

Appendix 1

Intermediate Housing Market Review

1. Purpose of Report

1.1 This report considers the role of and potential demand for intermediate market housing in Cambridge, and puts forward options as to how the Council might strengthen its approach to meeting the housing needs of those on middle incomes.

2. Introduction

2.1 There is currently very high demand for housing in Cambridge and the surrounding area. House prices and private rents are high, and many people are unable to afford to buy or rent in the City. There is also a shortage of social housing, with around 2,400 applicants on the housing register.

2.2 Cambridge is a major workplace centre; there are over 35% more people in Cambridge during the working day than the resident population - the largest workday population increase outside of London.¹

2.3 This means that there is a significant proportion of the local population who do not receive priority for social housing for rent, but are also unable to afford to access market housing – sometimes referred to nationally as the ‘inbetweens’ or ‘the squeezed middle’. This was one of the concerns highlighted by respondents to consultation on the Council’s Housing Strategy in 2012, and as house prices and rents continue to rise faster than incomes the issue is becoming more and more acute.

3. What is Intermediate Housing?

3.1 The National Planning Policy Framework² defines intermediate housing as a form of Affordable Housing provided to eligible households whose needs are not met by the market, with eligibility determined with regard to local incomes and local house prices. Intermediate housing comprises homes for sale and rent provided at a cost above social rent,

¹ ONS estimates - from Cambridgeshire County Council Research Group slideshow of findings from New Development Surveys: <http://www.cambridgeshireinsight.org.uk/housing/housing-research/new-housing-development-surveys> (See pdf)

² National Planning Policy Framework:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf

but below market levels. It can include shared equity (shared ownership and equity loans), and other low cost homes for sale and intermediate rent. It does not include Affordable Rent housing which can be let at up to 80% of market rents, but which is subject to rent controls.

3.2 [Paragraph 5](#) below goes into more detail on some of the models of intermediate housing available.

4. The Market for Intermediate Housing

The following gives a summary of housing market information available from a range of sources, which is relevant to assessing the market for intermediate housing. Further detail is given in Appendix 2. It also summarises some new research that the Council has commissioned to get a better understanding of the potential intermediate market.

4.1 Market Sale

- The average house price in the City currently stands at just under £387,000 with the lower quartile being around £240,000. (See [Figures 1 & 2](#) below).
- Average property prices tend to be highest in the CB2 postcode area, and lowest in CB4. (These will also include some properties outside of the City boundary). (See [Figure 3](#) below).
- The ratio of median house prices to earnings had risen to 9.7 in March 2014, and lower quartile prices to lower quartile earnings had gone up to 14.6. (See [Table 1](#) below)>
- In July, Rightmove reported that homes in Cambridge were selling faster than anywhere else in the country, including London ³

4.2 Market Rents

- Research by Hometrack for Cambridge City and South Cambridgeshire District Councils, published in April 2014, showed

³ Rightmove report on Cambridge as a market hotspot:
<http://www.rightmove.co.uk/news/articles/property-news/cambridge-fastest-selling-hotspot-as-average-time-for-property-to-sell-across-great-britain-falls-to-65-days>

median rent levels for the five Cambridge postcode areas and an assessment of the relative affordability buying and purchasing. (Note that these postcodes all cross the area boundary into South Cambridgeshire so may not be a completely accurate reflection of prices purely within the City). (See [Figures 4, 5 & 6](#) below for details).

- The highest median monthly rents for all property sizes were in CB2, at £1,129 per calendar month; overall rents in CB4 were 20% lower at £943pcm.
- Rents across all property types had increased in all areas over the last 12 months, ranging from an 8.1% increase in CB1 to 0.1% in CB5.
- Renting an average one bedroom home is affordable at 35% of average net income in all postcode areas other than CB2, but all other property sizes are considered unaffordable.
- Renting and buying an average home of any size is unaffordable to those on median or lower quartile incomes in all Cambridge postcode areas.
- Renting was found to be generally cheaper than buying on the open market, but in CB1, CB3 & CB4 renting an average one bedroom home would require a higher income to rent than to buy with a 25 year mortgage.
- National data shows that private renters are spending, on average, 40% of their income on rent, and more than owner-occupiers spend on a mortgage, despite tending to have lower incomes⁴.
- National data shows that the main occupiers of private rented housing tend to be younger one person households, and couples without dependent children. However, the proportion of couples with dependent children is increasing. 45% of households aged 25-34 in England are now renting privately and the proportion is increasing year on year. (See [Figure 7](#) below).

⁴ English Housing Survey 2012-13:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/335751/EHS_Households_Report_2012-13.pdf

- Three-fifths of private renters are in full-time work.
- The balance of tenures is changing both nationally and locally, with the proportion of owner-occupied households reducing, and the proportion of privately rented increasing. (See [Table 2](#) below)

4.3 Expressed Demand for Intermediate Housing⁵

- At March 2012 there were 368 applicant households registered on the Orbit Homebuy Register for intermediate housing who were living in Cambridge, and 427 who were working in the City.
- Local Registered Providers report that demand for shared ownership in Cambridge is strong compared to many other parts of the country. For example, bpha report that a number of shared ownership properties coming available on new developments in Cambridge are being bought off-plan.
- The majority of intermediate housing applicants are private tenants, first-time buyers, and households living with family or friends.
- Average household sizes of intermediate applicants tend to reflect those of the wider local population; average household size of applicants living in Cambridge was 2.13, compared to the Census 2011 figure of 2.23. The greatest demand locally tends to be for one and two bedroom properties, and although nationally people tend to buy one more bedroom than they strictly require, demand for one-bedroom intermediate homes in Cambridge is strong. See [Table 3](#) below
- The average gross income of purchasers over the three years to 2011/12 was just under £30,000 – around the median income of £31,800, but below the average income £37,211 of Cambridge residents as a whole. See [Table 4](#) below

⁵ Most of the data in this section comes from the Orbit Homebuy Agent who was, until recently, responsible for marketing intermediate housing products locally on behalf of providers. The responsibility has now passed to bpha as the local Help to Buy Agency – due to the switchover they are not able to provide more up to date data. SHMA Chapter 8
<http://www.cambridgeshireinsight.org.uk/housing/shma/shma-current-version> - See pdf

- Half of Cambridge intermediate applicants in 2012 had savings of £10,000 or less, and a further 20% said they had no savings at all. See [Table 5](#) below.
- Lower than average incomes and lack of access to savings suggests that open market rent and home ownership must be extremely difficult for intermediate housing applicants without access to funding from other sources such as family or friends.
- Incomes of Home-Link applicants for social housing for rent tend to be lower still; although data is not complete, around three quarters of applicants are estimated to have incomes of less than £20,000.⁶

4.4 Meeting the Needs of Specific Groups

- Although the number of people aged 65 and over has remained fairly stable over the last ten years, projections suggest there will be around 4,000 more households aged 65+ living in Cambridge by 2031 – an increase of 42% from 2011.
- Research in London has suggested that there is a considerable number of older people who do not have enough equity and/or income to meet their changing needs as they age and could benefit from more provision of the right sort of shared ownership and/or equity loan products. It is anticipated that this will increase as more people are expected to pay for personalised care. The study suggests that further research would be needed to understand whether levels of grant funding available accurately reflect demand or whether there is scope to extend the level of provision.⁷
- There have been calls nationally for shared ownership to be offered to enable older owner-occupiers to down-size and free up equity.⁸

⁶ Home-Link data

⁷ The Role of the Planning System in Delivering Housing Choices for Older Londoners – GLA 2012: <http://www.cchpr.landecon.cam.ac.uk/Projects/Start-Year/2011/Role-planning-system-delivering-housing-choice-older-Londoners/Project-Report> See pdf.

