority duties to meet local needs whilst also diversifying the local housing stock.



# Making the Case for Diversity of Supply

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## Section 3

### Introduction

- 3.1 This section highlights those reports and statements from Government that define the case for a diversity of affordable housing supply to meet the full range of housing needs, as required by the NPPF and PPG. This encompasses reports from Government departments, including CLG and HM Treasury, leading think tanks, and respected charities such as Shelter.

### Government Statements

#### **George Osborne MP, Chancellor of the Exchequer, Autumn Statement (25 November 2015)**

- 3.2 In his Autumn Statement, George Osborne verbally pledged:

*“For another of the great social failures of our age has been the failure to build enough houses. In the end Spending Reviews like this come down to choices about what your priorities are. And I am clear: **in this Spending Review, we choose to build.***

***Above all, we choose to build the homes that people can buy. For there is a growing crisis of home ownership in our country. 15 years ago, around 60% of people under 35 owned their own home, next year it’s set to be just half of that. We made a start on tackling this in the last Parliament, and with schemes like our Help to Buy the number of first time buyers rose by nearly 60%. But we haven’t done nearly enough yet. So it’s time to do much more. Today, we set out our bold plan to back families who aspire to buy their own home.***

*First, I am doubling the housing budget. Yes, doubling it to over £2 billion per year. We will deliver, with government help, 400,000 affordable new homes by the end of the decade. **And affordable means not just affordable to rent, but affordable to buy.** That’s the biggest house building programme by any government since the 1970s. Almost half of them will be our Starter Homes, sold at 20% off market value to young first time buyers. 135,000 will be our brand new Help to Buy: Shared Ownership which we announce today. We’ll remove many of the restrictions on*

shared ownership – who can buy them, who can build them and who they can be sold on to.

... So this Spending Review delivers: A doubling of the housing budget. 400,000 new homes; with extra support for London. Estates regenerated. Right to Buy rolled-out. Paid for by a tax on buy-to-lets and second homes. **Delivered by a government committed to helping working people who want to buy their own home. For we are the builders.**”

3.3 Most importantly, the written statement clarifies the Government’s:

“...**Five Point Plan for housing to:**

1. **Deliver 400,000 affordable housing starts by 2020-21, focussed on low cost home ownership. This will include:**

- ... **10,000 homes that will allow a tenant to save for a deposit while they rent.** This will be in addition to 50,000 affordable homes from existing commitments

*The scale of this programme of house building will require all sectors to play a role in delivery. As a result, the government will remove constraints that prevent private sector organisations from participating in delivery of these programmes, including the constraints to bidding for government funding.* [Underlining added]

#### **DCLG Statement (25<sup>th</sup> November 2015)**

3.4 The Department for Communities and Local Government announced as part of its settlement at the Spending Review 2015:

*“The government will double the housing budget from 2018 to 2019 to deliver at least 400,000 affordable homes [over this Parliament] including 200,000 Starter Homes, 135,000 new Help to Buy Shared Ownership homes and **10,000 Rent to Buy homes.**”*

3.5 In these statements the Government at the highest levels has set out its explicit support for the affordable Rent to Buy model being offered by Rentplus.

#### **Impact of Social Rent Changes on the Delivery of Affordable Housing (Minister of State for Housing and Planning Brandon Lewis MP, 9 November 2015)**

3.6 The Minister wrote to all local authorities to ask that a more flexible approach is taken to S106 agreements and negotiations on tenure mix. In this letter he notes that

following the announcement of rent reductions some approved or emerging schemes:

*“are not being built out at the anticipated rate. Delay risks planned homes not coming forward and the ability of councils being able to demonstrate a five-year supply of deliverable housing land”.*

- 3.7 Whilst the ability to renegotiate S106 agreements is already in place, the Minister has used this letter to encourage local authorities to:

*“respond constructively, rapidly and positively to requests for such renegotiations and to take a pragmatic and proportionate approach to viability.”*

- 3.8 The letter specifically asks that local authorities expedite negotiations where simple adjustments to tenure mix are proposed, without the need for full open book viability appraisals. In circumstances whereby the overall amount of affordable housing is proposed, the Minister is encouraging the “minimum amount of viability information necessary” to be sought. The letter also indicates that CLG will produce guidance on cascade mechanisms for S106 agreements to encourage flexible arrangements.

**Greg Clark MP, Secretary of State for Communities and Local Government (5<sup>th</sup> October 2015)**

- 3.9 At the Conservative Party Conference Greg Clark spoke of the need to deliver more housing for those increasingly shut out of home ownership:

*“... the opportunities that our generation took for granted, have been slipping out of reach for the next generation. In the 20 years to 2012, the proportion of 25-34 year olds owning their own homes fell from 67% to 43%. The number of 20-34 year olds living with their parents increased by two thirds of a million.*

...

*Most people in our country want to own their own home. For years governments have talked about affordable homes but in my view, not enough of them have been affordable homes to buy. I want us to put that right. I want us to build many more homes and I want to build homes that people can buy as well as rent. Shared ownership homes, starter homes for young people. **Now, homes for rent will always have a role. But why should signing a tenancy agreement mean signing away your aspirations to become a homeowner?**”*

### **David Cameron MP, Prime Minister, Conservative Party Conference Speech (7 October 2015)**

- 3.10 The Prime Minister in his conference speech said that he wants to turn ‘Generation Rent’ into ‘Generation Buy’:

*“But for me, there’s one big piece of unfinished business in our economy: housing. A Greater Britain must mean more families owning a home of their own. ... If you’ve worked hard and saved, I don’t want you just to have a roof over your head – I want you to have a roof of your own.*

*In the last 5 years, 600,000 new homes have been built. More than 150 people a day are moving in thanks to our Help to Buy scheme. ... 1.3 million to be given the chance to become homeowners. ... But the challenge is far, far bigger. When a generation of hardworking men and women in their 20s and 30s are waking up each morning in their childhood bedrooms – that should be a wakeup call for us. We need a national crusade to get homes built. That means banks lending, government releasing land, and yes – planning being reformed.*

*... Increasing home ownership means something else. For years, politicians have been talking about building what they call “affordable homes” – but the phrase was deceptive. It basically meant homes that were only available to rent. What people want are homes they can actually own. ...*

*So today, I can announce a dramatic shift in housing policy in our country. Those old rules which said to developers: you can build on this site, but only if you build affordable homes for rent, we’re replacing them with new rules: you can build here, and those affordable homes can be available to buy. **Yes, from Generation Rent to Generation Buy**”*

### **Brandon Lewis MP, Housing Minister**

- 3.11 In oral evidence delivered to the CLG Select Committee on 9<sup>th</sup> November 2015, the Housing Minister emphasised the Government’s aim to increase access to home ownership, *“whether it is rent-to-buy schemes”* or other avenues; *“all these avenues will play an important part”*.
- 3.12 On 15<sup>th</sup> December the Housing Minister answered two questions posed by Solihull MP Julian Knight on affordable rent to buy housing. The first of which asked if the Government would make rent to buy housing exempt from pay to stay proposals for higher income social tenants. The Minister responded:

*“Higher income social tenants in a Rent to Buy scheme will not face increased rent under proposals for pay to stay. This is because the rent they pay is an intermediate rent which is excluded from social rent policy.”*

- 3.13 A further question on whether the Government will include rent to buy housing as part of the Housing and Planning Bill’s proposed general duty on local authorities to promote the supply of Starter Homes. The Minister referred to rent to buy:

*“The Housing and Planning Bill will support our manifesto commitment to build 200,000 Starter Homes to help more young people into home ownership. **Like other valuable products which support access to home ownership, affordable rent-to-buy, can be considered by councils as part of their wider affordable housing requirements for their area.**”*

### **Housing and Planning Bill: Committee Stage**

- 3.14 The Housing and Planning Bill includes a number of proposed reforms to both the planning system and the way in which affordable housing is managed. One of the proposed reforms is to phase out ‘tenancies for life’, removing security of tenancy by changing to fixed terms of 2 to 5 years which will not automatically be removed. Should the proposed clauses be accepted as part of the Bill, the availability of fixed term tenancies will be much reduced.
- 3.15 The Bill is currently at report stage; further amendments to the Bill were first considered in the House of Commons on 5<sup>th</sup> January 2016. Amongst these Greg Clark tabled a series of amendments confirming that private registered providers of affordable housing will not be required to charge high income social tenants specific rents, confirming that ‘pay to stay’ will not be mandatory. Consideration of the Bill continues.

### **Other Publications**

#### **Laying the Foundations – A Housing Strategy for England (CLG, 2011)**

- 3.16 This document sets out an intention to ‘unblock’ the housing market and tackle the social and economic consequences of the failure to develop sufficient high quality homes over recent decades.
- 3.17 The problems noted in this Strategy and the methods to achieve the ‘unblocking’ include the following:

- A thriving, active but stable housing market that offers choice, flexibility and affordable housing - this is critical to England's economic and social wellbeing;
- *"The problems we face are stark"* and have been compounded by the impact of the credit crunch;
- *"Urgent action to build new homes"* is necessary as children will grow up without the opportunities to live near their family;
- *"Housing is crucial for our social mobility, health and wellbeing"*;
- *"Housing is inextricably linked to the wider health of the economy"*; and
- Fundamental to the whole approach of the strategy is communities (including prospective owners and tenants), landlords and developers working together.

3.18 The Strategy proposed an increase in the estimated output of affordable homes between 2011 and 2015 to 170,000 dwellings (from the 150,000 dwellings proposed by the previous Government).

3.19 The Strategy also sets out the support needed to deliver new homes and 'support aspiration', including ***"including encouraging new private entrants into the social housing market, and considering innovative new approaches to funding affordable housing in the medium term"***. This Strategy gives explicit support for the entry of for-profit providers into the affordable housing market. The ability to charge rents at up to 80% of market levels is encouraged to provide additional financial capacity to:

*"deliver more housing than would otherwise be possible ... reducing the pressure on funding from the taxpayer ... This means that we can ... help a greater number of households experience the benefits of an affordable rented home"*.

3.20 The Strategy further states that the entry of for-profit providers adds to the affordable housing sector's diversity and potential financial capacity, as raised by the investment opportunity presented to institutional investors such as pension funds.

### **Fixing the Foundations: Creating a More Prosperous Nation**

3.21 Planning reforms were announced in this document, itself following on from *Laying the Foundations*. These reforms are aimed at driving up living standards and providing a better quality of life in Britain. At paragraph 9.23 the report commits the Government to delivering affordable homes to buy, confirming this Government's

support for models of extending opportunities for affordable home ownership to many more households.

