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Common Ground – for Mutual Home Ownership

Soaring mortgage costs for first-time buyers in the South of England mean that those worst affected are workers on average incomes of between £15,000 and £25,000 per year, who are neither poor enough to rent from a social landlord nor rich enough to rent or buy in the open market. This problem is having huge effects on retaining public sector workers in such high cost areas and current government schemes to tackle this issue have proved inadequate. *Common Ground* sets out a radical approach to securing permanently affordable housing for key workers (and also potentially for others on similar income levels) in areas that would otherwise be unaffordable. The housing model proposed includes a Community Land Trust, designed to take land out of the market and keep it as a public asset so that affordability is preserved on a long-term basis, and co-operative tenure.

The Mutual State in Action 3

The Mutual State in Action is a series of publications which build on the ideas presented in *The Mutual State* – the report of a collaborative programme by the New Economics Foundation and Mutuo which invited contributions from a broad range of organisations to explore the potential for the mutualisation of public services. The Mutual State aims to put the public back into public services. Through user participation, accountability to the local community or recasting public services as self-governing social enterprises, a new mutuality could refresh and invigorate our public services. The first book in the series was *A Mutual Trend: How to run rail and water in the public interest* by Johnston Birchall and the second, *The Mutual Health Service: How to decentralise the NHS*, by Ruth Lea and Ed Mayo was a collaboration between the Institute of Directors and **nef**.

Researched and written by Pat Conaty, Johnston Birchall, Steve Bendle, and Rosemary Foggit.

This report is a collaboration between the New Economics Foundation, The Housing Corporation, and CDS Co-operatives.

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Common Ground – for Mutual Home Ownership

Community land trusts and shared-equity co-operatives to secure permanently affordable homes for key workers

Written by the New Economics Foundation and CDS Co-operatives
Pat Conaty, Johnston Birchall, Steve Bendle, and Rosemary Foggitt

The mutual state in action | **3**

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Steve Bendle is Chief Officer of Envolve Partnerships for Sustainability and a Director of, and consultant to, Wessex Reinvestment Trust: the organisations are committed respectively to supporting the transition to sustainable lifestyles and providing the financial framework needed for local rural economies to work. Previously he worked for five years as an independent consultant, focusing on housing, community and environmental issues and from 1980-1993 was Managing Director of the Horizon Housing Group (at that time South London Family Housing). He has played a part with others in seeking to initiate and implement a broad range of social initiatives, among them 'People for Action', where empowerment and holistic thinking are built-in rather than bolted on.

Rosemary Foggitt is a solicitor and a director of Common Futures Ltd, a specialist social enterprise research and development consultancy. She works both as a translator and researcher and has been involved in a number of major European Union funded projects in the area of financial services, consumer rights, financial literacy and financial exclusion. Most recently, she has been engaged in research fieldwork for Community Finance Solutions at the University of Salford, looking into workspace, housing and finance issues in the rural South West. This research led to the establishment in late 2002 of the Wessex Reinvestment Trust, the first rural Community Development Finance Institution in the UK.

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This research is one of a series of reports funded by the Housing Corporation in the last few years on the use of Community Land Trusts (CLTs) to secure affordable housing solutions. Aston Reinvestment Trust in Birmingham produced the first report in June 2000. It looked at how American-style CLTs might be used to assist with equity release to help low-income homeowners repair their properties where servicing a loan was not realistic. Further reports in the research series have looked in particular at rural regeneration and how the CLT could be used to provide both affordable housing and village workspace (Centre for Community Finance Solutions, 2001 and 2002)

This report was prompted by the key-worker crisis in London and initiated by CDS Co-operatives, the largest specialist co-operative housing service agency in London and the South of England. CDS Co-operatives' Board had the foresight to commission this research after its Executive Director, David Rodgers, had set out his innovative thinking at a New Economics Foundation seminar in September 2001 on how a permanent limited-equity housing co-operative for key workers might be structured. The research builds on the previous work of two of the authors. We are also enormously grateful to the Innovation and Good Practice Programme of the Housing Corporation for funding for the series, and in particular, for match funding CDS Co-operatives' investment in the research and this latest report.

To date, CLTs have been established in the Highlands and Islands of Scotland. We hope that this latest report will enable CLT development to start in England.

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In Memory of Robert Swann – Community Land Trust Pioneer

Preface

The Joseph Rowntree Foundation's Land Inquiry (2002) documented the problems facing people employed on low-to-medium incomes in high-value areas in finding affordable homes. The Inquiry called for fresh thinking on new forms of tenure between the twin poles of renting and ownership, noting that permanent renting failed to meet the aspirations of most people, while ownership in many areas was out of their reach.

Against this background, the Common Ground proposals are timely and significant. They are based on a structure that captures increasing land value for the benefit of local communities, so that initial investment creates affordable housing opportunities for successive generations. It aims to do this in a way which avoids both the original disadvantage of council housing – an inability to move on to ownership – but also the penalty inherent in the right to buy, which confers advantage on the first buyer at the expense of future generations. The ownership of the land remains permanently in trust, while occupiers gain access to homes, which are affordable now, and equity shares later connect them to the wider housing market.

Joseph Rowntree, in setting up the Foundation that bears his name, foresaw that the land question would continue to be critical. He referred particularly to the need to consider "the appropriation of the unearned increment", a telling phrase for a society where people in some areas are enriched not by their work, but by increasing land values, to the detriment of those who are not yet owners.

This proposal addresses that key question. By doing so it offers the most economical and best-value-for-money way of using public or private investment to meet housing needs. It provides for the needs of successive generations in a way that acknowledges the ownership aspirations of most people in this country, and the need to bridge the gulf between renting and owning.

Ken Bartlet
Adviser, Joseph Rowntree Foundation

Foreword

The origins of the Community Land Trust (CLT) model are simple. Robert Swann conceived the CLT as a method of holding land in public trust rather than treating it as a commodity. This is not a socialist concept, for Bob supported and encouraged private ownership of buildings and other improvements on the land. While he accepted the analysis of Marx and Henry George, which explained the persistence of poverty despite economic progress, he did not seek their solutions in terms of the elimination of ownership or taxing ownership. He strongly believed that land, water, minerals, and other natural resources should be treated differently in an economic system from items produced by human labour applied to land. Rather than overthrow capitalism, Bob sought to improve it and to do this by example rather than with words. CLTs are only one way in which he made a contribution to making the world a better place.

Collaboration on the land problem between us began by correspondence in 1976 through a network orchestrated by John Turner, a World Bank self-help housing expert. The correspondence revealed not only a shared interest in reforming the nature of the ownership and control of land, housing and enterprise, but also the need for community-controlled banking through the development of local currencies.[1] It was in 1979 that we met for the first time after one of us (Shann) had attended a conference that Bob had been invited to in India to consider how to put into practice the Trusteeship concepts of Gandhi for owning and controlling land, housing and enterprise.

For most of his life, Bob worked as a carpenter who also designed homes. Deeply committed to issues of social and economic justice, he would describe his experience of trying to build affordable homes. No matter how innovatively he worked to reduce construction costs, the final price of his homes continued to rise. This forced him to realise that it was the sharp inflation in land costs, not building costs, that was the dominant factor in mounting home prices. Those who owned and controlled access to land were benefiting from the need of a growing population for land to live, conduct business, raise families, grow food, and play. Landowners gained an "unearned increment" from their land holdings, thereby creating inequity in the economic system.

Bob studied various communities formed to experiment with land reform methods. In most cases the land was held co-operatively by those who built their homes and shared their lives on the land. However, after several generations, the descendents of the founders would simply change the company rules of the co-operative and sell land and homes to the highest bidder, pocketing the profits. What was an effort for the good of all turned out to be a benefit for a few.

To avoid this problem Bob conceived of a three-part board to a Community Land Trust. A CLT is a regionally based non-profit corporation with membership open to any resident of the area for a nominal yearly fee. The CLT acquires land by gift or purchase, creates a land use plan meeting social and ecological considerations for each piece and then leases the land on 99-year leases for purposes outlined in the plan. All leaseholders must be members of the CLT and they then elect one-third of its board, ensuring a strong voice for residents, but not a controlling vote.

The non-leasing members then elect one-third of the board. This group keeps the organisation dynamic, seeking new land so that more people can have affordable access. The elected members of the board then appoint another third of the board from the professional community, bringing needed skills such as land-use planning, financing, legal, or development skills.

Through a one-time purchase or gift to the CLT, land is taken permanently off the speculative market. Sale of homes on CLT land is limited to the current replacement cost adjusted for deterioration of the buildings and other improvements. The land value is not included in the transfer. In this way the CLT is an important tool in the creation of affordable housing. Families may purchase and finance the homes on land trust land, but not the land itself.

While the short term benefits of a community investing in the creation of a Community Land Trust was visible in the newly developed homes for working families, Bob Swann was also concerned with the long-term benefits. He did not believe that only the poor should not speculate in land. Rather he looked to the day when a Community Land Trust would hold most of the land in a region. Monies now tied up in land speculation would be freed for re-investment in the local economy, creating new jobs and products. Bob shared his friend Fritz Schumacher's advocacy for sustainable regional economies in which the goods consumed in an area would be largely produced in the area. By forming a system in which access to land was via social contract with a locally governed, democratically based institution rather than via market forces, then a great injustice and hindrance to new productive activity in the economic system would be addressed.

Rosemary Foggitt and Pat Conaty, two authors of this report, visited Bob during the last year of his life. Their visit was a thorough delight. He saw members of a younger generation committed to a model he had worked hard to foster through the years. They clearly had the capability of turning their vision into reality. This report would have moved him, telling as it does the story of the growing application of the CLT model in Scotland, England, and Wales.

But Bob would have been embarrassed by the dedication to him alone. He would want to recognise his mentors: Henry George, Leo Tolstoy, Mahatma Gandhi, Vinoba Bhave, Arthur Morgan, Ralph Borsodi, and Martin Luther King. And he would credit you as well, reading this report, for working to shape a more equitable future by forming Community Land Trusts in your own neighbourhoods. It will take such common vision and common work to free land from the bondage of a market system, so that it is again recognised in the culture and treated in social practices as common ground for community life and renewal.

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Executive Summary

In most areas of southern England from London to Exeter, 2002 was the first year where houses earned more than the average annual pay of people working in public services. Soaring mortgage costs for first-time buyers have been exacerbated in the South of England by a disproportionate gap between housing supply and housing demand in both homeowner and rented sectors. Those worst affected are workers on average incomes of between £15,000 and £25,000 per year, who are neither poor enough to rent from a social landlord nor rich enough to rent or buy in the open market.

This so-called 'intermediate market' problem will almost certainly continue or even worsen for some time ahead, because new housing construction is at its lowest level for over 50 years. According to the Joseph Rowntree Foundation Land Inquiry, there is a national shortfall of affordable housing construction of 100,000 properties per year.

The high cost of housing in both London and the South West is having a heavy impact on staff recruitment and retention in essential public sector services such as schools, hospitals, social services, and transport. London Transport has over 1,300 vacant posts for bus drivers and Newham Council has a 23 per cent annual turnover of teaching staff, almost half of whom leave because of housing problems. Increasing numbers of young teachers, social workers, nurses, and doctors leave London after five years or so in order to establish a family, because they simply cannot afford adequate housing locally.

In both London and the South West, health-sector and local-authority managers are dependant on agencies to fill vacant posts, often doubling the cost to the taxpayer. This problem has been compounded by tumbling stock markets in the past three years, leading investors to shift their attention to the property market and further fuelling the spiral in house prices.

In 2000, the impact of rising house prices on key workers in London and the South East of England began to be recognised, and in September 2001, the Starter Home Initiative was launched as a response. Since then, the problem has become a crisis; small flats in inner London and small terraces in the East End increased in value by between £20,000 and £30,000 in the year to December 2002.

A number of schemes have sought, and continue to seek, to make home ownership accessible and affordable for people on moderate incomes. Shared Ownership and Homebuy are two major schemes operated by registered social landlords. Shared Ownership provides for the purchase of part of the value of housing (conventionally 50 per cent) by the prospective resident, with the option to 'staircase' up to a higher percentage of ownership in the future; the registered social landlord (RSL) retains the ownership of the remainder of the equity, for which it then charges the leaseholder rent. The rent charge is set as a percentage of the affordable rent the RSL would charge for a similar rented property; the percentage reflecting the percentage of the equity retained by the RSL. In Homebuy, the buyer contributes 75 per cent of the price of the housing through personal savings and a mortgage, and the registered social landlord lends the remainder. There are no repayments on the 25 per cent typically funded by the RSL; it is repaid when the property is sold.

As housing prices have continued to rise, both schemes have been heavily over-subscribed and, despite this, have either struggled or been unable to meet the affordability crisis faced by key workers in Starter Home Initiative areas. Many would-be purchasers have simply been unable to raise a sufficient mortgage unless the share held by the registered social landlord is increased from 50 to 75 per cent. Thus, while the Starter Home Initiative has functioned as a stopgap measure, it has been overtaken by the sheer force of housing market pressures and has proven inadequate to bridge this widening gap.

The aim of this report is to examine the scope for a radical approach to securing a permanently affordable solution to this dilemma for key workers (and also potentially for others on similar income levels) in high-cost housing areas. Core criteria are the need to protect any public subsidy while addressing the central issue of escalating prices caused by both a chronic shortage of housing supply in the South of England and a shortage of development land. The focus of the research has been on the housing needs of key workers in two contrasting, high-cost English regions, urban London and the rural South West.

The housing model proposed by the report has two main aspects: a Community Land Trust, designed to extract the land from the market and retain it as a public asset, so that affordability is preserved on a long-term basis, and a co-operative form of tenure. As land costs in many outer areas of London can range from 40-60 per cent of the house purchase price, the permanent removal of the land into a Community Land Trust can massively reduce the cost of homeownership to meet future local housing needs for generation after generation.

Taking an international perspective, limited-equity co-operative housing (where returns on equity shares on sale are restricted) is popular in Scandinavia, Canada, and the US where it provides affordable solutions. About one in four housing units in Sweden is co-operatively owned. The research shows that this form of limited-equity mutual housing has been popular in Britain in the past, prior to the First World War and in the 1960s and 1970s when it was developed for what were then key workers. However, this history has been long forgotten, even by housing professionals, as most of this stock has been lost, primarily through privatisation.

As in these earlier periods and in other countries today, the advantage of limited- or shared-equity co-operative housing is essentially practical. Uniquely co-operative forms of housing benefit from several intrinsic cost savings:

a) In the cheapest limited equity forms, borrowing is corporate, not individual, which can reduce interest on borrowing costs for new housing acquisition.

b) Tenant participation in management can save on some overheads and exert continuous disciplinary pressure for "best value" in professional management fees.

c) Tenure can be kept simple; a repairing lease (where it is the tenant's responsibility in this case to carry out interior repairs) can be assigned, and equity shares can also be assigned through a transparent resale formula.

Shared-equity co-operative housing has the further advantage that it can support people in gradually building up ownership of buildings (as opposed to the land), while simultaneously dealing with depreciation through a service payment covering repairs and maintenance. Residents can therefore acquire an interest in their home, which they can sell when they leave, through a local mutual organisation in which they actively participate through their voting rights. With studies showing that nine in 10 households aspire to homeownership, co-operative housing with equity earning stakes provides a cost-effective way for key workers to access low-cost homeownership and move from high-cost rent to a secure form of affordable mutual shared ownership.

Key Worker Circumstances and Needs

Sixty-one in-depth interviews were conducted (40 in London and 21 in the rural South West) which revealed the following housing needs and problems for key workers:

Current housing: Tenures are typically insecure, too small, and very expensive. In London, one in four key workers have to resort to bedsits and hostels and 48 per cent were living in overcrowded conditions. In the South West, circumstances are generally similar and tenancies are typically only for six months. In both regions, many key workers are unable to move out of their parents' home.

Commuting costs and time: In the South West, many key workers have to find accommodation they can afford by commuting from lower-cost areas. One in two interviewed has a long journey to work, while one in 10 spends over 2.5 hours a day commuting. In London problems are similar, with 69 per cent having long journeys to work.

Levels of savings and debt burdens: One in three key workers in London and one in four key workers in the South West have savings of over £2,500 but the majority have no savings or are struggling with financial commitments. Younger key workers in particular have additional outgoings in terms of student loans and in some cases, career development loans. One in four key workers in the South West make unsecured loan or credit repayments of between £150 and £300 per month. Fourteen per cent have to service loan payments of over £300 per month. The pattern is similar in London with 16 per cent making debt payments in excess of £300 per month.

Affordable housing costs: In both regions, the interviewees reported similar levels of payments they could afford for an attractive and secure property. In the South West the average net affordable income contribution for housing was 32 per cent compared to 31 per cent in London.

In addition to the key-worker interviews, 40 interviews were conducted with housing professionals, local authorities, registered social landlords, co-op practitioners and key-worker employers across both regions. Current low-cost affordable homeownership solutions are problematic. In the present low-interest environment, Shared Ownership has become unaffordable for most key workers in both regions. To make Shared Ownership work in Gloucestershire, for example, needs heavily discounted land (or the equivalent in subsidy of 65 per cent of market value).

Homebuy is popular but, at the standard 25 per cent equity loan rate, is in most circumstances only a realistic option for households with two salaries. In the London Borough of Hackney, the rate needs increasing to the maximum 40 per cent to be viable. For that reason, there was much interest from the housing professionals consulted in the idea of an innovative mutual approach with lower transaction costs and other inherent savings.

The Proposed Model

The shared-equity co-operative model the report proposes has the following key features that we consider "Canons for Mutual Homeownership Success":

- **Community Land Trust (CLT):** a form of non-profit company or charity established for 'community benefit' and well developed in the US which acquires and holds parcels of land, scattered throughout a specified geographic area in order to ensure the permanent affordability of any housing (or other developments) that is located upon that land.

- **Co-operatives:** leasing land from the CLT under a 99-year ground lease, any number of separate co-operative housing societies will partner with the CLT to develop, own and manage multi-unit residential buildings. Each co-operative will have a membership made up of people who occupy the co-op's units and own shares in the society.

- **Rights of occupation:** to be governed by both membership in the co-op and by a contractual full-repairing lease which allows both for assignment of equity and for entitlement to Housing Benefit or Income Support in circumstances of unemployment or long-term ill health.

- **Corporate mortgage finance:** for constructing new housing and negotiated on the basis of low-cost rates comparable to the interest levels negotiated by registered social landlords (RSLs) and preferably on a low-start basis with payments weighted so that they are lower in the early stages and higher towards the end.

- **Equity units:** units of equity acquired incrementally through a structure similar to a Property Unit Trust, in which an element of the monthly payments made is applied to the acquisition of units which represent an interest in ownership of the built environment on a mutual, shared ownership basis.

- **Affordable and equitable housing payments:** Shared ownership payments in the model are based on an affordable proportion of salary. Thus, a teacher with a salary of £23,000 per year who pays 30 per cent of net salary for housing costs to the co-operative will pay more per month but, on the other hand, will earn equity stakes at a faster rate; their relative share of mortgage debt is repaid faster compared with a health service worker paying 30 per cent of a lower salary of £18,000.

- **Resale formula:** a clear and transparent means of valuing equity stakes when a member wishes to sell and leave the co-op.

- **Deposit:** members would pay an initial deposit set in the first instance at five per cent of housing unit costs, but subject to review in later years in order to maintain affordability in relation to earnings.

The key workers interviewed in both regions were strongly attracted to this shared-equity co-operative housing model, which would enable them, as one interviewee put it, "to stop pouring rent money down the drain". Ninety per cent of those in the South West, and 92 per cent of those in London supported the mutual model explained to them. Nine in 10 interviewees in both regions were attracted to the idea of participation in the management of the co-operative. Most were reassured by the idea of self-management and local, democratic control.

In general, the response to the mutual housing model was very positive indeed, although the 'key worker' concept was almost universally viewed negatively. Because the Starter Homes Initiative has focused on particular groups of public service workers to the exclusion of others, it has been seen as unfair and divisive. This is an issue that will need serious review and consideration in any future housing policy or in specific initiatives.

The model was further discussed in focus groups in both regions. The findings were highly supportive of the model. Participants understood the differential shared ownership payments and endorsed them as fair and sensible. They also found the five per cent down payment acceptable. They viewed participation and shared responsibility in governing the co-op positively and found these features reassuring. They agreed that a realistic level of additional costs for a managing agent and insurance costs were affordable and necessary, in order to collectively fund upkeep of the grounds, common areas, and external repairs.

Potential Sites and Next Steps

In the Sustainable Communities Plan, the new national policy for affordable housing provision and area regeneration in England, the Government has announced the allocation of £1 billion of funding over the next three years for key-worker housing. It has also indicated a willingness to consider non-registered social landlord providers of key-worker housing. In this Housing Corporation funded project, the model developed is robust. It is also innovative in including a Community Land Trust structure which can deliver 'best value' by 'capturing the value' of any subsidy in perpetuity. Thus the CLT aspect ensures that, unlike other previous low income shared ownership models, permanent affordability can be guaranteed for generation after generation of low to moderate income households.

We propose that, as a clear way of testing the Joseph Rowntree Land Inquiry recommendation for CLTs to be developed in England, the mutual shared-equity co-operative/Community Land Trust model proposed should be piloted in two urban and two rural areas, with Challenge Funding support under the Sustainable Communities Plan. Based on local authority interest stimulated by this research, the four initial pilot areas proposed are North Devon, Stroud, East London and Milton Keynes. Several potential sites have been identified during the course of the fieldwork. Thus development work on the pilots could commence in early 2004.

We believe that a dynamic, democratic and fully mutual form of key-worker housing is not only achievable but close to becoming a reality. It simply needs the same innovative support from the Office of the Deputy Prime Minister that CLT-based affordable housing solutions have received in the past 10 years from the American Government. It should be noted that in the UK, the funding from Highlands and Islands Enterprise for CLT developments in rural areas of Scotland is already going from strength to strength with new legislation this year to support it. CLT action in England should now quickly follow suit robustly and cost-effectively to begin to tackle the key-worker housing crisis.

1. Introduction

In the past few years, house price rises all over Britain have led to a crisis of affordability. Small flats in inner London and terraced houses in the East End rose in value in 2002 by between £20,000 and £30,000 – more than the average income of the capital's key workers. The bizarre nature of the current over-heated property markets is evident, in that for the first time houses are earning more than people. Since February 2003, the market has begun cooling off in London but prices in other regions are still on the rise.

What is a Key Worker?

Defining a key worker has become highly contentious. The strict definition is drawn from the Starter Home Initiative (SHI) of the Government, which, since late 2001, has assisted 10,000 public sector workers to become homeowners (ODPM, 2003). Priority key worker categories reflect the priority attached by the Government to tackling recruitment and retention problems in key public services. Under the SHI these services are defined as teachers, police, nurses and other essential health staff. The latter category excludes administrative staff and lower skilled health service workers but includes in some cases therapists. Key workers in a lower priority category include social workers, fire fighters and transport workers and they have also been assisted under the SHI. Additionally, teachers must work in publicly funded schools to qualify and key workers also must have a permanent leave to remain in the UK. This SHI requirement has meant that the rising numbers of nurses from abroad have not been able to qualify for assistance and 'permanent leave' requires a minimum work period in the UK of four years. However, the bidding guidance for SHI allows local authorities to approve support for other groups of key workers in "local areas where recruitment and retention problems are being experienced". Thus, in theory, the definition can be made more flexible. Most recently the Registered Social Landlord, Threshold Housing and Support, has bid for the definition to be extended to "solicitors working for housing associations, actors, and PFI construction workers" (Beveridge, 2003).

The affordability crisis is particularly acute in Greater London, the South East and the South West, where the fastest price rises have occurred. In many ways the crisis is unprecedented and, some would argue, demonstrates that the housing market has become dysfunctional. There are a number of contributory factors. Not surprisingly, investor funds have fled the Stock Market, which has lost half its value in the past three years, to safer government gilts and property. Buying to rent has become popular, and aspiring small landlords have snapped up so many properties in popular areas that demand for accommodation has outstripped supply.

As a result, in many parts of the South of England today only the rich or the poor can gain access to housing – the rich because they have the income to do so and the poor (where the queue is not too long) through the provision of social housing. Across a broad range of employment fields, both public and private, the thresholds have become too high for those on average income who are not on the ownership ladder already. The alternative, of acceptable housing to rent, is also in too short a supply and too expensive to be considered.

This report explores the scope for mutual solutions involving limited or restricted equity co-operative forms of tenure. Such forms have worked in the past in Britain prior to the First World War and in the 1960s and 1970s. But, since the 1980s, most of the stock has been privatised due, on the one hand, to the lack of protection against demutualisation and, on the other, to the incentive of the Right To Buy. Such affordable co-operative housing is a hybrid between renting and owning with some resemblance to Shared Ownership. Its popularity and success in Scandinavian countries and the US indicate that it has the potential to help address the present housing crisis for key workers, potentially on a large scale.

However, it is vital that we are absolutely clear about the problems encountered by earlier British attempts at such a hybrid form of tenure, particularly to the structural weaknesses of earlier forms of limited-equity co-operative housing and the inadequate ways such tenure forms were promoted by Government in the 1960s and 1970s. Such lessons are essential to take on board if we are to avoid the recurrence of similar problems in a third attempt to provide such mutual solutions in the present housing circumstances. It is also important that such new housing should be built to high standards (in other words, Egan compliance – see Glossary for details of this and other technical terms) and is sustainable from an ecological and social perspective within the funding constraints.

