

Community Land Trusts

Affordable homes, in sustainable communities

III Other intermediate models that combine rent with purchase

The principles behind rent with purchase are:

- The occupier pays rent
- The CLT uses the rent to repay a mortgage and meet any other costs
- The occupier shares in the equity created by the repayment of debt and the appreciation in the value of the home

This can be done in two ways:

a) Rent to Purchase

Under the rent-to-equity model

- The CLT holds equity in perpetuity for the provision of affordable housing
- The resident takes out an assured rental tenancy with full repairing responsibilities
- When residents leave they can receive an equity stake of 50 to 90 per cent of the increased value of that part of the property value their rent has serviced and the debt redeemed on it during their tenancy.
- With rents set at 35 per cent of net household income, tenants will pay different amounts. Those paying more receive a higher equity stake when they leave.
- Residents can choose to switch to the equity purchase tenure after two years.
- A rent will be required to cover insurance, make a small contribution to the CLT's management cost and to fund long-term renewals.
- There may also be a service charge.

b) Mutual Home Ownership

CDS Co-operatives Limited and the New Economics Foundation have developed Mutual Home Ownership. It uses the advantages offered by co-operation both to undertake management and overcome legislative pitfalls.

Enfranchisement

Long leaseholders may have the right to acquire the freehold of their home.

Enfranchisement is not an issue for CLT-owned houses, because no lease is granted. Purchasers own the freehold, subject to the equity mortgage.

There is a right of collective enfranchisement enjoyed by long leaseholders of flats, whereby they may together acquire the freehold reversion of the relevant building. In case of flats, it may be possible to avoid such collective enfranchisement by using a form of lease under which the leaseholder acquires a portion of the equity. Such leases fall within the definition of 'shared ownership leases' which are excluded from the relevant collective enfranchisement provisions as long as the total share owned by the leaseholder is less than 100%.

Leaseholders of a charitable housing trust are also excluded from enfranchisement provided the home was provided in pursuit of the trust's charitable objectives. Providing homes on part-equity terms can be charitable, if it benefits those with household salaries around average incomes or below.

Tax

The position is the same as for any other purchaser in the property market. There will be some Stamp Duty Land Tax if the interest acquired has a value in excess of the minimum (currently £120,000) and Land Registry fees. There will not be any Capital Gains Tax (if the home occupied as the only or main residence) and the payments made by the CLT under Tenancy Plus and Equity Purchase models cannot be defined as proceeds from a disposal on which the Tax could be levied.

Who should be interested in CLTs?

- **Communities:** CLTs can empower local people to take action for themselves to meet affordable housing and community needs.
- **Local authority housing teams:** CLTs can supplement affordable housing provision without the need for Social Housing Grant
- **Local planning authorities:** CLTs provide a secure but flexible mechanism for holding equity to perpetuate affordability derived from planning agreements and 'exception' planning permissions
- **Regional Assemblies: Government Offices for the Regions: Regional Development Agencies:** CLTs can provide local-scale, bottom-up solutions alongside large-scale top-down plans to help deliver sustainable communities in cities, towns and villages.

What support do CLTs need?

- **Landowners:** CLTs need public or private landowners to sell land, particularly where there is a good chance of an 'exception' planning consent. Some landowners, especially in the public sector, may see delivery of affordable housing as having more benefits than simply a cash receipt.
- **Local investors:** CLTs need capital for development finance and investment to provide Tenancy Plus and Rent with Purchase solutions. Funding raised locally as community investment supplements finance from mainstream banks and building societies
- **Those concerned with community development and regeneration, including housing associations:** They can provide CLTs with the start-up and revolving development funding they need and the support of experienced development staff.
- **Local authority planners:** Planners can play a pro-active role in advising of the options, explaining specific local planning policies and helping to find sites.

Details of the legal model starter pack are available from Trowers & Hamblins. Further details of the model tenures, except for Mutual Home Ownership, are also available from Trowers & Hamblins. Details of the Mutual Home Ownership scheme can be obtained from CDS Co-operatives at the address below.

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CFS at the University of Salford is a research and development unit engaged in promoting, developing and supporting integrated solutions to financial inclusion.

Trowers & Hamblins is a leading legal firm of solicitors recognised for their expertise in affordable housing.

Tudor Trust is a charitable grant making trust which provides funding to projects that increase people's capacity to cope, build their confidence and vision and give them greater control over their future

15/03/06

'Defra's challenge over the next five years is to support sustainable communities... but in all our discussions with rural communities one theme comes out above any other – the need for affordable housing.'