**Building the Homes We Need (KPMG and Shelter, 2014)**

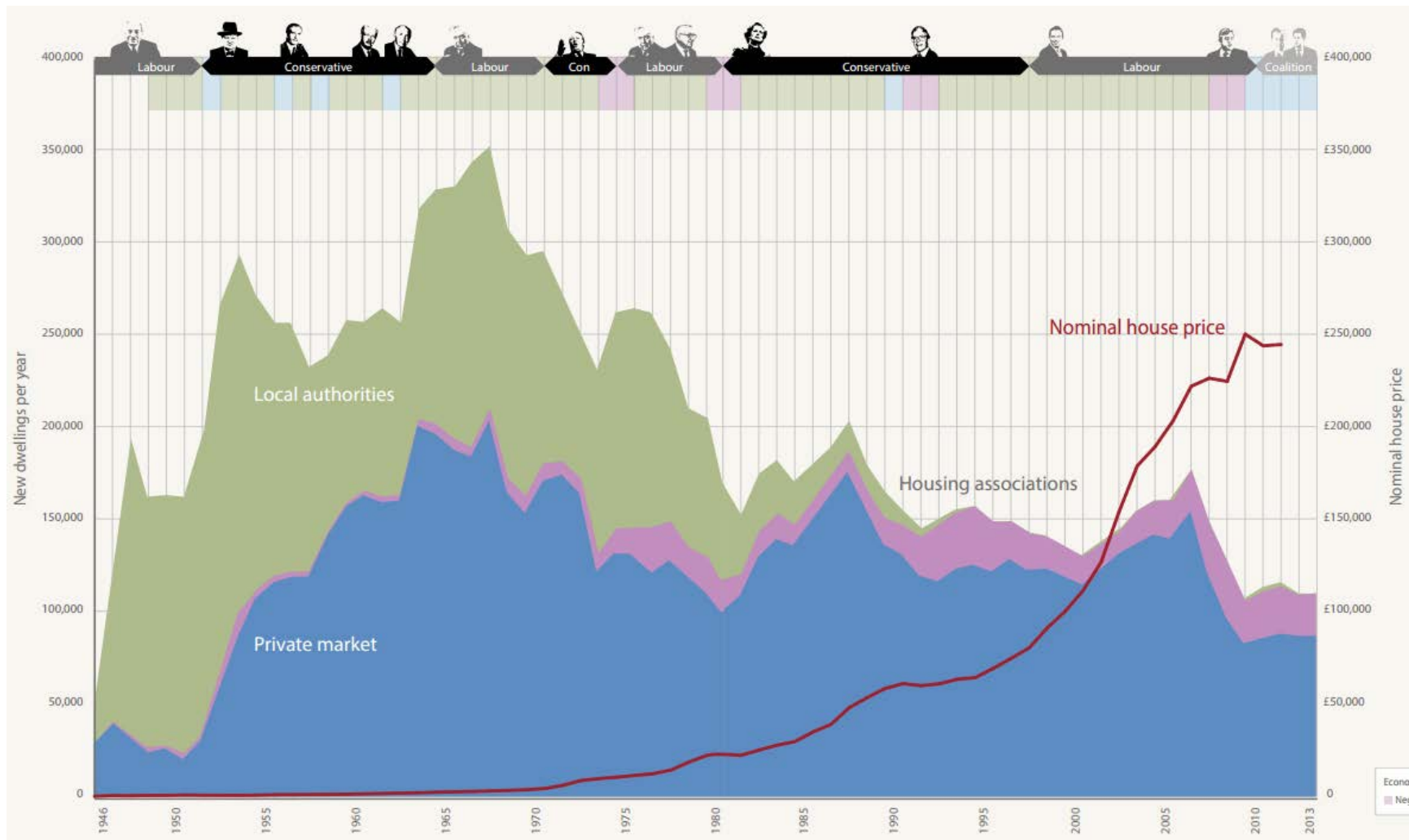
- 3.22 This report is the result of a year-long project by KPMG and Shelter to understand the housing shortage and provide advice to the Government on the housing crisis following the 2008 recession. The report starts by setting out:

*“Everyone now accepts that we have a desperate housing shortage in England.*

*Each year we build 100,000 fewer homes than we need, adding to a shortage that has been growing for decades. What’s more, our current house building system seems incapable of delivering growth on the scale required. Growing demand means that without a step change in supply we will be locked into a spiral of increasing house prices and rents – making the current housing crisis worse”.*

- 3.23 The report highlights that if firm action is not taken to build more homes there will be significant adverse consequences for the UK economy and society, including rising homelessness, stalled social mobility, declining pension saving and an ever-rising benefit bill.
- 3.24 The report includes the graph shown on the following page, displaying the levels of house building in England since 1946.

Figure 3.1: House building since 1946



Source: Shelter and KPMG, 2014





3.25 This shows four interrelated trends:

- An overall decline in house building since 1946, including two recessionary declines after 1980 and 2007;
- High levels of social housing provision by local authorities until the mid-1970s;
- The growing contribution to affordable housing provision by housing associations since the late 1980s; providing most of the new affordable housing stock but not matching anything like the previous local authority contribution; and
- The gradual increase in the nominal house price through until about 1985 which then grows significantly over the subsequent 30 years.

#### **Home Truths 2014/15: Broken Market Broken Dreams (NHF, 2014)**

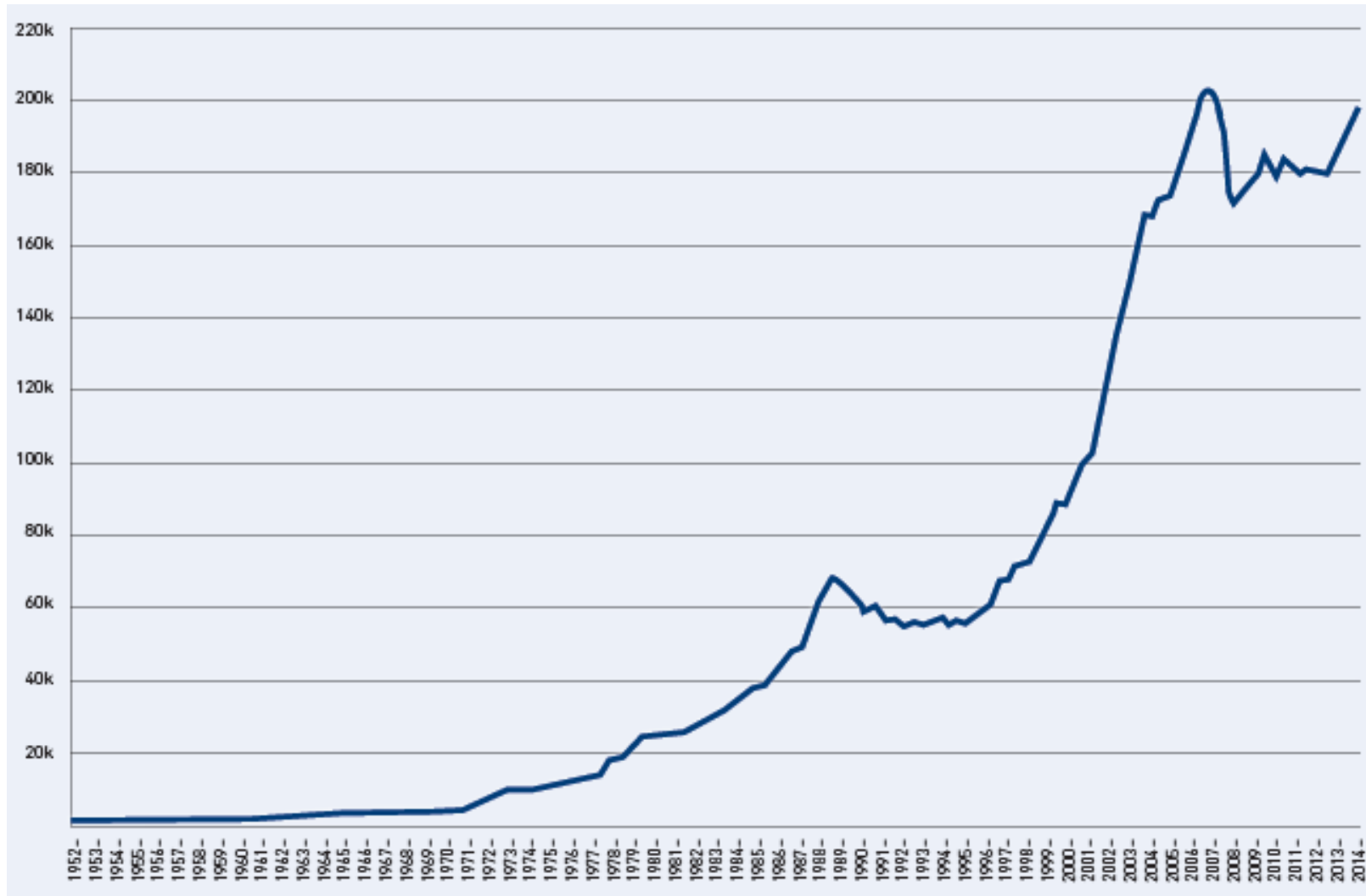
3.26 The report sets out that England is suffering a catastrophic housing crisis that has been more than a generation in the making. The number of new homes built each year is not nearly enough – to keep pace with demand another 245,000 homes per year are needed in England; currently only around half of this is built each year.

3.27 The report illustrates that house prices and private sector rents are rising ever higher, locking more people out of home ownership, as demand has outstripped supply for many years. It notes that a rising number of people are now private renters and face high costs. As well as impacting on day-to-day living, high housing costs have also previously increased the benefit bill. The number of people who claim housing benefit but are also in employment has doubled over the last six years. Increasingly, earnings do not cover all living costs and so households need assistance from the Government and the taxpayer.

3.28 The report offers alarm bells: people struggling with rent, needing housing benefit to keep a roof over their heads, being unable to be near family, unable to buy their own home or downsize to suitable and more affordable homes. This would be mitigated if more homes of all types were built at different price points in the market to meet more needs.

3.29 Demand for housing - through increasing population, decreased household size and other factors is outstripping a chronic undersupply of housing. Estimates show around 245,000 new homes are required each year to keep up with demand, and even more would be needed to clear the backlog of demand. As a result, house prices have more than doubled (after accounting for inflation) in 40 years, as illustrated by Figure 3.2, overleaf.

**Figure 3.2:** Nominal House Prices in the UK



**Source:** Home Truths 2014/15: Broken Market Broken Dreams (2014)

3.30 In the 1960s, a home was four and a half times the average salary and within the realms of being attainable with a reasonable deposit. As house prices have risen, wages have not been able to keep up; across the UK the average home now costs almost seven times the average salary, making home ownership largely unattainable for most young people.

#### **Housing Britain: Building New Homes for Growth (CBI, 2014)**

3.31 This report states that the UK's housing market has not functioned healthily for decades, with an imbalance between the supply of new homes relative to demand being at the centre of this problem. This has created the current situation whereby half the number of houses needed every year has been built over the last decade.

3.32 The report notes that UK house prices have increased 54% since 2004. Housing shortages are also pushing up market rent at a time when forecasts for disposable income remain weak, putting severe strain on household finances and limiting housing choice. This demand gap has inflated the cost of buying or renting a house, making it more difficult for people to join and move within the housing market. Following the 2008 recession, from 2011 UK house prices once more began rising.

3.33 The report notes that the 1.8 million people on local authority waiting lists for social rented properties clearly demonstrate the strong demand for affordable housing from families up and down the country<sup>3</sup>.