⁸ Shared Ownership Facts & Figures – Promoting Shared Ownership Group, 2010: http://www.shared-owner.co.uk/_media/static/SO-the_facts.pdf

- South Cambridgeshire District Council reports that their shared equity homes for older people (mainly bungalows) generally sell well.
- Demand for intermediate rent products amongst older people is not clear, but it is now starting to be recognised that the private rented sector in general could play a greater role in housing older people in future – eg: through enabling downsizing; to help free up equity and/or pay off debts; as the owner-occupied sector shrinks and more older people are renting anyway; as more people work into old age and want to be mobile; as a temporary stop gap in deciding whether to down-size permanently;⁹ etc.
- There is limited data readily available on the need for shared ownership housing for people with disabilities. National research in 2008 found that only 4% of new shared owners considered themselves to have a disability, and only 0.2% were wheelchair users – lower percentages than those accessing social rented housing. It concluded that the discrepancy could only be partially explained by the younger profile of shared ownership purchasers and the suitability of properties offered, but that the main reason may be that disabled people and those in wheelchairs are less likely to be in full-time employment.¹⁰
- Although assessments for applicants for Disabled Facilities Grants will include consideration of longer-term housing options, there has only been one instance in recent years where the Council facilitated a shared ownership purchase for a Disabled Facilities Grant applicant.

4.5 What does this data tell us?

4.5.1 This data combined indicates that a significant proportion of households living and/or working in Cambridge are likely to find it difficult to access good quality market housing that is affordable.

⁹ Quality and Choice for Older People's Housing – Pannell & Blood 2014:
http://www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Practice_briefings/HLIN_PRS_Briefing1.pdf

¹⁰ Tenure Aspirations & Shared Ownership – CCHPR 2008:
<http://www.homesandcommunities.co.uk/tenure-aspirations-and-shared-ownership> See pdf

4.5.2 The main target group tends to be younger people, but there could potentially be some demand from older people.

4.5.3 It is therefore important to ensure that a range of tenures is available to meet different needs, and to suit different households at different times. A range of tenures is also important in the creation of mixed and sustainable communities.

4.6 Additional Research

4.6.1 The Council has commissioned some research from the Cambridge Centre for Housing & Planning Research (CCHPR), to help to update and improve our understanding of the size of the intermediate housing market, and to help assess what might be considered affordable to different households within that market.¹¹

4.6.2 This research is still in draft form but shows that:

- Private rents in Cambridge – as well as being above Local Housing Allowance rates, are also well above the national average used to calculate the Living Wage.
- Property sizes offered for rent and sale on the open market tend to differ – the rental market offers more smaller (one and two bedroom) properties, whereas there is a larger proportion of three bedroom homes advertised for sale than for rent.
- Analysis of working households requiring each bedroom size shows that the greatest theoretical demand is for smaller homes. Single person and childless couple households who would be considered eligible under the Bedroom Standard for one bedroom homes appear to make up over half of working households in the City, although couples with children may constitute up to 40% of working households.
- Larger households – including those with more children – tend on average to have larger incomes.

¹¹ Baseline Study for Intermediate Housing Market in and Around Cambridge City – Draft Final report CCHPR September 2014: See pdf.

- Intermediate rents are unlikely to be affordable to lower-earning single person households in Cambridge, but a wide range of better paid single earners and couples would be able to afford better accommodation through intermediate rents than in the private market.

4.6.3 Modelling of rent levels, house prices and incomes as part of the research gives some examples of the potential affordability of intermediate rent/ shared ownership products. For example:

- A couple renting a one bedroom intermediate rent home would need to earn just over £20,000 each if their rent were to be no more than 25% of their net income, whereas a couple renting a two bedroom home would need to earn nearly £30,000 each.
- To rent a one bedroom home at an intermediate rent may require a gross household income of between £17,500 and £41,500 depending on the value of the home and the percentage of income to be spent on housing costs. For a two bedroom intermediate rent home, a gross income of between £22,500 and £59,500 would be required.
- An annual gross income of between £18,600 and £30,000 might be reasonable to purchase a shared ownership home, whereas an income of between £24,300 and £43,700 would be required to purchase a 2 bedroom home.

5. Intermediate Tenure Models¹²

The following gives more detail on the main types of intermediate housing currently available, as well as information on some of the more experimental models that providers have introduced over recent years.

5.1 Shared Ownership

5.1.1 The Homes and Communities Agency (HCA) outlines a standard model of shared ownership housing which is eligible for grant funding.¹³ Under this model, purchasers buy a share of a property (usually 25% to

¹² Resolution Foundation, One Foot on the Ladder, November 2013:
http://www.resolutionfoundation.org/media/media/downloads/One_foot_on_the_ladder.pdf

¹³ HCA shared ownership scheme:
http://www.homesandcommunities.co.uk/cfg?page_id=5523&page=58

75% of the home's value) on a leasehold basis, and pay rent on the remaining share, and an annual service charge to the landlord (housing association or local authority) or to a third party managing entity.

5.1.2 Initial rent is capped at 3% of the unowned equity, with a target of 2.75% encouraged.

5.1.3 Leaseholders can usually buy additional shares over time (known as 'staircasing') with the option of purchasing outright. Whether staircasing downwards is permitted (ie selling shares back) is up to the landlord's discretion.

5.1.4 The shared owner is responsible for repairs and maintenance.

5.1.5 Applicants must earn less than £60,000 a year, and the scheme is aimed generally at first-time buyers. When a leaseholder who has not bought outright comes to sell the property, the local authority or housing association can either buy it back and sell it on, or instruct the owner to sell on the open market, with each party receiving back their share of the value.

5.1.6 Older People's Shared Ownership is a grant-funded variation of the above scheme aimed at people aged 55 and over, whereby purchasers can buy up to a 75% share, after which they pay no rent on the remaining share. They are not permitted to purchase outright.

5.1.7 A third variation - Home Ownership for People with Long Term Disabilities (HOLD) - enables disabled people to buy a home on a shared ownership basis, where properties available through the other Help to Buy schemes do not meet their needs.

5.1.8 Some Advantages & Disadvantages of Shared Ownership:

5.1.8.1 Advantages:

- The Council currently has a stock of shared ownership housing, mainly developed during the late 1980s and early 1990s, and recently carried out a review of the scheme.¹⁴ This review, combined with national research, identifies a number of

¹⁴ Cambridge City Council Shared Ownership Review 2013:
<https://www.cambridge.gov.uk/sites/www.cambridge.gov.uk/files/documents/shared-ownership-report-for-website.pdf>

advantages of shared ownership to both leaseholders and providers, as follows:

- It can enable people to get on the housing ladder who may not be able to raise a large enough deposit and/ or afford the monthly payments on a mortgage for an equivalent home at full market price.
- Monthly costs can be lower than those for renting privately (depending on the extent to which the purchaser staircases up). Local data suggests that this may be the case, although affordability will vary according to a range of factors, including access to a deposit, the size of the property, the cost and nature of the individual scheme, etc.
- Shared ownership offers more security of tenure than renting privately.
- Both landlord and leaseholder benefit from any increase in the value at the point of resale (subject to the market).
- It can enable purchasers to buy a better quality home, or one in a more 'desirable' area than they could afford on the open market.
- Provision of shared ownership housing as an element of the social housing on a new development ensures a capital receipt from the purchaser, which can be used to cross-subsidise the rest of the development. Further capital receipts may also be achieved through staircasing.
- As well as a capital receipt, the landlord also receives a rental income based on the share of the equity retained by the landlord.
- The opportunity to staircase up at a later date can benefit both the leaseholder and provider. Using financial capacity created by reduced mortgage costs over time to staircase can help some people to afford to move on at a later date. It also benefits the provider through additional capital receipts over time.
- Providing shared ownership on a site can help to create a more mixed and balanced community.