Margaret Beckett, Secretary of State for Environment Food and Rural Affairs, launching Defra's five-year plan December 2004

Case Study : High Bickington, Devon

A unique CLT pilot project in High Bickington (population 670) is combining new and traditional models of affordable housing tenure as part of its widely acclaimed holistic approach to the regeneration of a rurally deprived community.

Local people have set up the High Bickington Community Property Trust [HBCPT] to oversee a development on about 20 acres of redundant farmland. HBCPT is now working in partnership with the local Parish Council [HBPC], Devon County Council [DCC] and Devon and Cornwall Housing Association [DCHA] on a scheme that includes:

- 15 traditional Social Housing units [DCHA] – 10 rental and 5 shared ownership
- 17 Equity Share/Tenancy Plus units – to be built and managed by HBCPT
- 4 HBCPT Community Self Build properties based on an equity share model
- A 'Rural School of the Future' linked to new Community Buildings
- A range of refurbished and new-build workshops to be managed by HBCPT
- A Community Woodland
- Outdoor Sporting and Recreational Facilities – including children's play areas football and cricket pitches.

The Community Property Trust, incorporated as an Industrial and Provident Society in July 2004 already has over 180 local Members (shareholders) each with a £1 share. It has six Directors - five elected by its Members and one appointed by HBPC.

An Outline Planning application, based on the Exceptions Policy, was submitted in November 2003 and was approved by Torridge District Council in April 2004. It was then 'called in' for a Local Public Inquiry in late December 2004. The Inquiry took place from 17th to 19th January 2006 and a decision by ODPM is expected in May 2006.



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We know that shared equity has an increasing role to play in helping young couples... get on to the first rung of the housing ladder."

Gordon Brown, Chancellor visiting a shared-ownership housing development in South London 5.12.05

Community Land Trusts can provide a route on to that important first rung. They offer several advantages over other means of providing affordable home ownership by:

- Building on the local understanding of local people to create integrated and sustainable solutions to economic, social and environmental needs as well as providing affordable homes.
- Mobilising the energy of residents and underpinning civic action.
- Keeping land and property assets in the hands of local people.
- Creating in perpetuity a growing pool of equity which is recycled for the benefit of the same community.
- Tackling poverty and disadvantage.
- Attracting new sources of funding.

This paper:

- Advocates the use of Community Land Trusts (CLTs) as one solution to secure long-term affordability.
- Outlines the added resources they bring.
- Defines 'affordable housing' and sets out the case for developing 'intermediate market' opportunities.
- Explains the intermediate market tenure options that enable CLTs to deliver affordable housing without Social Housing Grant.
- Makes the case for housing authorities, planners and housing associations to make more use of CLTs – for housing and social and commercial property investment.

Bridging the Affordability Gap

House prices have risen by an average of 8.5 per cent a year since 1995. At the same time wages have risen much more slowly.

As a result, buying a house is beyond the means of a growing number of people, many of whom play a vital role in building and sustaining balanced urban and rural communities.

An affordability gap has opened up that affects the lives and life-chances of those unable to bridge it and puts a serious brake on local economies and services.

What are affordable homes?

It is generally agreed that affordable homes should cost residents no more than a third of their net household income. For this reason, mortgage providers limit mortgages to three to four times salary.

Social housing

Many low-income households require rented social housing, which is subsidised by Social Housing Grant. In addition, they may receive housing benefit to help them pay their rent. Many parts of England, and southern England in particular, face an acute shortage of social rented housing. Housing waiting lists and homelessness are both rising.