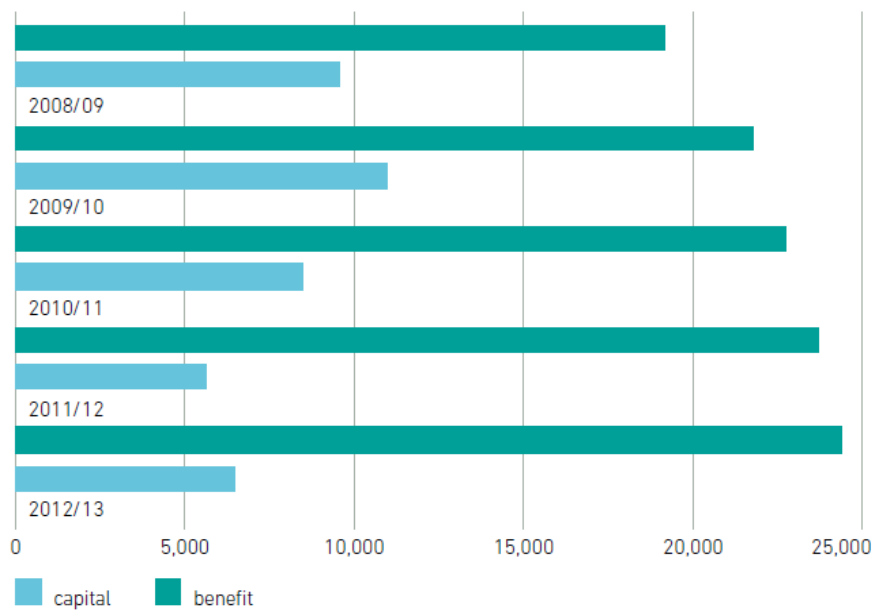
3.34 Figure 3.3 (overleaf) shows the upward trend in levels of housing benefit paid out in recent years, compared to increasingly low levels of capital investment in boosting the housing stock. In 2013 over £24bn was spent on housing benefit in total, whilst just under £6.5bn was used for capital development<sup>4</sup>. Rising government spending on housing benefits is symptomatic of a housing market unaffordable for many people.

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<sup>3</sup> *Improving the Rented Housing Sector*, Department for Communities and Local Government

<sup>4</sup> It should be noted that the Government has implemented rent reductions for housing associations; this may impact overall supply of affordable housing from the sector due to financial capacity being limited.

**Figure 3.3:** Housing Benefit and Capital Spend Comparison 2008/09 to 2012/13



**Source:** Housing Britain: Building New Homes for Growth (2014)

### **In the Mix: The Need for a Diverse Supply of New Homes (Shelter, 2014)**

3.35 In this briefing, Shelter set out the need for a balance of tenures across the housing growth in England, following on from the KPMG and Shelter report described above, at paragraph 3.10. It emphasises the need for a balanced mix of tenures, from a diverse range of funding sources and delivery models “*involving both the private and public sectors*” in order to achieve a more resilient housing stock:

*“...this diversity makes the housing system more productive over the long term by making it more resilient to fluctuations in house prices and less prone to cyclical shocks. Diversity of supply will not only help us to increase supply to 250,000 homes a year, but will help ensure that high levels of output can be sustained over time.”*

3.36 The benefits of this diversity will not only provide longer-term benefits to the economy, but also have wider social benefits:

*“England’s housing crisis has impacted different people in different ways, and no single tenure can offer the best solution for everyone. Each different type of housing plays a different role in the English housing system, catering for different preferences and needs – and we need more of all of them. Just as not everyone needs an intermediate or social rented home, not everyone will be able to afford to buy, even if total housing output is dramatically increased and house prices stabilised.”*

3.37 Shelter note that by building a mix of housing, including intermediate homes, more people’s aspirations to home ownership can be met; a “*better alternative to private*

*renting*” may be provided and the “*steady rise of in-work housing benefit claimants*” can be halted. To achieve the upswing in delivery required (as set out in the earlier KPMG and Shelter report) to achieve a more balanced housing market, the briefing states that there should be a boost to public and private investment in affordable housing. Of the 6 recommendations set out in this briefing, one is for the Government to “*explore new forms of intermediate tenure to widen access to intermediate homes, including low share shared ownership and affordable rent-to-buy homes.*”

- 3.38 The briefing notes the national preference for home ownership, as set out in a prior Shelter report<sup>5</sup>, for reasons such as greater stability and control over the home. It also recognises that achieving a significant boost in housing supply is likely to achieve political legitimacy by “*the majority of new homes offering a route to some form of ownership*”. Research<sup>6</sup> has shown that:

*“66% of private rented are unable to save anything towards a deposit for purchasing their own home ... [the] net result is that fewer people can cross the widening financial gap between renting ... and market homeownership in one leap: if ownership is to be extended to more people a substantial increase in the intermediate options for people who can’t afford to buy a suitable home is needed.”*

- 3.39 Without intervention, many families will continue to be trapped in the ‘insecure’ private rented sector, spending significant proportions of household income on rent. To meet the needs of those households currently priced out of accessing home ownership, Shelter suggest more affordable, intermediate homeownership solutions to be vital to helping those out of private renting and a commensurate reduction in in-work housing benefit claimants. Rent-to-buy offers one solution to these problems.

#### **NatWest Millennials Home Buying Survey (NatWest, June 2015)**

- 3.40 This Survey has shown that of those polled, 69% of young adults (aged 22-30 years old) currently either renting or living with parents believe they will not save enough for a house deposit within 5 years. 44% considered their prospects of buying a home to be more optimistic as a result of the Help to Buy scheme.

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<sup>5</sup> Homes for Forgotten Families (Shelter, 2013)

<sup>6</sup> England’s ‘rent-trap’: just another reason housing is now a top 5 issue for voters (YouGov for Shelter, 2014)

**Build to Rent: Funding Britain's Rental Revolution (Addleshaw Goddard and BPF, July 2015)**

- 3.41 This report sets out an overview of the 'transformation' of the housing market in Britain over the past 15 years, in which time homeownership has steadily declined from a peak of 69% in 2001. The private rented sector has grown significantly over the same period, overtaking the social rented sector in providing homes and forecast to provide homes to one in four households by 2020:

*"Growing demand for rented accommodation and the response to this demand from professional investors looks set to change the market, perhaps permanently.*

*... businesses are looking to create new clusters of homes for rent, as long-term investment opportunities. The result has been dubbed Build to Rent".*

- 3.42 The report references research which estimates that Build to Rent could generate over £30 billion of new investment in Britain over the next five years, delivering over 150,000 homes. The report notes the 'dire' need for affordable housing, *"but this must not diminish the need for quality market-rented housing or housing for sale either"*.

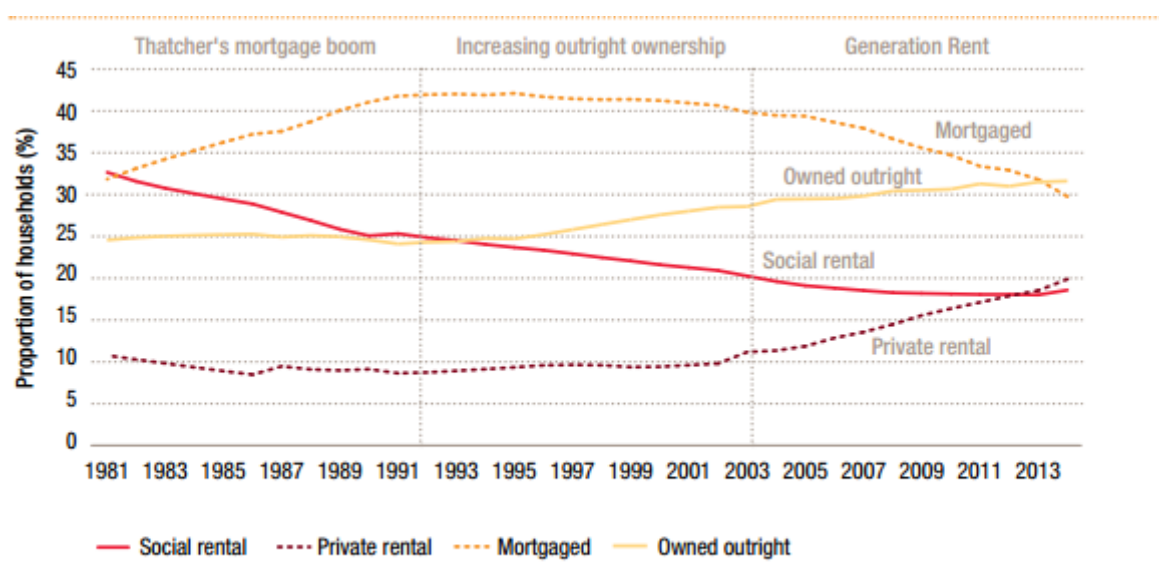
**UK Economic Outlook – UK housing market outlook: the continuing rise of Generation Rent (PwC, July 2015)**

- 3.43 This report notes:

*"As house prices have risen and social housing supply remains constrained, the number of households in the private rented sector has more than doubled since 2001, rising from 2.3 million to 5.4 million by 2014, around 20% of the total. We project that this trend will continue with an additional 1.8 million households becoming private renters by 2025. This would take the total to 7.2 million households – almost one in four of the UK total. The trend is particularly strong in the 20-39 age group where more than half will be renting privately by 2025. The rise of 'Generation Rent' will continue."*

- 3.44 The report also notes the fall in households who own a home with a mortgage (from almost 45% in 2001 to under 30%), linking this with a limited housing supply, affordability of the housing market and poor mortgage availability. This is shown in the graph, overleaf:

**Figure 3.4: UK share of households by tenure type (%)**



Source: PwC analysis of English Housing Survey, DCLG

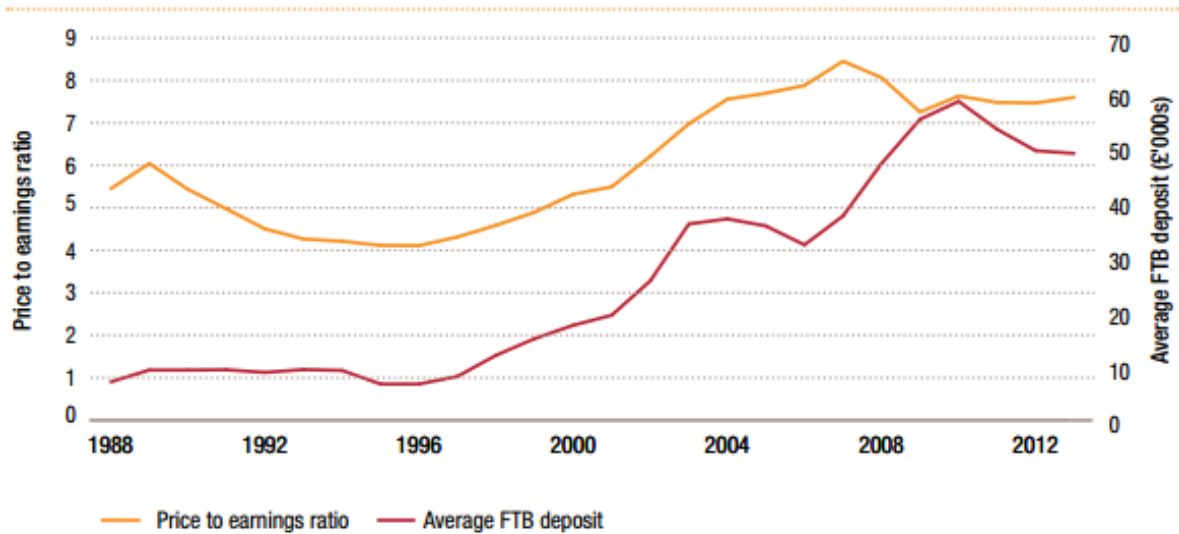
3.45 It adds:

*“A significant rise in the supply of affordable housing might change this in the long run, but seems unlikely to occur fast enough to stem the rise in Generation Rent between now and 2025.*

*... the ability of people to use the mortgage market to make the transition from renting to owning appears to be diminishing, with younger generations having to wait longer to buy in many cases.”*

3.46 The report notes that this affordability crisis, and inaccessibility for many to mortgages, stems from the *“combined effect of rising house prices and lenders withdrawing higher Loan-to-Value mortgages”*. This point is highlighted in the graph, overleaf. Average first time buyer deposits have increased almost five-fold, an increase much greater than the growth in average earnings over the same period.