- Any government grant can be recycled at the point of resale to ensure the ongoing provision of affordable housing.

5.1.8.2 Disadvantages

- Not all mortgage lenders will lend on shared ownership properties, and those who do may impose conditions. (The National Housing Federation reports that there are around twenty national and local lenders willing to lend). Although responses to the survey carried out amongst the Council's shared ownership leaseholders in 2013 show that whilst around one third reported difficulties finding a lender, only one said that they had been unable to secure a mortgage at a competitive rate.
- There may be limited opportunities to move on as families grow or circumstances change, due to lack of availability – this was a concern expressed by our own leaseholders.
- Buying further shares and/or staircasing out may not always be affordable, as it relies heavily on incomes keeping pace with rises in valuations – which is a particular issue in strong market areas like Cambridge. National research has found that on average around 25% of shared owners staircase out to 100% ownership.¹⁵ And just over one third of the Council's original shared ownership stock has been purchased outright since the scheme started. Staircasing has been at relatively low levels nationally over recent years, but staircasing to 100% has started to show an increase over the last two to three years.¹⁶
- As well as the cost of buying additional shares, the process of staircasing can be expensive; costs to the leaseholder include having the property revalued each time, as well as capital and/or remortgaging costs.
- Some leaseholders may choose not to staircase out, even if they could, in theory, afford to do so.¹⁷ Whilst in the early days of shared ownership it was expected that most people would want to

¹⁵ National Housing Federation research –The Role of Shared Ownership in the Future Housing Market, 2010 page 14: <http://www.lggroup.org.uk/assets/files/The-role-of-shared-ownership-in-the-future-housing-market---summary-version.pdf>

¹⁶ Savills Spotlight – Alternative Residential Investments, 2014: <http://pdf.euro.savills.co.uk/residential---other/spotlight-alt.pdf>

¹⁷ See NHF report The Role of Shared Ownership in the Future Housing Market - above

eventually staircase out, national research shows that this often doesn't happen, and that for many shared ownership has become a long-term tenure option.¹⁸ In our leaseholder survey, the main reasons given for not purchasing more shares was the cost of doing so, although half of all respondents said they were happy with their current share.

- The unpredictability of future staircasing can present challenges in terms of financial forecasting for the provider.
- Although leaseholders pay a discounted rent to take account of their responsibility for repairs and maintenance, they will experience annual rent rises which can affect their ability to afford to purchase additional shares.
- Owners pay the full cost of any improvements, but only receive a proportion of the resulting increase in value at resale, depending on the share owned.
- Properties can take time to sell on, which can be an issue for a shared owner who wants to sell quickly but can also affect providers in terms of void times and rent loss where they choose to repurchase and sell on.
- Not permitting sub-letting, whilst it ensures that the property is able to be occupied by the eligible applicant, can affect geographical mobility – eg where a leaseholder wishes to move to be nearer to work or family but wants the option of returning at a later date.

5.2 Equity Loans

5.2.1 With equity loan models, the buyer will normally purchase a property outright with the help of an equity loan to cover part of the value, to reduce the percentage of the value requiring a mortgage. The loan may be provided by the government, a housebuilder, a lender, a housing provider, or a combination of these. The amount repayable is calculated according to the percentage loaned based on the value of the property at the time of redemption.

¹⁸ Shelter – Homes for forgotten families, August 2012:
[http://england.shelter.org.uk/data/assets/pdf_file/0014/702023/Shelter - Homes for forgotten families.pdf](http://england.shelter.org.uk/data/assets/pdf_file/0014/702023/Shelter_-_Homes_for_forgotten_families.pdf)

5.2.2 Different schemes may have different loan repayment requirements. Some may require interest payments during the period of the loan - eg 5 years after the loan was made - whereas others require no repayment until the end of the loan term. Some may include a clause enabling the loan period to be extended for a limited time if the purchaser is unable to repay the loan in full at the end of the period.¹⁹

5.2.3 For example, under the government's Help to Buy Equity Loan scheme, the purchaser puts down a 5% cash deposit, receives an equity loan equivalent to 20% of the value of the property and pays a mortgage on the remaining 75%. The loan is free for the first five years, with interest payable from then on, with the rate increasing each year. The percentage loan can be cleared early, but must be fully repaid after 25 years or at point of sale, whichever is the earliest.

5.2.4 Some Advantages & Disadvantages of Equity Loans

5.2.4.1 Advantages

- Equity loan schemes can offer many of the advantages cited above for shared ownership – eg in terms of making home ownership more affordable, providing security of tenure, promoting mixed communities etc.
- With no rent element payable, purchasers are not subject to the annual rent rises faced by shared owners.
- The provider receives a capital receipt – either for the full amount if the equity loan is offered by a third party, or for the proportion of the share purchased if the loan is offered by the provider.

5.2.4.2 Disadvantages

- Equity loan schemes tend to require purchasers buying a larger stake than they might through shared ownership so tend to be aimed at those on higher incomes. They may also require a larger deposit in higher value areas.

¹⁹ Savills Spotlight report Alternative Residential Investments: <http://pdf.euro.savills.co.uk/residential---other/spotlight-alt.pdf>

- As with shared ownership, not all lenders will lend on homes purchased with equity loans.
- The provider receives no rental income.
- There are costs to the provider of administering loans, and running a scheme requires relevant financial skills to be available in house, or else for the service to be contracted out. With the transfer of consumer credit regulation from the OFT to the FCA in April 2014, the administration of these loans is expected to increase.²⁰
- There are also financial risks involved if a purchaser defaults on equity loan payments. Potential payment defaults would need to be managed.
- Schemes which do not require regular repayments during the life of the loan rely on a single capital receipt at the end of the period, which means that although the provider will benefit at the end of the term from any increase in the value of the property, no repayment is received in the interim.
- No grant funding is currently available for housing providers to offer equity loan products.

5.3 Intermediate Rent & Rent to Buy

5.3.1 Intermediate rent is where properties are let at sub-market rents, but where rent levels are not subject to rent controls as they are for Affordable Rents.

5.3.2 Rent to Buy schemes are a variation of this; tenants are offered a home at a percentage of market rent for a period of time, during which they are either expected - or have the opportunity to - save for a deposit. At the end of the period - say five years - the tenant has option of buying a share of the property on a shared ownership basis.

5.3.3 Some providers have extended this model, charging market rents but retaining a proportion - say 20% - and gifting it back to the tenant at the end of the period which they can use as a deposit; either to buy that property or another property elsewhere.

²⁰ Savills Spotlight report – see above

5.3.4 Housing provider bpha reports that there is currently high demand for both their intermediate rent and Rent to Buy schemes, offering properties at around 20% below market rent. Their Intermediate Rent scheme includes properties in Orchard Park and Cambourne, and they have newer Rent to Buy properties on Orchard Park. The Rent to Buy scheme is aimed at giving tenants an opportunity to save, and so the affordability assessment of applicants is different to that for standard intermediate rent. When bpha comes to sell the property after a fixed period the occupant is offered first refusal to purchase on a shared ownership basis.