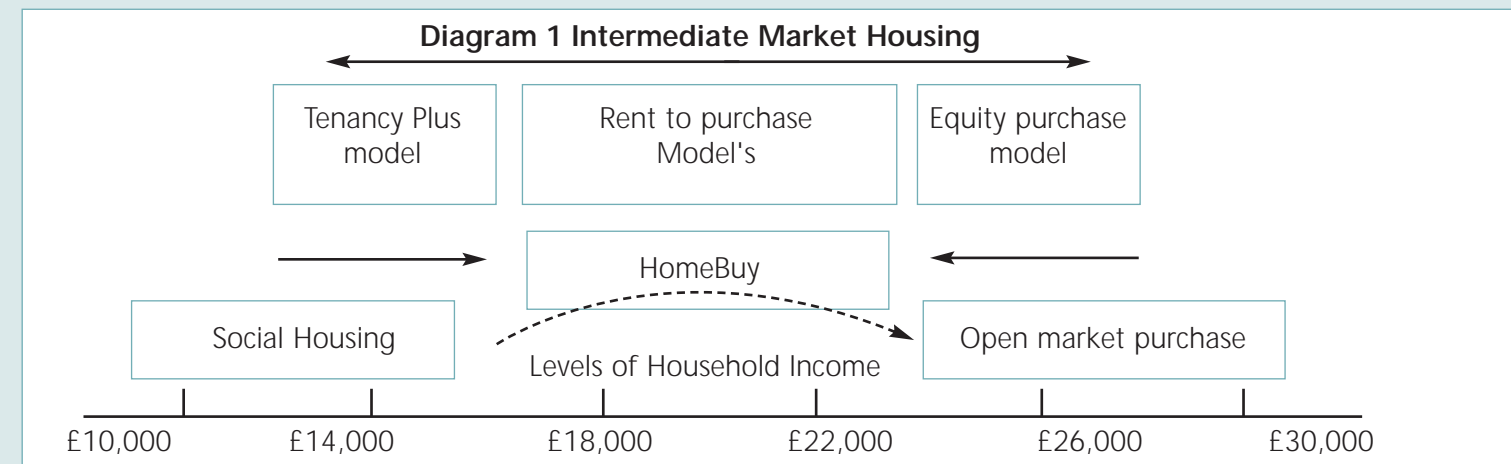
Government provides grants to subsidise the 'HomeBuy' scheme which gives financial help to social housing tenants, those on waiting lists, key workers and others. It helps them 'jump the gap' from renting into home ownership.

In the 2005 pre-budget report the Chancellor announced a new shared-equity scheme to help these groups get their foot on the housing ladder. While the Government is keen to widen home ownership, its budgets are limited. The new shared-equity scheme, for example, will benefit only an estimated 4,000 households a year.

New approaches needed

New approaches that do not need traditional public subsidy are required to help people into home ownership, particularly in rural areas where gaps in housing supply are causing a steady erosion of communities in villages and market towns.

This policy paper explains how the Community Land Trust mechanism helps those who are in work (or on a pension) with a household income at or below the average for working households at around £21,000 but also including those earning even up to £30,000. People who are able to support a mortgage, but are unable to buy where they live because of high prices, need 'intermediate market housing'.



Community Land Trusts can help

Community Land Trusts are not for profit, community based organisations. They are usually either Industrial and Provident Societies with charitable rules or a company limited by guarantee (which can also be a registered charity).

Community Land Trusts are managed by committees elected from their membership. In some cases, representatives from partner organisations sit on the committees. However, community representatives always hold the majority.

Membership is open, at the discretion of the committee, to anybody living in the area served by the CLT who wants to help their community thrive.

The idea of communities holding land collectively and in perpetuity is gaining wider support at local and national level. Community Land Trusts are well placed to provide affordable homes, workspaces and neighbourhood amenities in sustainable communities.

Assembling the resources

Community planning exercises almost universally identify affordable housing as a requirement for sustainable communities. Assembling the resources to meet this requirement and ensuring the housing is retained in perpetuity at a price succeeding generations can afford are key issues for many communities.

The planning system responds to the need for affordable housing by:

- Requiring a proportion of affordable homes to be provided on all new housing developments and conversions of more than a minimum size.
- Granting planning consent on sites that would otherwise not receive it, on the basis that a proven local need justifies consent as an 'exception' to the Local Planning Framework.

CLTs can act as permanent stewards of assets arising from planning policy instruments on behalf of the communities they serve.

Creating equity to finance schemes

CLTs can create equity to finance schemes through a range of land purchases. These include:

- Low-cost land acquired where strategic planning policy disfavors open market rural housing
- Land sold at a discount by private companies as part of larger schemes, or under their corporate social responsibility programmes