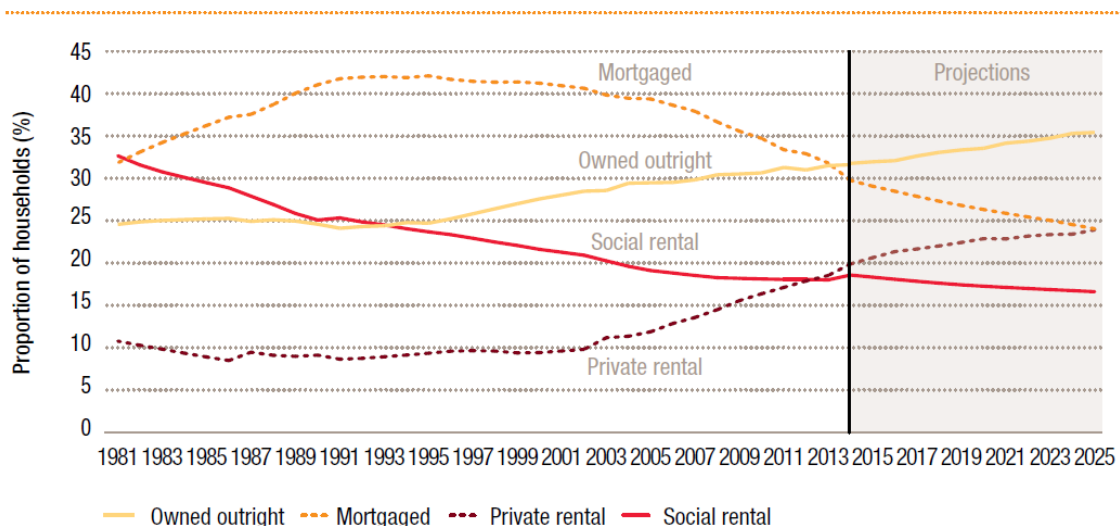
**Figure 3.5:** House price to earnings ratio and average first time buyer deposit, 1988-2013



Source: PwC analysis of ONS data

3.47 The report summarises: *“This trend threatens to lock large segments of society out of the housing market, especially those on middle or low incomes, and who live in higher priced areas”*. Forward projections for housing tenure in this report suggest that current trends will continue (see Figure 3.6, below).

**Figure 3.6:** Projections for UK housing tenure, share of households

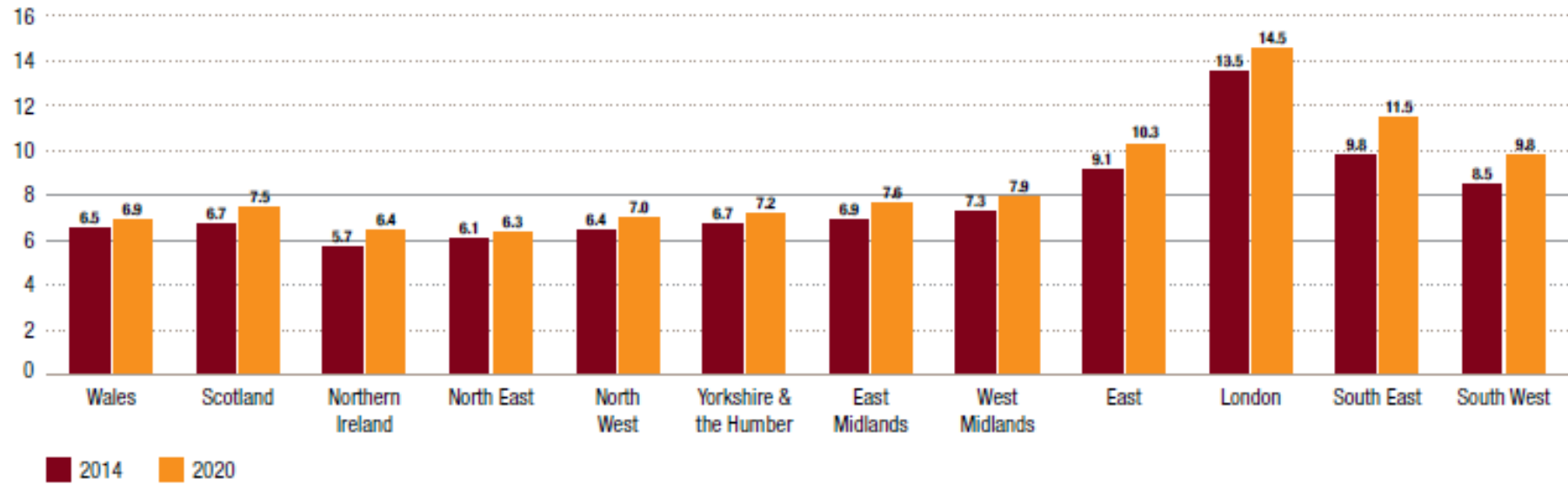


Source: PwC analysis, English Housing Survey

3.48 The report also sets out house price projections for the UK regions, indicating that the current difficulties of affordability across the country will continue (see overleaf).



**Figure 3.7:** Regional average house price to individual full-time earnings ratios



Source: ONS for 2014, PwC main scenario projections for 2020

## **National Housing Federation Statement (NHF, 20 August 2015)**

- 3.49 The National Housing Federation's Assistant Director of Campaigns commented on the May-July 2015 quarter housing statistics released by CLG:

*“Britain is in the grips of a housing crisis, and at the centre of this huge national issue is the fact that we’ve failed to build enough homes for a generation or more.*

*Today’s figures are encouraging as they show housebuilding is at its highest level since 2008. However, we need to continue to increase our efforts as a nation to build the homes that are desperately needed. Last year alone we built less than half of the homes needed, pushing house prices and home ownership further out of reach for millions of families and young people.*

*... We want to work together to end the housing crisis and provide quality affordable homes to everyone who needs them.”*

### **Summary**

- 3.50 The Chancellor of the Exchequer in his first Autumn Statement of this Parliament and the Prime Minister during PMQs announced explicit support for the development of affordable homes to buy. The recognition of affordable housing to buy in helping to resolve the nation's housing crisis follows on from a growing wealth of evidence that demonstrates a clear and pressing requirement to build more homes to meet a significant level of unmet need. The Minister for Housing and Planning, Brandon Lewis MP, has also recently expressed his support for local authorities taking a more flexible approach to negotiating tenure mix, expediting negotiations in order to speed up delivery of affordable housing.
- 3.51 The need for affordable housing is not solely met by social rented homes, which only meet the needs of the poorest. The evidence in this section highlights the ability of more affordable homeownership solutions to help households out of private renting. Those who cannot yet afford to buy on the open market because they are either trapped by poor quality and expensive private rented accommodation, or have not yet been able to leave the parental home due to the inhibitive cost of buying have had their needs recognised by this Government. The Chancellor's Statement clearly signals this Government's intention to widen opportunities for home ownership by removing barriers to private for-profit providers entering the market to deliver more affordable homes – specifically including £200m to support delivery of 10,000 Rent to Buy homes – and add to the diversity of the sector.

# Rentplus: The Model

---

## Section 4

- 4.1 The Rentplus model is aimed at providing an affordable rented home to households until such time as the occupier can afford to purchase the property. In this way it aims to assist those households who cannot currently purchase a house on the open market but who would otherwise not be considered a priority, or qualify for social or affordable rented homes.
- 4.2 The model is essentially one of rent to buy, with a five year renewable tenancy at an affordable rent, managed by a housing association. All dwellings are to be leased to Registered Providers at an affordable rent for up to 20 years; the housing association will be responsible for managing and maintaining the properties. Homes will be sold on a phased basis every 5 years; those homes not sold at year 5 will be re-let to tenants for a further 5 years.
- 4.3 Upon registering interest in a scheme households are assessed on their suitability for a 5, 10, 15 or 20 year tenancy after which it is expected that the home will be purchased at market value. At the time of purchase, the occupier will be gifted 10% of the purchase price as a deposit towards a mortgage by Rentplus.
- 4.4 Rental of the property before purchase will be at the lower of 80% open market rental (including service charge) or Local Housing Allowance (LHA). The household will be supported through the term of their tenancy by the managing housing association to save and increase the deposit to assist the mortgage application. The assured tenancy period also benefits from improving a tenant's ability to prove credit-worthiness.
- 4.5 The Rentplus model aims to improve the ability of purchasers to build a suitable deposit, as well as improving, or creating a good credit rating, by paying a reduced (affordable) rent rather than a private market rent for the duration of the tenancy (as set out at paragraph 4.4, above).
- 4.6 During the period of rental tenancy occupiers can serve notice to vacate a Rentplus unit on one month's notice. Assistance may be sought from the managing housing association to assist in re-housing.

- 4.7 The Rentplus model permits tenants to swap with other tenants who are able to bring forward an early purchase of the unit, to assist those who are unable to purchase the property at the programmed time.
- 4.8 If the property is sold within 2 years of the original occupier purchase then all or a part of the gifted deposit will be repayable to Rentplus on such disposal, subject to a maximum cap of the original sum gifted.
- 4.9 All Rentplus homes are sold after 20 years. If the occupier does not purchase the property then the housing association has the option to acquire the unit, with Rentplus providing a 10% discount on open market value to the housing association. The future use of the unit as any other NPPF compliant affordable property can then be determined by the housing association.
- 4.10 In the circumstances of neither the tenant nor housing association purchasing the property after 20 years, the property is sold on the open market and 7.5% of the net sales proceeds are paid to the Local Authority to reinvest in new affordable housing provision.
- 4.11 A Memorandum of Understanding may be entered into with each individual LPA to seek to replenish the stock of Rentplus homes on a one for one basis, retaining a proportion of the affordable housing stock in the local area.

# Considering the Definition

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## Section 5

- 5.1 This section discusses the model's compliance with the planning definition of affordable housing as in Annex 2 of the NPPF, set out below for ease of reference:

*“Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.”*

- 5.2 Affordable rent and intermediate affordable are defined in the Annex as:

*“Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).*

*“Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.”*

- 5.3 The Rentplus model is unusual in that it conforms to two of the three definitions of affordable housing, falling under the remit of affordable rent and intermediate for sale at different points of its lifetime. It cannot be considered a social rent product due to the rent falling outside the guideline level of the national rent regime. The definitions set out within the Annex are not prescriptive, but offer a number of different terms within which to describe various affordable tenures and products. The Rentplus model is not unique in this aspect of diverging from the more traditional social rented / intermediate affordable tenures, as there are other models of affordable tenure being delivered by private registered providers across the UK.

- 5.4 The Rentplus model is considered to be a hybrid form of affordable housing. Unlike widely understood shared ownership or shared equity products, in which an initial percentage of the home's value is purchased and rent is paid on the remaining share, Rentplus households have the opportunity to save towards the deposit before purchase of that same home. This is achieved by paying a reduced, affordable rent

during the agreed period of tenancy which is fixed (and secure) for a period of 5 years, the same as currently offered by housing associations for affordable rent units.