5.3.5 Some Advantages and Disadvantages of Intermediate Rent/ Rent to Buy

5.3.5.1 Advantages:

- Sub-market rents make renting more affordable than on the open market.
- Although tenancies are usually offered for six months on an assured shorthold basis, schemes provided by Registered Providers tend to offer longer term stability than might be available in the private rented sector. National research suggests that this stability tends to be particularly attractive to older age groups.²¹
- Renting gives more flexibility than shared ownership for residents who want to be able to move, and tends to be more of a positive factor for younger households.
- For those who wish to move onto the home ownership ladder, paying a lower level of rent can give tenants more opportunity to save for a deposit.
- Intermediate rents can be set at levels which provide a larger income stream in high value areas than can be achieved through social rents, contributing to scheme viability as well as helping to balance communities.

²¹ Savills/Yougov research presented to South Cambridgeshire District Council

5.3.5.2 Disadvantages

- Lack of long-term tenure security for those who want it.
- Intermediate rent may require a different management approach to that of managing social housing tenancies and is likely to require different staff skills.
- Different levels of service may need to be offered to intermediate tenants to those available to tenants of social housing for rent, which would need to be clearly communicated to residents on mixed schemes.
- The effectiveness of Rent to Buy schemes in helping people onto the housing ladder is questionable; although a number of providers have introduced schemes nationally, they often find that only a small proportion of tenants decide to purchase once the rental period is up.²²
- There is no specific grant funding available at present (see [paragraph 9](#) below).

6. Other Intermediate Housing Options

6.1 As well as standard shared ownership and intermediate rent models, a number of modified approaches have been trialled across the country by different providers.²³ For example:

6.1.1 Shared Ownership - Micro-Shares. Some providers have tried selling smaller shares (eg 10 to 12 per cent), to enable low income families to get onto the housing ladder. These have not tended to be particularly successful, providing only a low rate of capital return to the provider. There are also only limited benefits to leaseholders of owning such a low percentage share, weighed against taking on full repair and maintenance responsibilities and the general financial risks involved in home ownership.

6.1.2 Home Purchase Plans. Rather than buying a share of the property, buyers are not required to pay a deposit but enter into a long-term

²² Resolution Foundation One Foot on the Ladder, 2013:
http://www.resolutionfoundation.org/media/media/downloads/One_foot_on_the_ladder.pdf

²³ Resolution Foundation report – see above

payment plan, with monthly payments rising each year. This way they build up equity shares over time until they have purchased the whole property. Registered Provider Gentoo has piloted a scheme in the North East of England and is looking to extend the model to other parts of the country. However, it is recognised that this sort of approach may be less effective in high value areas where income growth may not be able to keep up with annual payment increases.

6.1.3 Thames Valley Housing's Shared Ownership Plus. Under this scheme purchasers are charged a higher monthly rent which is put towards the purchase of an additional 1% of equity each year without requiring further valuations or legal fees, based on the valuation of the property when it was bought plus an annual fixed price increase. Buyers can stay within the scheme for up to 15 years, or opt out of higher payments – and therefore out of increasing their percentage share – at any time. Rent payments go down as their equity share goes up. Their modelling suggests that although monthly costs may be higher than traditional shared ownership, purchasers will pay less rent over the 15 years and own a larger share than a similar shared owner who opts not to staircase up.

6.1.4 Do It Yourself Shared Ownership (DIYSO). DIYSO is similar to standard shared ownership, except that a purchaser selects a property on the open market. The provider purchases a share of the equity on which the purchaser pays rent. The buyer is able to staircase up over time.

6.1.4.1 The Council set aside capital funding to provide its own DIYSO scheme for key workers around ten years ago, but the scheme did not go ahead due to the lack of skills available in-house and the costs of procuring an external provider weighed against the small number of purchases that could reasonably be funded.

7. CURRENT APPROACH

7.1 Strategic Approach

7.1.1 The Council's Housing Strategy, and current and new draft Affordable Housing Supplementary Planning Documents (SPDs) resolve to achieve a maximum of 25% of new social homes on sites in Cambridge to be provided as intermediate tenures, based on evidence

of need provided by the Cambridge sub-region's Strategic Housing Market Assessment (SHMA).

7.1.2 One of the key objectives in our Housing Strategy is to increase the supply of good quality, energy efficient Affordable Housing in a range of sizes, types and tenures. This reflects one of the issues raised through consultation on the Strategy - ie that the Council needed to take into account the housing needs of the 'squeezed middle'.

7.2 Current Shared Ownership Scheme

7.2.1 Shared Ownership is the current intermediate tenure provided by the Council, currently providing 84 shared ownership properties. The service was reviewed in 2013, and following a full evaluation of the service and generally positive feedback from existing shared ownership leaseholders, the decision was made to continue offering homes which become available to new applicants, with some improvements to the service provided.

7.3 New Developments

7.3.1 The Council has received government grant for 146 new social homes to be developed in 2012 to 2015 on its own land. Development has been cross-subsidised by building market-sale homes; no new intermediate housing has been provided to date.

7.3.2 When the Council's existing shared ownership scheme was reviewed, the Executive Councillor and Community Services Scrutiny agreed in principle that shared ownership homes be provided on Council's new developments where appropriate – eg at Clay Farm and on other new Affordable Housing Development Programme sites – to cross-subsidise rental build and help create balanced communities, in line with the requirements of Council's Local Plan and Affordable Housing SPD.²⁴

7.3.3 Provision on Clay Farm is currently being modelled, with 26 of the anticipated 104 new homes planned to be provided as shared ownership. Development is expected to start in in spring 2016, and be completed by spring 2017.

²⁴ Community Services Scrutiny January 2014 minutes, item 14/10/CS
<http://democracy.cambridge.gov.uk/documents/g1000/Printed%20minutes%2016th-Jan-2014%2013.30%20Community%20Services%20Scrutiny%20Committee.pdf?T=1>

8. FUTURE STRATEGIC DIRECTION

8.1 Consideration needs to be given to the extent to which the Council wishes to prioritise supporting those unable to access social housing for rent or good quality open market housing. The Council's Housing Strategy is due to be reviewed in 2015, and consideration will need to be given to such issues as:

- Should the Council support access to the private rented market for people on middle incomes through provision of intermediate rent housing?
- Should we be supporting people to get onto and/or move up the housing ladder?
- Should we have policies which enable tenure-change within the same home? - eg providing intermediate rent housing with the option to purchase, or shared ownership housing with the option to swap to intermediate rent if circumstances change.
- etc

9. FUNDING & SCHEME DELIVERY

9.1 Funding Currently Available

9.1.1 Shared ownership is the only intermediate tenure housing eligible for HCA grant funding at the present time, and development will only be considered as part of a larger scheme providing homes for Affordable Rent.²⁵ Right to Buy receipts cannot be used for intermediate tenure housing.

9.1.2 The model of shared ownership which can be grant funded is the standard one prescribed in the HCA's Affordable Housing Capital Funding guide, but can also include Home Ownership for People with Long Term Disabilities, and Older Persons' Shared Ownership. (See [paragraph 5](#) above).