This research has been commissioned to identify the lessons to be learned from the weaknesses in previous British limited-equity co-operative housing models, and to gather information on the successful elements of the model as it is operated abroad. In addition, the research has been funded to investigate the potential demand for such housing from key workers in two contrasting high-cost regions in England – London and the rural South West. Fieldwork with key workers and potential development partners for a pilot was carried out from June to December 2002 in both London and the rural South West. The full Terms of Reference for this research are set out in Appendix 1.[2]

The ambition of the project is to seek to develop a robust form of limited-equity mutual housing that could be piloted in both regions from 2004, subject to a positive outcome in terms of both demand and feasibility. There is growing evidence in most London boroughs that Shared Ownership is not affordable for lower income key workers. The reason for this is that the minimum equity proportion for the mortgage element is normally 50 per cent and is not affordable. To seek to overcome this growing limitation, the research has looked at various design elements that could be synthesised through a robust new tenure model, including:

a) Legal structuring of the mutual tenure form to reduce transaction costs and management overheads;

b) Institutional ways of locking in any public or private subsidy on a long term basis through separation of ownership of the land and ownership of the buildings through a Community Land Trust;

c) Innovative finance solutions[3] such as:

- Index-based forms of borrowing

- Low-start and tilting mortgage finance
- Islamic finance[4]
- Interest-free co-operative finance tools, such as those developed over the past 30 or more years by the successful JAK Banks in Sweden and Denmark for housing finance;

d) Attracting ethical investors and institutional funds through Community Finance Tax Credits applicable to community finance for social enterprises.[5]

1.1
Housing Crisis – the Property Market Bubble and Negative Equity Threat

In the year to 31 October 2002, house prices nationally rose by 30.1 per cent – the fastest yearly rate rise since records began (Collinson, 2002). This rate was almost double the annual rate rise of 15.8 per cent in the year to June 2002 (Bar-Hillel, 2002). Since the peak last year, the annual rise has fallen back in June 2003 to 12.5 per cent for England and Wales (Paterson, 2003). But while the Greater London annual rise according to HM Land Registry in June 2003 had slowed to 6 per cent, the annual rates in the South East at 15.9 per cent and in the South West at 19.8 per cent were still racing ahead at levels well above the national average. Nationwide Building Society expect the annual rise in house prices to slow down in the last quarter of 2004 and the annual rise in London and the South East to fall back to 5 per cent by the end of the year (Cooper, 2003).

It is the sheer rate of escalation in the last quarter of 2002 that alarmed the Bank of England and led the Deputy Governor Mervyn King to announce on 14 November 2002 that the property market boom was unsustainable. Other experts have pointed to parallels with what happened in 1989; just before the property market bubble burst leading to years of negative equity problems (Elliott, 2002).

According to HM Land Registry, the average house price in England and Wales hit £149,935 in June 2003 (Paterson, 2003). By comparison, in Greater London, it rose to £240,126.[6] In the second quarter of 2003, Halifax reported that house prices began to drop in some areas of London (Stewart, 2003). This sign of future trends anticipates a ripple effect, with regional house prices falling as well. This has already led to predictions of negative equity, with forecasts from Professor Andrew Oswald of Warwick University of a 30 per cent house price deflation over the next three years (Hill, 2003).[7] In July 2003, Alliance & Leicester sounded alarm bells about the housing market bubble in London and the South East and have tightened their lending criteria accordingly ahead of other mortgage lenders (Jones, 2003d).

In January 2003, the Financial Services Authority (FSA) expressed serious concern about the record levels of household indebtedness. According to the latest Mintel survey, British household debt is now over £800 billion – more than double its level a decade ago (Mills, 2003). Average household income is almost £36,000, but this nearly matches the average household mortgage debt level of £33,000 (Elliott, 2003). Borrowing levels are now in excess of £10 billion per month and the ratio of household debt to disposable income soared to 130 per cent in July 2003 – some two and a half times the percentage level of 1970 according to Thomson Datstream (Elliot, 2003).

Carol Sergeant, the FSA's managing director, has warned about the consequent dangers of a housing price slump and the growing risk of recession and rising unemployment (Jones, 2003a).

> *"There is a heightened risk for consumers taking on these debt levels in a low-inflation environment where the outlook for employment may also no longer be secure. There is a risk that when a correction comes, it could be rapid and disorderly. The results could be lower overall economic growth, hardship for consumers and increased credit risk for lenders."*

Rises in house prices vary considerably across each region. In the past year in London, price rises have been steepest in the poorer boroughs. Based on a very high first time mortgage of four times annual salary, a recently qualified primary school teacher would be able to borrow £82,000 and a nurse £74,000. The average house price in London's cheapest borough, Barking and Dagenham, is over £128,000 for the smallest properties.

In most boroughs, these public sector workers could not afford the mortgage even for a one bedroom flat on their own. Average Greater London prices for a flat or maisonette soared to £195,000 in March 2003 (Buchan, Finlayson and Gough, 2003). To enable some chance of accessing housing, some lenders have increased the multiple of income ratio to five times single salary or four times the combined salary. Such risky practices also occurred prior to the 1989 crash (Inman, 2002 and Papworth, 2003).

In the rural South West, the region with the second-highest property levels in the country, the prices are not much lower than London levels. An average semi-detached house now costs about £148,000 and a terraced house about £124,000. As London salaries are somewhat higher, the difference in relative terms between both regions is not significant.

For lower paid seasonal and agricultural workers in the South West, the housing crisis is often worse than in London. Special assistance programmes for key workers are limited and primarily cover northern urban or suburban areas of the South West region near to Bristol, Bath and in South Gloucestershire. Recent research by the Rural Housing Trust shows that because of lower incomes, rural homeowners in England need to devote much more income on average to housing than their urban counterparts – 57 per cent compared to 32 per cent (Hetherington, 2003).

Prince Charles has drawn attention to this acute crisis in rural areas, which he has described as 'a desperate situation' forcing young people out of their childhood villages (Hetherington, 2003e). Lord Haskins has recently observed (BBC Farming Today, 2003):

> *"The biggest problem in the countryside is the lack of affordable housing for key agricultural workers and others. This is a bigger problem than rural transport to renew the local food sector."*

Table 1.1 shows the escalation of house prices nationally in the past thirty years since the homeownership revolution started, during which owner-occupation rose to almost 70 per cent of all tenures. Since 1970, there has been a thirty-fold increase in house prices.

What is clear from the doubling of price levels since 1999 is that homeownership has moved beyond the reach of young

Table 1.1: How House Prices Have Risen

Year	Average House Price
1945	£1,000
1970	£5,000
1973	£10,000
1983	£25,000
1999	£75,000
2003	£150,000

Sources: Building Society Association and HM Land Registry

workers on average incomes in the Midlands and the South of England. With income levels lower, this is also the case in many areas of the North of England as well. According to the National Housing Federation, in 46 out of 87 counties (53 per cent), households with incomes below £30,000 cannot purchase a home. As 70 per cent of UK households have incomes below this level, the homeownership opportunity is once again becoming a preserve of the upper middle classes and the rich.

More recent figures confirm this with the sharp fall off in numbers of first-time buyers (FTBs). In its July 2003 research bulletin, FPD Savills show that FTBs have fallen fast over the past year to an all time low of 31 per cent of all buyers. This compares to 38 per cent in 2002 and is in stark contrast to the long-term average of 47 per cent (Stewart, 2003 and Papworth, 2003).

Moreover, these findings show that the average age of FTBs has risen to 33 years in 2003 (Papworth, 2003). This reflects a marked decline in recent years of the numbers of those in the 25-34 year range and a rise in the number of FTBs aged 35 years or more. It is assumed that rising levels of student debt and the average deposit levels required to buy a house for the first time are contributing to this change. According to the Halifax, in July 2003 the typical FTB in London needs to find a deposit in excess of £20,000 and pay £193,500 for a property (Denny and Collinson, 2003).

1.2 London's Housing Shortage and the Intermediate Market Problem

The pressure on the price of housing in London has been mounting since the mid-1990s. Sheer lack of housing is the fundamental problem. According to the London Housing Federation, there are more than 187,000 households on council waiting lists for affordable housing across London's 32 boroughs. Additionally, there are 51,000 statutory homeless households living in bed and breakfast and other temporary accommodation and waiting a home. In addition, according to Unison, 500,000 key public sector workers in London cannot afford a home in the capital.

The pressure of growing demand against inadequate supply of housing is escalating year on year, fuelled by a population explosion in Greater London and South East England. In London alone the population is expected to increase by 700,000 in the next 15 years to 3.4 million households (Lydall, Bar-Hillel and Atik, 2002). To accommodate this, an extra 43,000 homes per year are needed. In 2000-2001, however, only one third of this number, 14,205 new homes, was built in London.

In their report, *Key Issues for Key Workers*, the Greater London Authority's (GLA's) Affordable Housing Scrutiny Committee (2001) analysed the problem as one of a double market failure. In London the problem for those on average income is one of housing double jeopardy – being able neither to afford to buy nor to rent. The GLA and the London Housing Federation have both highlighted the emergence of a huge and growing housing gap with these features:

a) Those priced out of the London housing rental or purchase market fall into a sub-market, which especially affects those households with annual incomes of between £12,000 and £24,000. Registered Social Landlords (RSLs) cater for housing needs of the poorest below an annual income of £12,000; the property rental market begins to operate at salary levels of above £24,000 and at a higher level above this threshold for those seeking to buy;

b) At £233,000, an averagely priced London house is 12 times the annual wage of a bus driver, 11 times the wage of a staff nurse or a postal worker, and nine times the salary of a primary school teacher (Bar Hillel, 2002).

Additionally, the housing stock in London is generally ageing, in a poor state of repair and consequently expensive to heat and to maintain. To ensure long-term affordability, there is thus a vital need for any new housing supply to ensure that high quality standards are designed in from the outset.

In the National Health Service in London, the problem of staff shortages is particularly acute. In the South East alone, the Government projects a need for an extra 35,000 nurses, midwives and other health workers by 2008 (Adamson, 2002). In many major London hospitals, more than a quarter of nursing jobs remain unfilled. Nurse and mid-wife long-term vacancies were running at 6.1 per cent. There were 2,750 vacant posts in March 2002, which is twice the national average (Buchan, Finlayson and Gough, 2003). NHS turnover for nursing staff annually is 19.4 per cent, which is about one third higher than the national average. Among seven inner London NHS Trusts and hospitals where housing prices are highest, turnover rates are far higher and range from 30-38 per cent. It is clearly economically efficient to increase the supply of affordable housing.

Vacancies for bus drivers, which London Transport has been unable to fill, exceed 1,300. Moreover, the rising cost of housing in London is driving people out. West London Training and Enterprise Council (TEC) estimates that by 2005 four out of 10 teachers may be forced out of accommodation by increasing house prices. The National Institute of Social and Economic Research projects that 60,000 key workers will be driven out of London by property costs in the next 10 years (National Housing Federation London, 2001). Enrolment in London's major universities is now falling, as students from other regions go elsewhere because they are unable to afford housing in London.

1.3 Tackling the Housing Supply Shortage

For the past 20 years, against a background of continuous growth in the rate of homeownership, housing policy has been largely left to market forces. There are indications that this is now changing and that a more interventionist policy by Government is at last emerging. Numerous reports published in the course of the past two years have pointed to the growing nature of the crisis, but one report in particular seems to have had some impact in shifting government's attention to the significance of the point that the lack of affordable housing is a major impediment to the efficiency and effectiveness of the economy as a whole.

In March 2002, the Joseph Rowntree Foundation (2002) published its *Land Inquiry Report* on underlying problems of the growing housing crisis, which had previously been examined from different perspectives in successive government and non-government reports. These diverse reports indeed anticipated the need for additional housing supply in England over the next 20 years, but the Joseph Rowntree findings concluded that the Government has nevertheless seriously underestimated the need for new housing.

The Land Inquiry team concluded that the Government has underestimated the number of affordable houses required by at least 50 per cent. In total, the Joseph Rowntree Foundation identified a housing supply shortage of 100,000 per year; official estimates are only 62,000. Supply falls far short of this lower target with government figures showing a decline in the number of affordable housing units built from 27,800 in 1997-98 to 20,700 units in 2000-01 (Foot, 2003).

Where there is the political will, there is a way to achieve such high targets. The development of affordable housing supply has been secured at much higher levels in the past. When Harold Macmillan was Conservative Minister of Housing, the Government developed 240,000 units in 1952, 318,000 in 1953 and 350,000 in 1954 (Guardian, 2002). It was Harold Macmillan who, while housing minister, insightfully said that: "Housing is not a question of Conservatism or Socialism. It is a question of humanity." Harold Wilson developed 400,000 new homes in 1967 (Foot, 2003). However, this led to the boom in high-rise and non-traditional, systems-built council housing. It is also fair to point out that this development took place in the context of bomb sites and slum clearance, so there was more land available at that time.

Two thirds of the housing shortfall to be met is in southern England and 20 per cent is in London. However, at present almost 50 per cent of new housing is being developed in the North and the Midlands. The Land Inquiry research estimates that 63 per cent of supply can be met by the market sector, but for the remaining 37 per cent, the Government has, to date, only been willing to provide subsidy for half of what is required. The conclusion drawn here by the Land Inquiry is that it is the need for subsidy in the intermediate sector, which has not been addressed:

> *"The reality of shortfall is primarily experienced not by 'roofless' people or people on very low income, but by people on low to medium earned incomes – on whom the viability of both urban and rural areas depends. It is unacceptable for Government to refuse to address these arguments because of the political difficulty of achieving higher levels of provision, or the unwelcome public cost of funding a much wider range of affordable homes. The indirect consequences can now be seen in the disruption to public services and the social and economic costs to other sectors of inadequate and excessively expensive housing."*

But the Land Inquiry assessment of government inaction goes further, to conclude that the neglect of housing as a social and economic issue is presently exerting a debilitating impact on the performance of the British economy.

> *"Moreover, there is increasing evidence that the relationship between housing and labour markets in the UK is producing inflexibilities, including labour supply and cost, which impact both upon the UK's international competitiveness and its abilities to deliver the environmental improvements required under EU membership obligations."*

It is this conclusion in particular that has concentrated minds both at the Department of Trade and Industry (DTI), and at the Office of the Deputy Prime Minister (ODPM) on the strategic issue of housing policy in the years ahead.

The Land Inquiry's recommendations for action provide a broader viewpoint on how the enormous housing supply challenge can be tackled effectively. First, it recommends that government develop a proactive planning culture and move away from over-reliance on Section 106 agreements (see Glossary). Here lessons can be drawn from greater interventionism in Germany and France, where planners rather than private developers take a leading role, and are thus strategically involved in land assembly and land pooling (see Glossary for full explanation).

As well as learning from continental Europe, the Inquiry highlights the need to learn more from Community Land Trusts (CLTs) in the US, where non-profit groups are directly involved in developing sites for affordable housing and workspace. CLTs take land out of the market in order to maintain moderate levels of rent, homeownership costs and commercial lease prices against excessive market pressures in areas of high land cost. The Land Inquiry indicates prospects here for local authority estate regeneration through CLTs.

In particular, the Inquiry identifies significant potential for equity-sharing solutions between the land trust and prospective key worker homeowners. It identifies a potential partnership, in which more interventionist planners pool and assemble land and CLTs deliver solutions in local communities where the affordable housing is needed.

The report also raises concern about the split between rural and urban affairs created potentially through the division of roles between the Office of the Deputy Prime Minister (ODPM) for urban areas and the Department for Environment, Food and Rural Affairs (DEFRA). In this context, it observes:

> *"Current policy is based on the traditional typologies of enclosed city systems and an urban/rural split, rather than understanding cities as functional systems, with flows and linkages into and out of rural areas."*

It is this integration of urban and rural thinking that will be vital if housing policies over the next 20 years are to be properly configured and sustainable. For instance, the Land Inquiry report stresses the need to integrate public transport development with new housing development plans.

1.4 Key Worker Housing: Current Approaches and Emerging Solutions

In July 2002, Gordon Brown announced the largest sustained increase in public spending for nearly 30 years in his Comprehensive Spending Review (Dean, 2002). While health and education have been the largest beneficiaries of Labour's return to Keynesian style economics, housing has benefited significantly as well. The new planned spending, largely based on increases in government borrowing, will increase spending on the NHS by 7.3 per cent in real terms over the next five years, spending on education by 6 per cent over the next three years and spending on housing by 4.2 per cent. Interestingly, transport will see the sharpest rise in real terms of 12 per cent annually.

In launching the expanded budgets, Brown described the rise in housing expenditure as "the most sustained rise in housing investment for 25 years". Factually this is correct, but it ignores the lean years for housing under the Conservatives, when market forces alone were seen to be the primary solution and when housing expenditure by government fell by 83 per cent from 3.6 per cent of GDP in 1976 to 0.6 per cent in 1997. So in many ways the increase represents a return to a more even-handed approach to housing provision by government. But given the twenty or more years of under-investment, the deficit is now enormous and the budget increases, while overdue and welcome, leave a large financing gap that needs to be filled by other means.

In response to the Chancellor's announcement on housing expenditure, the Royal Institution of Chartered Surveyors (Dean, 2002) has noted that the annual rise to a spend of £5.9 billion in 2006 from the low point of £2.7 billion in 1997 will only provide for an extra 10,000 affordable homes per year. They describe this as "a splash in the ocean" when measured against the Government's recognised figure of an annual gap of 60,000 homes needed between the 162,000 housing units constructed in 2001 and the 220,000 new households currently being formed. Housing units built in recent years have been at the lowest levels recorded since 1927, apart from the war years (Inman, 2002). Housing built by the private sector has fallen from 127,800 in 1997 to 115,700 in 2002 (Foot, 2003). New construction can rise to close the gap but, according to the National Housebuilders Federation, the market cannot achieve affordable housing solutions through Section 106 agreements alone under the current planning system. The private sector argues that either cheaper greenfield sites will be needed or more subsidy will have to be found to deliver the large volume of low and moderate cost housing needed in southern England.

1.5 London Housing Commission and the Plan for London

The London Housing Commission, set up by Livingstone in 2000, advised the Mayor of the potential to increase the proportion of affordable housing to 50 per cent of all future new developments (Livingstone, 2001). Achieving this would require a partnership with all 32 London boroughs, the Housing Corporation, major employers, and private developers and house builders (Walker, 2002). According to the London Housing Commission, financial subsidies from the Housing Corporation would also need to be increased by a minimum of £122 million per year for London – a highly sensitive request in light of the fact that registered social landlords in London already receive 43 per cent of the annual Social Housing Grant budget for England (Wintour, 2002).

In June 2002, Livingstone launched his long awaited *London Plan* – setting out in 400 pages a comprehensive 15-year development plan for transforming the capital by 2017 into a 24-hour multi-cultural city (Wintour, 2002). The proposals are integrated and set out an ambitious strategy for bringing together massive transport improvements with a huge increase in housing and education facilities.

In terms of numbers, the London Plan calls for the construction of a minimum of 459,000 homes to accommodate the projected 630,000 new jobs by 2016. The annual rate of new housing construction sought in London is 23,000, treble present levels. Half of these are called for by delivery of affordable homes through development partnerships, and the level of extra housing subsidy sought from the Government is a further £150 million per year.

Livingstone sees brownfield sites and greater housing densities in new developments as the way to secure the land for the new housing. The *London Plan* identifies a number of major sites for concentration of the housing – both in the centre and City fringe areas as well as in East London and the Thames Gateway corridor running out to North Kent.

Government endorsement has now been given by Tony Blair and John Prescott for the creation of this 'linear city' along 40 miles of the Thames to Medway City on the south of the river and to Southend-on-Sea on the north. John Prescott's plan is to develop 300,000 affordable homes in the South East of England and the South Midlands by 2016 to cope with the housing shortage and overcrowding in London (O'Hara, 2003). This is in addition to the 1.1 million homes that will be built commercially by the private sector for sale or to rent over the same period to cope with rising demand in Greater London and the South East. The Thames Gateway will account for 120,000 of this total. Inner East London in Newham and the Docklands area alone are targeted for 48,000 new housing units (Hetherington, 2003d).

Crucial to the viability of these developments will be major improvements to public transport. One in seven Londoners relies on public transport to get to work already and this is likely to increase in future. Two Cross Rail links are planned to provide rapid transit connections from Whitechapel to 'central activity zones' in Newham and Canary Wharf on the one hand and to speed up travel from Hackney to Central London on the other. The Thameslink 2000 project will significantly reduce journey times from the centre to the suburbs south of the river. North of the river, both the East London and the West London lines will be extended and a new orbital rail network, OrbiRail, will be constructed.

High-rise housing is seen as a major part of the plan – particularly in transport and business development hub areas such as Paddington, Waterloo, Kings Cross, and Elephant and Castle. Outlying areas for development include the Isle of Dogs, Stratford in Newham, and Croydon. Livingstone also sees the need for a new density standard and wants to change current planning regime rules to raise maximum housing density from the present average level of 20 housing units per acre to a new minimum level of 30 units per acre. Plans are developing to build homes on top of single-storey supermarkets and petrol stations. Tesco has reported to the Mayor that they could provide an extra 10,000 homes on their existing London sites alone (Lydall, Bar-Hillel, and Atik, 2002).

The London Housing Commission has recommended that, of the new affordable housing unit target (50 per cent annually of all housing developed), 35 per cent should be for social housing for those on low incomes and 15 per cent should be for the earners in the intermediate market such as nurses and teachers. Further research has indicated that the 50 per cent target can feasibly be achieved in two-thirds of London's boroughs. But in 13 of the 32 boroughs, Livingstone has accepted that only a target of 35 per cent affordable housing may be achievable.

Opposition group politicians and business groups have rejected the very ambitious targets contained in the *London Plan* as being unrealistic (Wintour, 2002). Property research consultants, FPD Savills, has estimated that the volume of housing sought annually was not achievable – particularly as the levels of affordable housing outputs sought from the house building industry would squeeze out profitability to the point that it would not be possible to entice those with land to bring it forward for development.

1.6 Starter Homes Initiative and Low-cost Home Ownership Programmes

On 6 September 2001, the Government provided £230 million under Round 1 of the Starter Homes Initiative to assist 8,000 key workers in London to buy their first home. Funding assistance was given in the form of interest-free loans and Shared Ownership. Assistance to key workers was provided primarily from registered social landlord members of the 'Keys to the Capital' Consortium including Tower Homes (a subsidiary of London & Quadrant), Metropolitan Home Ownership (a subsidiary of Metropolitan Housing Trust), Boleyn & Forest Housing Society (a subsidiary of East Thames Housing Group) and Notting Hill Home Ownership (a subsidiary of Notting Hill Housing Trust)

Round 1 funding assisted 4,000 nurses, 2800 teachers, 900 police officers and 300 other sundry key workers to finance affordable homeownership. Round 2 funding from May 2002 provided an additional £20 million of funding to help a further 2,000 key workers in high-cost areas outside London. Subsidies in London have averaged £27,000 per key worker and in Round 2 were based upon £10,000 equity loans – these were not available in Round 1.

The Round 1 initiative has come under considerable criticism from public sector unions. Unison has stressed that, as a consumer demand side solution, the initiative was fundamentally flawed and served mainly to push up house prices. Unison argued that such demand side measures as the SHI should be recognised by Government as "a temporary solution to the current crisis" because the "fundamental problem is one of under-supply of housing of the right type, size and cost in the right places" (Blackman, 2002). The Royal Institution of Chartered Surveyors has agreed with this criticism.

Richard Donnell, Head of Residential Research at estate agents, FPD Savills, has argued that the funding should be supporting more rented accommodation as otherwise government subsidy will simply be lost (Blackman, 2002). The National Housing Federation has also raised concerns that the shift in subsidy in London for mid-market housing runs the risk "that developers may take a view that key-worker accommodation can be the affordable housing required through Section 106 agreements".

The shift in Round 2 towards equity share loan finance with no repayment until the property is sold reflects the concern of the Government that the funds should be recycled, but also that some return from property price inflation should be obtained. A report by FPD Savills has shown that surging house prices in London alone have left 800,000 households unable to afford even a £75,000 flat, and that the Starter Homes Initiative funding was nowhere near the extra £20 billion they estimate is required by government to tackle the key-worker problem in London (Inman, 2002).

What this criticism loses sight of, though, is that under New Labour the balance between subsidy for social housing for the poorest and subsidy for low and moderate income workers has shifted drastically away from the latter. In a report reviewing Low Cost Home Ownership (LCHO) initiatives such as the SHI, the Government shows that the number of LCHO funded properties in England has fallen from 16,871 in 1995-96 to under 4,000 prior to the start of the SHI (DTLR, 2001). Consequently, the SHI does not even take the LCHO figures back to what they were under the Conservatives, when 30 per cent of housing subsidies went to LCHO programmes (Weaver, 2002).

Other evidence shows that LCHO programmes are extremely popular and there is no shortage of demand. Approximately one in two of LCHO properties are in London and, in 2000-2001, 1,300 new low-cost properties were funded by the Housing Corporation in the capital against demand from 41,000 eligible applicants (Martin, 2001). In 1999-2000 the average income of a LCHO buyer was £18,185 – 46 per cent were social housing tenants opting for Shared Ownership and 54 per cent were low- and moderate-income households seeking an affordable means of homeownership and not renting from an RSL (Martin, 2001).

In 2000, the Joseph Rowntree Foundation set up a Task Force to review LCHO programmes and commissioned Graham Martin to analyse low-cost home ownership submissions in response to the Government's Housing Green Paper. The Task Force focused on the two main current LCHO programmes, Shared Ownership and Homebuy (Martin, 2001). The latter is a 25 per cent equity loan subsidy to assist the purchaser with an 'interest-free' shared investment from the state, enabling them to acquire a property while maintaining their mortgage stake of 75 per cent, which is within their means. The Task Force found from its investigations that:

a) There is a substantial level of unmet demand from LCHO programmes in England and Wales;

b) Strategic use of LCHO initiatives can achieve increased housing supply and more inclusive communities contributing to economic and social stability in both high and low value areas;

c) Local authorities often fail to see the importance of LCHO initiatives under pressure to house the homeless;

d) Homebuy is popular with lenders and purchasers and in Wales is more popular than Shared Ownership.

The key recommendations from this study are that:

a) Government planning guidance and Housing Corporation guidance on sustainable social housing should ensure LCHO properties are included in schemes of more than 25 properties;

b) A standard modular lease[8] for Shared Ownership should be developed; and

c) Homebuy equity loan elements should not be confined to a 25 per cent proportion but be more flexibly available.

In addition, the Task Force concluded that Homebuy could be made more flexible by the use of three elements in house purchase in some high-cost circumstances. For example, this might include a 50 per cent conventional mortgage, a 25 per cent low interest equity loan, and a 25 per cent no interest equity loan.

The former Housing Minister, Lord Rooker, announced at the National Housing Federation conference in September 2002 that, over the next three years, LCHO programmes will receive more funding and that, with the additional £1.4 billion allocated for housing under the Comprehensive Spending Review, more will be spent on helping those on low and moderate incomes to buy their homes. With a lower level of subsidy, the Government sees the scope to provide two units of key-worker housing for each unit of social housing.

1.7 Increasing Housing Supply – Sustainable Communities Plan

In February 2003, John Prescott launched the Government's long-awaited *Sustainable Communities Plan*, which sets out a framework for housing regeneration for England over the next 15-20 years, as well as costing government-spending priorities over the next three years (ODPM, 2003). The Plan is a radical one in that it devolves responsibility for delivery from central government to regional government.

Under the new system, Regional Housing Boards (involving the Government Office, the RDA, the Regional Chamber, the Housing Corporation, and English Partnerships) will be responsible for preparing a Regional Housing Strategy. Funding to resource implementation of the strategy will be taken away from the local authority Housing Investment Programme and from the Housing Corporation's Approved Development Programme and held in a single regional pot for housing investment.