- 5.5 As set out in Section 4, the model fixes the rent at an affordable level, being the lower of either 80% below market rent or the Local Housing Allowance (LHA), including service charge. This is strictly in accordance with the definition of affordable rent as defined in the NPPF Annex. The model will be managed by a registered provider to households who are allocated according to local authority priorities through the local housing register or other local mechanisms (such as choice based lettings or Help to Buy agents), further bringing this into compliance with the NPPF definition of affordable rent.
- 5.6 As defined by the Annex, the sale of Rentplus properties will be in line with other intermediate affordable homes, at a cost above social rent. The purchase price will be at the level of open market value, but will effectively be discounted by 10% by the 'gifted' deposit from Rentplus. The model should also therefore be considered a low cost home for sale under the definition of intermediate affordable. This is also comparable with rented properties on which tenants can exercise the Right to Buy through existing legislation.
- 5.7 The NPPF definition includes the provision that affordable housing should *"include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision."* Such provisions are secured by the Rentplus model by direct subsidy (in the form of a 10% discount to the Housing Association and 7.5% of net proceeds payable to the local authority upon sale) for future affordable housing.
- 5.8 Where a Memorandum of Understanding (MoU) has been agreed Rentplus will, upon the sale of homes, use its best endeavours to invest in new units on a one-for-one basis. Each MoU is to be negotiated on an individual basis with each local planning authority, but is considered an integral part of the product, comparable with the recycling of receipts from shared equity units by housing associations. The recycling of funds by housing associations is not guaranteed to be reinvested within the same local authority area as the original units, whereas the Rentplus MoU provides a best endeavours commitment to deliver further affordable units on a one-for-one basis in that local authority area. This thereby raises the overall level of affordable housing that is delivered, whilst reducing the numbers on housing registers and increasing the financial investment in the creation of sustainable communities in that area.

5.9 Each subsequent unit delivered by Rentplus would be on the same affordable rent basis. Where a property is not purchased by the occupier, the managing housing association has the opportunity to purchase instead, retaining this as part of its stock of affordable units. Whether through direct reinvestment by Rentplus or recycling by the managing housing association, where an MoU has been agreed, this ensures the affordable housing subsidy is reinvested for the benefit of local people.

# Recommendations

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## Section 6

### **We Are the Builders: Generation Rent to Generation Buy**

- 6.1 The Government has announced its full, explicit support for private investors to deliver affordable Rent to Buy homes in order to extend the opportunities for home ownership to back families *“who aspire to buy their own home”*. The Chancellor of the Exchequer, George Osborne MP, in his Autumn Statement pledged to deliver *“10,000 homes that will allow a tenant to save for a deposit while they rent”, “removing constraints that prevent private sector organisations from participating in delivery”*. The Prime Minister also announced in his Party Conference speech to turn *Generation Rent* into *Generation Buy*; this Government is explicit in its support for affordable homes available as rent to buy.
- 6.2 Rentplus seeks to fulfil that role to extend a hand to those households currently unable to save for and access the open market to purchase their own home whose needs are not met by the current affordable housing sector and other home ownership initiatives.

### **Moving In: The Benefits of Rentplus**

- 6.3 The purpose and practical detail of the Rentplus model, as described in **Section 3**, demonstrates that Rentplus has been developed as an investment product that will enable a rolling stock of homes for rent and eventual sale to complement other affordable housing products. As set out in **Section 2**, the delivery of a large quantity of affordable housing is considered highly beneficial in areas of high need. As Rentplus homes are sold on a phased basis every 5 years the model also creates its own mixed tenure development over the lifetime of the scheme. As Rentplus is a fully funded model and does not require any public subsidy to deliver homes, it will result in significant additional investment that would not otherwise be available.
- 6.4 As noted in **Section 3**, the current problems with the housing market do not meet the diverse needs of all, but are instead forcing greater welfare dependency through an increasing reliance on the private rented sector. This includes those who are in-work housing benefit claimants, for whom rent costs take up such a proportion of income that it is very difficult to save towards a house deposit. There is considerable



aspiration towards home ownership; this is recognised in Government policy and encouragement towards intermediate affordable housing delivery.

- 6.5 This is also supported by planning decisions; as set out in the Secretary of State appeal decision referred to in **Section 2**, it is important to recognise that affordable housing delivery should not be restricted to meet a narrow definition of need, providing homes only for those households with 'Reasonable Preference'. This is regarded as 'unduly restrictive', failing to recognise the needs of 'hard pressed' households for appropriate affordable housing which meets the Government's intention to enable households to "*climb' to full owner occupation*". Households entering a scheme with a mix of house types and with the ability to save towards accessing home ownership at a flexible point in time will create a full mix of social and economic groups.
- 6.6 Those reports referenced in **Section 3** demonstrate that current affordable housing tenures do not meet the full needs of all those aspiring to ownership, principally as these rely on ready availability of savings to access shared ownership mortgages. Equally, this product will be a realistic alternative for those households who are not able to purchase their home through the Government's Starter Home Initiative, as acknowledged in the Autumn Statement. As a great number of those households would not be considered eligible for social rented homes, access to any affordable product is significantly constrained. The Rentplus model will diversify the affordable housing stock available to those households, and enable a greater number of households to access affordable housing without recourse to welfare support. This diversity of supply is a crucial factor in solving the nation's significant housing crisis.
- 6.7 The Rentplus product offers the security of rental at an affordable level whilst allowing households aspiring to home ownership the opportunity to save towards and purchase with a gifted deposit. The basis for setting and charging rent levels is guaranteed through an assured shorthold tenancy, giving added certainty to those households who may otherwise be subject to private rent level fluctuations (typically rent rises) and insecure tenancy agreements. This is a significant benefit of the model which is likely to be very attractive to those not able or desiring to access other forms of affordable housing before obtaining a mortgage. This will also remove households from the housing register, allowing local housing authorities the ability to focus greater resources on those most in need.
- 6.8 The product also offers the flexibility to alter the point of purchase on a phased basis at five year intervals, as well as the benefit of a property being managed and

maintained by a housing association throughout the period of it being a Rentplus property.

- 6.9 The product is new, and therefore not previously considered within either housing evidence documents such as SHMA or in Local Plan policies. Section 4 has set out the model's compliance with the NPPF definition of affordable housing. The NPPF seeks to encourage LPAs to plan for a range of housing to meet all needs, across market and affordable tenures, whilst the Government has made it clear that encouraging home ownership is central to the country's economic stability and social justice<sup>7</sup>. It is clear that mixed, sustainable communities are at the heart of planning and that planning should not seek to threaten the ambition of business, or to prevent viable schemes from bringing forward social, economic and environmental benefits.
- 6.10 By providing a rental product at the lower of 80% below market rent or at Local Housing Allowance (LHA), households are also given a hitherto-unavailable opportunity to save towards a deposit without the need to revert to parental handouts, remain living with parents in their teenage bedrooms, or possibly to live in poor quality cramped rental conditions. Not only does the Rentplus model offer households the opportunity to be able to afford to save for a deposit and the costs associated with purchasing a property, but the gifted 10% deposit effectively offers the property for sale at below-market rate at the point of purchase.
- 6.11 Certainty is also offered to local planning authorities as units are managed and maintained by a housing association, with the product only being offered to eligible households on the local housing register. Those households may otherwise fail to be offered an affordable property due to not being categorised as a high priority household. As described in **Section 3**, this situation traps a considerable number of the non-home owner population, and in particular what has become known as *Generation Rent*, in a hard to escape cycle of renting at private market rates. Unable to save any significant sum for a deposit this generation is struggling to obtain a mortgage; this has contributed to the ever-rising age at which Britons enter home ownership.
- 6.12 A further point to note is the potential for delivery on rural exception sites where a small quantity of market housing is already accepted to improve scheme viability. In rural areas affected by poor affordability the existing supply of affordable housing products would be complemented by Rentplus homes. These would further support

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<sup>7</sup> Here's how to build a homeowning Britain (David Cameron and George Osborne, The Times, 4 July 2015) and the Autumn Statement (HM Treasury, 25 November 2015)

the diversity of housing delivered in rural areas, contributing to the ongoing sustainability of those communities and assist those trapped by being unable to afford market housing but not high priority enough to receive social or affordable rented homes.

### **Plan-Making to include Rentplus**

- 6.13 Local Planning Authorities are encouraged by the NPPF to significantly boost the supply of housing, including through the provision of affordable housing which is a material planning consideration, and an inherent part of planning for housing through a proper, full objective assessment of housing need. By including a proportion of Rentplus units within the mix of any scheme, the local planning authority is also given the opportunity to increase the diversity of homes on offer. Together with open market, social rented, affordable rent, and intermediate affordable units local authorities have the ability to approve schemes that fully accord with the NPPF's aim to create mixed and sustainable communities.
- 6.14 People also aspire to home ownership. This provides households with a financial stake in the local community. The specific Rentplus model, together with other forms of affordable housing, also widens local housing choice adding to a more mixed, balanced local community.
- 6.15 It is the intention of the Rentplus model to be delivered alongside other forms of affordable housing, acting as a complementary product as part of the housing mix to meet the needs of those households whose aspirations towards home ownership are not currently achievable through other intermediate affordable tenures. This can also deliver the benefit of enhancing the overall affordable housing offer and increasing the certainty of deliverability on sites where viability may be an issue. Early delivery of Rentplus homes, in volume, is a further benefit of this diversity of tenure offer.
- 6.16 Whilst the transitional nature of the product (from affordable rent to ownership) may present a difficulty for local planning authorities in defining it for the purposes of determining applications or counting for housing land supply, it should be considered a suitable method of diversifying local affordable housing offer without recourse to public funding. This also enables a greater overall level of affordable housing to be delivered both in the short term on individual sites, and in the longer term, as Rentplus stock is replaced.

- 6.17 We recommend that to incorporate the Rentplus model into the local plan, that the below text is included within an affordable housing policy. This will enable a degree of flexibility to be employed when negotiating the tenure mix on individual sites.

*“The Council will seek a developer contribution of X% towards the provision of affordable housing on residential developments of X dwellings or more. The mix of affordable dwellings may be negotiated, taking into account site specific issues and viability. The mix should take into account local need for social rented and intermediate affordable tenures, including Rent to Buy models, such as Rentplus.*

*There will be a strong presumption in favour of the affordable homes being fully integrated within proposed development. However the Council may consider off site provision, for instance to enable other policy objectives to be met, subject to an equivalent level of developer contribution being provided. There will be a presumption in favour of cross-subsidy to enable a higher proportion of affordable housing to be provided, preferably through an element of affordable Rent to Buy, such as Rentplus, or market housing. Off site provision could be by way of direct affordable housing provision on an alternative site, or by a financial contribution which would enable provision elsewhere in the local authority area.”*

#### **Incorporating Rentplus: S106 Sites and Current Developments**

- 6.18 Rentplus has been established as a specialist provider of affordable housing in the private sector. The model as described in **Section 3** is specifically designed to provide housing which is affordable to local people aspiring to home ownership. The involvement of a housing association should give the security and assurance that such homes are to be properly managed, whilst the sale of the homes provides Rentplus with a capital sum return. This enables replacement affordable housing delivery in the local authority area by Rentplus as well as a return to the local authority in the case of sale on the open market to reinvest in local affordable housing. The ability for the managing housing association to purchase the unit at a 10% discount if the occupier does not wish to purchase offers a further method of retaining an affordable unit within the local stock.
- 6.19 Other social benefits which are a material consideration in decision making include the ability of households to integrate with neighbours over a longer period before purchasing the property; the ability to renew tenancies; and swapping with other tenants at the time of purchase which offers flexibility to those not ready to purchase at the previously envisaged date.