²⁵ HCA Affordable Homes Programme 2015-2018:
http://www.homesandcommunities.co.uk/sites/default/files/our-work/ahp_2015-18.pdf

9.1.3 However, sale of shared ownership homes does ensure an upfront capital receipt from purchasers, as well as ongoing rental income, and can play a key part in ensuring the viability of a housing development. Modelling for the Clay Farm development has been carried out for the Council by the Chartered Institute of Housing. Current figures indicate that – based on a range of theoretical assumptions – providing shared ownership (and/or rent at intermediate rent at 80% of market rents) should decrease the borrowing requirement and reduce the number of years taken to pay back the debt, compared with providing all the social housing for rent. (See [Figure 8](#) below). This also helps to free up capital for further social housing development elsewhere.

9.1.4 Funding for provision of intermediate rent would be more problematic as it cannot currently be funded through HCA grant or Right to Buy receipts. The Council participated in a homelessness research project in 2012/13, commissioned by the Department for Communities and Local Government to investigate the viability of attracting institutional investment to fund new lower cost private rented housing. The research concluded that any intermediate rent scheme in Cambridge is unlikely to attract institutional investment due to high land and property costs, resulting in insufficient investment yields.²⁶

9.2 Joint Ventures and Other Funding Models

9.2.1 A number of local authorities have developed joint venture arrangements to fund new housing. A Local Housing Company (LHC) is a form of joint venture between a local authority and a private sector partner, into which the local authority invests land and the private sector provides house-building expertise and financial investment to match the value of that land. The company is jointly owned, with both parties sharing the risks and benefits of the development process.²⁷ The ‘funding vehicle’ can include intermediate housing to help pay-back the private sector investment.

9.2.2 There are other funding vehicles which are designed to free-up local authorities from borrowing restrictions. For example, South Cambridgeshire District Council has set up a Property Company that allows investment from the General Fund. South Cambs Ltd is a pilot scheme set up initially to buy housing to rent at market rents. If

²⁶ DCLG Homelessness Project research 2013 – see pdf

²⁷ HCA webpage on Local Housing Companies:

<http://www.homesandcommunities.co.uk/ourwork/local-housing-companies>

successful, the Company could evolve to build new properties and sell properties at market prices, to help meet housing need across the housing market and generate revenue income to support Council services.²⁸

Officers have been in discussion with colleagues at South Cambs DC and the County Council about opportunities to set up a joint venture to deliver new housing, in the context of the City Deal. This approach would require General Fund investment to proceed.

9.3 Local Lettings Agency

9.3.1 Town Hall Lettings is a local lettings agency set up by the Council and other sub-regional authorities, offering participating landlords guaranteed rent payments to help single people who are homeless or threatened with homelessness. A review and options report on Town Hall Lettings, including consideration of extending its role to cater for the intermediate rent market, will be brought back to the Executive Councillor for Housing and Housing Scrutiny Committee in the January 2015 cycle. See Appendix 3 for more details on Town Hall Lettings

10. CONCLUSIONS

10.1 Information available points to a growing need for housing amongst households whose requirements are unlikely to be met through social housing for rent or homes for sale or rent on the open market.

10.2 There are a number of intermediate housing models available, although there are advantages and disadvantages to each one.

10.3 As shared ownership is already being provided as a housing option – through the Council's existing scheme and through planned new development as part of the Council's Affordable Housing Development Programme - the viability of, and vehicles for, providing housing at intermediate rents is a particular area which could be explored further.

²⁸ South Cambs DC cabinet report November 2013, agenda item 6:
<http://scambs.moderngov.co.uk/documents/g6223/Public%20reports%20pack%20Tuesday%2019-Nov-2013%2009.00%20Cabinet.pdf?T=10>

10.4 The extent to which the Council should prioritise activity in relation to the intermediate market going forward needs to be considered as part of the forthcoming review of the Council's Housing Strategy.

11. RECOMMENDATIONS

11.1 To endorse the need to address a range of intermediate housing needs amongst people who cannot afford to buy or rent good quality housing on the open market but who also do not have priority for social housing for rent.

11.2 To consider options for a social lettings agency to help meet the needs of the intermediate housing market in Cambridge, including consideration of future development of the sub-regional lettings agency Town Hall Lettings.

11.3 To prioritise exploring how different models of intermediate market housing for rent might be delivered through the Council's Affordable Housing Development programme.

11.4 That the extent to which provision of intermediate market housing is prioritised in the future is considered as part of the review of the Council's Housing Strategy due to take place during 2015.

12. ALTERNATIVE OPTIONS

Option 1

12.1 Investigate further the market for and viability of provision of shared ownership schemes which require residents to increase their equity share of the property as time goes on. As outlined in [paragraph 6](#) above, a number of schemes like this have been tried nationally with limited success, so it is not recommended that this be taken forward at the present time.

Option 2

12.2 Investigate viability of providing housing equity loans. This is not recommended as the challenges presented probably outweigh the disadvantages (See [paragraph 5.2.4.2](#) above).

Option 3

12.3 Limit the provision of intermediate housing to just continuing to provide shared ownership as now, and do not investigate additional options. This is not recommended, as although shared ownership may be an appropriate option for some, for others rented housing may be more appropriate.