In objective terms, Prescott described Sustainable Communities as a "step change". There will be both more funding for housing development and regeneration over the next three years and a shift in priorities. Since 1997 the Government's priorities have been to deal with a backlog of £19 billion of disrepair problems in the social housing sector. Strategic objectives will now shift on the one hand to tackling the severity of the housing shortage in London, the South East and the East of England, and on the other hand to dealing with low demand and abandonment problems in the North of England.

Sustainable Communities data show that an extra 155,000 households are formed each year against a net housing construction figure of only 120,000. Closing this gap is a top priority of the strategy and ensuring that the new Regional Housing Boards overcome problems of over supply of new housing units in the North of England in recent years and under supply in the South of England.

In the South of England, accessing new land supply is vital. The Government's National Land Unit Database has identified at least 66,000 hectares of brownfield land, which can be deployed to build 920,000 homes or 60 per cent of the homes the Government estimates will need to be constructed by 2016. However, in the South East only 28,000 acres are available for 380,000 homes. With 43,000 homes per year needed until 2016 in London and the South East, it is clear that most of the greenfield loss will be on sites in this region.

There are several solutions set out in the *Sustainable Communities Plan* to tackle the housing supply gap in southern England. The main ones are as follows:

- **Growth areas:** Following feasibility studies, John Prescott has announced six Key Growth areas for new affordable housing development: Milton Keynes and Northampton, the South Midlands (including Bedford, Luton, Aylesbury Vale, Corby, Wellingborough and Kettering), Harlow, the London-Stansted-Cambridge (LSC) corridor, Ashford in Kent and the Thames Gateway. Expansion of these areas and use of greenfield sites as necessary are intended to provide the additional land needed to accommodate the housing required for London, the South East and the East of England.
- **Modern methods of construction and off-site manufacture:** The Housing Corporation and English Partnerships see enormous scope for using modern prefabrication technology to provide housing at much lower costs and more quickly – particularly on the major development sites planned. The *Sustainable Communities Plan* endorses the recommendation of the Sir John Egan Task Force on construction methods (Egan, 2000).[9]

Other ideas set out in the *Sustainable Communities Plan* include measures to reduce the 730,000 empty properties (3.4 per cent of the national housing stock). Eighty per cent of these are privately owned and 135,000 are in areas of the North of England where housing supply exceeds demand. The Government intends to use a range of fiscal measures (from VAT reduction on repair work and reducing Council Tax discounts on second homes) to reduce this number steadily in areas of high housing demand.

Since the announcement was made, Prescott's four Growth Areas have encountered political resistance from local authorities. While the ODPM have costed the new housing, the local authorities have produced estimates for the infrastructure required for new schools, hospitals, roads, rail improvements, and other facilities to accommodate the new homes. For the 130,000 homes planned for the Thames Gateway and Ashford, Kent County Council estimates that an extra £3 billion will be needed – more than six times the budget for the housing element (Hetherington, 2003d and O'Hara, 2003). In addition to this, Kent estimates that a further £1.1 billion will be needed for infrastructure development in Ashford.

The expenditure under Sustainable Communities over the next three financial years from 2003-04 to 2005-06 will include:

a) £22 billion overall to improve housing and communities;

b) £5 billion for affordable homes – including £1 billion for key-worker housing;

c) £446 million for the Thames Gateway and £164 million for the three other Growth Areas; and

d) £350 million invested for better training, for updating procedures and as a result speeding up planning decisions on housing provision.

Most of the new housing funding will be targeted on London, the South East and the East of England. The *Sustainable Communities Plan* shows that the West Midlands and the South West are not as seriously affected by supply and demand imbalances. But the Government will allocate funding for the development of 5,000 affordable homes in villages. From government figures, it would appear that about one in five of these would be in the rural South West (ODPM, 2003).

The initial budget for key-worker housing will be the Government's Challenge Fund, which has increased to £300 million for 2003-04 – a threefold increase on the £100 million available in 2002-03. The new budget seeks to deliver 6,000 new homes in London and the South East for key workers in the first year – at least 1,800 of which will be built with modular, off-site construction techniques.

Under the new system, any grant aid from the Housing Corporation will require new units to comply with the latest Building Research Establishment's EcoHomes Pass standard for sustainable residential development. The forthcoming Housing Bill, anticipated in Spring 2004 will require all sellers to provide a home information pack to prospective purchasers. This will require information to be provided on the energy performance of the building for purchasers.

The Government envisages several mechanisms to facilitate low-cost homeownership. These include:

a) Shared Ownership but especially Homebuy.

b) The lifting of restrictions on the Cash Incentive Scheme to assist tenants to leave Council housing and become homeowners.

The Government is also considering extending the Housing Corporation's power to fund bodies other than housing associations for the delivery of low-cost homeownership programmes. John Prescott's Homeownership Task Force chaired by Brenda Dean, which will complete its findings later this year, will develop new policy and practices. The wider scope for non-RSLs to function as providers could be a significant opportunity for the non-registered housing co-operative sector to play a key role under Sustainable Communities. The private rented sector is also potentially a delivery agent here.

At present, 40 per cent of households are one-person households. This will increase sharply in the next 20 years and there is scope for reviving the private rented sector to address these needs. In the early 1980s, the private rented sector represented 11.4 per cent of all housing tenures; today it is even less at 11.1 per cent (Walker, 2002). Elsewhere in the European Union and in North America, the private rented sector is a very significant provider of housing. For example in France, private renting accounts for 24 per cent of housing provision and in Germany private landlords house 42 per cent of households.

In May 2002, an independent Private Rented Sector Commission organised jointly by Shelter and the Joseph Rowntree Foundation called for a new settlement for the private rented sector. The Commission, involving representatives from landlord associations, local authorities, tenant rights groups, student groups, housing advice agencies and environmental health officers, has called for a package of measures to significantly increase the amount of quality accommodation in this sector over the next 25 years. By 2027, it is projected that there will be four million more households than today and that 80 per cent of the increase will be in one-person households.

Evidence shows that, as in continental Europe, for many of these households private renting can be a more attractive and a better option than buying – particularly as more city centre housing is developed. However the quality of such housing is often the poorest for this growing target group. The Commission estimate that just to maintain and improve existing levels of private rented sector accommodation will need £1 billion of investment annually. To expand the private rented sector in 25 years to 25 per cent of tenures will need £3 billion of annual investment.

To expand the sector and the quality of housing provided, the Commission recommends:

a) Tax reforms so that tax relief for private landlords is equivalent to those of other small businesses.

b) Use of Section 106 agreements to expand the sector.

c) Wider use of longer tenancies on an assured basis.

d) Wider development of tenant deposit and rent guarantee schemes.

e) Training courses and selective licensing for landlords and agents.

f) Major reforms to simplify and improve housing benefit administration.

Another change, which may possibly be introduced by the Government, could be changes to the existing Right To Buy system. Since 1981, more than one million people have become homeowners through purchase of their council house. This has operated significantly to increase homeownership in the past 20 years from 57 per cent to just under 70 per cent today (Kampfner, 2002).

But continuation of this policy, and its potential extension by a future Conservative Government to Registered Social Landlord properties has a significant impact on the social housing stock available for rent. For example, in 2000-01, Registered Social Landlords developed 18,000 properties for rent, but in the same year, 53,000 council properties were sold off. It is a source of concern that, with current discounts of up to 80 per cent, the costs of replacing homes lost under the Right To Buy are little different from the cost of new provision. With an average discount of £17,000 on each council house sale, the long term cost to the public purse has been estimated at £850 million annually (Hetherington, 2003b). Of this cost, £308 million applies to London.

As the Government is well aware, there is also evidence of an increase in private property company practices, typically involving provision of large cash incentives to persuade council tenants to buy their property and then to let it to someone else immediately after purchase. The ODPM has commissioned Heriott-Watt University to identify abuses and to investigate what can be done in legal terms to close the loopholes. There is a suggestion that future social housing developed may be exempt from purchase and the Right To Buy system restricted.

2 Mutual Solutions for the Intermediate Market

To date, the main response to the crisis has been the Government's Starter Home Initiative (SHI), launched in February 2001 to help key workers in London to access housing. This programme has since been extended to areas outside London in the Home Counties and Oxfordshire, with smaller initiatives elsewhere.

The main delivery vehicle for the SHI by registered social landlords has been traditional forms of shared ownership. But the Government is open to other approaches. In her speech to the Guardian's Key Worker Conference on 27 February 2002, Sally Keeble MP, Undersecretary for Housing Planning and the Regions, called for "imaginative new schemes, which give more choice through innovation in housing and wider access to housing across different tenures". In his keynote address to the same conference, Ken Livingstone, Mayor of London went further to call for an entire new intermediate market.

> *"This conference today is primarily about people on low or moderate incomes, say £15,000 – £25,000, who form this intermediate sector. My longer term vision is that London should develop a new intermediate housing market to meet this new demand for which the supply in neither conventional social rented housing, nor market housing… I see the development of an intermediate housing sector in London as a vital strategic and economic issue."*

Livingstone's challenge stems from the conclusion of the GLA's Affordable Housing Scrutiny Committee inquiry into key-worker housing needs. In particular, the GLA identified the need for new forms of limited-equity housing investment models and called on the Housing Corporation and the Association of London Government to take a lead in sponsoring research studies into how these could be developed.[10] In the GLA's final report (2001), *Key Issues for Key Workers*, it was observed that unlike shared ownership which is developed for sale, mutual housing is "more beneficial to the long term provision of housing for key workers and their recruitment and retention" because it can be designed to be permanently affordable. The GLA posed a specific challenge to co-operative housing developers to get the design right.

Limited- or restricted-equity co-operative housing is an intermediate form of mutual housing between the par-value rented housing (see Glossary) that exists in Britain and full-equity or market-value mutual models, such as the new commonhold tenure in the UK, or the up-market condominiums popular in the US for flat owners.[11] Such housing has been popular and has worked in the past in Britain in the form of co-partnership housing prior to the Second World War and co-ownership housing in the post-war period. Unfortunately, however, these forms of tenure have proved to be unstable and, through privatisation, have virtually disappeared.

However in other countries such as Sweden, Norway, Denmark, and the US, limited-equity co-operative housing is both popular and important as a tenure form to tackle intermediate housing market needs – especially in cities with high costs such as New York, Los Angeles, Chicago, Stockholm, Oslo, and Copenhagen.

The need is to find a form of housing tenure that is affordable for low to middle-income people where housing is permanently in short supply and therefore expensive. It has to meet two conditions. First, it must be stable, and able to offer a continued supply of housing on similar terms over a long period of time. If it deforms into freehold owner-occupation or market renting, then it has failed in its ability to deliver affordable housing. Also, in order to be affordable, it will need some kind of subsidy by government or by financial institutions that have a social purpose.

The subsidy cannot be allowed to leak out into one-off capital gains for individuals. This means that sale of the property has to be either ruled out or restricted. It can be ruled out altogether if a non-equity co-op is set up that has some built in restriction on the distribution of assets on winding up. It can be restricted either by allowing only part of the equity to be owned individually (shared ownership) or by restricting the price. Second, the tenure form has to provide some means by which individuals *can* make capital gains, or at least realise some kind of cash payment when they leave the property to enter the private-property market. Unless this happens, people who stay in a mutual form of housing for any length of time are disadvantaged compared with those who are already in the property market.

These two conditions are incompatible. They can be made to co-exist through shared ownership, in which ownership of a dwelling is held partly by the individual resident and partly by a landlord or co-operative. This form does not attempt a trade-off between affordability for the future and capital gains for individuals, but simply keeps them separate. There may be other, more mutual solutions, in which the equity is held collectively by the residents, with some kind of ring fencing to stop them distributing this equity to individuals, but enabling people who are leaving to receive a premium reflecting the value added to the property during the time they were members.

Previous attempts to square the circle in Britain have included tenant co-partnership (1904–1920s), co-ownership (1961–1980), and Shared Ownership (from 1978 onwards). In this section, the history of these is traced and lessons drawn from their successes and failures. Co-operative housing sectors in other countries are also identified where the same balancing act has been attempted. In conducting the investigation the objective has been to look for co-operative forms that have managed to exist, and hopefully prospered, in the spaces between non-equity co-ops and owner occupation.

2.1 Community Land Trusts – Securing Permanent Long Term Affordability

The British and North American housing markets are unique in having such high levels of homeownership. However, in the US by contrast to the UK, the private rented sector is larger and so are other forms of housing such as limited-equity co-op housing in major cities like New York.

Aspen, Colorado provides an extreme case, even by American standards, of how a reliance on the market alone can lead to average-income households being completely priced out. During the 1990s, the ski resort town of Aspen was expanding quickly and property prices soared to 12 times the average American level (Salman, 2002). The demand for vacation homes took over 70 per cent of all private housing, leading to an absurd situation where teachers, hospital workers, hotel staff and restaurant workers were forced to live on campsites or even in their cars. In the end, only by providing massive subsidies for key workers and requiring all new developments to provide 70 per cent targets for affordable housing has the crisis in Aspen slowly been brought back under control.

The US housing market in New England has boomed in the same way as the market in southern England, with demand outstripping supply and the reliance on the free market leading to dysfunction. One interesting innovation in the US (and more recently in Canada as well) has been Community Land Trusts (CLTs).

The pioneers of the Community Land Trust movement in the US were Bob Swann and Ralph Borsodi. They had been inspired by the success of Vinobha Bhave, a successor to Gandhi, who, by walking the length and breadth of India in the 1950s and 1960s, made personal contact with hundreds of large landowners in India and persuaded them to put over four million of acres of land (almost 1.5 per cent of all land in India) into trust to enable destitute landless peasants to feed themselves through access to locally managed 'commons land' (Bhave, 1994). The growth of this Indian 'bhoodan' (or 'land gift') movement came to the attention of Dr Martin Luther King. With the support of individuals who had been actively involved in the Civil Rights struggle around Albany, Georgia, Swann, Borsodi, and a number of colleagues established the first US Community Land Trust in rural Georgia in 1967 to provide affordable housing and farm land for African Americans.

Learning from the weaknesses in the Indian model, the ingenuity of Swann was to devise a stable mechanism for local land management which involves three complementary sets of local stakeholders: the leaseholders on the land, representatives of the wider local community, and professionals (architects, surveyors, finance experts, and builders) with necessary skills willing to gift time and effort to help develop viable Community Land Trusts. The idea has taken time to become rooted in the US affordable housing movement. Early projects in the 1970s and 1980s amply demonstrated the potential of the CLT structure to secure sustainable housing development in a locally managed way, but it is only in the last 10 years that the CLT movement has shown how to grow to scale.

CLTs in the US are developed in local areas to provide permanently affordable housing. They are a dynamic form of housing tenure where parcels of land are acquired by a non-profit company (the Community Land Trust) and held in perpetuity. Residential structures that already exist on the CLT's land, at the time of acquisition, or structures that are built later on the CLT's land are sold to individual homeowners, a housing co-operative or another non-profit company. The owners of these buildings lease the underlying land from the CLT. Embedded in these long-term (typically 99-year) ground leases are provisions that allow the CLT to regulate the occupancy, sub-letting and resale of the buildings. When a building's owner decides to leave their home, they must sell to the CLT for a below-market price that is designed to balance the interests of the homeowner in receiving a fair return on their original investment and the interests of the CLT in maintaining the home's affordability for the next homebuyer of modest means.

Parcels of land are acquired by the CLT through transfers of 'surplus property' from state or municipal agencies, through charitable donations from private sector property owners, or through the contributions of funds made available to the CLT by governmental programmes, private foundations, and individuals.

Through this form of housing ownership, homeowners hold a deed to their dwellings and a long-term lease for the land beneath their dwellings. By taking land out of the market, frequently through government subsidy, the cost of buying a house can be reduced by 25 to 30 per cent in most markets. Because the land is never resold by the CLT and because affordability controls are placed on the resale price of the housing that is on the land, any public (or private) subsidies that have gone into creating affordability, once locked in place, can be recycled to assist subsequent generations of low- and moderate-income homebuyers. Indeed, it is the specific mission and primary *raison d'etre* of most North American CLTs to provide permanently affordable housing (although a number are also involved in leasing land for commercial and recreational purposes as well).

CLTs incentivise homeowners to maintain and improve their properties through a resale formula that grants a share of the appreciated market value of their homes when they are sold. The resale formula varies from CLT to CLT and from area to area. The original resale formula developed by Bob Swann values the building only through the local town assessor for property taxes, the equivalent of the British district valuer. The resale price appraised is based on current building rebuild costs adjusted for deterioration and obsolescence. Insurance adjusters are familiar with this calculation and depending on deterioration can range typically from 50 to 95 per cent of new.

More restrictive resale formulae can be applied as with limited-equity co-op housing in the US. These resale rules are common among CLTs affiliated to the Institute for Community Economics. Such a limited-equity appreciation formula may allow the homeowner to pocket 25 per cent of the increase in the market value of their home. This is usually done by obtaining two valuations of the building's worth (not including the value of the land), one at the time of purchase and one at the time of sale. The homeowner receives 25 per cent of the building's appreciation.[12]

CLTs have a wider application in North America than just housing and are also used for revitalising disinvested neighbourhoods, developing workspace for local businesses, developing community facilities for non-profit service providers, developing retail and housing in the same projects, providing recreational space in urban areas and preserving natural space in rural areas.

In western Massachusetts, CLTs are also being used to revive small towns and to protect and preserve small farms. The E F Schumacher Society worked with Swann to tailor the CLT model to this purpose. A collaborator of Swann's in Australia, Shann Turnbull, has indicated the future potential for Co-operative Land Banks (CLBs) as vehicles for wider application beyond housing, wherever there is a need to secure permanently affordable land (Turnbull, 1975 and Morehouse, 1989).[13]

In the last two years, the application of CLTs to rural and urban areas in England has been researched with funding from the Housing Corporation (Dayson, Paterson and Conaty, 2001). Independently of this research, the first

Land Trusting – Stewarding the Commons

Commons land is at the root of British history and, "until the 14th century, land was not purchased or even bequeathed by legacy but bestowed in trust and in return for certain services. It was not even held by law, much less by a money transaction, but by custom alone and so upon a traditional basis." (Massingham, 1942). Today commons and wasteland represents only eight per cent of land in the UK (DETR and Cahill, 2001) or 4.8 million acres. As local authorities or government bodies manage most commons land, the traditional stewardship role by local people or 'commoners' is now largely part of folklore. Movements for tenant management and resident control of regeneration programmes perhaps foreshadow a change in this and demonstrate how wider local land stewardship by local people can be revived. The development of initiatives to revive the use of the 'commons' to meet local people's housing and enterprise needs began in the 19th century and was central to the vision of the co-operative movement. Robert Owen called for 'Villages of Co-operation and Unity', enabling the poor and unemployed to resettle on the land in sustainable villages. John Ruskin established his St. George's Fund in 1871 to finance the acquisition of land to be held in trust for affordable housing in villages to help protect and revive rural industries and crafts. One of the first initiatives was the funding provided by Ruskin to Octavia Hill, which initiated the Housing Association movement in Marylebone, London in 1871. Following in the footsteps of Ruskin's success, the National Trust was founded by Octavia Hill and Canon Hardwicke Rawnsley in 1895 to hold land in the public interest.

European CLT developments have already been achieved in Scotland in the Highlands and Islands over the past 10 years (Scott, 2003). The buyout of the North Lochinver Estate by the Assynt Crofters in 1993 and the establishment of the Isle of Eigg Heritage Trust in 1997 pioneered the Scottish CLT movement.

Inspired by the these grass roots successes, Brian Wilson MP led the setting up of the Scottish Community Land Unit (CLU) in 1997 under Highlands and Islands Enterprise to provide technical assistance and funding (Highlands and Islands Enterprise, 2003). The CLU has secured Lottery funding to establish the Scottish Land Fund to finance buyouts. Today the CLU has a staff of 15 and an annual budget to support Scottish CLT projects of £5 million. A high profile example supported by the CLU has been the Isle of Gigha Trust where a CLT for the local population of 120 has been established through the purchase of 3,200 acres for £4 million. Ninety-five per cent of the funding was provided by government sources including the CLU (12 per cent) and the Scottish Land Fund (83 per cent) with the local community raising five per cent. Following the buyout, 41 houses have been improved, 14 new houses built (eight to rent), a community building built and three small business units constructed.

The Land Reform (Scotland) Act 2003 provides a full framework for assisting a growing number of CLTs to be established. The CLU has recently assisted a community buyout by 3,000 crofters to purchase 93,000 acres on South Uist. The South Uist plan is much larger than the recent purchase by 800 local residents of 22,000 acres of the Amhuinnsuidhe estate on the Isle of Harris which Johnathan Bulmer, the cider heir, put on the market in 2002. The Scottish Land Fund has provided the majority of the £2 million purchase price from Bulmer.

In concept, CLTs are very similar to the co-operative land-use practices promoted and partially implemented almost a century ago by Ebenezer Howard through the Garden City movement in Letchworth and Welwyn Garden City (MacFayden, 1970). CLTs are similar as well to the Quaker-led model village trusts implemented philanthropically by George Cadbury through the Bournville Village Trust in Birmingham in 1900, and by Joseph Rowntree in the New Earswick model village in York in 1902 (Harrison, 1999).

CLTs are not just about housing but about securing affordable and sustainable communities (Minton, 2002). They are a modern and flexible vehicle for neighbourhood regeneration and can limit the pressures of gentrification. Limited-equity housing co-operatives for key workers, constructed on land that is leased from a CLT can potentially be developed through the use of gifted or subsidised land. CLTs can also provide the ideal legal framework for government subsidy to be locked in and used for several generations into the future, to guarantee the permanent affordability of housing to meet local needs.

It is interesting to note that, in bequeathing the money to establish his charitable trusts in 1904, Joseph Rowntree was so impressed with the prospects of model villages like New Earswick for providing long-term solutions to poverty and disadvantage that he charged the directors of the trusts to focus future research investment programmes on the practical issue of land reform.

> *"I desire in the following Memorandum to indicate in general terms the considerations which have induced me to found [these] trusts...... I have already alluded to the land question. Such aspects of it as the nationalisation of land, or the taxation of the land values, or the appropriation of the unearned increment – all need a treatment far more than they have yet received. If one or other of the Directors and Trustees were able to collaborate with competent investigators and workers upon these questions, it would be suitable for large sums to be appropriated in this direction."*

2.2 Early British Housing Co-ops – the Tenant Co-partnership Experience

The tenant co-partnership form of co-operative began in 1901, when Ealing Tenants was founded. Its main promoter was the Liberal MP Henry Vivian, who had set up a labour co-partnership, General Builders Ltd, from whom the first Ealing members were drawn. Labour co-partnership was a marriage of ethical investment and worker profit-sharing that had arisen partly as a reaction against the consumerist emphasis of the co-operative movement, and partly as a liberal alternative to the class antagonisms of industrial capitalism. It was deliberately designed to reconcile conflicting interests by giving a 'bonus to labour'. From reconciling labour and capital, it was an easy step to reconciling tenant and landlord.

The Ealing society signalled a serious intention to involve tenants in the business by setting their minimum shareholding at £50, payable in instalments. The building of their estate, known as Brentham Garden Suburb, began along conventional lines in 1904. Roads were laid in straight lines, and 'pattern book' terraces built which were undistinguishable from those built for private landlords. However, the movement soon broadened out. There was an influx of rich and influential supporters of Ebenezer Howard's garden city movement, who oversaw the marriage of garden city design and tenant co-partnership tenure. The progressive architect, Raymond Unwin, was brought in to redesign the estate along modern lines, with low-density housing, curving street patterns, narrower residential streets than had been allowed under local bylaws, and artfully designed terraces that departed radically from the traditional speculatively built industrial housing that was the norm.

A central body, the Co-partnership Tenants Housing Council, was set up to promote the idea, and soon societies were springing up all over Britain. In 1907, the Council became a federation, Co-partnership Tenants Ltd. This central body was the key to rapid expansion of the movement; it co-ordinated loan finance, advised on site layouts and plans, did some of the on-site building work, and set up two subsidiaries that bought in materials and provided ready-made joinery. Between 1901 and 1912, 14 societies were formed under this system, building 6,595 dwellings, for a population of 30-35,000 people (Birchall, 1988, 1995a).

The most famous co-partnership estates, apart from Brentham, were at Hampstead Garden Suburb where five societies produced 5,650 homes, and Letchworth Garden City, where one society built 323 homes. Many more societies were formed that did not register as members of the federation; 54 have been found so far, but it has proved impossible to estimate the number of homes built (Birchall, 1995b). The First World War interrupted the movement, leaving several societies with more land than they could build on (though Government used the co-partnership form to build estates for munitions and naval dockyard workers).

After the War, supporters of the movement made sure that, under the 1919 Housing Act, co-partnership was given the same access to central government aid as council housing, but most local authorities chose to build for themselves. Some existing societies completed their estates, but only a few new societies were formed: some were set up by partnerships formed between local authorities and large employers in South Wales, and Howard used the model for several societies in Welwyn Garden City. In general, the energies of reformers switched to council housing and the co-partnership movement declined.

The aim of co-partnership was explicitly to combine the best elements of renting and owning. Tenants would be joint owners, having pride in ownership and an incentive to keep up their home and the estate, their efforts being directly linked to the level of rents and the dividend they received. Like owner-occupiers, they were responsible for repairs and decorations inside the home. The £50 investment demanded by most schemes was a very large sum at that time, when the cost of building a small house was only around £125. Their dividend payments could not be withdrawn until this minimum was reached. On the other hand, they would be freer than owner-occupiers to move in search of work, and would not bear the risks associated at that time with a minority tenure (only 10 per cent of households were owner-occupiers, the rest privately renting).

Outside investors also gained. They were like private landlords, but their risks were minimised by the financial involvement of tenants. Loss of income through empty property was negligible, since less than five per cent of the tenants moved each year. Rent arrears were almost non-existent. Furthermore, the investors did not have to give tenants real control. Voting rights went with the number of shares, up to the limit of £200 imposed by Industrial and Provident Society law. In some cases, in the first few years one or two places were reserved on the board of directors for a tenant-representative, but tenants were in the minority.

The promoters were keen to point out that the underlying aim was not merely to provide hybrid tenure but to go further, inventing a more collective form of tenure, in which individual incentives gave way to a co-operative spirit and dwellers identified with the estate as a whole. The annual galas and pageants held before the First World War were a conscious attempt to inculcate a sense of community, but it was explicitly a co-operative community, bound together not just by proximity but by the nature of the tenure.

