STATES OF JERSEY

HOMEBUY OR SHARED EQUITY SCHEME: APPROVAL BY THE STATES (P.163/2011) – COMMENTS

Presented to the States on 2nd December 2011
by the Minister for Housing

STATES GREFFE

COMMENTS

I agree with the thrust of the report accompanying the proposition in so much as it says: *'it is foolish to keep making it up as we go along and a formal structure and process should be done'*.

I do not necessarily agree that legislation is a pre-requisite.

Housing prices in Jersey are high, with the average three-bedroom first-time buyer house transacting at >£400,000.[1]

An average two-bedroom flat is similarly expensive, at an average of around £300,000.[1] Prices of houses in particular have risen at a rate significantly above the rate of average incomes, which as of June 2011 stood at £34,840 per person (mean).

Lenders are, broadly speaking, applying more stringent lending criteria, and now even a couple both earning 'average income' will find locating a home at a price they can afford a challenge.

There is clearly a significant affordability gap in respect of house purchase, less so in respect of flats, but achieving deposit levels is likely to be an issue for many first-time buyers. We need to address this, and quite understandably there is a strong desire from States members to do so.

Dealing with the issue of affordability of homes will require a long-term strategy.

That strategy needs to be led and has 2 main policy areas.

First and foremost, there needs to be a steady supply of new homes into our market. The effect of bringing supply and demand into relative balance should not be underestimated. We must determine how affordable housing units can be generated from our planning system in the way we did under the 2002 Island Plan, through the use of Planning Obligations and in the manner proposed within Draft Policy H3 of the new Island Plan, which was of course not approved during that debate. This responsibility for delivering the affordable homes we need, and new homes generally, is clearly the responsibility of the Minister for Planning and Environment and his Department. This should be their No. 1 focus, within the policy guidelines set out in the Island Plan recently approved by the States.

The second policy area will determine how those affordable housing units generated are used; we will need to decide what tenure they will be, what schemes, leasehold, shared equity, shared ownership, etc… we require to meet the needs of those qualifying through the Affordable Housing Gateway. There is likely to be more than one solution required, each meeting the particular needs of certain groups. Some may require legislative change, and I would suggest that all of them will require a commitment from the States, whether that be in respect of funding support, the provision of land, or other actions.

Developing this strategy is, in my view, a role for the new Strategic Housing Authority, which I will be proposing as part of a range of policy initiatives being developed within my Housing Transformation Programme.

[1] (HPI Q4 2010)

This new Strategic Housing Authority (SHA) will have a number of key accountabilities, but principle amongst them will be the development and implementation of a cross-tenure Island-wide Housing Strategy. Development of our various affordable housing schemes must form part of this.

The lesson which we must learn from our experience of the 2002 Island Plan, and schemes such as Homebuy, is that we need to capture the social benefit better, and ensure that it repays us in perpetuity and does not lead to short-term profiteering by the fortunate few. Access to ‘affordable homes’ needs to be better targeted. The current ‘First-time Buyer’ classification is too wide and may have allowed access to people who did not need assistance, and this will have contributed to rising prices in the affordable end of the market, where the average price of a three-bedroom first-time buyer home has risen more than 90% since 2002.[1]

The Affordable Housing Gateway is also being developed within the Transformation Programme. The first phase of the Gateway will be in place in January 2012 and it will, over time, demonstrate the full extent of the demand for affordable housing both to rent and to buy. Very crucially, the Gateway will be able to provide the SHA with information as to the financial position of those in need. This will allow the SHA to develop affordable housing solutions which fit those individuals, rather than, as was the case with the Homebuy scheme, when the tenure and the price of the homes was decided long before potential buyers were identified.

Other forms of ‘Affordable Housing’ will be required. The table below sets out some of the potential mechanisms for delivering affordable housing (this is not an exhaustive list) –

AFFORDABLE HOUSING OPTIONS

SCHEME	**PROS**	**CONS**
Homebuy or variant AKA – Shared Equity 100% of property purchased for less than full price. The deferred payment secured as a 2nd charge and repaid on next conveyance.	Requires no legislation. Conventional transaction. Clean break. Little ongoing administration.	Credibility damaged. Requires new Supplementary Planning Guidance and States approval. Present scheme a one-off transaction – long-term use of the homes for affordable housing is not achieved. Moving to the next level in the market is a significant step once 2nd charge repaid.