Appendix 2

Data

Figure 1: Average House Prices – Cambridge City

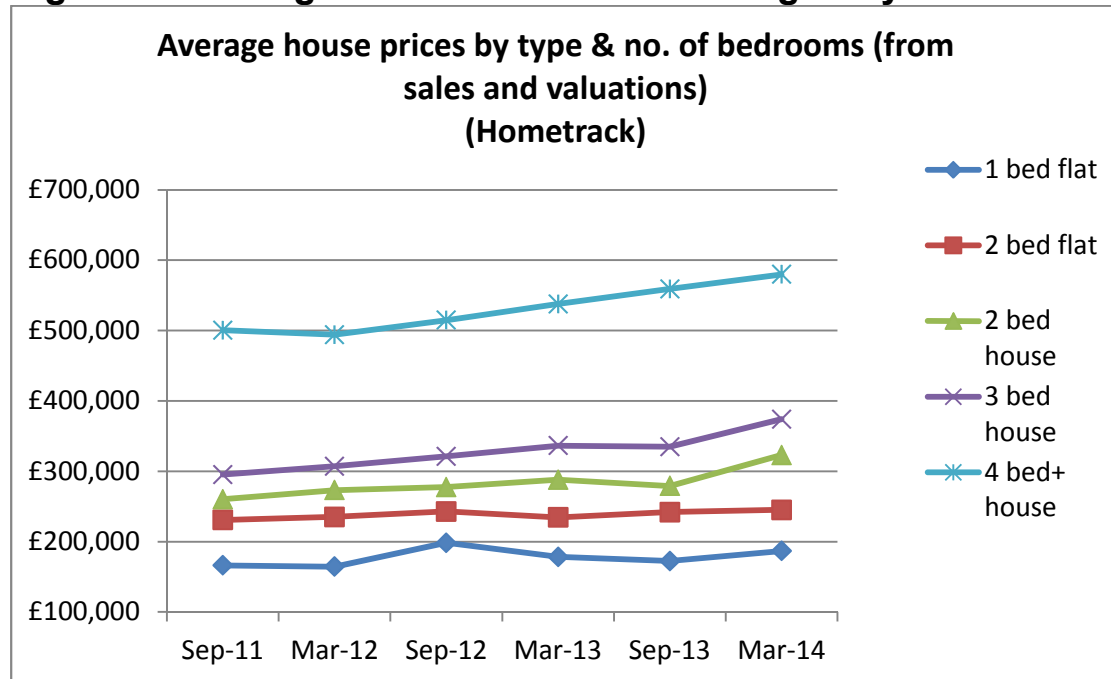


Figure 2: Lower Quartile House Prices – Cambridge City

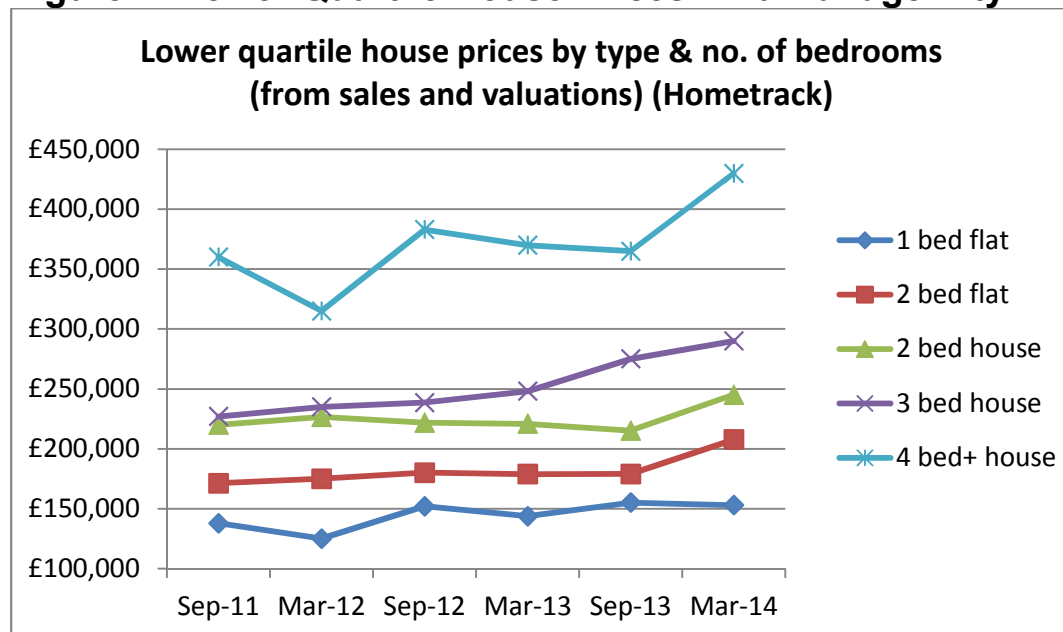


Figure 3: Average House Prices by Postcode Area

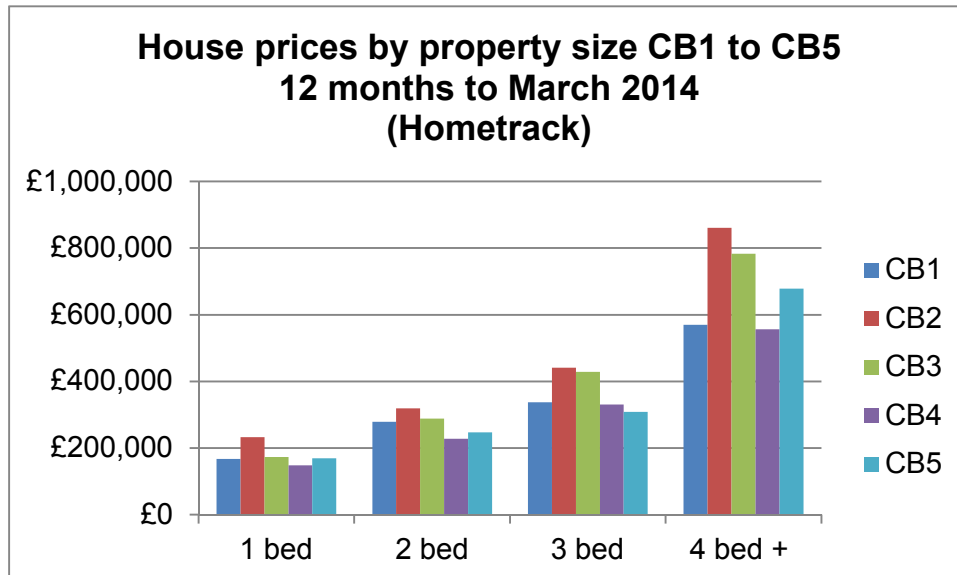
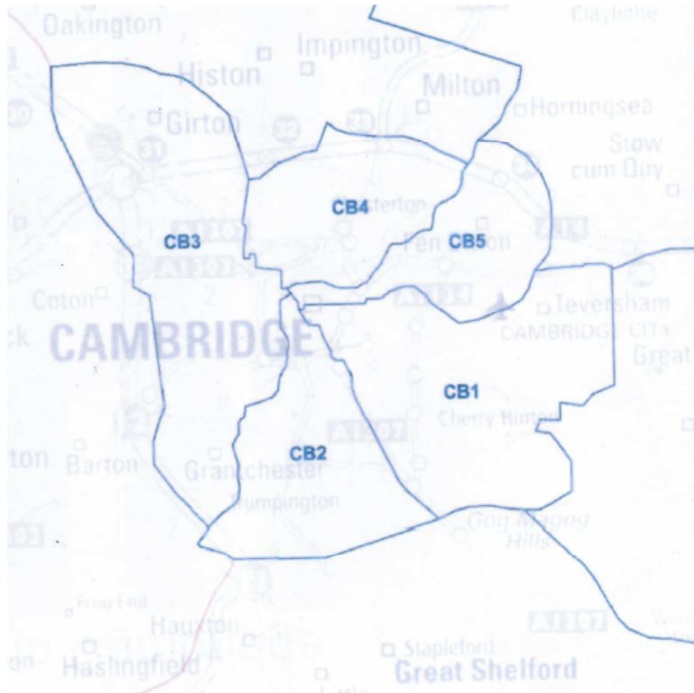


Table 1: House Price to Earnings Ratios – Cambridge City

House price to earnings ratios: median to median, and lower quartile to lower quartile (Hometrack)						
	Sep-11	Mar-12	Sep-12	Mar-13	Sep-13	Mar-14
Med. house price to med. earnings: Cambridge	9.1	9.3	9.0	9.2	9.3	9.7
Med. house price to med. earnings: Sub-region	6.1	6.1	6.1	6.2	6.2	not avail
Lower quartile house price to lower quartile earnings: Cambridge	11.9	12.3	14.0	14.0	14.0	14.6
Lower quartile house price to lower quartile earnings: Sub-region	8.1	8.2	9.7	9.8	9.8	not avail

Figure 4: Post Code Areas CB1 to CB5



- CB1: East Central Cambridge, Mill Road area, Cherry Hinton etc, crossing into Teversham.
- CB2: West Central Cambridge, west of Hills Road, and Trumpington.
- CB3: West of Histon Road, Newnham, crossing into Girton and Grantchester.
- CB4: Mainly east of Histon Road, and north of the river.
- CB5: Newmarket Road and Barnwell area, crossing into Fen Ditton.