A linked aim was to avoid class conflict by deliberately mixing different income groups in each estate. The evidence concerning the range of rents charged shows that they succeeded in this. What they did not succeed in doing was promoting a form that was generally accessible to people on low incomes. One estate in Hereford did house mainly farm labourers, but most tended to attract clerks, skilled artisans, local government workers, and even a few professionals such as teachers. The mixing of classes did not usually extend to semi- and un-skilled workers. The requirement to find a large deposit put off anyone on a low or irregular income.

The promoters tended to be diverted away from provision of working class housing by this emphasis on innovative design and garden suburb layouts. At Ealing, for instance, the lowest rent houses were built only because of a condition laid down by the Public Works Loans Board (schemes obtained a loan of two thirds of the value of the homes from the PWLB). This was a major failing and goes a long way to explain why post-war housing policy swung in favour of council housing.

At first this new form of tenure worked well. However, it was unstable. Early on, the aim of the promoters, like that of previous co-operative experimenters, was that tenants would eventually gain control. In four estates where property values did not rise much and outside investors were willing to sell their shares (Keswick, Sevenoaks, Leicester, and Manchester), tenants did eventually achieve this.

However, in areas where property prices were rising and investors saw the benefits of keeping control (Ealing and Hampstead), they changed the rules. For instance, in 1911, tenants at Ealing were deprived of their right to a representative, and soon afterwards new tenants at Hampstead were discouraged from becoming members. After the War, Co-partnership Tenants Ltd acquired a controlling interest in Ealing, Hampstead, Garden City, and Fallings Park, and they were sold on to property trusts which began to sell houses to tenants and, as they came vacant, to sell them on the open market.

Two more estates eventually fell to the property interests – Stoke-on-Trent in

1963, and Harborne, a few years ago, after tenants had resisted several hostile takeover bids. At Cardiff and Oldham, the societies began to sell their houses on leases to tenants, and were eventually wound up. At Sealand (and probably also the post-war estates in South Wales) the property transferred to the ownership of the local employer, which had sponsored the society. With a few exceptions, then, this form of tenure gradually deformed into the two dominant tenures, owner-occupation and private rental, with some cynical and greedy asset stripping along the way.

Lessons learned from the Tenant Co-partnership history are:

a) A mix of outside shareholders and tenant shareholders proves to be highly unstable. Capital should be raised from financial institutions that do not require a share in ownership;

b) Where tenants do gain control of their equity, in the absence of a co-operative movement their estates become isolated and members see themselves as 'collective owner-occupiers';

c) However, the idea of tenant shareholders proves to be a sound one, making members take an interest in their housing and in the wider community.

2.3 Co-ownership – Key Worker Housing in the Post War Period

The demise of co-partnership and the rise of conventional public sector rented housing meant that co-operative housing did not reappear until after the Second World War, and then only in one isolated common ownership co-op, at Dronfield. In 1961, a new experiment in co-ownership began. Harold Campbell (secretary of the Co-operative Party) and Reg Freeson (a Labour and Co-operative councillor) promoted the idea, but they had little success in influencing the Labour Party, though Freeson managed to promote three small co-ops in his own local authority, Willesden.

They had more success with the then Conservative Government, which was keen to find new ways of promoting good quality private rented housing for those who needed to rent, and a way into owner-occupation for people who could not otherwise afford it. The only alternative the Government had found was 'cost-rent', by which non-profit housing societies were to provide new rented housing, but it was thought the rents might be too high. Campbell took the Scandinavian co-operative housing model and applied it to Britain. It had two key elements that found favour. First, as a group of owner-occupiers, co-owners could claim tax relief on their mortgages and thus provide a cheaper alternative to cost renting. Second, if members were allowed to build up an equity stake over time, this would help them to gain access to owner-occupation.

Between 1961 and 1977, 1,222 co-ownership societies were formed, producing over 40,000 dwellings. They were aided by a new Housing Corporation, established in 1964 with £100 million of Treasury funding and a pledge of £200 million from building societies. At first the Corporation promoted cost renting and it was only when the Labour Government appointed Campbell to the Corporation's board in 1966 that this new form of tenure took off.

It was helped by the introduction in 1967 by the Labour Government of option mortgage tax relief. This was the precursor to Mortgage Interest Relief at Source (MIRAS), aimed at people on low incomes, and could be applied to the co-owners' collective mortgage. Also in 1967, changes were made to the structure, making it easier for people to become members; the lease was reduced from 99 years to three years or less, and deposits reduced from five per cent of the cost of the dwelling to no more than the equivalent of six monthly payments.

This form of tenure was constrained from the start by the 'top-down' way in which the schemes were developed. A new society was registered by founder members, who were usually the committee members and staff of a local housing association. They had the scheme designed and built, selected the first co-owners, and then usually tied the society to a management agreement with the association for anything up to seven years. They were supposed to ensure that, six months after letting the scheme, resident members would be elected and take over, but sometimes the agents failed to get round to doing this for years.

When the residents did gain control they were not expected to do any self-management. In fact, guidance from the Housing Corporation discouraged them from becoming self-reliant but advised them to rely on their managing agent. The co-operative nature of the schemes was played down, only being mentioned where it had to be, in the model loan agreement and rules (Birchall, 1988).

The way co-ownership was developed and regulated contrasts sharply with the Scandinavian co-operative model on which the co-operative promoter Harold Campbell had drawn when he began to promote the idea of co-ownership. In Norway and Sweden, a 'mother' co-operative linked to a savings bank would found 'daughter societies', making sure that they were real co-operatives, educating and training their members, and offering management services that the daughter society could take or leave as its members wished, subject only to some basic regulation and accounting rules.

In a few early societies founded by committed co-operators, educational work was done to prepare the dwellers to take over control. The Housing Corporation had the task of educating members, but confined this to some leaflets, the main tone of which was that co-owners should leave management of their estates to the professionals (Birchall, 1988). In most cases, all that the members received was the legal documentation relating to their tenancy, and many members did not understand the difference between co-ownership and renting. Nor were they particularly committed to the idea; no attempt was made to vet prospective members for their willingness to take on the responsibilities of active membership. Also, the founding association had an interest in keeping the members locked into long-term management contracts, and sometimes tended to play down the status of co-ownership.

With hindsight it can be seen that it was often easier for both parties to lapse back into the mind-set of landlord and tenant rather than to do the work of creating a new identity as co-owner and managing agent. Sometimes members only found out that they were members of a co-op and not the tenants of their self-appointed managing agent when something went wrong.[14] Some schemes were poorly designed or built with unsuitable materials, and it was only when the members began to organise themselves in response to deteriorating conditions that they discovered they were, collectively, the owners.

Sometimes, societies had to face serious design and building faults, and began a long battle in the courts, suing the architect and sometimes the builder and in some cases winning substantial compensation. At the end of the 1970s, there were 48 societies in 'loss rent' status, unable to pay their mortgage to the Housing Corporation; most of these were in trouble because of design faults and building failures. At the beginning of the period the Corporation officials were telling co-owners to leave it to the professionals. By the mid-1970s, the Corporation had to provide them with loans towards their legal action.

Sometimes, members wanted to get rid of their managing agent, whom they associated with the failures of the founder members, only to find that they were locked into long contracts that the Housing Corporation officials were reluctant to cancel. In interviews carried out by one of the authors, Johnston Birchall, in the early 1980s in four societies, active members expressed clearly the view that the professionals involved as founder members had been interested more in the development fees and ongoing management allowances that the schemes would generate than in the idea of co-ownership. Their suspicions were not eased by the attitudes of Corporation officials who, although only following current policy, seemed to be unwilling to acknowledge the Corporation's own failures of regulation (Birchall, 1988).

However, the experience in three of these societies was coloured by long and difficult court action to sue architects for poor design. In other societies, the experience was a happier one, and in many cases co-ownership was a success. Where the scheme did not have any serious design or building defects, the managing agent was efficient, and some co-owners took the trouble to run the society, it provided a relatively stable form of tenure. However, the form that co-ownership took kept on evolving in response to experience; by the late 1970s, the Housing Corporation had issued five sets of model rules. Running a co-ownership society was a difficult job.

Even well run societies faced problems whenever the legal form of their society had to be tested. Members found that they were in a kind of limbo between renting and owning; they were declared ineligible for rent rebates because they were owners, yet denied insulation grants because individually they were not owners. They had no security of tenure, yet it proved hard to evict owners who had defaulted on their rent because the courts could not decide whether they were owners or renters. Many active members eventually reached the conclusion that it was an over-complex form of tenure that few understood, and whose legal status was in doubt. Also, Housing Corporation guidance notes required that societies seek the Corporation's approval for all rent increases, premium payments and changes of managing agents. Active members tended to resent the restrictions this imposed on them, and the implication that management should be left to the 'experts'.

In Norway and Sweden, members had to provide a significant down payment, saved up over time in the mother society's savings bank. In co-ownership, in order to provide easy access, the Corporation required only a nominal shareholding, which was bound to limit the amount of equity members could build up, and also prevented societies from building up reserves. In Scandinavia, members built up an equity stake, expressed in law as a 'right to occupy' that they could sell on when they moved out of the scheme.

At the time when co-ownership began in Britain, this equity stake was regulated closely in both Norway and Sweden and the sale price calculated according to a formula that kept it affordable (though, as we shall see below, in both countries the price soon became deregulated). Co-ownership was based on a similar idea, namely that members would build up an equity stake in the property over time. After five years of continuous tenancy, they had the right to a 'premium payment' on leaving.

At first this was calculated on the basis of a complex formula that included the amount they had personally paid off the collective mortgage plus a percentage of the rise in value of the dwelling, calculated on a notional rise in building costs. This was later modified to take into account the market rate achieved for the new rent; a departing co-owner could not be paid more than the society could raise through its rents. This often worked well, making it easier for departing members to afford a deposit to buy their own home. However, if the society experienced a high turnover of departing members, or had not built up sufficient reserves, it would have to borrow more money. There was also a potential for loss of experienced active members. The premium was only payable if a member left, and societies would periodically experience a high turnover of members, making it difficult to maintain a co-operative spirit.

In 1976, co-owners formed a federal body, the Council of Co-ownership Housing Societies. It suffered from the usual problems that co-operative federations face in trying to generate enough membership income to sustain themselves and be effective. However, in its short life, it managed to tackle a long catalogue of problems faced by co-owners,[15] and began to generate the beginnings of a real co-ownership 'movement'.[16] At first the mood was confident, and delegates to the annual meetings defended the idea of co-ownership by large majorities against the idea of demutualising the societies and allowing members to become owner-occupiers.

By 1979 the mood had changed, and members were asking whether co-ownership had failed, through internal problems within the societies and a failure of premium payments to enable members to raise a deposit towards owner-occupation. They voted that if the terms were right they would sell up. In a survey carried out by the Federation, two thirds of members agreed. Then members of one co-ownership lobbied Margaret Thatcher to let them dissolve their societies and sell to the members; the result was the inclusion of the 'right to sell' in the 1980 Housing Act. Most societies sold up, leaving those that were still battling with poor design or building work to carry on until they, too, were in a position to sell. In 1983, the Council was wound up. There are 24 societies still in existence; of which 16 are still registered with the Housing Corporation and the rest are unregistered.[17]

Key lessons learned from co-ownership are:

a) A particular form of co-operative housing cannot simply be lifted from another country and be expected to work unless wider conditions are similar, and attention is paid to all the elements that go into making it work;

b) Promotion and development should not be left to housing professionals who do not share co-operative values and ways of working;

c) When education and training of members are not built in from the start, co-operatives will fail to become in practice what they are in principle;

d) If members are not involved from the start with estate layout and housing design, mistakes may be made for which they will later have to pay;

e) If members can only realise the financial benefits of co-operation by leaving, then after the qualifying period there may be a high turnover, leading to a crisis in participation and high cost of socialising new members;

f) If the financial benefits are calculated on too complicated a formula they will be uncertain and lack legitimacy;

g) If the financial benefits on leaving are set too high and there is a high turnover, then the co-operative may not be able to finance the payouts;

h) If the co-operative involves a new form of tenure the costs will be too high; there will be misunderstandings, high legal fees, unnecessary disputes, and a need for new legislation.

2.4 Shared Ownership Co-operatives

Another way of bringing the advantages of owner occupation and renting together is to combine them in one scheme, but without mixing them together. By the late 1970s, it was clear that the co-ownership experiment had run its course. Harold Campbell, the director of the Greater London Secondary Housing Association (GLSHA), began to develop this option as a new, and less-complex, alternative to co-ownership.

Glenkerry House is a tower block in the East End of London that, like the more famous Trellick Tower, consists of an immense 14-storey wall of flats, at each end of which is a separate lift shaft. Unlike much of the high-rise and systems-built housing of the post-war period, its design and building are of good quality. There are four four-bedroom maisonettes on the ground floor, 17 one-bedroom, 45 two-bedroom and 12 three-bedroom flats; 78 flats in all.

Researching the co-op in 1983, Birchall called it a "friendly but reserved community", in which there was no problem in generating enough interest among members, and which was exceptionally well run (Birchall, 1988,). It is a 'community leasehold' co-op. The local authority is the freeholder.[18] It has given the co-op a long lease, in which it is stipulated that:

a) No more than 50 per cent of the equity can be bought by individuals;

b) Sales of this equity will not be on the open market but at the district valuer's valuation.

The co-operative bought a 99-year lease for £1,435,000, with a Housing Corporation grant of £717,000 and a Greater London Council grant of £144,000. Sales to members brought in about £464,000. The residual amount was raised through a loan from the GLC, which qualified for option mortgage relief, and charged to members as ground rent.

The co-op was registered in 1978. Two thirds of members were chosen from lists of people in housing need provided by the local authorities. Although the scheme relied on 'founder members' from the GLSHA board, it was developed along co-operative principles.

There was an educational programme, prospective members were involved at an early stage, and a consultative committee was formed before the first management committee was elected in 1980. They soon became self-managing, opting to hire their own co-op manager rather than rely on managing agents. That the subsequent history of the co-op was uneventful is due in no small part to the quality of this manager, but also to some highly skilled committee members. The fact that members own 50 per cent of the equity means there is no problem in generating an interest in governance among the members.

The Conservative Government of the time was not prepared to back this model, because the model did not allow co-op members to staircase to full individual ownership. GLSHA developed a staircasing co-op model which, when the agency was wound up, was taken over by CDS Co-operatives. At this point the agency had developed 700 units of accommodation in shared ownership co-operatives. The problem with the model in conventional applications (e.g. as practiced by housing associations today) is that through staircasing, as the members gradually buy out the co-op interest, they can correspondingly lose a commonality of spirit, the commitment to member co-operation and participation in co-management. This makes the unconventional style of Glenkerry House particularly attractive for our purposes in trying to develop a model that will both provide equity stakes for members that respond to market signals, and lock in the subsidy so as to remain affordable for new members.

2.5 Comparative Analysis of Co-operative Tenures Internationally

Clapham and Kintrea suggest that co-operative housing can vary along a continuum from individualist to collectivist, more or less resembling owner-occupation or social rented housing (1987). The main characteristic that varies is the amount of equity stake owned by individual members. One should expect to find examples around the world of co-operatives that have no significant individual equity-stake, some regulated and limited-equity stake, and a stake that is sold freely in the market.

Non-equity co-ops – Canada and Denmark

Canada and Denmark have non-equity co-ops. Canada is of interest because of its system of mixed-income groups, in which government subsidy goes directly to low-income co-op members. This provides the kind of mixed community that tenant co-partners envisaged, and also the skills needed to run a co-op.

Interestingly in the 1980s, the Co-operative Housing Federation of British Colombia developed the Community Housing Land Trust Federation (CHLTF), which became a non-profit charitable society in 1993 (Lew, 2001). CHLTF has since been developed as a mechanism to establish a foundation for the permanent affordability of co-operative housing in Canada. Most Canadian housing co-ops lease land from government bodies. These lease agreements typically have rental escalation clauses based on the percentage of market rents in the area.

In the 1990s, for example, land price rises in Vancouver have led to large rental increases for co-ops which have in turn impacted upon affordability. Also the government leases typically run concurrently with the building mortgage for the co-ops, so expiration of the leases threatens the continuity of dwellings in the mutual sector should government priorities be different when the leases expire.

Since 1996, the housing co-operative sector in British Colombia has steadily transferred properties to the Community Land Trust established with the support of the provincial government. The charitable status of the CLT though means that the housing units developed are restricted for the use of low-income households only. In recent years a Land Trust Development Fund has been established to acquire additional land by the purchase or donation for the CHLTF to establish more and more housing co-ops on the basis of permanently affordable ground leases without escalation rental clauses (Merkley, 1996).

Denmark is of interest because of the way in which the co-operative form has influenced all non-profit housing, so that it is hard to distinguish between co-operative and public-benefit housing.

In order to qualify for government support, all non-profit providers have to establish each residential project as a legally independent entity, under the direction of a management council, composed entirely of residents (Richman, 1995). Residents also have the power to oversee election of the majority of representatives who in turn oversee the parent housing association. Associations fall into one of three types: co-operative societies, whose shareholders are prevented from realising appreciation on their membership share, self-governing associations whose power is devolved from local government, and joint stock companies, where outside ethical investors limit their return to five per cent. Resident democracy works in all three forms.

Limited equity stake co-ops – the US

The limited-equity stake is found primarily in the US. Limited equity co-operatives restrict the resale value of shares by applying a formula established in the co-op's bylaws. The co-op often has the right of first refusal to buy the outgoing member's share, and the right of first approval of prospective members. This form is generally affordable because the cost of membership shares is low. On leaving, a member receives the original share, plus the cost of any improvements made, plus some limited appreciation as specified in the original agreement (Rohe and Stegman, 1995).

The formula for increasing the value of shares depends on the program under which the co-op is financed. Because co-ops have been set up under several different mortgage and tax subsidy regimes, all with different requirements as to affordability, it is hard to generalise about how the initial equity stake is revalued.

Many California co-operatives, for example, use a limited-equity formula that allows shares to appreciate at a rate of 10 per cent of the original value of the shares per year. Many others tie the rate of share appreciation into changes in the consumer price index.

The conversion of public housing to a co-op in Nashville, Tennessee offers another example. Here, the prospective member has to pay a non-refundable membership fee or working capital contribution of $100, plus a subscription price of $400 based on the value of the occupancy agreement. If a member wishes to leave, the board has the right to purchase the membership at its transfer value. This is the sum of the initial subscription fee, plus the value of improvements, plus the amortised element[19] of the principal of the loan which was paid off by the co-operative using the payments made by the departing member after the first three years of occupation, plus the value of any sweat equity contributed (Rohe and Stegman, 1995).

In New York, the price of shares in limited-equity co-operatives currently ranges from $250-$2,500. A group of new co-ops that has recently taken over the apartment blocks has an entry price of $250 for existing tenants, which recognises the 'sweat equity' they have put in over the years to keep up the buildings. When someone sells, the price will be $6,000 for small and $9,000 for larger units. This is fixed for the first three years, and then it will be revised upwards on a national scale based on movement in median incomes.

Other co-ops are more flexible, with just an income restriction and the co-op deciding on the formula. Here, the only check on prices is how much people can raise in personal loans; the low-income rule restricts what people who are buying into the co-op can afford. The price in these cases will be much higher than in city- or state-subsidised co-ops and more like what one would pay as a down payment on a condominium. Some have strict formulae prescribed by the state, consisting of two elements: amortisation of the mortgage and investment in capital improvements. Some have a fixed percentage rise each year. The practice varies between co-ops, but once the formula has been set, individual co-ops tend to stick to it; a lot of dissent is caused if the rules change for new members.

In summary, there are three basic categories of co-operatives in the US: zero equity, limited equity and market rate. The middle group is the most common and, within it, many different formulae are used to set the resale price of shares.

As well as formulae written into bylaws, there are two indirect ways in which the price of shares is restricted. First, many co-ops have an income test restricting applicants for membership to people on low incomes. Co-ops in New York classed as Housing Development Finance Corporations (HDFCs) have a certificate of incorporation specifying that they must provide housing to people on low incomes, with resale restrictions and income guidelines. Even when these guidelines expire, the low-income provision continues. This automatically means the shares must be within reach of low-income people. Second, co-ops can have a 'no mortgaging' rule. For instance, in the Brooklyn co-ops set up 70 years ago by the Finnish community, a resale restriction of sorts is achieved by the co-op refusing to sign a recognition agreement with the bank. Without this restriction shares could be mortgaged, as they are regarded in law as real property. This is a 'natural' way to restrict prices.

There have been problems with the limited-equity arrangement. If share prices match prevailing market rates locally, most co-operative shares will be unaffordable for low-income houses, which is why resale limits are placed on the transfer value of shares in limited-equity co-operatives.

If prices fall far below those rates, there is a problem of enforcement, because payments can be made 'under the counter' by an incoming member to the outgoing one. This is the principal reason why co-operatives buy back the shares of departing members and why they are being developed on CLT land. The former prevents under-the-counter deals. The latter prevents the co-operative itself from becoming lax in enforcing its own limited-equity restrictions. The CLT provides a second line of defence for affordability.

If the share price goes higher than market rates, outgoing members can be stuck and unable to move. For instance, in San Francisco the shares of federally sponsored limited-equity co-ops became very expensive. The only people who could afford them were immigrants from Asia who came to the area with large sums of cash, but who had trouble finding employment and had little income.

A different problem was experienced in Sacramento, California. In that case, the market did not keep up with the formula. The shareholders were very upset and did not know what to do. They would not sell their shares below the formula price and felt trapped. Needless to say the co-op was not a happy place. In Los Angeles co-operatives the situation is stable, and equity share increases are more like receiving interest on the share price as if it was in a savings account. They pay simple interest; if it were compounded this would cause affordability problems for incoming members.

To what extent do the members individually have an incentive to break up the co-op to make speculative gains? In New York there are currently no strong pressures to break up the co-ops for personal gain, for four reasons. First, there is the low-income rule, which restricts the type of person who comes into a co-op. Incomes average around $10,000 in new co-ops and $15-25,000 in more established ones. In co-ops that have Section 236 funding,[20] members whose income goes above a ceiling have to pay an extra monthly charge. Second, there are legal restrictions. New co-ops tend to be dependent on the consent of a bank, or of politicians, who can write in restrictions. Restrictions are written into the bylaws, so it takes a two-thirds majority to change them. Also there is a regulatory agreement that comes with the mortgage, or tax abatement, or a land disposition from the City. It can also be written into the deed for the co-op. So in practice there are numerous opportunities to write in restrictions. There has been considerable abuse – not by co-ops but by other agencies receiving subsidy – so lenders are now building in many more restrictions.

Third, the number of sales is low – less than one per cent yearly. More frequently, units become available because people die, so there is not much pressure on resale values. If the co-op members were more transient, it would be more difficult, but as it stands there is time to build up a co-operative spirit, through education and training of members. Fourth, the share valuation does not cause trouble, because the other factor is the monthly charge, which is low and good value. There is individual greed, but if members converted or sold at market value they would end up paying much higher monthly charges.

However, property prices are spiralling upwards in some areas; on the Lower East Side apartments now sell for between $400,000 and $1 million. Considering that co-op members have paid $1 for their building, this is bound to become an issue eventually.

It has already appeared in one set of co-ops. The 'Mitchell-Lama' co-ops, so-called because of the legislation under which they were founded, comprise half of all co-ops in the US, including the famous 'Co-op City' in New York. They all had zero equity, with an entry fee of $500 per room, and with no increase in value over time. Then the restriction period ended and they now have the opportunity either to go back into regulation with tax abatement or to 'go market'. How they decide depends on their leaders. Many have decided to uphold co-operative values and maintain their limited-equity status. Tens of thousands of units have been lost; they turn into market-value co-ops and sell for $450,000 instead of for the $5,000 incoming members would have paid the limited-equity co-op.

Market rate co-ops and tenant ownership co-ops – the US and Scandinavia

In the US, Norway and Sweden, market rate co-operatives operate. Here, shareholders may buy and sell their shares at full market value. In the US, prices are similar to those in condominiums. The co-op is financed through mortgages with interest rates at market level. There are no restrictions on the resale price of members' shares. The most successful market rate co-ops are 'senior co-operatives' for people over 55. Government-guaranteed loans are used to reduce the cost of finance, and mainly the development is done by private developers. The buyer signs a purchase contract and makes a down payment.

It takes about a year to reach a point where 90 per cent of units have been sold, at which time the co-op comes into existence as a democratic, member-controlled body. Unsold units remain the responsibility of the developer. Senior co-ops have been developing quickly in many parts of the US. However, it is no longer as popular an option as it used to be, because lenders prefer to lend to condominiums and it is difficult to obtain a share loan.

In Sweden, people cannot own an apartment in a multi-occupied block without belonging to a co-operative; the law prohibits individual ownership. Co-operative tenure, bostadsratt, is usually translated as 'tenant ownership', somewhere between tenancy and ownership, and fully enshrined in law (Svensson, 1995). Under the Tenant-Owner Act of 1930, all other types were prohibited, though existing 'rental' (non-equity) co-ops remained. This Act established the credibility of the co-operative form of tenure.

For more than 40 years, HSB Bank, which specialises in housing, maintained a system of transfer and price control. People had to be on a waiting list of the regional HSB society to stand a chance of getting a co-operative flat. Transfer prices were based on initial payments and amortisations. By the 1950s, these arrangements began to be criticised, but HSB managed to resist change until 1969, when market transfers were finally allowed. Riksbyggen made the same decision around the same time. Until 1973, buyers and sellers were informed of HSB's recommendation on price, and then were allowed to agree a market price.

The lifting of price controls was done in the context of a market in which supply had overtaken demand. It became more contentious when prices began to rise. From the mid-1980s, banks began to accept a tenant-ownership certificate as collateral for long-term loans. This contributed to the soaring price of co-operative flats. Low-income households were priced out, especially in central Stockholm and other big cities.

HSB and Riksbyggen have begun to develop more specialised housing for the elderly, young households, and so on, but have not been able to reinstate price control. Some commentators think it is now a commodified tenure, similar to owner-occupation (Lundquist, Elander and Danermark, 1990), but others see it more as a tendency away from the 'social' aims of the past (Svensson, 1995). The high price of co-operative housing has recently led to a new interest in rental co-ops, and new ones have been established on the basis of trial legislation. But political support for them has been patchy, and they remain marginal in the housing market.

In Norway, a similar process of gradual commodification of co-ops has occurred. In the early post-war period, there were strict controls on the exchange of second hand co-op dwellings, with deposits for new entrants set at an initial price plus some allowance for inflation. During the 1970s, a widening gulf between owner-occupiers and co-op members led to a black market in sales of co-op dwellings (Kintrea and Munro, 1985). Some independent co-ops dissolved in order that their members could to sell on the open market. In 1981, following the election of a Conservative Government, price ceilings were adjusted upwards substantially, and then entirely abolished everywhere except in Oslo and 11 other areas.