- 6.20 As noted in **Sections 4 and 5**, upon the sale of each Rentplus property a Memorandum of Understanding, where agreed with each individual LA, will set out the basis for the replacement of those units on a one-for-one basis in that local authority area. Other forms of affordable tenure result in a loss of housing stock, such as with shared ownership in which households can 'staircase out'; where a LA has agreed a MoU, the Rentplus model would secure the replacement of units in accordance with the terms of the MoU in order to continue meeting local needs over the longer term through continued housing stock replenishment. This is an important consideration at a time when Right to Buy is being further encouraged, and established rented tenures no longer have permanence.
- 6.21 The availability of funding for the product also makes this model potentially attractive on stalled developments where this model could improve scheme viability. As the model has readily available private funding, it is also easily translated to high volume output which could assist in areas of particular need or where housing land supply could benefit from being boosted.

### **Conclusions and Recommendations**

- 6.22 There is a significant shortfall in affordable housing nationwide and the availability of grant funding has steadily declined over the past decade. The Rentplus product has a wide pool of prospective households for whom saving towards a home purchase is not currently possible due to falling outside eligibility for current affordable housing stock. The private rented sector offers no security, and security of tenure for traditional affordable housing looks likely to be removed by changes in the Housing Bill. The fixed period of tenancy at affordable rents in Rentplus dwellings before the point of purchase offers a significant benefit to households who will have the ability to save for a deposit - on the home they have rented - for the first time. Rentplus homes will be excluded from Pay to Stay policy, offering further certainty to those households wishing to save for home ownership.
- 6.23 Rentplus therefore offers a new product to those households whose needs are not already met by the market, whilst also diversifying local housing stock and contributing to the development of mixed and balanced communities.
- 6.24 In order for Local Planning Authorities to enable those households for whom access to social rented housing is not suitable, and whose needs are not otherwise met by affordable and intermediate tenures to enter the housing market it may be necessary to review affordable housing policies in the Local Plan, or to consider revising model conditions and clauses for S106 agreements.

6.25 The Government has pledged to significantly raise the numbers of affordable homes being delivered during this Parliamentary session, and to meet the diverse needs of those in need. This includes a significant drive towards meeting families' aspirations to home ownership. The Autumn Statement included a commitment to remove constraints that prevent private sector organisations from delivering affordable homes to deliver this promise. CLG has had its housing budget doubled and will over the period of this Parliament be focused on the delivery of at least 400,000 affordable homes, including 10,000 Rent to Buy homes. As supported by the Government, the Rentplus model would make a valuable, NPPF-compliant contribution towards significantly boosting housing supply, and most importantly in meeting need for affordable housing without further recourse to public funding.

# **Rentplus: Rent to buy Methodology for the assessment of need for rent to buy housing**

27 April 2017

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## 1.0 Introduction

1.1 This report has been prepared by Lichfields on behalf of Rentplus. It provides a proposed methodology for assessing the need for the rent to buy housing product offered by Rentplus at a local authority level. This product is an example of rent to buy housing, which is a new housing tenure that provides a route to home ownership for people who are currently unable to purchase a property on the open market but are not considered a priority for social or affordable rented accommodation.

### The Rentplus rent to buy model

1.2 The Rentplus model provides an accessible route to home ownership for those who cannot currently purchase a house on the open market for a variety of reasons, including the inability to provide a deposit<sup>1</sup>, but who would otherwise not be considered a priority, or qualify for social or affordable rented homes.

1.3 Rentplus homes are made available on a five year renewable tenancy at an affordable rent and are managed by a housing association. Prospective tenants/purchasers are assessed on their suitability for a 5, 10, 15 or 20 year tenancy after which it is expected that the home will be purchased at market value. At the time of purchase, the occupier will be gifted 10% of the purchase price as a deposit towards a mortgage by Rentplus.

1.4 The Rentplus model aims to assist purchasers in saving for a deposit, as well as improving their credit ratings, by paying a reduced (affordable) rent rather than a private market rent for the duration of the tenancy. The rent charged on a Rentplus property is set at the lower of 80% of open market rent (including any service charge) or Local Housing Allowance (LHA).

1.5 If the occupier does not purchase the property after 20 years, the housing association has the option to acquire the unit, with Rentplus providing a 10% discount on open market value to the housing association. The housing association will then determine the most suitable use for the property as an affordable home. If neither the tenant nor housing association purchases the property after 20 years, the property will be sold on the open market and 7.5% of the net sales proceeds will be paid to the local authority to reinvest in new affordable housing provision.

### Policy context

1.6 The National Planning Policy Framework (NPPF) at paragraph 50 requires local planning authorities to, inter alia:

- 1 Widen opportunities for home ownership;
- 2 Plan for a mix of housing based on factors such as demographic and market trends ; and,
- 3 Identify the tenure of housing that is required in particular locations, reflecting local demand.

1.7 The Planning Practice Guidance (PPG) further emphasises the importance of planning for a mix of housing types and tenures that reflects local demand (ID: 2a-021):

*“Plan makers should look at the household types, tenure and size in the current stock and in recent supply, and assess whether continuation of these trends would meet future needs.”*

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<sup>1</sup> Rentplus website, FAQs

- 1.8 Rent to buy housing can contribute towards these NPPF requirements by offering an additional route to home ownership, a type of housing that responds to demographic and market trends, and a new tenure option that reflects local demand.

## 2.0 Methodology

### PART A: Current situation

- 2.1 Rent to buy housing is likely to be particularly attractive to those aged 25-34, given that the majority of first-time buyers are within this cohort.
- 2.2 An analysis of the average age of tenants at two Rentplus developments indicates the following age distribution:

Table 2.1 Demographic profile of Rentplus tenants in Sherbourne and Palmerston: age of oldest household member

Age group	% of total households
18-24	12%
25-34	57%
35+	29%
Unknown	2%
Average age	32.1 years

Source: Rentplus

- 2.3 This analysis indicates that 69% of tenants at two Rentplus developments in the south of England were aged below 34, with 57% falling into the 25-34 age cohort which is known to have been most severely affected by affordability constraints. This is recognised by the Explanatory Notes supporting the new Housing and Planning Act 2016 (paragraphs 7 and 8):

*“Although now abated, the long-term downward trend in owner occupation has disproportionately affected younger households. Of those households that do own their home 75% are over the age of 45 and nearly half (46%) of households in the 25-34 age group live in the private rented sector (only 21% were renting privately in 2003-04). Over the last twenty years, the proportion of under 40 year olds who own their home has fallen by over a third from 61% to 38% and, in 2014, the Office for National Statistics (ONS) reported that 3.3 million people between the ages of 20 and 34 were still living with their parents (accounting for 26% of the age group).*

*“The number of first-time buyers since the financial crash of 2007-08, as measured by the number of mortgages issued to first-time buyers, has fallen significantly. Throughout the 1980s and 1990s the number of mortgages to this group averaged over 400,000 per year but between 2008 and 2014 the average annual number of loans has been fewer than 300,000”.*

- 2.4 This evidence reflects that set out in the English Housing Survey which notes that the average age of a first-time buyer in England was 32 in 2015/16. Nearly two thirds (64%) of first-time buyers were aged 25-34 and 29% were older (aged 35+)<sup>2</sup>. The average (mean) deposit for first-time buyers in England was £48,831 in 2015/16, and two thirds (65%) of first time buyers were earning in the top 40% of all households<sup>3</sup>.
- 2.5 Although it would be too simplistic to suggest that the number of young people (and households) can be taken to reflect the need for rent to buy housing in an area, it is likely that the need will be greater in an area with more young adults and where the existing housing supply is oriented towards larger and more expensive properties. Any assessment of need

<sup>2</sup> English Housing Survey 2015/16, Table AT1.8

<sup>3</sup> English Housing Survey 2015/16, Table AT1.8 and AT1.9

should therefore commence with an overview of the current situation within the local area in respect of the demographic profile, housing stock and market signals.

## Demographic and household profile

- 2.6 An understanding of the current demographic and household profile of the local area provides a starting point upon which to base evidence of the local need for rent to buy housing. Consideration of existing and projected future population levels and household need and composition provides a baseline through which key pressure points can be identified and drawn out by further research. The key metrics that should be considered as summarised below:

Table 2.2 Demographic and housing profile metrics

Metric	Issues to consider	Data sources
Population by age cohort	<ul style="list-style-type: none"> <li>Total population in local authority</li> <li>Number of persons by age cohort</li> <li>Proportion of total population within different age cohorts</li> </ul>	ONS Mid Year Population Estimates
Population projections	<ul style="list-style-type: none"> <li>Projected level (and proportion) of future population change</li> <li>Projected level (and proportion) of future change in different age cohorts</li> </ul>	ONS Sub National Population Projections
Household composition	<ul style="list-style-type: none"> <li>Profile of households by type (e.g. single person, couple, family with dependent children, family with non-dependent children, other)</li> <li>Profile of households by age of head of household</li> </ul>	2011 Census data
Household occupancy	<ul style="list-style-type: none"> <li>Level of over and under-occupancy of housing within local authority, in terms of number of spare bedrooms within property)</li> </ul>	2011 Census data
Projected household growth	<ul style="list-style-type: none"> <li>Projected number of additional households expected in next 20-25 years</li> <li>Projected change in household composition (age and occupancy structure)</li> </ul>	CLG Household projections

## Housing stock

- 2.7 The current stock of housing will influence the ability of newly forming households to access a suitable property. Indicators such as the overall housing stock, number of new completions, and the size, type and average cost of housing will all be relevant and should be considered by way of background to the assessment of need for rent to buy housing. The key metrics that should be considered as summarised below:

Table 2.3 Housing stock metrics

Metric	Issues to consider	Data sources
Dwelling stock	<ul style="list-style-type: none"> <li>Number of houses in local authority</li> <li>Number of recent housing completions</li> </ul>	CLG Live Tables 100 and 253 Local Authority Annual Monitoring Report

Metric	Issues to consider	Data sources
Housing Type and size	<ul style="list-style-type: none"> <li>Profile of dwelling stock (e.g. detached, semi-detached, terraced, flats)</li> <li>Profile of dwelling stock by number of bedrooms and number of habitable rooms</li> </ul>	2011 Census data 2001 Census data (to provide comparison of change over time)
House Prices	<ul style="list-style-type: none"> <li>Median and lower quartile house prices</li> <li>Change in house prices over time</li> <li>Median and lower quartile house prices per type of dwelling</li> </ul>	HM Land Registry Data ONS House Price Statistics for Small Areas
Sales Turnover	<ul style="list-style-type: none"> <li>Number of transactions in local authority by year and type of dwellings</li> </ul>	HM Land Registry Data
Affordability	<ul style="list-style-type: none"> <li>Ratio of median income to median house prices</li> </ul>	CLG Live Table 576
Rental Levels	<ul style="list-style-type: none"> <li>Average rental value for different house sizes</li> </ul>	VOA Private Market Rental Statistics

## PART B: Assessment of need

2.8 The assessment of the need for rent to buy homes should be undertaken within the context of the full objectively assessed housing need (FOAN) for the relevant local authority area. The identification of the FOAN is therefore the starting point when calculating the need for this tenure.