Figure 5: Median Rent Levels – CB1 to CB5

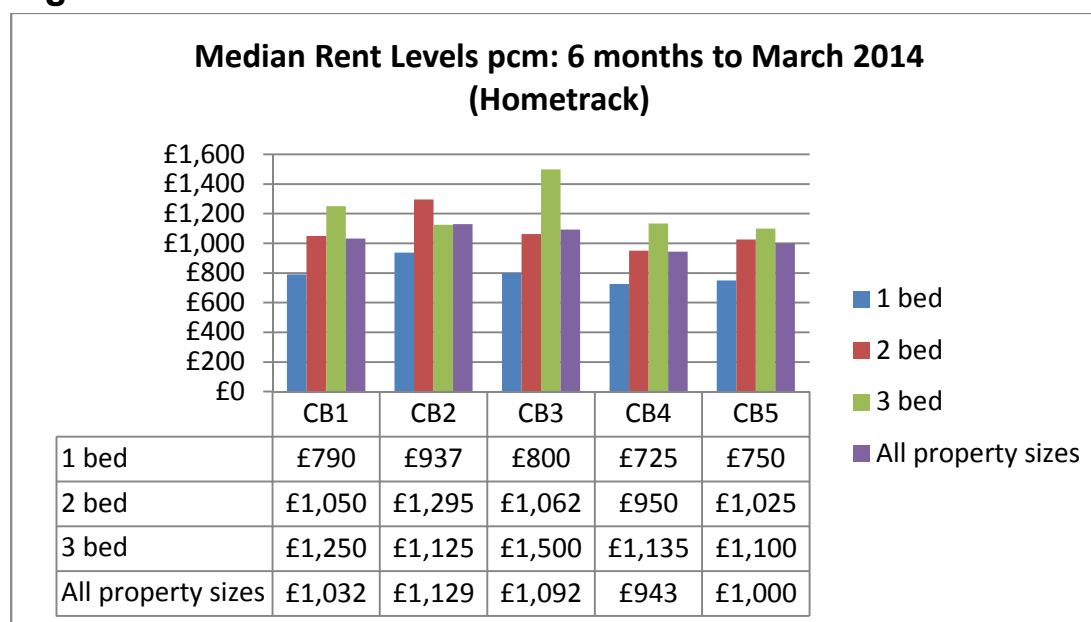
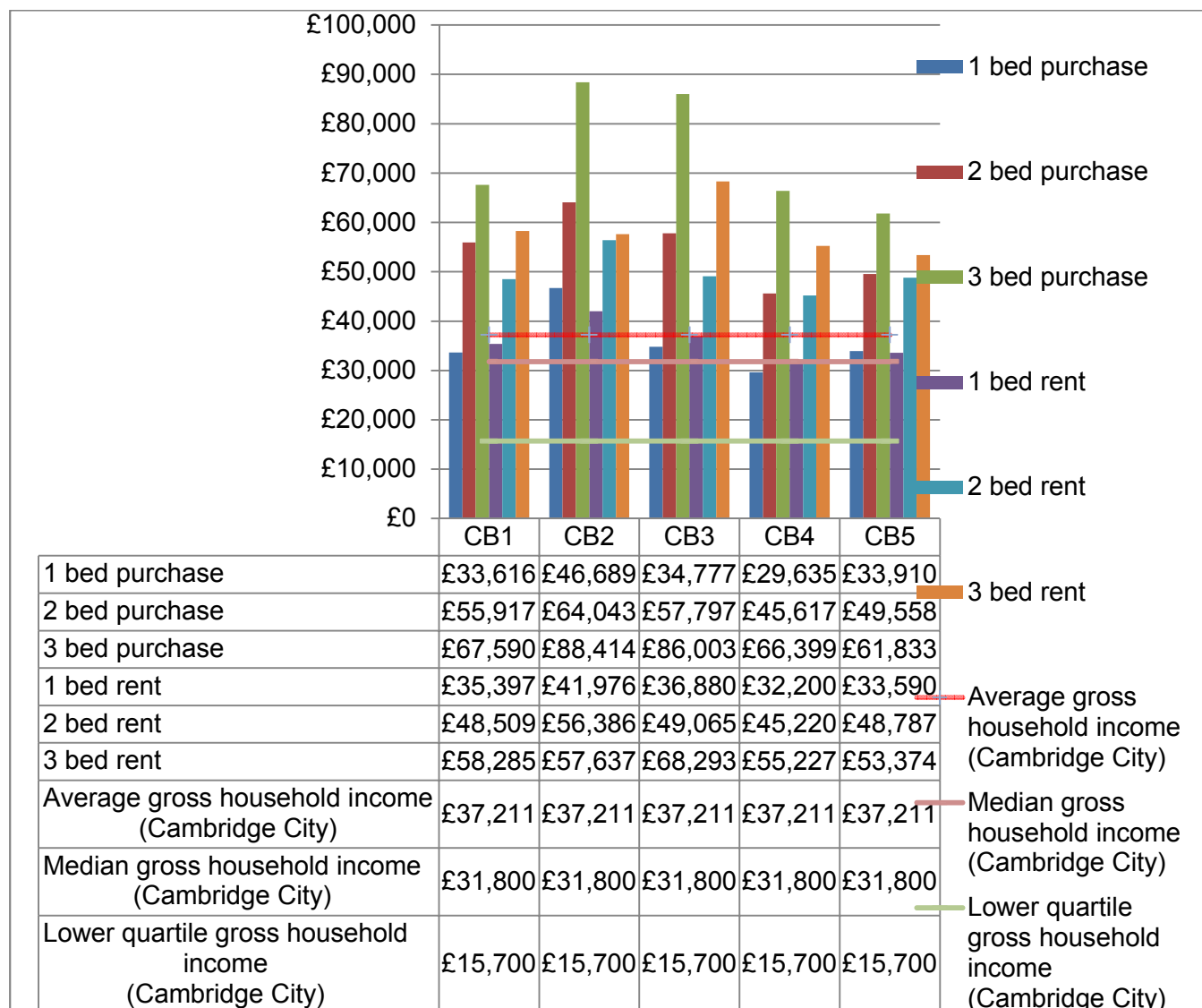
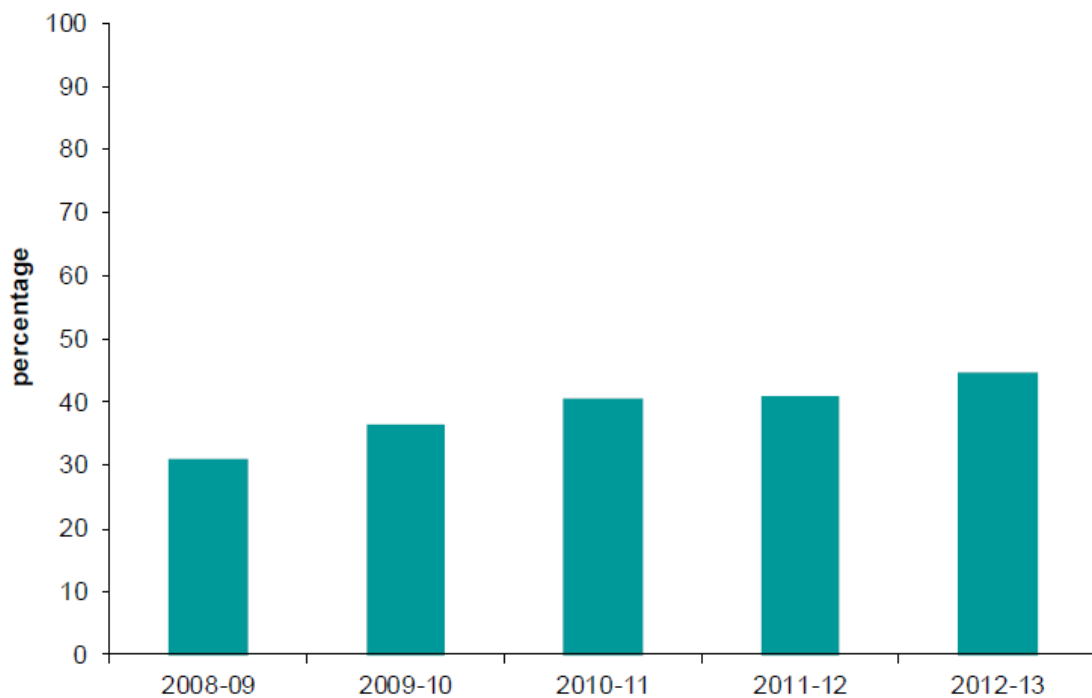