2.6 Evaluation and Key Lessons for a New Tenure Model in the UK

The experience of limited-equity co-ops in Britain is not a positive one. In tenant co-partnership, tenants gained five per cent interest on their shares, and were able to sell them back to the society on leaving. But because the shares were not revalued in line with the market value of the homes, there was a growing mismatch between the book value of the shares and their value to property developers who wanted to take over the society. Members of Ealing Tenants were offered £24 per £10 share by the property trust that gained control. In co-ownership, the initial share was set low, and it took a long time for members to build up the 'premium' that they could take away with them. The formula for calculating this was too complicated, and the payments led to some societies having to borrow substantially just to pay out departing members.

Limited-equity co-ops in the US are not a very good test of whether such a form would work in the quite different circumstances of key workers in the UK. They are much more like our own non-equity co-ops set up in the 1980s under the Housing Corporation in England and Wales, and they are even more similar to the community ownership co-ops set up in Scotland to take over public housing estates. No references in the US literature could be found to the policy intent that these co-ops might be a stepping-stone towards home ownership. For dwellers, they are an alternative to private renting, squatting or homelessness. For policy-makers, they are an alternative to abandonment, poor quality private renting, and speculative conversions of rental housing to condominiums.

There is one area of similarity. The US military is developing limited-equity co-ops to house its personnel on army and air bases, using low-cost land it already owns and has prepared. The idea is that its personnel, who currently experience problems in the conventional housing market, will be able to live in a co-op, and when transferred to another base, find a similar co-op to transfer to, thus saving on transaction costs.

In general, though, the lessons to be learned from the US are that the more limited the equity, and the more transparent the method by which it is revalued over time, the more likely the co-op is to succeed and to remain affordable. It is better for low-income workers than for those on middle incomes, but with the advantage over non-equity co-ops that it takes some financial commitment on the part of members, and provides a 'nest egg' if they leave.

The problems with the US co-ops can be overcome. For instance, the simplest way to raise the cash needed to buy someone out is to have the new member pay over the full amount. But this causes affordability problems. In co-ownership this meant some societies having to remortgage in order to remain affordable. This put a burden on existing members. If there is a source of loan finance for incoming members, the better option is to have the new member pay out the old one. It insulates the society's own finances from the buying and selling of memberships.

Alternatively, the society could arrange for mortgage funds, which could increase or decrease so that the co-op could buy out a departing member and finance a loan for an incoming member. The revaluing of shares must be transparent and simple. The easiest method would be to shadow average earnings or a retail price index. The democratic process in a co-op is not designed to handle this sort of issue well, and because some members will be intending to stay all their lives in the co-op while others expect to leave sooner, members will therefore have different incentives.

Hansmann (1996) argues that there is a direct correlation between the existence of co-ops or mutuals in any business sector and the degree to which members differ in their interests. A co-op is much more likely to succeed if there are no serious differences of interest between members. It does not seem too difficult to find ways of preventing the break up of a co-op for private gain. Lenders can attach conditions to their loans, but as the American case illustrates this can cause problems when the mortgage period is ended. It is better to lock the assets into ownership through a community land trust, taking a freehold interest and then issuing leaseholds. However, leaseholders now have strong rights to enfranchise, and any scheme must be exempt from the Right To Buy the freehold. Alternatively, a publicly accountable agency could take out a 'golden share' in the co-op to prevent its break up.

For key workers on middle incomes, the limited-equity model does not offer enough of an opportunity for the increase in equity needed eventually to attain owner occupation. The Scandinavian tenant ownership model is much more relevant, or rather, the model as it used to work before market value sales of the 'right to occupy' were introduced. The Scandinavian model could be made to work in the UK under these conditions:

a) A mother-daughter structure (see Glossary) of financing and developing schemes is set up;

b) Education of prospective members in what it means to be a co-op member;

c) Members are asked to pay a significant sum for their ownership share, perhaps in the region of 10 per cent of average local house prices, and certainly not less than £5,000;

d) The payment to departing members is based on a clear formula that tracks market values but without becoming unaffordable;

e) Members ought to be able to access some of their equity without having to leave the co-op, perhaps by being able to withdraw interest or dividend payments;

f) The legal form of the co-op is clear and not subject to costly litigation or challenge from related property laws;

g) There are strong and lasting safeguards against breaking up the co-op for private gain.

However, there is a model that may be more attractive than the Scandinavian one and one much closer to home. The community leasehold/equity sharing model of Glenkerry House fulfils all the relevant criteria. It locks equity into the property permanently, in two ways. First, the freeholder can specify in the terms of the lease that the co-operative may only grant up to 50 per cent of the equity to its members, and if desirable, that this must be revalued in a way that lags behind house price inflation. This means there is no incentive to demutualise the co-operative.

Second, the individual member is a sub-leaseholder for 50 per cent of the equity, and also a co-op tenant on a monthly tenancy for the other 50 per cent. This makes the co-op ineligible for leasehold enfranchisement. Also, since members are getting a market return on their equity, as well as saving on management costs by being in a co-op, there is little incentive for them to try to buy more equity.

The freeholder can be any public interest: a local authority, hospital trust, or community land trust. To set up the co-op, a promotional and development agency is needed, such as CDS Co-operatives in London. The co-operative members are incentivised to participate, and there are no major differences of interest between them. Because the 50 per cent equity share is simply bought by an incoming member from the outgoing one, the co-op does not have to get involved in remortgaging, and so there is no conflict of interest between those who stay a long time and those who intend to leave soon.

There is no complicated formula for revaluing equity – this is revalued in line with the market. Basing the valuation on the opinion of a third party such as the district valuer has the virtue of making for a cautious valuation that evens out the peaks and troughs in the market. Of course, co-op members will need to take out a mortgage on their equity share, and can either borrow from conventional mortgage lenders or from a local investment agency. The question of how to provide low-cost finance is a separate one that will not be dealt with here.

Glenkerry House has been working successfully for the past 24 years. It has not deformed into individual ownership. If it had not been for the opposition of the Conservative Government of the time, it might have become the model for a new co-operative form to replace co-ownership. It could still do so.

3. Community Land Trusts and the Shared-Equity Co-operative Model

In any sustainable new model of tenure, the challenges are financial, legal, fiscal and, first and foremost, customer demand. The proposals set out here have been developed with a view to ensuring a robust model design for piloting in high-cost areas of southern England and ensuring that all these considerations are met as comprehensively as possible prior to trial of the model – particularly in view of the weaknesses previously experienced in existing co-ownership models.

3.1 Co-operative Homeownership Model: Core Principles and Options Rejected

A co-operative form of low-income homeownership has been investigated because:

a) Historically, mutual housing forms have been good at addressing market failure;

b) If managed collectively and corporately, costs can be controlled;

c) Limited or restricted equity housing co-operatives allow for equity stakes to be built up and repaid under a pre-set resale formula;

d) Tenure can be kept simple, with low transaction costs on entry and exit through a repairing lease, which can be assigned.

Consideration of viable co-operative models for key workers has been based on four core principles:

1) The housing provided may not be for the short term and so must conform to normal standards;

2) The cost must be related to the means of key workers: no more than 30 per cent of net salary for those earning under £16,000, rising to a maximum of 35 per cent for those earning above £23,000;

3) Any subsidy provided should be locked in for the benefit of future residents;

4) The payments made by the occupier should generate an equity stake, based on both capital repayment and equity appreciation, to enable the occupier to gain a foot on the housing ladder.

A number of options have been considered and rejected as not meeting these principles:

a) Reduced standards

b) Property investment models

c) Shared ownership

d) Co-ownership societies

e) Capital subsidies

Reduced standards
The minimum size generally acceptable for a one-bedroom flat is 45m^2. Housing can be provided at lower space standards, for example 30m^2 studio flats or shared housing which requires around 25m^2 of space per person. An example is a 15m^2 bedsitting room, which has use of a kitchen/lounge, bathroom and w.c. shared with three to five others. In shared housing of this kind, there is a further cost saving on fittings. Studios or bedsitting rooms in shared flats can be built and let for cost rents within the means of key workers (Appendix 6, Annex 1c indicates affordability).

Low space standard housing is best suited to students or those undergoing training before taking on a permanent job. The first experience of many single people is similarly of a room in a house shared with friends or acquaintances or family.

It is important to ensure that enough shared accommodation is available. Student housing in particular can otherwise exert pressure on the market, increasing the value of cheaper properties as shared housing for rent and taking them outside the means of those seeking to purchase outright. Both RSLs, such as Kensington Housing Trust, and private companies like Unite, work to meet this need. In university towns especially, providing enough accommodation to avoid additional pressure on the housing market is an important goal.

Housing of this kind is not considered here, however, as the aim is instead to meet the needs of those who have taken up employment and may well wish to remain and build their life in the area.

Property investment models
At a time when the stock market has seen three successive years of decline and interest rates are historically low, there has been renewed interest in property as an investment (although the end of a period of rapid property inflation is not the ideal time to begin). A number of financial models can be devised which could be attractive to investors, for example:

Seeking investors willing to finance land purchase for a future return. In this model, housing for rent is built on the land and rents repay the construction cost only, over a period of 15 years. After 15 years the investor can realise the land value through outright sale of the homes as they are vacated or sell the whole investment. The overall return on investment would reflect the rise in value of the property and not just the rise in land values. It produces rates of return at over twice the level of inflation, a useful hedge against other investments.

Seeking investors willing to rely on rent plus rises in property value to provide a return. Realising the return, however, inevitably means outright sale when a vacancy arises so the tenure disappears in the medium term.

Both these models rely on providing the investor with the benefit of capital returns or repayment. This creates conflict with the core principle in (4) above: the aim of enabling the maximum equity stake to be built up by the occupiers.

Shared ownership
Shared ownership has been a successful tenure, which has usefully met a gap in the market. Its most common form relies on Social Housing Grant (SHG) to meet the cost of the part retained by the RSL. RSLs have made large windfall surpluses from shared ownership homes when further shares are purchased if the homes have increased in value since first sale. The SHG is in effect an interest-free loan for the RSL's share of the equity. Often, shared owners arrange to buy the RSL's remaining equity to achieve 100 per cent ownership simultaneously with onward sale rather

than just selling their existing share in the property. In a rising market, the valuation that determines the price of the remaining share may well be below the price that can be obtained on onward sale. This is either as a result of the lapse of time or simply because it is possible to find a buyer willing to pay a price above the figure assessed by the valuer.

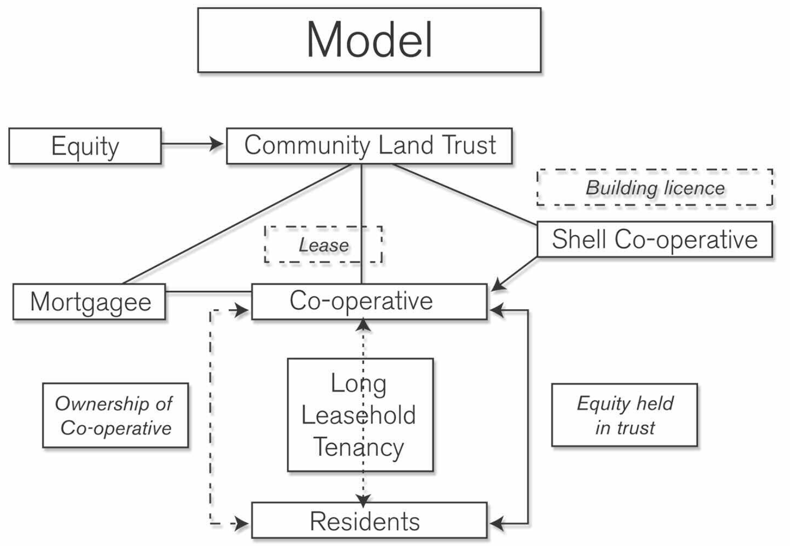
Conventional shared ownership also requires payment of rent on the RSL's share of the equity. In some cases the rent charged to cover high management, maintenance, and loan costs has meant that outgoings are not sufficiently lower than outright sale to create new opportunities for the less well off. In very high price areas, shared ownership may also fail, as even property sold at 50 per cent of its value can remain unaffordable for lower-paid key workers.

Shared ownership has a place, therefore, but does not lock in the subsidy for the benefit of future occupiers. It also requires relatively high levels of social housing grant, the long-term benefit of which accrues to RSLs rather than occupiers.

Co-ownership societies
Co-ownership was a successful way of meeting the needs of middle-income households in the 1960s and 1970s, with option mortgage tax relief as a source of subsidy to make it affordable. Much of the stock has been lost, however, as a result of the right to sell; existing owners benefited from windfall capital appreciation. Once the windfalls were taken, the housing reverted to market cost, as the model includes no mechanism to protect the tenure's affordability for the future. Having said that, some of the co-ownership housing provided in this way does still exist and some of the principles of mutual involvement in management and repair seem to have proved durable. The main problem with the British Co-ownership Society model was that the equity share arrangements were not well designed, and the co-operative practices and structures were not developed because the model from Sweden was not adapted properly. The stakeholders were the developers rather than the tenant owners.

Capital subsidies
One-off capital subsidies have been used, through reduced land cost or grants, to bring property costs down below value and to make these reduced

Diagram 3.1 The Proposed Model



value homes available to key workers. It may then be a requirement that resale is based on the same percentage of value, with the remaining equity held by the housing provider. Depending on the nature of the provider, this may be a stable form, but it could run the risk that the provider would decide or be required to realise the investment by releasing the equity it holds at some future date.

3.2 Shared-equity Housing Co-operatives – Proposed Model and Key Assumptions

Affordability will depend on keeping costs down. Appendix 6, Annex 1 shows affordability compared to housing costs that are reduced in various ways. It shows that affordability is only possible if subsidy is broadly equal to the value of the land and is combined with low-cost finance.

The availability of both subsidy and low-cost finance will therefore determine the scale on which key-worker homes can be produced. The model should lock in any subsidy for future occupiers and be based on a structure which can secure low-cost finance.

To achieve this, a new UK tenure model, which incorporates the key features of the Swedish Tenant Ownership Co-operative system and the American Community Land Trust system, offers an innovative new approach to establishing permanently affordable homeownership opportunities for low and moderate-income households. This model would be a Shared-equity Co-operative system, which protects the land equity or other subsidy indefinitely. It would be a co-operative which holds the equity in the buildings and issues tenancies to the residents who are also its members, and hence its managers and owners. Through their ownership rights, residents would build up an equity stake in the property, which they can take with them when they leave. In this context, the Mother and Daughter Society relationships in the Swedish system can indicate how best to structure the legal relationships.

The following aspects would feature in this new fully mutual model illustrated in Diagram 3.1 (there is a full description of core elements and rationale in Appendix 3) of affordable homeownership:

a) A Community Land Trust (CLT) is set up and takes ownership of land;

b) The CLT holds any spare equity in trust to ensure long-term affordability. A standard model would be for the CLT to be gifted land to provide this equity but the model could work using some form of subsidy which is used to buy land or by holding land provided below value through a planning agreement or planning gain;

c) A Shared-equity Co-operative is set up, to which all occupiers will belong and which will let and manage the housing;

d) The co-op builds the homes under a building licence from the CLT;

e) On completion, finance is raised for the building cost (and any residual land cost) using a guarantee from the Co-operative Housing Finance Society Ltd, at rates available to social landlords. The CLT's equity would be required as security for use only on default, to be realized by a mortgagee in possession;

f) The key workers' payments to the co-operative must first meet the cost of outgoings: management, maintenance, insurance, services such as cleaning, and a sum set aside for cyclical maintenance including external painting;

g) The scheme is set up on the assumption of an average level of payment e.g. £100 per week. Residents will be required to make payments equating to 30–35 per cent of their salary and, for viability, the average level of payment (say £100) must be achieved. To counterbalance payments by occupiers at levels below the average required to meet the mortgage payments, there must be an equivalent group paying more than the average. For example, if the target payment is £100, and 32.5 per cent (net) of a net salary of around £19,000, this could be achieved if three of the occupiers earn net salaries of £15,000, £19,000 and £23,000 respectively. The greater the occupier's payment, the greater the equity stake that is built up: those paying more would therefore receive a greater share of ownership;

h) Residents may reduce their outgoings by taking over responsibility for management, and for maintenance and cleaning contracts;

i) When residents leave, they can take an equity stake. The maximum level of this would be a sum equal to the equity in the property that has been repaid as a result of their payments, plus capital appreciation in the value of the property they occupied based on their share of overall value excluding any equity retained by the CLT;

j) The co-op makes the payments to outgoing key workers by topping up its total loan to the original level plus inflation, which ideally would include increasing the loan above the original level if a high proportion of occupiers leave. The net result is that the co-op, unlike a conventional RSL scheme, would not move into a position where there is additional equity to increase financial ratios of security. Security for its finance will always depend on rental income and any retained equity held by the CLT, not on any increase in retained equity;

k) Payments by key workers are indexed at RPI + $\frac{1}{2}$ per cent which produces a surplus contingency fund. This fund might be needed for example for additional cyclical repairs to maintain the property in future or, subject to a certain level of reserve, it could be used to provide mortgages to outgoing key workers;

l) Internal repairing obligations lie with the occupier so as to reduce running costs and help provide appropriate incentives. Other running costs are kept to a minimum by involving the residents in the management of repair and cleaning contracts;

m) The proposed tenure would take the form of a lease which is assigned, so that the incoming tenant must purchase it from the outgoing one, eliminating void losses and keeping sale and purchase costs to a minimum; the aim would be that the process would be more akin to the transfer of a tenancy than the conveyancing normally associated with house purchase.

n) The assumption made for the model is that key worker salaries for the groups at which the scheme would be aimed are £17–25,000 in London, and £15–23,000 in the South West. Bringing housing costs down to an affordable level for those on these salaries requires a combination of reduced costs and low-cost finance.

In consultations in the South West, administration and cleaning staff pointed out that their salaries are much lower still, at around £11-£14,000 including overtime. For single people, even these relatively low salaries take them outside the scope of housing benefit and they may be paying as much as 50 per cent of their salary on rent. The model will still work at lower salary levels: it simply requires more subsidy. If the salaries of the employees to be housed are much lower, the model will require both zero land cost and additional subsidy on top.

The model described here has been focused on what can be achieved where the land value can be used as the main form of subsidy. This provides a readily understood route to affordability in that it is high land values rather than high building costs, which are the main obstacle. It also provides an alternative to public land being sold to secure a cash return, when it would make more sense to exchange the equity for a social return. However, in practice the subsidy can take any form – that of a cash subsidy, free land, or land substantially below value as a result of Section 106 planning agreements. Where salaries are low or values especially high, the land value alone may not be enough but, as the table in Section 6.6, *Reduced land value or other subsidy input,* shows, it usually is.

It is worth explaining why a percentage of salary is proposed as the basis for calculating the payment charged. Key-worker housing is about housing people who are by definition in employment and on salaries below, or only a little above, the average wage. Any subsidy secured needs to be used cost effectively: Outgoings must be affordable but at the same time subsidy cannot easily be justified to reduce outgoings beyond a certain point. This means that the housing is affordable, but at the same time the subsidy is no higher than it needs to be.

In the flexible model proposed, occupiers will be required to make payments which relate to their salary at the time they buy into the co-operative and which in turn are calculated as equivalent to loan repayments on a mortgage. The higher the payment the greater the equity stake. The percentage of net salary used here is 30-35 per cent as described above.

The saving achieved through resident control of services as compared to an external manager is around £1 per week, £50 per annum per occupier. It would be paid as an annual dividend based on savings made in the account compared to the budget. Because it is a relatively small amount, this seems a better way of providing an incentive. This approach is intended to provide further incentives for residents to take responsibility for managing the housing effectively, keeping it in good condition while keeping costs to a minimum.

4. Key Worker Housing Initiatives in two English Regions: Urban and Rural

Any potential new approach to meeting the needs of key workers for housing must first assess the strengths and weaknesses of current solutions. Further, for a new approach to be successful, it needs to be cost effective and to find robust ways of addressing needs not being met by current housing models. To discover where there might be a niche in the market for a mutual housing model for key workers, interviews were conducted in both London and the South West with existing providers of key worker housing and other bodies, which could become development partners for piloting a new model.

Twenty-five organisations agreed to take part in the research. They included affordable housing providers for key workers and/or potential development partners. Ten of the interviews were conducted in the South West and 15 in London.

Additionally several group sessions were conducted to explore in more depth the Community Land Trust based mutual model and its regional or local applicability. Two sessions were conducted in the South West and one in London. The London event was conducted as a focus group in order both to feed back to housing professionals the findings of the research and to compare and contrast the features of the mutual model with other innovative approaches currently being developed in London.

4.1 Current Approaches in London and Interest in a Mutual Model

Interviews in London were pursued with existing large-scale providers of key worker housing and shared ownership, as well as with local authorities, health service bodies, and regeneration organisations. Additional interviews were held with co-operative housing practitioners and a diverse group of developers of innovative approaches – each striving in different ways to tackle the key worker housing problem with creative intermediate market solutions. Most of the interviews were in East London with a view to the potential of the Thames Gateway.

Action on the ground and needs
Newham is about the fourth lowest cost area of London, with only Barking and Dagenham, Waltham Forest and possibly Greenwich offering cheaper house prices. But even in Newham, the problem of a dire shortage of key worker housing is chronic and worsening by the month. There are fears that this process may accelerate when its location and regeneration developments, including Stratford and the lower Lea Valley, take effect with the result that Shared Ownership as a solution is likely to become increasingly unaffordable in its existing form. Newham Councillor Alec Kellaway, Cabinet Member responsible for Business Partnerships and Access to Jobs and Training was very supportive of the limited-equity co-op model and saw the attraction immediately of the Community Land Trust mechanism to keep housing permanently affordable. He commented "Newham has more spare land than most boroughs" and "I would be very interested in seeing how the mechanism would work out."

Redhika Bynon of Newham's Education Department has responsibility for assisting teachers find local accommodation. She described the crisis this way:

> *"The need for [affordable housing] schemes is critical. Of the 2200 teachers in Newham, we lose 500 each year. Forty per cent of those who leave say that it is for housing problems. There are always a large group of young teachers, newly qualified, who come in at age 22 plus because there are enhancements offered to come here. Two hundred or so of these new qualified teachers come for two to three years, win spurs and then return to their home area. Some would like to stay but cannot. They have to pay a lot for their housing and they think it is poor quality."*

Newham BC has nomination rights for teachers on 60-70 rental units with Peabody Unite, Toynbee Housing Association, Boleyn and Forest and a few smaller RSLs. But according to Bynon, this housing is frequently too small and, as social housing, does not meet more than short-term requirements. Without better quality accommodation, retention problems will worsen. There is little accommodation from this source for teachers with families. Most units have only one bedroom. Bynon described the accommodation preferred by most teachers from an affordable housing scheme in this way.

> *"Middle class aspirations mean that investing in property is one of teachers' expectations. I think they would prefer two-bed properties, even if they are single because their previous living conditions in the parental home were relatively spacious and this allows for either a lodger or the growth of the family unit with partner and offspring. The rooms and particularly window sizes must be generous – pokey rooms are not attractive. Detailing will be very important. Quality says: 'You are important and we value your contribution.'"*

Bynon felt from her experience with some of the more popular developments for teachers and other key workers provided by Toynbee Housing Association, that a block development with one- and two-bedroom units would be very popular, if it were spacious. In her experience, teachers would pay £130 per week for two-bedroom flats and possibly up to £150 per week. She has trouble finding takers for properties at £160 per week at the moment. Bynon felt that a limited-equity co-op model that could economise on costs would be attractive to teachers if it is "high quality and within their price bracket".

Kate Eldridge, senior planner with Hackney Council observed that recent research by Llwellyn Davies has found that London boroughs and the NHS often lose staff after five to nine years of employment, because of the inability of younger workers to find larger affordable accommodation for "having kids". The costs of this loss are enormous for such well-trained and experienced staff.

Jakki Moxham, Chief Executive of Springboard Housing Association, commented that the Association uses shared ownership as a mechanism for helping people in diverse circumstances of need. They use it to help older people in serious disrepair situations and also for mortgage rescue following marital breakdown or unemployment, to help those in debt and who are equity rich and cash poor to avoid being evicted by becoming shared ownership tenants. Moxham is very interested indeed in co-housing projects like the Danish model in Stroud. In particular, the Association would like to pilot a project for women in London. Springboard also has some land in Newham which could be deployed for a CLT and mutual housing pilot.

Rachel Power is the Human Resources Manager at Richard House, a Children's Hospice in Newham. Assisting newly appointed staff to find affordable housing in the borough is the bane of her life. Some help has been provided by Peabody Unite with studio cluster flats with shared kitchen and shared lounge facilities. These cost around £340 per month including Council Tax and utilities. Power felt there was a real need for bigger properties, if possible with more privacy, and was attracted to the co-op idea to keep costs down.

> *"Balancing privacy with the cost of building and therefore the cost to the key worker [is fundamental]. A new build should not have a corridor with just accommodation off like old-fashioned student accommodation. I think a shared kitchen is ok, but a shared shower is yuk! A co-op for deciding about cleaning communal areas, lighting, etc. is good……Key workers with families will need two bedrooms and more."*

Kate Eldridge commented that, for these reasons, the Peabody Trust was experiencing difficulty in some places in letting cluster flats.

Kensington Housing Trust is part of Catalyst – the Housing Group that includes Ealing Family, NorthCote, and two other smaller housing associations. Catalyst includes some 8,000 units of social housing for rent, over 2,000 units of shared ownership and an additional 1,500 units of cluster flats, which have been developed for key workers.

Kensington Housing Trust (KHT) specialises in cluster flat development work, some hostel space development but does no development work for family accommodation. Thus in the Catalyst group, it complements the work of Ealing Family Housing Association and NorthCote, which specialise in shared ownership. KHT has developed its portfolio by taking over old nursing property from the NHS and redeveloping the housing on site.

Parkside Housing, their cluster flat model, is based around two- to three-bedroom cluster units where tenants share a kitchen but do not share living space or bathrooms. The units can be developed and let for £90 to £100 per week per bed space. However with rapidly rising prices in London, the construction contracts have been fraught with challenges to control price inflation problems prior to completion and letting.

The main customer for these flats is the NHS, but KHT also provides accommodation for the London Fire Service and Transport for London. The flats are let to single people as temporary accommodation when they come to London. The tenancies are shorthold and rent payments are deducted from salary. The accommodation is tied to a public sector job and the maximum time period allowable is normally 12 months. Paddington Churches and London and Quadrant are providers of similar bed space units to public service employers.