SCHEME	PROS	CONS
Shared Ownership Only a percentage of the property bought by the applicant; remainder retained by the housing provider.	If low percentages of purchase are offered, this might appear attractive on the face of it. May allow 'stair casing'.	A non-conventional hypothecation and this will necessitate a law change. Retained equity must be managed by a suitable body. Maintenance/Insurance of property must be shared proportionally. Relatively high degree of ongoing administration. Rent may need to be paid (it is normally) on retained equity, and this would need to be factored in with mortgage payments. In a high rental value market, this may have the effect of making shared ownership unaffordable.
Reversionary Leasehold Applicant buys a lease (125 years) – provider guarantees to buy it back at market rate. Asset can then be leased again with new 125 year lease.	Requires no legislation. Conventional transaction. Leasehold is known in Jersey. Can be targeted. Lenders likely to be supportive as there is a guarantee that the unit will be bought back. As ownership never transferred, asset can be recycled for future generations of affordable housing buyers. Lease cost can be flexible. Similar scheme operating in Guernsey	Retained equity must be managed by a suitable body. Relatively high degree of ongoing administration.

SCHEME	PROS	CONS
Lifetime Leasehold Assumed for the over-55s. Applicant buys a lifetime lease on a downsizer unit – this could be at cost, but say £200,000. Asset maintained by provider. On death of leaseholder, asset transfers back to provider.	Requires no legislation. Conventional transaction. Leasehold is known in Jersey. Former home would be returned to the market. Someone downsizing from a three-bedroom house would retain around £200,000 in cash. Less pensioners 'Asset Rich – Cash Poor'. Asset will return to the provider at some point and can be re-leased, sold freehold or let for social housing.	Retained equity must be managed by a suitable body. Costs associated with maintenance and management. Relatively high degree of ongoing administration.
Loan Guarantees The States could guarantee an applicant's borrowing in the private sector.	Lenders would probably be prepared to enter into relatively 'risk free' borrowing.	Would not in itself make homes affordable and might have the reverse effect. Relatively high degree of ongoing administration.
Provision of Low Cost Borrowing Extend the States Loan Scheme to provide larger loans sufficient to be able to buy in the open market.	Law exists. Administrative function exists in Population Office. Larger mortgages would be affordable if interest rates were (as at present) as low as 3%.	Expensive if every applicant needs between £280K and £400K. Would not in itself make homes affordable and might have the reverse effect, particularly if not met by an increase in supply. Relatively high degree of ongoing administration.

SCHEME	PROS	CONS
Provision of Low Cost ‘Top Up’ Borrowing Provide the 10% deposit required by most lenders at low rate of (or no) interest.	The Law exists. Administrative function exists in Population Office. Would provide significant assistance for those with incomes sufficient to be able to afford a mortgage. Less expensive than previous option.	Would not in itself make homes affordable and might have the reverse effect, particularly if not met by an increase in supply. Relatively high degree of ongoing administration.
Self Build Use States land that no longer has an operational use to provide plots for applicants to build on.	Homes can be built at cost. Procurement can be flexible, allowing those who want/can to actually build themselves. Fit-out can vary according to budget. Designs can cater for smaller initial (but extendable) homes.	Danger that asset, once built, will be sold off and applicant profits from land value. Some rules required to prevent market disposal. Delivery can be protracted. Danger that some homes never completed. Plots would tend to imply houses and this may result in sub-optimal density development. Legal arrangements would need to be clear in respect of roads and infrastructure.

SCHEME	**PROS**	**CONS**
Grow the Social Rented Stock and introduce a 'Right to Buy' scheme If new social homes of a type required for the ageing population were developed, then these could be added to the social stock. There could be a policy of one sale/leasehold transaction from existing stock for every new social rented unit added. Sales could be on the basis of a deferred payment bond, leasehold or shared ownership (subject to legislative changes).	Provision from the market is all about social rented. These are easy to value and to predict future value (value is a product of rent yield), providing developers and their lenders with certainty. Social stock is regenerated and realigned. Stock better meets needs of lifelong renters. Essentially what was proposed in P.6/2007. Existing homes to be sold are unencumbered, so values can be reduced to truly affordable levels. Onward sale could be restricted to 'Gateway' qualifiers rather than First-time Buyers, allowing for better targeting.	Some ongoing administration in respect of the deferred payment bond/leases or equity share.