Figure 6: Gross Income required for average purchase and median rent, 12 months from March 2013 (Hometrack data)



NB. Income required to buy is calculated assuming a repayment mortgage, with a 25 year term and 4.24% annual rate. It is assumed that a maximum of 35% of net income can be spent on mortgage costs/renting, and that net income is 74% of gross income (accounting for tax). The calculation method and assumptions are in line with guidance on calculating affordability issued by the Homes & Communities Agency.

Figure 7: 25 to 34 year olds renting privately - England



Source: English Housing Survey 2012-2013

Table 2 Tenure – Cambridge City

Cambridge Households	2001	2011
Owner-occupied	53%	48%
Shared Ownership	1%	1%
Privately rented	21%	26%
Rented from social landlord	24%	23%
Living rent free	2%	2%

Source: Census 2001-2011 (rounded)

Table 3 Percentage of households requiring different property sizes

	One	Two	Three	Four	Five +	Number	Average household size
Cambridge	35%	35%	16%	10%	3%	367	2.13
South Cambs	30%	33%	24%	10%	3%	259	2.23
Cambridge sub-region	31%	34%	22%	11%	3%	1092	2.23

Source: Orbit Homebuy Agent & SHMA Chapter 8

Table 4: Average gross incomes of intermediate housing purchasers 2009/10 to 2011/12

	Equity loan purchaser	Shared ownership purchaser	All intermediate purchasers
Cambridge	£30,775	£29,137	£29,649
South Cambs	£32,063	£27,351	£29,852

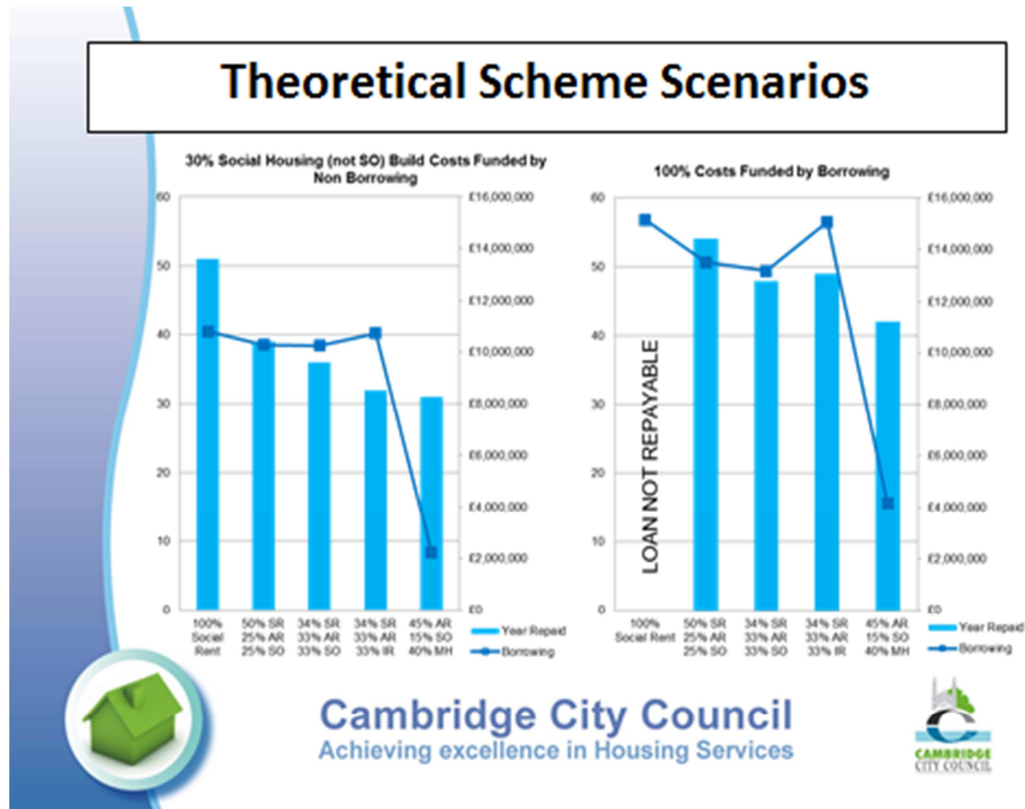
Source: SHMA Chapter 8

Table 5: Savings levels of Homebuy applicants living in Cambridge (April 2012)

	Number	Percentage
No savings	72	20%
Less than £5,000	121	33%
£5,000-9,999	58	16%
£10,000-14,999	32	9%
£15,000-19,999	18	5%
£20,000-49,999	52	14%
£50,000+	15	4%
All intermediate applicants	368	100%

Source: Orbit Homebuy Agent

Figure 8 Theoretical impact of providing shared ownership on Clay Farm



Source: Modelling carried out for Cambridge City Council by Chartered Institute of Housing

Appendix 3

Town Hall Lettings and the intermediate housing market

Background

Town Hall Lettings (THL) is a local lettings agency²⁹ established by five local authorities³⁰ in the Cambridgeshire sub-region and managed by Cambridge City Council. THL started its operation in January 2014. It was established with the help of funds provided by the Department for Communities and Local Government (DCLG) to help provide a solution for single homelessness in the sub-region. It forms part of a wider single homelessness service.

Current Operations

THL operates by offering the landlord a guaranteed payment based on a) affordability for those that maybe full or partially reliant on housing benefit; and b) achieving a figure broadly in line with the market rent for the area. This means that a property for a single household is only a viable proposition for THL if the local housing allowance (LHA) directly matches or is close to the market rent for the area. For a shared house arrangement involving a number of single people, the viability of the property relies on the combined individual shared room rate LHA figures comparing favourably with the market rent.

To date, THL has focused on meeting single homelessness demand in order to satisfy the terms of the DCLG grant.

The inception of THL has helped to boost the Council's performance in alleviating homelessness through the private rented sector (PRS). In quarter 1 (2014-15) the Council made 23 private rented housing placements compared with the following figures across the last three full financial years: 41 in 2013-14 31 in 2012-13 and 34 in 2012-13. Despite this encouraging development, the proportion of families assisted has dropped off significantly with only two assisted into private rented accommodation this calendar year to date, as opposed to 17 who were helped into accommodation during 2013. Therefore, the next priority for THL is to assist more families threatened with homelessness into PRS accommodation.

²⁹ Definition of a local or social lettings agency - Crisis publication Local Lettings Agencies – a good practice guide: http://www.crisis.org.uk/data/files/3xe_locallettings_agency_guide_final.pdf

³⁰ Cambridge City, South Cambridgeshire, East Cambridgeshire, Huntingdonshire and Fenland

The Council may want to consider developing THL's operations so that it caters for the intermediate housing market customer. A full report on options for this will be brought to the January meeting on Housing Scrutiny Committee.