Gwyneth Allen, Business Development Director of KHT, liked the limited-equity co-op model as there is clearly a chronic need for more permanent accommodation. Many nurses move on from the cluster flats to shared private sector rental or purchase housing jointly, but at this second stage, overcrowded accommodation is equally only a short-term solution.

Kate Eldridge of Hackney BC commented that the attitude towards cluster flats varies depending on the profession and she raised concerns about "key-worker ghettoes".

> *"The new housing boards are taking a regional approach and this may help get round the key worker ghettoes. There is a need for key workers to be integrated into the community, rather than clustered. Whereas health workers want to live near the hospitals they work in, teachers don't want to live near the schools where they work and police don't want to live near police stations. Where the fire fighter chooses to live is very much dependent upon their partner's income."*

New Solutions to key worker housing

Mike Youkee, a former Development Director of Ealing Family Housing Association, has developed a powerful approach to providing more substantial and permanent key worker housing. The company he has pioneered, Noah, was founded in December 2002 and is the first Trades Union Housing Company in Britain. The project backers of the venture include the TUC, Unison, the Greater London Authority (GLA), and the Britannia Building Society.

The company is a non-profit company limited by guarantee with four TUC-appointed directors, four public sector employer directors and three directors drawn from the 'great and the good'.

The housing model is a shared ownership system based on very simple rules. Key workers take a 50 per cent shared ownership stake and purchase additional equity units yearly at incremental steps of one per cent up to a maximum stake of 80 per cent. The rental levels are based upon salary levels with 30 per cent net salary payments for those on £20,000 per year ranging up to 45 per cent net for those on incomes of £40,000 per year. These rates are fixed, though, so that, as pay increases year on year, the fixed percentages decline.

To be effective, the system relies on discounts or subsidies, so that nothing is built that costs more than 72.5 per cent of full market value. Britannia Building Society has agreed to provide mortgages to shared owners, and UIA, the insurance partner of Unison, will provide insurance services at specially discounted rates to key workers. The scheme relies upon mortgage protection insurance to be paid by partner employers. Thompsons Solicitors have designed a cost effective conveyancing service.

As Youkee points out, demand for shared ownership massively exceeds supply at present with "40,000 plus applicants for the 1,200 shared ownership units built" yearly across London. Noah was designed on the assumption that property will be developed through Section 106 agreements and not require Housing Corporation subsidy (though they may choose in future to register Noah as an RSL). Charitable status is also being explored, as is the possible idea of mutual status. To limit demutualisation and enfranchisement of the unsold equity, Noah is considering the new Community Interest Company structure proposed on 26 March 2003 by Government for social enterprises (see Glossary).

Sher Khan, a fund manager with Marathon Asset Management (though the project is not linked to this investment company in any way) has developed a second interesting approach. Khan's motivation has been to develop a non-interest-based solution for key workers from the Muslim community. He has been dismayed at the struggle his sister, a teacher in Newham, has had in finding a house she could afford.

Coincidentally, his solution, a Property Unit Trust company called Noah's Ark Ltd, has a similar name to that of Youkee. Based on the Islamic finance principles of *murabahah* (cost plus) and *musharakah* (risk sharing), using institutional funds, Khan believes significant economies can be made.

In practice, the Property Unit Trust buys property and gives a cost mark up of say 10 per cent. The property portfolio is then unitised. For example, a property developed at £100,000 with a £10,000 mark up will be sold at one per cent units of £1,100 (or even lower at £550 each). Through rental payments, tenants thus buy units and acquire homeownership steadily. Higher monthly payments can accelerate house purchase.

In practice the system resembles hire purchase but the main difference is that under hire purchase the final payment conveys ownership, while under the Noah's Ark system, purchase is incremental in a similar way to shared ownership. In this system, both tenants and the ethical investors in the Property Unit Trust are part of a joint venture and thus equitably share both risk and rewards, as the ethical principle of *musharakah* requires.

Khan has discussed his system with a number of banks and has raised venture capital funds to develop the company. For significant economies to be made and rent levels to be brought down, he seeks to lever in institutional property investment funds of £100 million. The system has been designed so tenants can claim housing benefit in circumstances of unemployment.

Noah's Ark will either commission or establish a property management company to provide a professional but low-cost housing management service to the tenants.

Another system under development by Peabody is a form of modular construction being designed by John Prewer, a housing systems engineer with Spaceover. This approach tries to blend two housing needs in London, on the one hand that of key workers and on the other hand that of business visitors to London. The template here is drawn from the huge success of Extended Stay America, the fastest growing hotel firm in the US with an annual average rate of growth of 21.3 per cent. The hotel's 'unique selling point' is based upon a two-room hotel suite system with shared workspace between the rooms.

Prewer has taken this idea and given it a London 'key worker' twist. In Prewer's approach, Peabody collaborates to develop the two-room system with another commercial organisation, but with the partnership yielding one permanent key worker room and one extended stay business visitor room – both sharing a workspace area. With a modular design, each unit could include a kitchenette, bathroom and studio with a sofa bed. Good design can readily halve the typical floor area for these units. The key worker accommodation rental would be only 50 per cent of the cost of the extended stay rental.

Potential sites for limited-equity co-op developments

The outline tenant ownership co-op model based on a CLT was shared with a number of organisations interviewed. Strong interest (as in the South West) was found from both the local authorities and the RSLs consulted. In London, two potential sites emerged from these interviews.

Coin Street Community Builders is a secondary housing co-operative and a community development trust in Southwark. Over the past 20 years it has developed a most impressive mixture of co-operative housing, workspace and amenity space on its 13-acre site on the South Bank. Its award winning redevelopment of the Oxo Tower has attracted international attention. To date, it has developed 221 units of par value co-op housing (see Glossary). Priority for housing has been given to those living in north Southwark, Lambeth and those in low-income employment in central London. Over 60 per cent of the co-op members are in work and Coin Street provides housing for many key workers including nurses, teachers, fire fighters and the staff of Transport for London.

Christine Czechkowski, Coin Street's Director of Housing Service was very attracted by the limited-equity co-op model. She advised that Coin Street is planning four new developments on their site over the next few years. Two of these sites could be for key workers, and include a 30-storey tower development with some 200 units. This is conceived as a mixed development of one- and two-bedroom flats – including par value co-op rental, private sector rental, and cost rental specifically for key workers. Czechkowski pointed out that they hope to put this scheme out to an architectural design competition soon. She could see potential for a limited-equity model to assist with the key worker element.

Further interest in the key worker model came from Peter Elia, chief executive of West Ham and Plaistow New Deal for Communities in Newham. Elia is a chartered surveyor working to develop three Community Resource Centres (CRCs) in Newham. These are mixed developments anchored by Primary Health Care Trust objectives and involving mainstream and non-mainstream public services on site such as a GP surgery with a nursery, a pharmacy, a job centre, and a mental health service.

Elia has secured outline planning permission for the largest of the three CRCs on a site opposite Plaistow tube station. The proposals include a GP practice, a pharmacy, a Youth Service facility, and a community education project with affordable housing above. The planners have required the addition of residential accommodation. The objective of the Community Resource Centre is to secure a lasting community facility for community benefit when the NDC completes its work, so Elia was very attracted to the CLT ideas and to the scope for including key worker housing, which is in very short supply locally, in the residential element of the development.

Elia suggested that it would be worth looking closely at this development once the model is available. In addition, the NDC has an acquisition strategy locally and a building could be acquired specifically for a key worker development. Any plans would need full community consultation but residents were aware of accommodation shortages in the area for key workers, so approval for a mixed development should be achievable so long as the community benefits can be demonstrated.

Interest in the tenant ownership co-operative model came from the New Deal for Communities (NDC) company on the Ocean Estate in Tower Hamlets. Peter Corbishley is a consultant to the NDC Housing Sub-committee. He has also been active in housing co-op activity in Tower Hamlets for the past 20 years and is the current chair of the Bromley Street Housing Co-op in Stepney. This is one of five, fully mutual housing co-operatives in the borough with an asset base of £4 million. Corbishley advised that there is a huge problem of teacher turnover in Tower Hamlets linked to housing costs. Similar problems apply to social workers and NHS staff as well as other key workers. Corbishley was interviewed with Steve Inkpen, Senior Housing Manager with Tower Hamlets Council, currently on secondment to the NDC.

Inkpen explained that Tower Hamlets supports a variety of low-cost homeownership schemes for key workers, from Shared Ownership to Homebuy. The Council also allocates some of its own stock for key workers on the waiting list. In recent years, with rising house prices in the East End, Shared Ownership has become less and less affordable. Two-bedroom flats in the borough, including former council properties, sell for £160,000 and require a minimum income of £40,000.

Augustina Nyamaah, Home Ownership Housing Development Officer with Tower Hamlets BC, observed that lower entry levels of Shared Ownership, beginning at 25 per cent, have been introduced to make Shared Ownership more affordable. RSL developers have also subsidised schemes by paying legal costs and stamp duty as well as partly furnishing properties with white goods. But despite this, Shared Ownership has become too costly for most. In her experience, even with the maximum equity loan, Homebuy is only suitable for the better-off key workers and two-income households.

Corbishley and Nyamaah could both see the potential for a limited-equity co-op model to work in Tower Hamlets. Perhaps this would be a good opportunity to advance a new agenda. As Corbishley put it:

> *"There may be a role for social enterprise here. I would like to see the co-operative ethos advanced and this will involve a big commitment to training and education. New co-ops will need handholding. It's amazing how much you need to know about housing legislation and regulations, Housing Corporation policies, insurance, health and safety and employment law as well as how to manage on a democratic basis. Housing co-ops need professional input. Secondary co-ops could help to organise building and maintenance. Co-ops also need support and advice on how to win arguments with funding agencies and how to conduct rent reviews. It's also important that the co-ops own these secondary co-ops and not just through representation, co-ops must be on it."*

Steve Inkpen found the Community Land Trust element in the co-op model very attractive as a way of maintaining long-term affordability.

> *"Yes it is attractive if it could be made to be more affordable to key workers than Shared Ownership. The proposal under your CLT model to enable entry for the low paid and better paid key workers alike sounds good – especially if it can operate to build up equity at a different rate of appreciation depending on income levels."*

Both Inkpen and Corbishley were keen to follow up on potential development opportunities. Inkpen summed up the challenges in this way:

> *"Defining who are the key workers is core. Availability of suitable sites is a problem. There are not many bid sites in the borough – although there are many opportunities for in-fill developments. Political barriers – councillors appear to have gone about as far as they are prepared to go in terms of developing a policy specifically for key workers, rather than a general policy to promote and support affordable housing schemes."*

Corbishley and Nyamaah felt that in-fill sites would be interesting and in Corbishley's view could work well and "do a great deal to meet both housing need and improve the street environment and community safety".

4.2 Current Approaches in the Rural South West and Interest in a Mutual Model

The South West region is predominately rural with 80 per cent of the land in agricultural use. Just over half the region's population of five million is based in rural local authorities (ODPM, 2003). Moreover, since 1981 the population of the rural authorities has grown by 17 per cent compared to only eight per cent growth for the region's urban authorities.

Earnings in the South West are 10 per cent below the average for Britain (ODPM, 2003). The region has the third lowest unemployment rate and has the fourth fastest growing regional economy nationally. In 2001, according to the ODPM, the new homes built were only 70 per cent of the number needed. In 2002, the average rural house price for the South West of £130,300 was the second highest for any region of England outside London and the South East (ODPM, 2003). The South West suffers from the unfortunate combination of the second highest housing price levels nationally and one of the lowest average income levels nationally.

Contact was made with the Housing Corporation to gather a list of key worker housing providers in areas of the South West ranging across South Gloucestershire, Somerset and West Dorset. From this list, a range of bodies was approached. Three high-cost areas in the South West were selected for gathering key worker interviewees – Stroud, Bath and Bridport. The most interest was gathered in Stroud and Bath and North East Somerset (BANES) and these two areas became focal points for the work. They need separate consideration as each highlights the housing problems on the ground for key workers in similar but contrasting ways.

Bath and North East Somerset
BANES was created following the demise of Avon as a rural district of Bristol. The new local authority includes both Bath City and the rural northeast region of Somerset. House prices in Bath are comparable to many high-cost boroughs in London and there is very little available building land inside city

boundaries. What land is available is typically very steep and hugely expensive to build on.

According to BANES District Council, there are endemic recruitment problems within the local authority because of the rising costs of housing both within Bath itself but also in many surrounding rural areas. According to Jane Shaylor in the District Council Housing Strategy Unit, the problem is "grave" and impedes the recruitment of "social workers, housing officers and administrative staff and many staff can only afford to work in Bath by commuting long distances".

One of Bath's largest employers is the Royal United Hospital with some 3500 staff. According to Stephen Hutt and Peter Eley, Round 1 of the Starter Homes Initiative (SHI) for BANES and other North Somerset areas amounted to a total of only 50 allocated places on the scheme and was totally inadequate. In any case, as an increasing percentage of nurses needing help are from overseas, including from Spain, the Philippines, India and Australia, SHI is of no use to them, as foreign workers have to become permanent residents and this status cannot be applied for until they have gained a minimum of four years of work experience in Britain. To find accommodation, many key workers share private rented housing and compete with university students for the available stock.

On its site, the Royal United Hospital has 284 units of single room accommodation with shared facilities and common areas. This is available for key workers at rents from £250 to £270 per month – inclusive of utility charges. Rental agreements are for six months and can be extended up to two years. Because of the shortage of other affordable accommodation in BANES, some key workers have been in this property up to five or six years and it is hard for the hospital to move them on. The accommodation is of poor quality and the hospital is developing a housing partnership strategy with Somer Community Housing Trust.

Somer Housing Group was created by stock transfer of 9,500 homes from Bath City Council in March 2000. These included 1,600 sheltered housing units. Somer Community Housing Trust is the largest company in the group, which also includes a direct labour organisation for property repairs and maintenance and a subsidiary for the homeless. Somer works with two hospitals in BANES and is currently developing solutions to housing need with the Royal United. The cost and scarcity of land as well as planning permission are huge barriers to development. According to Stephen Holt of the Royal United Hospital, a half-acre site in parts of Bath can command a price of £2 million

Jane Alderman of the Somer Housing Group commented that Shared Ownership is quite limited in Bath and at present "it is hard to make it work when interest rates are low. A combination of rent and mortgage is too high, so it is not an option." With management charges rolled into the rent element, Shared Ownership can work out to be more costly than full homeownership. According to Alderman, Homebuy or similar equity share arrangements are more viable but "need subsidised land" in order to be affordable.

Given the chronic need for key-worker housing, Somer is striving to balance this need from employers with the needs of people on the Council's waiting list for social housing. Somer has various pockets of land including over 4,000 garages – many disused. These particular sites need an innovative approach for redevelopment to help address rising levels of need.

Knightstone Housing Association and Sovereign Housing Association were allocated funding for the Starter Homes Initiative in Rounds 1 and 2, a total of 51 units being allocated to Knightstone in both rounds. Knightstone has 11,000 properties for rent or Shared Ownership and it developed 51 units under the SHI in both funding rounds. Knightstone operates in Bristol, Bath and rural areas of the South West. Sue Creasy of Knightstone commented on their Round 1 experience in trying to help NHS workers in this way:

> *"Despite a slow start, the response from health care workers has picked up. When employers were first approached, nurses at grades D and E were targeted as being those in most need. We understand that other RSLs did not restrict themselves to grades D and E and we quickly realised, following enquiries from other professions within the NHS, that the level of need was greater than originally anticipated. The Health Authorities were consulted and support was given to widen the eligibility to include a much larger group of workers. We are attempting to target resources at those in greatest need, although, inevitably, there will be a process of natural selection because of affordability issues; for example a worker on a low income, such as a porter, may not be able to raise the appropriate level of mortgage."*

Creasey observed that, with the application of strict definitions of key workers under the SHI, they have had large numbers of enquiries from people who fall outside the definition. Sometimes their Shared Ownership programme can help, but house price rises in the past two years have caused increasing problems in terms of affordability in most parts of the South West, from South Gloucestershire to Poole.

Knightstone tries to keep lease assignment costs as low as possible, which it charges at £15 plus VAT and solicitors fees. For staircasing, shared owners pay their own valuation fee and solicitors' costs. Knightstone of course does the same on its own side. Valuation figures are generally only valid for three months and, in a rapidly rising house market, this can be an issue if the transaction is not completed in time. The required new valuation can be higher, resulting in additional costs, but discretion is used to extend the period where delays are not the fault of the shared owner.

Stroud District Council area
Stroud was a former mill town, and housing was relatively affordable there until about three years ago, compared with the expensive rural areas surrounding it in South Gloucestershire and the nearby Cotswolds. The town has a high percentage of self-employed people – particularly in the arts and crafts fields. In the centre of Stroud, the first new-build co-housing development based on Danish sustainable housing ideas has secured planning permission and is currently under development on a steep site in the centre of Stroud. The first units will be completed in mid-2003.

The development of the prominent Co-housing site has sparked interest in Community Land Trust ideas in both Stroud and South Gloucestershire. The local development trust, Stroud Common Wealth Ltd, organised a very successful regional conference on Community Land Trusts and co-housing in October 2002. In

Co-housing – New Community Based Approach

Co-housing as a mutual form of housing development is widespread in Denmark and the Netherlands. In recent years it has slowly begun to develop in Britain. The Housing Corporation has funded work on the legal and financial feasibility of setting up co-housing projects to meet the needs of older women in London (Pickering, et al., 2002). In essence, co-housing is a human scale development of 30 units or so. Each property is a self-contained housing unit but with a shared common house to promote contact between neighbours. The communal aspect of the shared common house works particularly well for older people and for students and potentially also for key workers in some circumstances. For older people it reduces isolation and loneliness and the common house is used for events, for cooking meals together, for sports, keep fit, and just a place to have coffee and a chat. The Housing Corporation research shows how co-housing can be developed around mixed tenure involving full ownership, rental and shared ownership.

The Stroud project has been given good press coverage in the national press for its pioneering work. The initiative was taken forward by a group of local people, inspired by the Danish model, who successfully bid for a plot of land on a steep site near the centre of Stroud. Planning permission was initially refused but following a local campaign it was eventually successful on reapplication. The approach developed is co-operative and all households are both directors and shareholders of the Stroud Co-housing company which leases the land to the members. The development is for 32 households and involves 20 houses, eight flats, four studio units and the common house. Members need to invest £5,000 each as a deposit, and the Co-operative Bank has provided finance on a self-build mortgage basis. Members have worked both with the architects and with the builder to design some features for themselves and to keep the costs down. High ecological standards have been incorporated with assistance of a DTI grant and technical assistance from the Centre for Alternative Technology in Wales. Features include photovoltaic roofs (funded in part by the DTI), triple glazing, very high insulation standards, and a sustainable urban drainage system. Three of the units have been jointly co-funded by the company owners to be affordable in perpetuity for lower income households. The venture has interesting participatory planning and environmental sustainability features of interest to any Community Land Trust.

the year since this event, the affordability problems of housing in Stroud have become more and more acute. Interest in CLTs in the Stroud area has grown as a result and both district and county officers and the local MP are interested in the outcome of this research.

According to Stroud District Council, house prices rose by an average of 47 per cent in 2002 – almost twice the national average rate of increase. As a result, many two and three bedroom properties priced per year ago at £75,000 are now being sold for £120,000. According to Barry Wyatt and Andrew O'Brien of Stroud District Council, this situation has made recruitment very difficult indeed and, knowing they cannot afford housing locally, people from other parts of the country "just don't apply". Against this high level of average house prices, their research for the District Council has highlighted just how low key worker income is in many areas of the rural South West:

> *"We have done our own key worker research. We found that in rural communities, 43 per cent had an income of less than £12,000 per year. Access to properties on any basis on those incomes is a problem, so people just migrate away. But these figures need to be taken cautiously as we had a poor response overall from traditional key workers such as teachers and nurses."*

Stroud DC housing stock includes only one per cent in shared ownership. Year on year, the Right To Buy continues to reduce the affordable housing available in the district. The interview with the District Council officers highlighted both new developments and two potential sites where a new mutual model could be tested. First, Stroud DC is working closely with Gloucestershire Housing Association on an affordable housing strategy in respect to low-income homeownership. Second, there may be development opportunities at the Standish Hospital site in Stonehouse, near Stroud and on land held by Wynstones School and the St Luke's Medical Centre in Stroud. Wyatt and O'Brien also made reference to the recruitment problems of Renishaws – a large employer of considerable importance to the local economy, which has severe problems attracting and retaining staff.

Renishaws plc is a multi-national high-tech firm at Wootton-under-Edge, near Stroud. It specialises in machine tools, laser and calibration equipment, encoder technology, and other electronic engineering products. It employs almost 1,000 staff at its New Mills, head office and at other smaller sites in Gloucestershire. The company chief executive, Sir David McMurty explained that his staff simply cannot find housing they can afford locally – both for manufacturing workers earning from £12,000 to just over £20,000 to those with degrees earning considerably more. Personnel manager Peter Bowles, explained that commuting distances for key staff grow longer each year and "the travel time and recruitment catchment area widens" more and more. Staff spend hours travelling from areas of the country where they can afford to live, such as South Wales to the west and Stoke on Trent to the north. As he explained the crisis:

> *"There is limited housing stock in the area and a limited range of housing. A salary of £25,000 will achieve at most a mortgage of £100,000 and that is not much in relation to house prices. People recruited from the North simply can't afford it. Young graduates can rent, and they often share, but when one of them wants to stop work so they can have children, they can't afford it."*

One new initiative by Stroud DC to try to assist is a developing partnership with Gloucestershire Housing Association (GHA). They cover all of Gloucestershire County but have most of their 2,500 properties in Gloucester City, Stroud and the Forest of Dean. Just over one in four of their properties are low-cost homeownership – mainly different types of shared ownership plus 120 Homebuy units on a 25 per cent equity loan basis.

Julie Stafford, the GHA Shared Ownership manager, explained that Homebuy has been on offer for the past three years and commented "It is popular because it is simpler to understand than Shared Ownership and it is also popular with lenders." For Homebuy, GHA can process an approval in three weeks. At present, Shared Ownership is primarily 'new build' and the association compiles a list once a new development starts. Among all their Shared Ownership units, resale turnover averages about 10 per cent per year and the association charges a 0.25 per cent administration fee for handling these. GHA have had few problems with the full repairing lease.

To make Shared Ownership affordable, Gloucester City Council has provided GHA with land at 35 per cent of market value. With house price escalation in Stroud and elsewhere locally in the past year, the Housing Corporation limits on low-cost homeownership of £98,600 for a three-bedroom property have made the availability of discounted land a pre-requisite. Minimum annual income levels enabling key workers to afford properties are £14,500.

GHA is involved with the Gloucester housing market package for a number of South Gloucestershire authorities. As with GHA's work with Gloucester City Council, the plan is based on the availability of discounted land for the development of new-build Shared Ownership units. Stroud DC is heavily involved with these strategic plans for affordable housing development over the next 10 years.

GHA has resisted tied cottage type developments for key workers because "most people prefer to live in a mixed community". They were successful in a bid for a site in Tewkesbury but the Housing Corporation made the grant conditional under SHI on restriction of the housing to nurses. GHA declined the offer but developed the site anyway with their own and local authority funds, preferring to avoid such restrictive subsidies.

Stafford has been pleased with the popularity of their new-build Shared Ownership package on discounted local authority land. The substantial experience of GHA staff has been gained over several years specialising in low-cost homeownership projects. Stafford commented on some of the secrets of their success.

> *"Shared ownership new-build has always been very popular. We don't have to market it at all and the applicants all qualify easily.*
>
> *The main problem is ensuring the purchaser knows everything they need to know. We interview them and the marketing officers keep in touch throughout the process. We give them information about lenders and, post-completion, about improvements, moving and additional share purchase procedures… A lot of information is involved in the lead-up to the transaction and this is very successful. It means that we do not have the aggravation that other housing associations report."*

Stroud – Potential development sites
The four possible development sites of note in or near Stroud were Standish Hospital in Stonehouse, the St. Luke's medical centre, Wynstones School, and Kolisko Farm.

Standish Hospital is a small rural hospital developed in 1922 with funds donated by the Red Cross of Gloucester for tuberculosis patients and veterans of the First World War. The main building was the former ancestral home of the Fabian socialist, Beatrice Webb. The hospital has faced closure for the past 10 years and the plans are to close the entire site in a phased way between mid-2003 and early 2004. A Save our Standish (SOS) campaign has been striving to prevent closure for many years and to retain the beautiful 15-acre site for health and care services for the region. Most of the existing health services will be transferred to the modern Gloucestershire Royal Hospital over the next twelve months.

The land of the Standish Hospital site has restrictive covenants on it for use for health service purposes. To explore the scope for a mutual housing development for key workers in the health and care services field as a core part of a wider plan for retaining the site for regional health and social services facilities, local Stroud MP David Drew, convened a seminar on 18 December 2002 at the hospital.

Invitations went out to the senior health, social services and economic development managers for both the district and the county council. Geraint Day, an expert on Foundation Trust hospitals, was invited along with David Rodgers of CDS Co-operatives and Jo White from Co-operative Futures, a co-operative development body, part of whose funding comes from the co-operative dividend through which the Oxford, Swindon and Gloucester Co-op gives part of its profits to promote, develop and create other co-operatives. The New Economics Foundation was invited to present ideas on key worker housing solutions and the potential for a Community Land Trust to preserve the site for the benefit of local people in the Stroud District Council area.

Helen Bown from the NHS, with responsibility for care services, explained that there is growing interest in the scope for providing intermediate care services on the Standish Hospital site. There is a major problem of recruitment, training and retention of key workers in the county. There is a growing interest in what creative social enterprise solutions might offer for a high quality provision of intermediate care services to complement existing provision of residential care services.

John McLaughlin, Economic Development Manager for the county, endorsed this view and commented that regionally there was an interest in EU models like the successful Italian Social Co-operatives operating well in the health and social care fields in northern Italy. The County Council has already established links with their Italian counterparts in this field.

Since the seminar, an action group has raised over £100,000 to conduct a full consultation exercise and feasibility study to develop realistic options for this social enterprise approach. Keen interest has been expressed in the Community Land Trust idea presented by New Economics Foundation – particularly in relation to key worker housing for health and social services staff.

Stroud Common Wealth, the local development trust, organised a smaller workshop with several local non-profit organisations to consider the Community Land Trust idea. This event was held on the site of the St. Luke's medical practice in Stroud. This is an NHS general practice, which also has on site a care home, Whittington House, with links to Bromford Carinthia Housing Association. Those attending the workshop included the manager of the GP practice, the care home manager, a manager of Ruskin Mill (a sheltered workshop for young people with challenging behaviour and behavioural problems), teachers from a local school, a local organic farmer developing a community supported agriculture project with the Soil Association and a local architect.