### Full objectively assessed housing need

2.9 The process for calculating FOAN is established within the NPPF and PPG. The FOAN represents a level of housing delivery that meets the needs associated with population and household growth, addresses the needs for all types of housing, including affordable housing, and caters for housing demand (NPPF 159). Plan makers should not apply constraints to the overall assessment of need (PPG ID: 2a-004).

2.10 The starting point is for Local Plans to meet the FOAN of their area in full (NPPF 16, 17, 47, 156 and 158). The assessment should be viewed within the context of the NPPF requirement for local planning authorities to “*boost significantly the supply of housing*” (NPPF 47).

2.11 The NPPF and PPG require the following key steps to be taken in order to arrive at a robustly evidenced and objective assessment of housing need:

- 1 The most recent housing projections published by DCLG should provide the starting point for any estimation of housing need but adjustments should be made to reflect local demography, household formation rates, market signals and the need for affordable housing (PPG ID: 2a-015, 2a-020 and 2a-029).
- 2 Consideration should also be given to the likely level of future growth in employment. Particular consideration should be given to the scale and location of new housing where the labour force supply is less than projected job growth (PPG ID: 2a-018).
- 3 Where an authority is unable to meet its objectively assessed development needs, it must be demonstrated under the statutory duty-to-cooperate that the unmet need will be met by other local authorities in order to fully meet development requirements across housing market areas (NPPF 179 and 182).

2.12 In addition, High Court and appeal decisions have determined that:



- 1 A distinction exists between FOAN (“policy-off”) and housing requirements (“policy-on”)⁴.
- 2 The FOAN should not be constrained. Consideration of constraints is only acceptable when assessing the ability of an area to satisfy the FOAN, but this should be dealt with through the Local Plan process⁵.
- 3 The “policy-on” exercise that is undertaken as part of the assessment of housing requirements does not have any bearing upon the FOAN but rather upon the extent to which this need can be satisfied⁶.
- 4 In assessing the FOAN for any area, economic considerations, migration trends, second homes and vacancy rates should all be taken into account. Judgment is required in respect of these matters but such judgment does not constitute a policy-on decision⁷.
- 5 Rather than the inclusion of employment trends within the FOAN calculation being policy-on, quite the opposite is true, such that failing to accommodate the additional workers drawn to an area by increased employment opportunities would be a policy-on decision which would affect adjoining authorities⁸.
- 6 Consideration should be given to the need for affordable housing in seeking to ascertain the FOAN⁹.

2.13 The appropriate process that should be followed when seeking to determine the FOAN can be summarised as follows.

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<sup>4</sup> (1) Gallagher Homes Limited and (2) Lioncourt Homes Limited v Solihull Metropolitan Borough Council [2014] EWHC 1283.

<sup>5</sup> Hunston Properties v Secretary of State for CLG and St Albans City and District Council (2013) EWHC 2678, and R v City and District of St Albans (2013) EWCA Civ 1610.

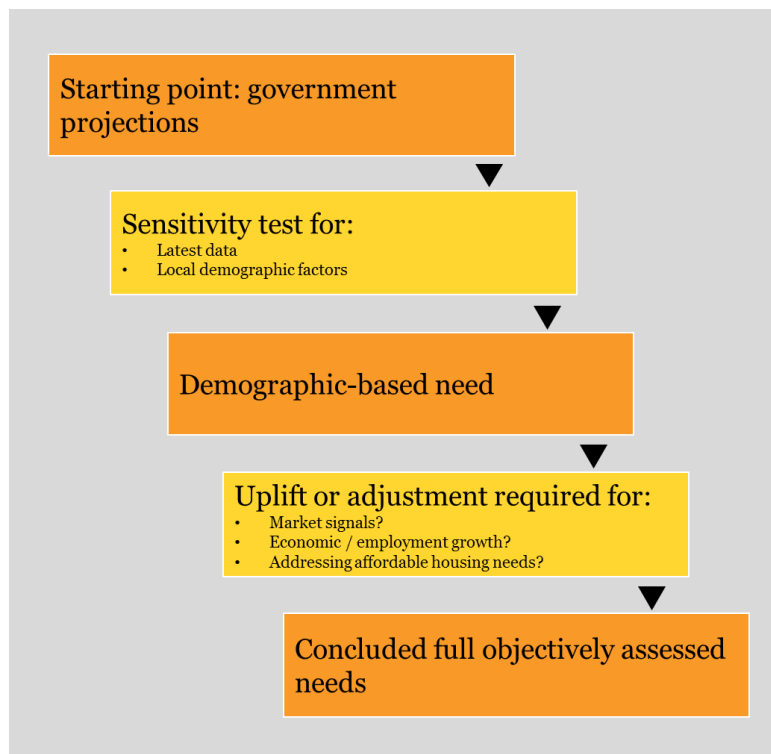
<sup>6</sup> Ibid.

<sup>7</sup> Land at Pulley Lane, Newland Road and Primsland Way, Droitwich Spa (APP/H1840/A/13/2199085) and Land north of Pulley Lane, Newland Road and Primsland Way, Droitwich Spa (APP/H1840/A/13/2199426) (2 July 2014).

<sup>8</sup> Oadby and Wigston Borough Council v Secretary of State for Communities and Local Government and Bloor Homes Ltd (2015). EWHC 1879.

<sup>9</sup> Borough Council of Kings Lynn and West Norfolk v Secretary of State for Communities and Local Government and Elm Park Holdings Ltd. (2015). EWHC 2464.

Figure 2.1 NPPF and PPG Approach to Objectively Assessing Housing Need



Source: Lichfields based on NPPF / PPG

### Need for rent to buy

- 2.14 Once the FOAN has been established, the PPG requires local planning authorities to provide a breakdown of total housing need by tenure (ID: 2a-002). The determination of need for rent to buy housing would therefore form a part of this assessment. The assessment should be performed at a local authority level, in order to align with the FOAN, as a reasonable proxy for the number of newly-forming households in the area.
- 2.15 This proposed methodology is reliant upon available data sources containing information at a local authority level. Further refinement of this approach may be appropriate if additional data becomes available in order to better reflect local circumstances and the needs of first-time buyers.

### Newly-forming households able to afford open market housing

- 2.16 Rent to buy housing is aimed at households that are unable to purchase a home on the open market. Those that are already able to buy an open market property should not be included in the assessed need for this tenure. Therefore, it is first necessary to identify the number of households in this category in order that they can be removed from the need figure.

#### *Step 1: Identify median house price*

- 2.17 Whilst the PPG details the process for assessing the number of households specifically in need of affordable housing, there is no standardised approach for assessing the number of households that can afford to access property on the open market. One of the tests for affordable housing need is to set household income against lower quartile house prices (ID: 2a-25). However, it should not be assumed that all households with the necessary incomes to support the purchase of a lower quartile priced home will be able or willing to do so. There is a general correlation

between house prices and sizes, the implication of which is that the cheapest properties that might be within the reach of those on lower incomes may be too small to meet the needs of some households (e.g. those with families), and many will require refurbishment, which a large proportion of first-time buyers will be unable to finance.

- 2.18 In the light of this, for a rent to buy assessment, it is more appropriate to assess the ability of a first-time buyer household to purchase a property on the open market against the median house price for the area. Median house prices can be identified from ONS's ratio of house price to residence-based earnings data. This data is provided at a local authority level.

*Step 2: Gross household income required for open market purchase*

- 2.19 This stage undertakes an affordability test for those able to purchase a home on the open market at the median price for the local authority area. In order to understand what income would be required to sustain ownership or occupation of such properties, it is necessary to consider how much households can afford to spend on their housing.

- 2.20 The former CLG SHMA Guidance (2007; now revoked) sets out that a household can be considered able to afford to buy a home if it costs 3.5 times the gross household income for a single earner or 2.9 times the gross household income for a dual-income household. In December 2016, the Council of Mortgage Lenders identified that the average income to loan multiple for purchases was 3.57. Given that this is a more up-to-date source, it is considered to be preferable.

- 2.21 Using this figure, it is possible to calculate the gross household income required to support the purchase of a property at the median house price identified in Step 1. In so doing, an assumption would need to be applied regarding the scale of deposit that such households might have, and this could be subject to sensitivity testing. We would suggest that a range of figures between 10% and 25% should be applied.

*Step 3: Gross household income distribution analysis (open market purchase)*

- 2.22 In order to calculate the number of newly-forming households that are in receipt of the minimum gross household income identified in Step 2, it is necessary to analyse the gross income distribution for households in the relevant local authority area.

- 2.23 Whilst data on individual income can be obtained from the ONS Annual Survey of Hours and Earnings (ASHE), household income figures are not currently freely available. However, this data can be purchased from economic forecasting companies, such as Experian. It may also be feasible to estimate gross household income using ASHE data on individual earnings, through the application of appropriate assumptions on the number of earners per household<sup>10</sup>.

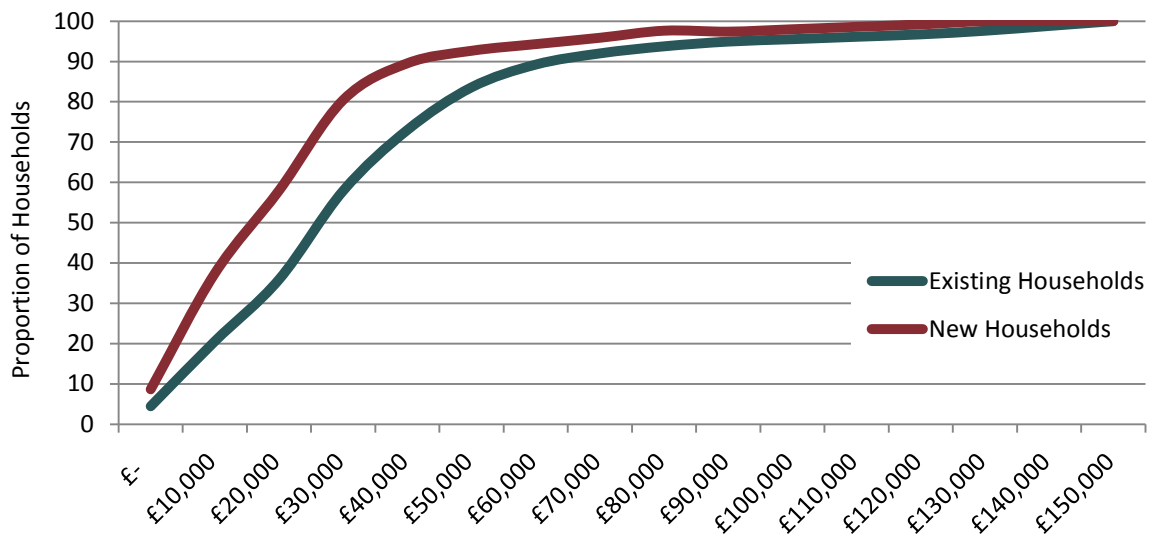
- 2.24 It is important to note that the income distribution of newly-forming households is different to that for all households, with earnings approximately 33% below those for existing households<sup>11</sup>. Therefore, the gross household income distribution should be adjusted to account for this difference. This can be illustrated on a graph that shows the proportion of new and existing households earning different amounts. An example graph is shown below.

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<sup>10</sup> Shelter Private Rent Watch Report one: Analysis of local rent levels and affordability (October 2011).

<sup>11</sup> This comes from the 2004/05 English Housing Survey published in October 2006. This data is no longer collated but represents a buoyant point in the economy, there is no newer evidence and there is nothing to suggest that the situation for newly forming households has improved.