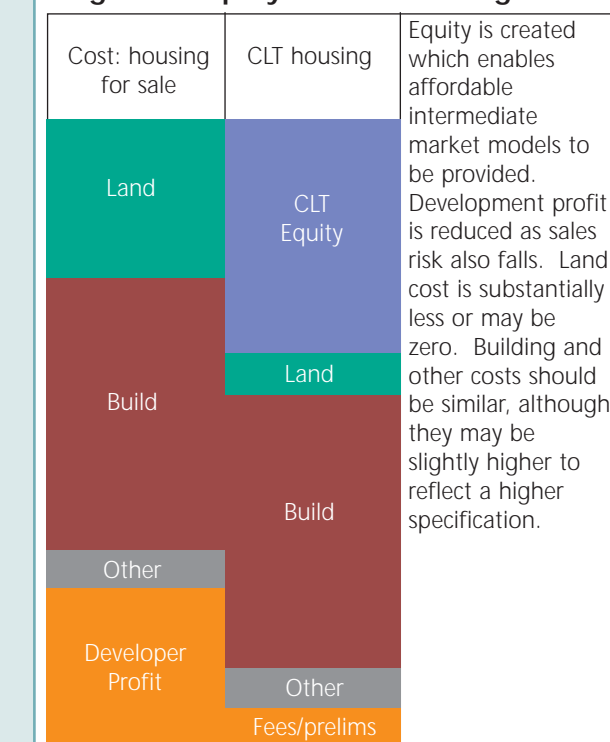
- Low-cost land provided by private companies, public utilities or individuals to provide housing related to employment
- The transfer of publicly owned land to the community

CLTs can also tap specific sources of finance:

- Regeneration grants
- Regional funding
- Bonds bought by wealthy individuals and/or ethical investors
- Payments for nomination rights
- 'Patient capital' from local trusts and foundations
- Investment by community development financial institutions (CDFIs)
- Local authority funding, including money raised under the second homes tax.

The equity produced from these mechanisms is then held securely for use to provide intermediate market housing and other buildings for community use – forever.

Diagram 2 Equity Creation through a CLT



Holding the assets

The CLT mechanism is a way of taking the land out of the marketplace and holding it in ways where it can be used flexibly to provide solutions tailored to meet local needs. This innovative mechanism can make housing affordable and keep the costs of occupation in a closer relationship with average earnings.

Protecting and growing the equity acquired by the CLT are key issues. The equity will generally start as a land asset but after development becomes simply a proportion of value. Combined with annual surpluses and used flexibly, it can be used to deliver intermediate market housing tailored to individual needs. It can also be recycled later into additional community benefits.

An existing housing association, development trust or parish council could act as a community land trust, but a new legal structure may be required to set up the CLT mechanism. The legal models available to communities for setting up and running a CLT include:

- Company Limited by Guarantee
- Industrial and Provident Society
- Community Interest Company (CIC)

CLT Starter Pack

Trowers & Hamlins and Community Finance Solutions have developed a fixed price starter pack with model rules for community organisations wishing to establish a Community Land Trust.

THE MODEL TENURES

Equity held by the CLT, which rises with house prices, is used to create long-term affordability for successive generations in housing need. Maximising the equity built up by residents and maintaining the long-term affordability of the property are key issues.

In this model we propose the resident keeps 75% of any rise in the value of their share (but the % could be varied by prior decision of the CLT), with the rest of any growth remaining with the community. This helps to maintain affordability for the next equity purchaser even if house prices rise more quickly than incomes.

I Equity Purchase Model

In the case of a house

- The CLT transfers the freehold to the purchaser.
- The purchaser buys a freehold interest for a figure equal to a mutually agreed percentage between 40 and 80 per cent of the full market value of the property.
- The CLT takes an equity mortgage for the remaining percentage of the value to secure its long term interest
- The purchaser's share of equity, when they leave, is calculated as the original share plus 75% of the rise in property prices (the CLT can also choose a formula based on a higher or lower percentage if they wish). The equity mortgage involves repaying to the CLT the same percentage share of property value as the CLT held originally; plus 25% of the growth in the value of the purchaser's share (or the remaining growth where a different percentage is used). This payment for the equity mortgage balances the community and individual benefit and helps to preserve affordability for the next purchaser.
- A pre-emption agreement obliges the owner to offer the house first to the CLT on moving so that the CLT can offer the house once more to a priority household

Note that in a dealing with equity mortgages the CLT will have to consider the need to comply with the requirements of the Office of Fair Trading to hold a consumer credit license and with other regulatory requirements of the Financial Services Authority insofar as the same are applicable to the CLT.

The process of purchasing a flat is basically the same. However, the CLT retains the freehold but grants a long lease at a nominal rent for 99-125 years. In addition a service charge is payable.

It is not proposed to charge a significant rent as this complicates the assessment of affordability.

II 'Tenancy Plus' Model

Under this scheme the CLT builds and finances the homes and keeps the freehold ownership of the property. It grants residents assured shorthold tenancies.

At the end of the tenancy the CLT may make a small payment to the tenant that reflects the amount of rent paid less the CLT's costs in serving the mortgage and in managing and maintaining the home. This payment could be used towards funding a deposit on a house purchase or possibly for entering into one of the other tenures described here.