The workshop began with an explanation of the terms of the research by the New Economics Foundation, followed by a presentation on the practical experience of Community Land Trusts in the US and of the ones that are slowly emerging in Britain (i.e. Scotland in particular to date). The St. Luke's medical practice site includes some land that could be redeveloped.

The care service on the site has recently attracted Supporting People funding from Stroud DC. Housing for care staff, health workers and teachers was raised as an issue and the CLT and mutual housing ideas were appealing to Philip Kerwin, manager of the St. Luke's site. At present the site has a staff of three GPs, six health administrators, five part time therapists, and three care service staff. Three more care service staff members are being recruited.

Simon Charter, who is developing the Community Supported Agriculture (CSA) project near Stroud with the Soil Association, was similarly supportive. CSA is a mechanism popular in the US, Canada, and Germany, providing small farmers with working capital for growing vegetables and food. The capital is raised from supporters within the community who agree to purchase their food in advance. They buy CSA shares in the fallow and planting period and are then repaid during the harvest season with boxes of food from the farmer or a group of farmers. In the wake of Foot and Mouth Disease, which hit the rural South West badly, the Soil Association is running CSA pilots and Kolisko Farm is one of its national initiatives.

The farmland is owned by Wynstones School, a Rudolf Steiner school and charitable trust. The farm needs housing for two to four farm workers. Teachers at the school earn less than comparable public sector teachers (i.e. £11,500 to £17,500 annually) and the school is linked to Ruskin Mill, which provides a sheltered workshop and craft centre funded by Social Services for emotionally disturbed young people from Gloucestershire. The farm also has a training and education service that could be developed further.

Martin Stott, a teacher at the school, explained that the teaching staff are getting older and recruiting replacements is becoming more and more difficult because of rising rents and housing costs locally. The school's land is under-used and existing housing is poor quality, consisting of bungalows in very poor condition that use too much land. Andrew Beard, a local architect, is helping with plans for redevelopment of the site. Martin and Andrew felt that a Community Land Trust approach could potentially do three things:

1) Provide affordable housing for teachers at the school and for care workers and trainers at Ruskin Mill;

2) Provide affordable housing also for agricultural workers at Kolisko Farm; and

3) Be a vehicle for acquiring more agricultural land for organic farming and CSA developments in the Stroud area.

Discussions on how to develop affordable housing for the needs of teachers and farm workers are ongoing with both Stroud DC and Gloucestershire Housing Association. The current plan developed by Beard is for 25 units of housing on the Wynstones School site. Of this number 12 would be sold on the open market and 13 maintained for affordable housing. Of these latter units, seven would be rented to teachers and six would be shared ownership units for longer-term accommodation. Additional discussions are underway with the Charity Commission. These units would greatly relieve the chronic housing issue for teachers at the school. Additional housing is needed to help meet the needs of agricultural workers for the farm.

The workshop thus identified two sites for potential application of a mutual housing model involving a Community Land Trust. Another old mill at Thrupp, which is owned by the County Council, had potential for both affordable housing and workspace and Stroud Common Wealth was exploring this with local planners as a potential CLT pilot.

Other areas of the rural South West
Two rural housing associations were interviewed for their views on the model and how they thought it might compare to Shared Ownership and Homebuy. The two RSLs were the South West Foundation and Hastoe Housing Association.

South West Foundation was founded in recent years with funding from Right To Buy capital sales receipts realised by the South West Co-operative Society. This is an RSL whose history involved a partnership between the Elmhurst family and Dartington Trust in Devon, which received funding from the Co-operative Wholesale Society to co-develop affordable rural housing. Today, the RSL and South West Foundation, a charitable trust, operate in partnership on rural housing and rural community project needs.

The RSL has 400 units of housing – including 50 in shared ownership. The balance sheet is very strong with £12 million in assets, no debt liability at all and £5 million in cash invested – the income from the latter funds the work of the charitable foundation. Areas in which it provides rural housing are spread across the South West from Shepton Mallet to Caan in Wiltshire and to high-cost areas of Devon, such as Totnes, where property prices have increased by 100 per cent in some parts of the town over the past 18 months.

Jane Emanuel, Chief Executive of the South West Foundation, commented that, in the current environment of low interest rates, Shared Ownership does not operate to provide a path into homeownership and is very burdensome. Thus she failed to see the advantage – particularly with a full repairing liability – of, say, 60 to 80 per cent equity stakes.

> *"Objectively, Shared Ownership does not work. It is ok when interest rates are high, but when they are low, payments are not much less than outright purchase. One advantage is that people may be eligible for Shared Ownership when they wouldn't be given a big enough mortgage for outright purchase, but shared owners are 100 per cent responsible for repairs, which I think is onerous."*

The South West Foundation is not currently developing new housing but is considering providing it in the future. Jane Emanuel expressed interest in a lower-cost model than Shared Ownership for key workers but also felt that, with current house price rises set against very low rural wages in the South West, there "really is a need for people to get out of the ownership psychology". Otherwise she said that we may soon move into a Japanese style approach where, to be affordable, the term of mortgages will have to be extended to an entire lifetime.

Hastoe Housing Association has a track record in the South West of developing schemes of mixed shared ownership and rented units to meet affordable housing needs in villages. Schemes typically consist of six houses, with up to three of the units are sold on shared ownership leases. Whilst in recent years Hastoe has concentrated more on building houses for rent, it is now developing more shared ownership schemes because it has recognised a significant need among the middle-income group earning too much to access subsidised rented housing, but currently priced out of the market for full home ownership. The RSL's recent bid for funding for a development of 25 units of key worker housing in Dorchester was unsuccessful, as funding support in the region was targeted solely at major areas of regeneration like Bristol, Bath and Swindon.

Shirley Evans-Jones, regional manager of Hastoe's South West office, commented that one problem with shared ownership lies in restricting the cost at a time of rapidly rising house prices. Whereas in the past, RSLs sold shared ownership with reference to the cost of construction, they are currently encouraged to discount on the basis of open market valuations. This ensures that the subsidy is not restricted to first sale only.

> *"We have to sell at open market value rather than cost, and vary the percentage of equity we sell according to what we perceive as affordable, bearing in mind that it also has to be financially viable for us. This at least avoids the situation that recently arose in one area locally, where two subsidised houses were sold below market value and then sold on within weeks at a large profit for the initial purchaser."*

Evans-Jones is also concerned about some of the hidden costs of shared ownership like Stamp Duty. Stamp Duty is currently payable on any property costing more than £60,000, even if the share to be purchased comes to less than that amount. For some prospective purchasers it is "the straw the breaks the camel's back" and prevents them taking on a property. She thought it unjust that a purchaser should have to pay Stamp Duty on the whole of a property when only purchasing, say, a £50,000 equity stake.

Evans-Jones felt that the limited-equity co-op model could be helpful if it could succeed in driving down the costs of purchase, but also commented that keeping the management costs low would be a challenge.

Hastoe has recently set up the Rural Housing Resource Unit, which includes in its membership staff from the Housing Corporation and the Countryside Agency. The purpose of this initiative is to formulate ambitious strategies for tackling the shortfall in provision of affordable housing in rural areas across the country. (Research has shown that there is an annual need for 10,000 new affordable housing units in rural areas, but even with the recent boost in public funding the provision is only likely to reach around 3,500 per annum.) Evans-Jones was particularly interested in how a Village Property Trust could provide a mechanism for securing permanent affordability solutions – not just for housing but for workspace also.

> *"We are currently reviewing our shared ownership model. We are also looking at the feasibility of RSLs acting as developers of mixed use village schemes, which could include houses for rent, shared ownership, self build and outright sale, but could also include business, workshop and community facilities. A Village Trust could be created to own the land."*

Evans-Jones could see "an overlap in terms of objectives" with respect to the Community Land Trust approach to a limited co-operative model and was "keen to see that ideas are pooled".

5. Fieldwork Interviews with Key Workers and Development Partners

Our initial approach was to ask housing development partners to identify key workers willing to be interviewed and to help with the research. A number of RSLs agreed to forward a letter to applicants for their Shared Ownership or Homebuy schemes, explaining the nature of the project and inviting them to be interviewed.

We asked employers of key workers in the health and public transport sectors to circulate information to their employees. As the project developed, other development partners emerged, such as several local authorities, whose assistance was also sought. In most cases, an interview fee of £10 was offered.

This initial approach met with some success; however, while development partners invariably wanted to help, some were clearly too busy to follow through. This was a disappointment, but key workers were themselves helpful, and a word of mouth approach enabled the full number of interviews eventually to be completed.

Sixty-one in-depth interviews were conducted with workers in the health, education, social services, housing, and transport sectors. Of those interviewed, about 10 per cent were in part-time work, the remainder being in full-time employment. The diagrams shown as 5.1 and 5.2 below show the spread of occupations in the South West and London respectively.

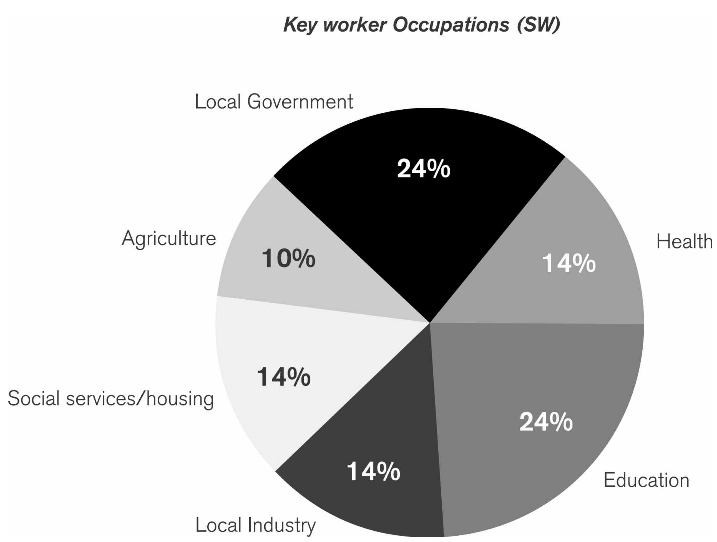
Sixty per cent of those interviewed were women. Over 90 per cent were British citizens. While the age range was from 21 to 61, most interviewees were young and in their twenties and thirties (72 per cent).

Of interviewees in both regions, 87 per cent were white European, and 13 per cent were members of ethnic minorities. However, all of those interviewed in the South West were white European. In London, 20 per cent of interviewees were members of ethnic minorities and 80 per cent were white European.

Teacher in Stroud

I have my graduate loan to pay, I need a car to get to work, and my rent is high. I take home £830 per month. I can't tell you how many houses I've lived in, I don't even unpack my boxes anymore. I teach in a Waldorf school, so my salary is very low and I am not eligible for schemes like the Starter Home Initiative. I have joined the school as a Class I teacher, so I am committed to staying as class teacher until the children finish Class 8. But even if I worked in the state sector I wouldn't be able to afford a house locally. I live with two other women. Leases are always for six months and then we often have to move on. Sometimes I then have to hunt for new housemates. I wish there were some kind of adaptable space for people's needs as their lives change, as they have children, grow old.

Figure 5.1



5.1 Interviews in the South West – Main Findings

Household size
Over half of those interviewed were members of families with children, one-third were single people, and 14 per cent were couples with no children. Of those with children, the average number of children was two.

Tenure pattern
About half (52 per cent) of those interviewed were living in houses, and half (48 per cent) in flats or a room in their parents' house or a hostel. Only two interviewees in the South West were living in public sector accommodation. Of those who were renting privately, most were doing so on the basis of six-month assured shortholds.

Affordable rent assessment
No one was receiving any help with their housing costs in the form of benefits (one was about to apply for Housing Benefit). Many also expressed anxiety at the high level of their rent and the fact that it seemed to represent "money down the drain". Forty per cent were paying over £400 per month. Low rents usually arose where interviewees were still living with their parents.

A comparison of maximum rents that interviewees felt they could afford with their net monthly household income shows the pattern shown in Table 5.1:

Table 5.1 Maximum affordable rent relative to net monthly income

Net monthly income (£)	Maximum Affordable monthly rent (£)
1,300	350
1,000	285
1,040	400
1,100	400
830	250
1,100	400
1,000	400
800	200
1,000	250
1,290	500
1,345	450
2,100	600
1,400	400
840	300
Averages	
1,153	**370**

The average result is an assessment of maximum affordable rent to be 32 per cent of net household income.

Level of savings
Over half of those interviewed had no savings at all, and only about one quarter had over £2,500. The highest level of savings held by interviewees in rented accommodation was £10,000; one other had £7,000. The first had been living with her parents for many years, paying token rent and saving steadily. The second had received the savings from the proceeds of the sale of her former matrimonial home on divorce. Of the two interviewees who said that they were saving on a regular basis to buy their own home, one was the example just given with savings of £10,000, and the other gave a figure of £150 per month, but had total savings of only £750. In this case, current monthly rent was relatively low at £245, and the net monthly income was £1,100.

Debt repayment problems
Thirty-eight per cent of those interviewed had no regular debt repayments at all, but 24 per cent were making monthly payments of between £150 and £300, and 14 per cent had payments of over £300. Most frequently, payments related to or included car payments, but younger interviewees also referred to student or career development loans, or credit card and overdraft debts incurred while studying, as a significant outgoing.

Student Debt Problems

My partner and I are both pharmacists; I work part-time and he is training as a therapist. I was fortunate that, when I was a student, fees had not yet been introduced, and I also had a small grant. It wasn't enough to live on, though. I was always very careful with money and I kept my debts reasonably low. The student loans are not enough to live on, so I had to rely on overdrafts and credit cards as well. I owe almost £5,000. The student loans can wait until my income increases, but instalments for the other debts have to be paid now.

Present accommodation type
A significant number of interviewees found that their existing accommodation was inadequate; a particular concern was the lack of security of tenure. Most had six-month tenancy agreements, and several were interested by the invitation to attend an interview because, for various reasons, they were likely to have to move on in the near future. By far the greatest consensus, however, related to the cost of housing and most interviewees readily and forcefully agreed with the proposition that the cost of housing was a major problem.

Agricultural Labourer in West Dorset

My husband is a herdsman and I work full-time in an estate agency in Bridport. My salary is £9,000 per year, and my husband earns £21,000. We were living in a tied cottage, but we now have a one-year lease on the adjacent property. I have to drive to Bridport to work; my husband wants to change jobs, although not his occupation. We want to live in Bridport, where the children go to school; otherwise we will have to have two cars so that we can both get to work. We applied for a Homebuy scheme purchase, but the maximum it would allow was £123,400 and the minimum price we could find for a three-bedroom house (we have a teenage boy and a girl) cost £130,000. I thought that we were on good money now and we could afford to buy, so we were very disappointed. We have always lived in the area and want to stay. I worry about our children's future. Where will they live when they get married? And we don't have much of a pension. A house offers more security. I'm not envisaging an early retirement.

Transport and commuting time
All but two interviewees in the South West owned a car. The great majority (over 80 per cent) drove, only five per cent used public transport and 14 per cent walked or cycled. A considerable number (38 per cent) spent between one and $2^1/_2$ hours-a-day travelling to work. Two interviewees said that they spent more that $2^1/_2$ hours-a-day commuting.

The impact of travel costs on household budgets varied widely. While almost half spent less than £50 per month, 14 per cent spent over £150 per month and one interviewee gave a figure of £330.

Stress of Commuting

I work in Stroud for the District Council; my salary is quite good. I live in Newport, in South Wales, and I commute every day. I am married and I have two young children. My wife is a teacher. We did consider moving to Stroud at one point, because I have to commute for three hours a day and I spend £4,000 per year on travel. But when we saw what kind of house we could buy in Stroud, as opposed to Newport, there was no contest. We have bought a nice house and we now intend to stay in Newport. I won't stay in my job in the long term, because of the commuting; I'll have to find something in a local authority in South Wales.

Home ownership aspirations
Only one in 10 of those interviewed said that they would not wish to own their own home. This finding is consistent with the national home aspiration survey results of the ODPM. One of those interviewees not aspiring to own property thought that she "probably now didn't have a choice" because of the need for future security and the high levels of rent. Some interviewees had concluded, however, that the aspiration to outright home ownership was unrealistic. All interviewees thought that ownership of an equity stake would be attractive.

Right To Buy Assistance

I was lucky, I took over my mother's council tenancy and I was able to exercise the Right To Buy. I always wanted my own home. I am separated from my husband now and I have moved house, but that was how I got onto the housing ladder. The most important thing for me is to be able to leave something to my children. They are now teenagers. Where will they live when they grow up and get married?

Ninety per cent of interviewees in the South West responded positively to the limited-equity idea proposed; the remaining 10 per cent expressed some uncertainty and a desire to know more. None of those asked ruled the idea out.

Only one in four of those interviewed in the South West had considered any other low-cost home ownership schemes.

When asked how long they would envisage staying in the scheme, some interviewees felt that there were too many imponderables to give a meaningful answer. However, none felt that they would only want to stay there on a short-term basis; on the other hand, almost two in three felt that, if everything worked out well, they would like to remain there long-term.

Attitudes to co-operative management
Two interviewees expressed concern about the scheme being taken over by 'difficult' people or reservations about the practical purpose and outcome of such involvement. The remainder however, took a positive view of having a say in decision-making and of building up a feeling of community and felt that it would interest or reassure them. One young interviewee (24) commented that involvement in the process might make him feel that he would want to stay on a permanent basis because of the sense of community that might develop.

Overall, while the interviews showed clearly that almost everyone we spoke to in the South West felt that home ownership was their aspiration and important for their sense of financial security, most interviewees' overriding priority was given as somewhere secure, affordable and pleasant to live, where they would feel at home. Another factor mentioned by several interviewees was that they would like the freedom to alter their accommodation to suit their own taste and requirements. But as one interviewee put it, "It is a roof over my head I am looking for, not an investment." Several were keen to be kept informed and to be considered for any pilot.

5.2
Interviews in London – Main Findings

Household size

The family composition of key workers interviewed in London was very different from that in the South West. Sixty-nine per cent of interviewees were single, living either with their parents, sharing accommodation with other adults, or living alone. Only 18 per cent were living as a family (both couples and lone parents with children) and only 13 per cent were living as childless couples (sometimes also sharing with other adults).

Nurse – Starter Home Initiative Unaffordable

I am a nurse and I have worked in the Health Service in London for 12 years. I intend to stay working in the NHS forever. But the most I could expect to earn in my present job is £26,500 (including London Weighting). I used to live in nursing accommodation next to where I worked. It wasn't very private and the standard of accommodation was poor. I now live in private rented accommodation, sharing with others. My rent is £450 per month and I spend £105 on other housing costs. In addition I pay £180 for a car loan and I use my car to drive to work. My monthly housing costs are roughly half of my take home pay. I would love to have my own place, but I simply can't afford it. I have looked at all the other schemes and have registered for Shared Ownership and have been accepted for a Starter Home Initiative key-worker loan, but I can't use this, because even with my savings of £4,300 I do not have enough for a deposit on a flat. I don't think any of these schemes are helpful. I would be very interested in any scheme that could help me have a home at a price I could afford and would like to know more about the key-worker co-operative.

Tenure pattern

The picture in terms of housing tenure is also quite different. In London, 47 per cent were renting in the private sector, and 35 per cent were living in local authority or registered social landlord accommodation.

Teaching Assistant – Hostel and Temporary Accommodation

I am 25 years old and a teaching assistant. My take home pay is £650 per month. I was living in a hostel for the unemployed, but I had to move out, because I was assaulted and had my credit card and possessions stolen by other housemates. I was paying £62.28 per week, because I was working, but if I had stayed unemployed the weekly rent was £188, because of the Housing Benefit system. I am presently staying with my girlfriend on a temporary basis and hoping that a council property will materialise. Haringey has nominated me for re-housing, but I was born, bred and work in Islington. I would like to live near to the school, but Islington has no vacancies. Being a member of a key worker co-operative appeals to me, because I believe it is a fairer way of providing housing.

Affordable rent assessment
Twenty-five per cent of those interviewed were receiving some form of subsidy for their housing costs in the form of Housing Benefit or reduced Council Tax. The range of rents paid was wide; while 44 per cent were paying under £250 per month, 23 per cent were paying over £400, and five of those were paying over £500.

Housing Managers – Two Kids and Overcrowded Accommodation

I work as a housing officer in Brent. I live with my husband and our two children. We have a housing association flat and we are fair rent tenants, which means our rent is capped at £330 per month. We have lived there for six years. However, I really don't like the flat, it's far too small, it's in poor condition and not really suited to my family's needs, but as a fair rent flat I would find it very difficult to afford to move. I would be very interested in key-worker co-operative. We have saved over £15,000 for a deposit, but the more we save, the faster house prices go up.

A comparison of the maximum monthly rents that interviewees felt they could afford with their net monthly household income shows the pattern in Table 5.2.

In London, interviewees accordingly felt on average that they could afford to spend about 31 per cent of their net household income on rent.

Level of savings
Over half of interviewees in London had no savings at all; on the other hand, of the 35 per cent with more than £2,500 in savings, two had between £6,000 and £7,000, one had £10,000, and one had £15,000. Only 43 per cent said that they were saving to buy their own home, and only 18 per cent were saving a regular monthly amount, ranging from £30 to £500.

Debt repayment problems
Almost one-third of those interviewed in London had no regular expenditure on servicing debts, but, at the other extreme, 15 per cent were making payments in excess of £300 per month. Of those, two were paying £500 a month, three were paying £600 a month, and one was paying £870 a month. As in the South West, student loan payments of about £100-150 per month and car loans figured prominently.

Housing Worker – Can't Move from Family Home

I'm a Housing Support officer, taking home £1,150 a month. Although I'm 23 I still live with my parents, and I can't imagine being able to move out. Helping with household expenses and paying off debts takes almost all my wages. Prices for everything in London are so high it's impossible to save – I'd love to start a family but I'll never be able to afford children.

Table 5.2 Maximum affordable rent relative to net monthly income

Net monthly income (£)	Maximum Affordable monthly rent (£)
1,160	400
1,485	600
2,800	480
2,000	400
1,430	120
1,480	400
1,200	500
960	500
2,500	500
1,100	500
2,900	600
1,125	500
1,150	650
1,400	250
1,400	100
1,000	600
1,000	500
1,750	200
1,350	400
1,800	750
1,200	500
1,200	500
1,200	675
1,200	250
700	400
1,500	500
1,300	200
1,125	600
1,500	600
650	280
1,800	500
2,500	600
Averages	
1,480	**455**

Present accommodation restrictions
One in four (26 per cent) of those interviewed were living in a bedsit or hostel. Just under one in two (41 per cent) were sharing accommodation with other adults (not partners).

A major concern expressed by London interviewees was lack of space (45 per cent), but, as in the South West, a substantial majority of interviewees felt that the cost of housing was a major problem (69 per cent).

Foreign Key Worker – London Costs v. Australian Alternative

I am 44 years old and I came from Australia a few months ago to work as a housing officer. I have three children who I would like to join me. In Australia I lived in a Strata Management scheme. This is a low-cost ownership system and includes access to communally owned swimming pool and other facilities. I was shocked when I discovered the cost of housing in London. I now share a room with my partner in a house with five other people. Our rent is £480 per month. I am presently looking for a home to rent in St Albans, so my children can be with me. I like the idea of a key-worker co-op, because I like the idea of having privacy, my own bathroom, but don't mind sharing other facilities with others.

Transport and commuting time
Half of those interviewed owned a car or motorbike. One-third lived within walking or cycling distance of work, and 41 per cent used public transport. Travel times, however remained high, with 59 per cent spending between one and 2½ hours each day commuting.

The cost of commuting to work reflects the relatively large number of people able to walk or cycle, and only less than one in 10 said that they spend over £150 per month on travel to work. As in the South West, about half spent under £50 per month.

Neighbourhood Regeneration Worker – Commuting from the Essex Coast

I am Neighbourhood Warden Co-ordinator responsible for community safety on housing estates in North West London. I live on the Essex Coast, 55 miles away – a daily journey of at least one and a half hours each way. I didn't want to live out in Essex, but this was all I could find. I am living with friends, because right now I can't afford to live in London. I would like to own my own home, but I would be very worried about getting into debt. I like the idea of owning a stake in a co-op that I could use for a deposit, if I wanted to move on. I wouldn't want to stay in London forever.

Home ownership aspirations
As in the South West, the aspiration to home ownership was almost universal among those interviewed; only five per cent said that they did not want to own their own home. Ninety per cent thought that ownership of their home was important to their future financial security and 92 per cent thought that ownership of a stake would be attractive if it was a more affordable option.

Only one interviewee did not like the idea of the limited-equity model; two others were unable to say whether it would be attractive. The vast majority therefore felt that it would be an option well worth considering and all said that they would like to be able to increase their stake as their circumstances improved.

Forty-eight per cent of interviewees had considered other shared ownership schemes. Some commented that they were too restrictive; others had found them too expensive.

Twenty-seven per cent of those asked did not agree that an equity stake equivalent to outright ownership in a lower cost area of the country was relevant to them – usually the reason given was because they did not want to leave London.

Attitudes to co-operative management
Only one interviewee said that he would not be willing to invest some of his time on a regular basis in governance of the co-operative. Fifty-one per cent said that they would be reassured by the ability to participate.

5.3 Summary of Findings from Key Worker Perspectives

The cost of housing was a preoccupation of virtually all those we interviewed. Even for those who were not facing high accommodation costs at the time of the interview, most expected to be affected by such rising costs in the future. Many were able to afford their rents because they were sharing, but felt that they were in a temporary situation with no clear way of moving on, except by moving away.

While five people sharing a house can afford market rents, a couple with children reliant on two or less incomes cannot. It was apparent that interviewees were generally unnerved by the escalation in house prices in recent months, and many were pessimistic that they would ever be in a position to own their own home.

Some interviewees volunteered that they did not see how they would ever be able to afford to start a family. Older interviewees expressed concern about the future for their children in terms of where they would live and, again, whether they would ever be able to afford to marry and have children.

While some key workers interviewed were intent on leaving their jobs, most were committed to remaining in their occupations for the foreseeable future or "for life". Those living in London mostly wanted to stay there; similarly, while almost half of those living in the South West said that they did not positively feel part of a community, nevertheless more than four in five liked where they lived and wanted to stay.

The concept of 'key worker' was almost universally viewed negatively; people felt that it was divisive and those who might not qualify as being a key worker felt under-valued and resentful.