Figure 2.2 Affordability modelling



Source: Experian income data, Rightmove, VOA and Lichfields analysis

2.25 *Step 4: Remove newly-forming households able to purchase open market housing*

2.26 Following on from the previous steps, it will be possible to identify the proportion of newly-forming households that earn enough to access a house on the private market and that would therefore not require rent to buy housing. This number of households should be removed from the total FOAN in order to focus on the target market for the rent to buy tenure.

### Rental affordability

2.27 Rent to buy housing is not suitable for every household that cannot afford to purchase its own home on the open market, and it does not replace the need for social rented homes, not least because it will be unaffordable for a proportion of households.

2.28 The next step in assessing the need for rent to buy is therefore to undertake an affordability test, similar to that which is conducted in the calculation of affordable housing need outlined in the PPG (ID: 2a-025). This step identifies the minimum level of household income needed in order to support a rent to buy home.

*Step 5: Average annual rent for a rent to buy home*

2.29 In the case of the Rentplus product, the rent charged is set at “80% of the local market rents or the Local Housing Allowance (Housing Benefit) level whichever is the lower.” (Rentplus website FAQs).

2.30 Based upon the level of rent charged by Rentplus, the assessment should first identify the annual median market rent for the relevant local authority, using Valuation Office Agency (VOA) Private Rental Market Statistics, and then calculate 80% of this rent. This figure represents the approximate annual rent that could be charged for a rent to buy property in the local area.

2.31 For the purposes of the assessment of need, it is more appropriate to apply 80% of the market rent than identifying an average level of Local Housing Allowance (LHA) within a local authority area, given that this allowance varies depending upon the size of the property and the Broad Rental Market Area in which the property is located.

*Step 6: Gross household income required for rent to buy*

- 2.32 The next step is to calculate the level of household income required in order to access a rent to buy home.
- 2.33 The 2015/16 English Housing Survey found that the national average proportion of gross household income (including state assistance) spent on rent was:
- 1 35% for the private rented sector;
  - 2 27.6% for those living in local authority housing; and,
  - 3 28.6% for those living in housing association properties<sup>12</sup>.
- 2.34 Other sources also suggest broad rules of thumb between 25% and 35% of gross income as being the appropriate threshold<sup>13</sup>.
- 2.35 The issue of how much households should be expected to pay for their housing as a proportion of their average income has also been considered by two recent Local Plan Inspectors. Whilst the focus of this consideration has been upon affordable housing need it is directly relevant to the determination of need for rent to buy properties.
- 2.36 In paragraphs 17 and 18 of his report, the Inspector into the East Hampshire Joint Local Plan stated:
- “17. National guidance advises that, in assessing the need for affordable housing, plan makers should identify the minimum household income required to access lower quartile housing. The SHMA assumes that households will spend 25% of their income on renting a house, an assumption it says ‘draws upon widely established and utilised benchmarks’. The SHMA goes on to say that; ‘In some cases it may be that in the face of acute housing affordability pressures, households choose to stretch their finances in order to access housing. This may reduce the level of affordable housing need, suggesting affordable needs may be fully met even at lower levels of housing delivery.....albeit with adverse consequences for those households in terms of discretionary income’. The SHMA then goes on to recommend that a 30% income threshold would appear reasonable based on data that indicates that households are actually spending more than that on rent.*
- 18. So, instead of planning positively to help assuage acute housing affordability pressures by, say increasing supply, the SHMA appears to advocate an approach which down plays demand. It may well be that, in order to live in a decent home; people are forced to spend more. However, it is not right, in my view, to plan on the basis that it is acceptable for those in need to have their already limited incomes squeezed just so they can live in a decent home (and the need for affordable housing reduced for the purposes of plan making). (Lichfields emphasis)*
- 2.37 This issue was addressed by the Eastleigh Local Plan Examination Inspector’s report which states at paragraphs 32 and 33 that:

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<sup>12</sup> CLG English Housing Survey 2015/16, Annex Table 1.13

<sup>13</sup> Shelter Private Rent Watch Report one: Analysis of local rent levels and affordability (October 2011).

*“The PUSH SHMA assumes (EBC/H4A, 8.6) 30% of gross income spent on housing is the threshold for households in need of affordable housing. Many developer interests consider that this is too high and highlight the reference to a 25% threshold in the 2007 DCLG SHMA Guidance. But that document has been cancelled. National Policy Guidance (the Guidance) does not specify a threshold. I note that 30% of the estimated income required to access market housing in Eastleigh would be (just) insufficient to rent an entry level two bedroom property. Three bedrooms would be out of reach. Thus a proportion of families would not be able to secure accommodation of adequate size when spending 30% of income on housing (SHMA Appendices, Table 23, p73 and Figure 18, p70). A 30% threshold should thus be seen as the upper end of a possible range.*

*“Using the SHMA methodology, a 25% income threshold would increase the identified need for affordable housing to about 624 dpa for Eastleigh (prior to any role assigned to the PRS). This highlights the sensitivity of the threshold used. Accordingly, the figure in the SHMA of 509 dpa should be seen as a baseline, with actual needs recognised as potentially greater. In this context, I see no justification for the Council assuming that more than 30% of income could reasonably be spent on housing. Some households may be forced to do so, but that does not make it a justified approach to assessing need” (Lichfields emphasis).*

2.38 A number of local authorities have sought to argue that a higher proportion (35%) should be applied but it is worth noting that 35% of gross income would represent an even more significant proportion of net income which households actually receive, likely getting close to 50%. In the light of this, and on the basis of the above remarks, it is considered that 30% would be an appropriate starting point upon which to base the assessment of the ability of local people to access the housing market, although the precise figure should be selected on a case-by-case basis, taking account of local affordability issues. Indeed, eligible households may opt to “stretch” themselves to take advantage of the opportunity to secure a home that they will eventually own.

2.39 This threshold should be applied to the annual rent for a rent to buy property in the local authority area (calculated in Step 5) in order to identify the gross household income required in order to access a rent to buy home.

*Step 7: Proportion of remaining newly-forming households able to afford rent to buy*

2.40 Using the same gross household income data and approach applied in Step 2, it is possible to identify the proportion of remaining<sup>14</sup> newly-forming households that are in receipt of the required gross household income identified in Step 5. These households would therefore be able to afford a rent to buy home in the relevant local authority area. Any households earning less than this figure would not be able to afford a rent to buy home and so would not be included within the identified need.

### **Rent to buy eligibility**

*Step 8: Remove any newly-forming households earning £80,000 pa or more*

2.41 Based on the eligibility criteria for Rentplus<sup>15</sup>, any newly-forming households earning £80,000 pa or more should be removed from the total need figure. However, depending upon the location, it is not anticipated that there will be a large number of households that pass through Step 4 that would achieve this level of income.

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<sup>14</sup> Following the removal of those that can afford open market housing in Step 4

<sup>15</sup> Rentplus website, based on the Starter Home initiative

**Summary**

2.42 Table 2.4 provides a summary of the steps required in order to assess the need for rent to buy in any given local authority area.

Table 2.4 Assessment of need for rent to buy

<b>Assessment stages</b>
<b>Starting point: FOAN</b>
<b>Newly-forming households able to afford open market housing</b>
1. Identify median house price
2. Gross household income required for open market purchase
3. Gross household income distribution analysis (open market purchase)
4. Remove newly-forming households able to afford open market housing
<b>Rental affordability</b>
5. Average annual rent for a rent to buy home
6. Gross household income required for rent to buy
7. Proportion of remaining newly-forming households able to afford Rent to buy
<b>Rent to buy eligibility</b>
8. Remove any newly-forming households earning £80,000 pa or more

2.43 The approach therefore starts with the determination of FOAN for the area, before then identifying the number of households that can afford to access housing on the open market, and the proportion of households that could not afford a rent to buy property. The remaining number of households (that can afford rent to buy but cannot compete on the open market) represents the need that exists in the local area for a rent to buy property.

2.44 This calculation can be summarised as follows:

Table 2.5 Assessment of need for rent to buy housing (equation)

<p>(FOAN <i>minus</i> newly-forming households able to afford open market housing)  <i>multiplied by</i> (% of remaining newly-forming households able to afford rent to buy)  <i>minus</i> (newly-forming households earning £80,000 pa or more)</p>
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## 3.0 Conclusion

3.1 In the foreword to the Housing White Paper, the Prime Minister said:

*“Our broken housing market is one of the greatest barriers to progress in Britain today. Whether buying or renting, the fact is that housing is increasingly unaffordable – particularly for ordinary working class people who are struggling to get by.*

*“Today the average house costs almost eight times average earnings – an all-time record. As a result, it is difficult to get on the housing ladder, and the proportion of people living in the private rented sector has doubled since 2000.*

*“These high housing costs hurt ordinary working people the most. In total more than 2.2 million working households with below-average incomes spend a third or more of their disposable incomes on housing.*

...

*“I want to fix this broken market so that housing is more affordable and people have the security they need to plan for the future.*

*“The starting point is to build more homes...*

*“We need to build many more homes, of the type people want, in the places they want to live. To do so requires a comprehensive approach that tackles failure at every point in the system.”*

3.2 The Prime Minister is entirely correct in her conclusion that more new houses are needed in Britain. But in addition to increasing the overall stock, urgent consideration must also be given to the type and tenure of houses that are being provided. Rent to buy provides an innovative solution to the challenges that faces the housing market in this country. By focusing upon aspiring home owners that are currently unable to compete within the open market and unable to save for a mortgage, it provides an alternative to the private rental sector which is characterised by an insecurity of tenure and below-average living conditions. Crucially, the model also provides an opportunity for households that would not qualify for affordable tenures. Accordingly, it provides a response to recognised pressures at a number of points in the system in a way that is not otherwise being provided.

3.3 The potential contribution of rent to buy can be most effectively understood through a demonstration of the level of need that exists for the product. This report has set out a robust methodological approach to undertake such an assessment of need. This approach draws upon the policy contained within the NPPF and guidance set out in the PPG, together with the conclusions of relevant High Court and Court of Appeal judgments and appeal decisions, and Lichfields’ considerable experience in assessing the overall need for housing in local authority areas (FOAN) and affordable housing need. It is an approach that draws upon readily available data sources and which benefits from transparency and clarity.

3.4 By demonstrating that a need exists for rent to buy properties, and that this represents a distinct component of the overall housing need for an area, it will be possible to build a strong case in support of any planning application for development. This will be supplemented by an explanation of the economic and social benefits of this type of development, which can be very significant to a local area and the people that will benefit from this innovative form of housing tenure.



## Appendix 1: Data sources

Information	Data sources
Population by age cohort	ONS Mid Year Population Estimates
Population projections	ONS Sub National Population Projections
Household composition	2011 Census data
Household occupancy	2011 Census data
Projected household growth	CLG Household projections
Dwelling stock	CLG Live Tables 100 and 253 Local Authority Annual Monitoring Report
Housing type and size	2011 Census data 2001 Census data (to provide comparison of change over time)
House prices	HM Land Registry Data ONS House Price Statistics for Small Areas ONS ratio of house price to residence-based earnings data
Sales turnover	HM Land Registry Data
Affordability	CLG Live Table 576
Rental levels	Valuation Office Agency (VOA) Private Market Rental Statistics
Gross household income distribution	Economic forecasting companies, e.g. Experian ONS Annual Survey of Hours and Earnings (ASHE)