Overall, the response to the idea of a limited-equity co-operative was very positive indeed and some interviewees were keen to know whether and when a development might be ready in their area. Many asked if they could have further information and be kept informed of progress. Without doubt, a promotional leaflet circulated to interviewees would be read with interest.

5.4 Shared-equity Co-operative Model – Focus Group Feedback

All interviewees were asked, in the course of their interview, whether they would be prepared to take part in a focus group session to provide feedback on the proposed housing model. Most interviewees indicated that they would.

Two focus group sessions were arranged with interviewees, one in London and one in Stroud. The London session was held at the offices of London Rebuilding Society on 18 March 2003; the focus group in Stroud met at Standish hospital on 19 March 2003. Both sessions took place in the evening.

The London focus group

Six key workers attended the meeting. There was an informal discussion over sandwiches at the outset, and a number of interesting points emerged about the participants' current housing problems. In particular:

a) One nurse explained the problems he is currently facing in commuting from South Ealing to Walthamstow. As a result of closure of the Central Line, he said he was spending 1½ hours commuting each way.

b) The same nurse said that he had been offered an interest-free loan of £30,000 towards the purchase of accommodation, provided that he found somewhere suitable and completed within three months. He felt that this was impossible and was unable to take up the offer.

c) An education welfare officer said that she had been gazumped three times. She had been house hunting for five years and the furniture she had bought anticipating completion on one of her abortive purchases was in storage in her parents' cellar.

d) The same welfare officer said that she had been offered a mortgage of £86,000 by a building society on the basis of her salary, but this was far from sufficient to buy a flat. She had recently looked at a flat on the third floor of a tower block, formerly local authority accommodation; it was in poor condition (she described it as a "dump") and it was being offered at £130,000 on a take it or leave it basis.

There was an introductory presentation of the general aims and objectives of the research and of the findings from the London interviews. The proposed model was then presented and there was discussion of each slide in turn.

There was general consensus on the following points:

a) All participants felt that the idea that those on higher incomes would pay more and build up equity more rapidly was understandable and acceptable.

b) All felt that deductions from salary would be acceptable in principle, but one participant pointed out that his employer was holding onto union dues deducted from pay and paying them over six months late.

c) All agreed that the suggested levels of management and insurance costs seemed reasonable and realistic.

d) All viewed participation in management as positive and reassuring.

e) All agreed that a deposit of five per cent would be acceptable, but all were highly sceptical that their employers could be prevailed upon to contribute to it.

f) All said that they would consider a related savings scheme, but that it would depend on their circumstances at the time and what they could afford.

g) There was general discussion about what level of equity stake would be acceptable and general agreement that this would depend on how long they intended to stay and what would be needed for a down payment on accommodation in the open market. One was worried that they could face a huge mortgage when they moved later on, with less working life to pay it off.

h) All liked the idea of a regular statement showing how much they had paid and the value of their stake.

i) There was general agreement that a scheme like this would encourage them to stay in their job and in London.

j) One participant wondered whether agency nurses and teachers would qualify and all were reassured that they would not be forced to leave the scheme if they ceased to be a key worker for any reason.

In conclusion, all participants expressed enthusiasm for the proposed scheme and indicated that they would actively consider it if it were available.

The Stroud focus group

Because interviewees in the South West were more scattered and fewer in number, the pool of potential participants for the focus group was smaller; in the event, six invitees confirmed that they would attend but, unfortunately, only three did so. Nevertheless, there was an interesting discussion and a number of relevant points and observations emerged. Two attendees worked at the hospital itself, a third was a teacher at Wynstones Rudolf Steiner School.

The format was broadly the same as for the London focus group. There was a general introduction, followed by a presentation of the fieldwork findings and then the same slides setting out the model.

The participants made the following comments:

a) The assumptions as to salaries were too high; all three were paid considerably less and they all felt that such salaries were not typical locally for people who were in need of long-term housing solutions.

b) It was agreed that house prices locally varied enormously according to area, but it would be difficult to find a one-bedroom house in Stroud for under £95,000 or a two-bedroom house for less than £110,000. Two to three-bedroom former council houses outside Stroud were selling at between £150,000 and £200,000, and they are in fact very good houses.

c) The cost of using agency staff in the hospital was considerable and a serious problem, but agency nurses were paid much more that the permanent staff.

d) There was agreement that it would be acceptable if those on higher salaries paid more in return for a higher equity stake which would accumulate more rapidly.

e) All felt that involvement in the management of the scheme would be a positive feature. One commented that it would be "lovely to cut through all that red tape" involved in dealing with a landlord over repairs and other issues.

f) There was no objection to deduction of payments direct from salaries.

g) All felt that the ability to carry out improvements and alterations would be an advantage.

h) Proposed levels of payment for maintenance and insurance were considered reasonable.

i) One person commented that a large scheme would alienate local people, but that a development of 30 to 40 dwellings would be acceptable.

j) All were very keen on a development on the Standish Hospital site and the hospital staff said that there was general and considerable concern among their colleagues, many of whom had worked there for many years, about what would happen to the site and that it should remain in health-related use.

k One person was reassured that it would not be possible for other members of the co-operative to buy her out and that she would have security of tenure.

l) One participant commented that the scheme was more realistic than outright home ownership for those on low pay. She said that she had been paying rent for 17 years and "didn't own so much as a door knob", so any percentage stake would be a positive development.

m) All liked the idea of regular statements showing payments made and the value of their equity stake.

n) None felt that their income was sufficient for them to participate in savings schemes and none had any significant existing savings. Again, there was considerable scepticism for the idea that their employers might contribute to a deposit on their behalf.

As in London, all participants showed considerable enthusiasm for the proposed scheme. All felt that they would consider it if it were available and that the idea of a housing co-operative providing a stake in equity and a role in management was attractive and workable in practical terms.

6. Creating Pilots and the Shared-equity Co-operative Housing Model in Detail

The study has postulated housing in three locations: Newham as a lower price part of London, Milton Keynes as a cheaper area within range of London, and Stroud as fairly typical of much of the South West. These have been selected as representing areas where affordability is an issue to be tackled rather than those areas of inner London where it is at its most severe.

Within these areas, prices vary significantly by property type and area so that there are no generally accepted figures for prices by size and type in a particular location. The Proviser website produces figures at a local authority level but not split between new homes and older homes, or by size, or by any more precise location. The Nationwide website is more general, providing an average and an index for each region. An exact assessment of house prices in each area is beyond the scope of this study. (Appendix 5, Annex 2 shows house price levels recorded by Nationwide and Proviser for each location and the costs of housing provision that have been used in the model are based on these figures).

Appendix 5, Annex 3 shows the estimated construction costs assumed for the three areas. Again, these are not based on substantial evidence but are intended to be of the right order to illustrate the model. The land component of the value has then been calculated by deducting build costs from property values: in broad terms, land for a two-bedroom home should cost around 50 per cent more than land for a one-bedroom home. Again, the study is not aiming for an exact calculation but the conclusions do depend on these figures being broadly representative of the situation in some part of each local authority area.

Government and Housing Corporation requirements are that key worker homes be constructed using techniques which take on board the Egan agenda, using on-site or off-site prefabrication as a way of keeping costs down and making costs easier to forecast, achieving good environmental standards and providing homes that are economic to maintain. Carefully specified timber-frame construction has environmental benefits in terms of the materials used and the standards of insulation of the finished housing. The EcoHomes designation should also be used: the good standard is readily achievable if the necessary prior investigative, specification and design work is carried out. Some common approaches to key worker housing design incorporating local and regional design components could help to keep costs down and standards high.

As an aside, Newham includes some large housing sites and can be seen as part of the Thames Gateway where large numbers of new homes are planned. There is a great opportunity here for the use of the shared-equity co-operative model, not just in helping to achieve affordability in the present, but locking it in for the future as well.

6.1 Legal Structure Requirements

The historic review in Section 3 identified both the Glenkerry House co-operative Shared Ownership model and the Swedish Tenant Ownership Co-operative as the two most relevant limited-equity models from which to draw critical lessons. Such models could be updated and work sustainably, to volume and to scale, providing subsidy can be locked in for several generations, underpinned by a Community Land Trust. Thus the model proposed includes the following legal features (see Diagram 3.1):

a) The Community Land Trust owns the freehold and the spare equity.

b) A co-operative society takes a lease on the land, builds the dwellings and borrows the finance needed to meet both build costs and any residual land costs (or may receive some subsidy from the CLT in return for equity in the buildings where subsidy exceeds land cost).

c) Lower cost finance can be secured via the collective mortgage and the use of the guarantee mechanism provided to any housing co-op approved by the Co-operative Housing Finance Society Ltd.

d) The lender takes a charge over the equity held by the CLT to provide additional security but only in the event of default.

e) Individual occupiers are members of the co-operative and pay rents, which collectively cover the mortgage payments. When they leave, they may take with them an equity stake equal to their share of the loan repayments made from their rental payments plus their share of capital appreciation based on the fixed resale formula.

f) Individuals are also, as members of the co-operative, responsible for its management and the management and maintenance of the buildings.

In addressing the legal requirements for the scheme, the focus has been on achieving the core objectives of providing affordable housing, protecting the public subsidy involved from enfranchisement and becoming a source of private enrichment, and simultaneously enabling residents to participate in the equity growth generated by their own contributions.

The scheme is based on innovative principles and detailed consideration had therefore to be given to its operation within existing statutory provisions, in particular in relation to welfare benefits (notably Housing Benefits and Income Support) and tax (Stamp Duty, Capital Gains Tax and Income Tax). Discussion of these issues and the solutions proposed can be found in Appendix 3 below.

6.2 Investment Finance Requirements

The current base rate at the time of writing is 3.75 per cent. Variable rate lending is available to RSLs from various institutions at 65-85 points over base, in other words, around 4.5 per cent. The aim will be to enable the co-operative to borrow at similar rates so that the benefit of collective lending can be passed on to the occupiers.

Conventional RSL mortgage finance involves payments that are unchanged by inflation (but which change when base interest rates change) over the period of the loan, often 25 years. Rents, on the other hand, rise with inflation while maintenance costs rise with property costs, or possibly above inflation because of wage increases reflecting growth as well as inflation. Under the conventional model, rents generate a surplus over time, which, in a rental model, can be set aside for cyclical maintenance and renewal or simply used for further schemes.

To keep costs to a minimum and deliver affordability from the outset, the most suitable mortgage profile is provided by index-linked finance, which balances rental income and loan repayments throughout the loan period. Index-linked finance has not been on offer recently, nor have RSLs shown interest in raising it, but Nationwide Building Society did make such finance available in the 1980s.

Real interest rates are the difference between inflation and actual interest rates: index-linked loans operate on the basis of charging the real rate but increasing the mortgage payment and the outstanding debt each year in line with the Retail Price Index. If rents rise by RPI + 0.5 per cent, surpluses will still be generated.

The longer the period of the loan, the more affordable the starting position will be, as Table 6.1below shows. However, finance for more than 30 years is not readily available.

Index-linked finance differs from conventional finance in allowing the debt to rise in the early years, which is then paid off as the rent rises. Conventional finance at 4.85 per cent can be treated as a 2.35 per cent index-linked loan, with long-term inflation assumed to be 2.5 per cent if an additional unsecured loan is made available to cover the deferred part.

For example, an additional loan from an employer on a second charge, equal to around 12 per cent of the loan, could provide bridging finance to enable conventional finance to be treated as if it were low-start index-linked. In due course, rising rentals will enable the supplementary loan to be paid off as well. This route could be explored if index-linked finance is not otherwise available.

A supplementary loan might also be the route to resolving the problem of paying equity stakes to outgoing key workers. This is discussed in more detail below.

6.3
Co-operative Housing – Loan Guarantee Society Services

The borrowing needs to be on the balance sheet of the co-operative or possibly the CLT, and since they have no prior track record, this would mean relying solely on the security offered by the property. CDS Co-operatives have developed a national model which enables several relatively small co-operatives to come together to achieve low rates A half per cent charge on the mortgage debt premium on the mortgage paid into a guarantee fund held by the Co-operative Housing Finance Society Ltd (CHFS), and an annual 0.25 per cent fee enables CHFS, the guarantee society set up by CDS Co-operatives, to provide 12-month interest guarantees to lenders backed by the Co-operative Bank. This has enabled low margins to be achieved, even though there is little spare equity. An overall rate of 4.85 per cent (3.75 per cent + 0.85 per cent + 0.25 per cent) has therefore been assumed.

Canadian Housing Co-operatives have successfully raised commercial funding using an index-linked model, which is a variation on this and includes a ‘tilt’ to reduce reliance on inflation. For example with inflation of 2.5 per cent and a tilt set at one per cent, the payments start off at a level (roughly) 1.5 per cent below conventional but (roughly) one per cent above full index-linked finance. Because they rise at a rate below inflation though, there is more allowance for rising maintenance costs in future years and less risk if inflation were to take off. The model is also based on a monthly rather than annual interest calculation, which helps to accelerate repayment in later years. Nationwide Building Society has expressed interest in the model in the past.

At the time the loan was made in Canada, the interest rate available on housing finance was 4 per cent plus an allowance of 2.5 per cent for inflation to which a 1 per cent tilt was then applied, resulting in a rate charged at between 5 and 5.5 per cent (information supplied by CDS). In the UK at present this should equate to a 4.5 per cent rate broken down into two per cent real interest and 2.5 per cent long-term inflation. Payments are obviously higher than in a full index-linked version but if this meant the finance would be more readily available, clearly it would be the better model to apply, and it does mean a lower level of risk.

6.4
Other Forms of Finance and Funds for Financing Equity Stakes

Consideration has been given to whether other forms of finance might be raised on the scale needed. Interest-only finance, using withdrawable shares (i.e. through an Industrial and Provident Society legal structure) and various forms of ethical low-coupon finance, have been discussed. Time would be needed to develop such sources of funding in any volume. However, they could well assist where there is a strong community or local business interest in providing affordable homes and these options need pursuing further. (See Appendix 6 for how a start could be made in developing such finance through a partner community development finance institution such as London Rebuilding Society or the Wessex Reinvestment Trust.)

The other major issue that will have to be addressed when raising finance to build the homes is that of enabling occupiers to take an equity stake with them when they leave equivalent to their contribution to repayment of the loan for construction of the building. There would be sufficient equity in the property to secure such a top-up loan, but this makes for complex administration for the funder if the loan profile cannot be monitored straightforwardly over the period of repayment.

Alternative approaches might be:

a) A more flexible arrangement for funding which is not based around a set repayment period, which therefore allows additional funds to be drawn down whenever needed to pay off equity shares.

Table 6.1: First year payment on a three per cent index-linked mortgage of £100,000

Years	**20**	**25**	**30**	**35**	**40**
Year 1 repayment (£)	**6,722**	**5,743**	**5,102**	**4,654**	**4,366**

b) To arrange a separate loan for this purpose as a second charge which is drawn down whenever one occupier leaves with the equity stake they have built up. In the end this loan would grow to a level determined by the average length of occupation of the residents: it would never be paid off.

Until this is tested with a lender it will be uncertain whether the aspirations set for this tenure model can be achieved. In the US, some limited-equity co-ops underpinned by CLTs cap the capital appreciation which accrues to the occupier at 25 per cent of the actual figure which would mean that much lower equity stakes are paid out and in due course the loan could be repaid or at least substantially reduced. These options need to be explored further as the model is worked up with potential lenders and social investors.

6.5 Making the model easy to understand: unitisation

Dividing the property value into a number of 'units' may provide a way of explaining the model.

The value of, for example, a £140,000 property would be divided up into convenient equity units of say £100, £500 or £1,000 of value per unit (for the sake of simple illustration let us say into 140 x £1,000 units of equity). The units representing the land value (say £70,000) would be taken out and held by the CLT. Members would come in with a deposit (say 5 x £1,000 units = £5,000) leaving £65,000 to be funded as part of the common mortgage loan taken out by the co-operative. The cost of financing the mortgage payments would be met by the member through their monthly lease payments. The member would therefore be financing 70 x £1,000 units of equity. When a member leaves, they would be entitled to withdraw, from the value of the co-operative's commonly held property assets, the amount by which difference in the value of the 70 units of equity has grown during their tenure, that growth having two components:

1) the mortgage principal on the 65 units of equity they have been financing out of their monthly member payments; and

2) the growth in the value of the whole of the 70 units of equity they have funded, calculated in accordance with the equity sale formula in their lease (which will include a (say) 10% deduction to build-up the common assets of the co-operative).

So if they have paid off £1,100 of mortgage principal during their tenure and the value of their property has increased by, for example, 10 per cent they will take out the following equity payment:

Their initial equity deposit	£5,000
The mortgage principal repaid	£1,100
The growth in the value of thee 70 units of equity funded by their deposit and monthly payments less 10 per cent contribution to common equity)	£6,300
Total end of tenure equity withdrawal	£12,400

Under a unitised model, the repayments of principal could be regarded as increasing the number of shares owned outright by the member so that, in the example above, the occupier would own six shares outright valued at £1,100 each and would benefit from appreciation in the value of a further 64 shares on which they are paying the mortgage. To enable this to work smoothly over the course of the mortgage, greater unitisation would be required, for example as 1,000 units of value £140 each. This more complex unitised approach is illustrated in Appendix 6, Annexes 5b and 5d. In the index-linked example in Annex 5b, the property value would be treated as 1,000 units. The CLT would hold 213 worth £29,820. Of the remaining 787, the resident would have to buy 40 units (£5,600) as a deposit, and the remaining 747 (£104,580) are held by the co-operative but subject to a mortgage. As the loan is paid off over 30 years, the resident would acquire more units, so that after 10 years they would own 230 units and, after 20 years, 505 units, and the mortgagee would have a reducing share accordingly. In the case of a conventional mortgage, the subsidy would have to be greater so that the CLT would own 412 units: because the loan would be paid off faster, the resident would own 240 units after 10 years but only 436 after 20 years.

For those making higher or lower payments than the norm in the model (based on 32.5 per cent of net salary for someone earning £19,000 or £21,000, or 35 per cent of net salary for someone earning £23,000), the number of units purchased after 10 and 20 years is shown in Table 6.2 (below).

Unitisation could therefore be a way of helping to explain how the scheme would work for different salary levels.

A refinancing mechanism, enabling the resident to cash in their units will be needed. If it is only possible to secure a partial refinancing mechanism (for example, 90 per cent), the number of units owned after 10 or 20 years in the table would be reduced correspondingly (having first excluded the 40 units purchased at the start which would be returned in full, subject to revaluation by property inflation).

Whether the 'unit' description assists in explaining how ownership of the home is divided or, through the more complex description, how it is changing over the course of time, will need further discussion and market-testing.

6.6 Reduced Land Value or Other Subsidy Input

Tables 6.3 and 6.4 show the subsidy needed to achieve affordability in the three locations chosen.

The first table is based on 30-year index-linked finance, assuming it is available at 2.35 per cent with inflation at around 2.5 per cent. Interest has been calculated annually. (An example can be found at Appendix 5, Annex 5a/b).

Table 6.2: Number of units purchased on the basis of resident's income

Net Salary	Initial units	After 10 years	After 20 years
£19,000	40	193	428
£21,000	40	230	505
£23,000	40	309	659

Table 6.3: Index linked finance (see Appendix 5, Annex 5a/b)

	Newham		Milton Keynes		Stroud	
	1-bed	2-bed	1-bed	2-bed	1-bed	2-bed
Values	£115,000	£145,000	£95,000	£120,000	£85,000	£105,000
Assumed average salary and range	£21,000 (£17,000 -£25,000)	£21,000 (£17,000 -£25,000)	£19,000 (£15,000 -£23,000)	£19,000 (£15,000 -£23,000)	£17,000 (£13,000 -£21,000)	£17,000 (£13,000 -£21,000)
Subsidy needed	£1,899	£30,708	£0	£17,248	£1,715	£20,915
Land component of value	£51,520	£72,274	£42,100	£59,395	£29,455	£41,365
Subsidy as % of land value	4%	42%	0%	29 %	6%	51%

Table 6.4: Conventional repayment finance (Appendix 5, Annex 5c/d)

	Newham		Milton Keynes		Stroud	
	1-bed	2-bed	1-bed	2-bed	1-bed	2-bed
Values	£115,000	£145,000	£95,000	£120,000	£85,000	£105,000
Assumed average salary and range	£21,000 (£17,000 -£25,000)	£21,000 (£17,000 -£25,000)	£19,000 (£15,000 -£23,000)	£19,000 (£15,000 -£23,000)	£17,000 (£13,000 -£21,000)	£17,000 (£13,000 -£21,000)
Subsidy needed	£30,942	£59,743	£19,468	£43,468	£23,098	£42,293
Land component of value	£51,520	£72,274	£42,100	£59,395	£29,455	£41,365
Subsidy as % of land value	60	83	46	73	78	102

Tilted finance on the Canadian model requires a higher percentage of land value but the subsidy required remains less than the land value. (An example can be found in Appendix 5, Annex 6).

If the only finance available is conventional repayment finance, higher subsidy is needed and the land value alone may not be enough to achieve affordability unless low-start finance is available. However, Table 6.3 shows, on the basis of the land and build costs assumed, that the land value would provide sufficient subsidy in all cases even with conventional finance (save for two per cent shortfall in the Stroud two-bed case – see Appendix 5, Annex 5c/d.)

Low-cost finance is a requirement for the model but only at levels already generally available to RSLs if the land equity can be gifted.

Low-start finance would mean that the model will work even where land is available at around half open-market value rather than at no cost; or where the subsidy available is quite low.

Free land would make affordable housing viable in all cases for index-linked finance or tilted finance; and 50 per cent discounted land would suffice in many cases if index-linked funding can be secured. In higher cost areas it is land costs rather than construction costs which are higher and this calculation should still hold true, but the land equity to be foregone – or the subsidy if low-cost land is not available – is correspondingly greater.

Some of the routes to reduced land cost might be:

a) Land available at no cost to provide for the employer's own workers:

- Where the employer of the key workers owns land which they are prepared to make available to house their employees;

b) Land below full market value:

- as a result of a Section106 agreement requiring affordable housing to be produced as part of a development;

- where the employer of the key workers (or a group of employers) owns land which they are prepared to make available below value;

- through exception planning schemes where land will cost something above agricultural value but much less than housing value.

The model provides an effective way of taking land value out of the equation and could assist planning authorities in providing a consistent Section 106 requirement or clear justification for an exception approval.

6.7 Tenure Requirements

The proposed basis for occupation would be that the occupier is responsible for internal maintenance but occupies under an agreement, which must be passed to an incoming occupier so that no void period arises. The agreement would specify the payments and how increases will be calculated and how the equity payment is calculated when the occupier leaves. It will require the occupier to be a par value shareholder in the Community Land Trust.

The agreement will say that the appointed managing agent may first deduct from payments the agreed outgoings for management, maintenance, cleaning, future maintenance, mortgage repayments, and buildings and contents insurance. It will explain how savings made in the costs of cleaning and routine maintenance through management by the CLT itself, or by keeping costs down, will come back to residents on an annual basis. Particular areas of savings and economies in co-operative housing (in contrast with RSL housing) are secured by self-management input in respect of lettings and repairs management, although co-operative members may elect to pay for professional management if they so wish.

The initial capital cost will need to allow a sum of around 0.5 per cent of costs to provide for training for the residents in their management responsibilities and the benefits that can accrue from mutuality. This has been assumed to be contained within a 15 per cent on-cost to cover fees, interest, insurance and other costs.

6.8 Risks and Sensitivities to Economic Changes

If land values fall, no equity stakes will be provided.[24] For the CLT, the risk is that rents will fall in line with values and it will no longer be possible to charge rents at a sufficient level to cover costs. However, so long as land has been obtained below value, there should remain a margin with market rent – since this is the whole intention of the scheme – that will provide a cushion against a fall in rents.

Where variable rate finance is used and rates go up as a result of increases in inflation, rents will also go up and the intention that charges will rise by RPI + 0.5 per cent means the increase in rents will cover the increase in mortgage payments. In the short term, this might not happen because the Bank of England might be applying interest rates at an unusual margin above inflation in an attempt to reduce inflationary pressures. It is unlikely that this will continue for more than a limited number of years and contingency sums should generally be sufficient. However in any event, shared-equity housing co-operatives must have flexibility to increase rents if increases in interest rates have an adverse impact on them.

In the event of deflation, an index-linked mortgage would not increase, but it would be on a ratchet so it would not fall either, whereas rents would be falling with a falling RPI. To protect against this, the CLT could similarly say that rents cannot fall even if RPI + 0.5 per cent is a negative figure: this would provide short-term protection, but the CLT would still get into difficulty if market rent levels fall sharply. Deflation has not yet happened for significant periods except in Japan, so the risk is low.

6.9 Community Development Finance Partnership – Interest Free Finance Service

As a supplementary objective, the mutual housing finance system could be adapted to encourage tenant owners to save, which would enable them to acquire furniture cheaply and to carry out internal improvements and repairs. One avenue might be a zero-interest savings and loans mechanism where the charges made for the loan are administrative ones only. The JAK Bank in Sweden operates such a system, which is similar to credit union savings and loan operations.

In Britain, a Community Development Finance Institution partner, such as London Rebuilding Society or Wessex Reinvestment Trust, could attract social investors to develop the funds. This JAK style co-operative savings system, based on fees instead of interest, could be initially established as a simple facility for recycling funds. Within an expanding shared-equity co-operative system, this system could have enormous potential for reducing repair and maintenance costs for an increasing number of CLT developments in a region (see Appendix 6). In due course, there might be scope for developing interest-free funds for new construction and development as well.

6.10 Cost Benefit Comparisons with Shared Ownership and Homebuy

Shared Ownership and a simplified version of Shared Ownership, Homebuy, are existing schemes that have been devised to make home ownership affordable. Like the model described here, they are aimed largely at people in work who can qualify for a mortgage but who cannot secure, or afford to pay, a mortgage at the level required to buy a property in the open market.

The Social Housing Grant is available to provide Shared Ownership. It enables a purchaser to buy, say, 50 per cent of the property equity with a mortgage and pay rent on the remaining 50 per cent (with a service charge in addition where the property has common areas to be maintained). The problem has been that competition between RSLs (to show that they can produce affordable homes with the least possible Social Housing Grant) has led to higher rents and management costs and hence diminishing advantages in comparison with the cost of outright purchase.

Homebuy simplifies the model by providing an interest-free loan, with no rent charged on the element of equity not purchased and no continuing management involvement from the RSL. The attraction of Homebuy is also that the average amount of subsidy has been lower – frequently only 25 per cent.

The model described here achieves affordability by proposing that finance is raised by the co-operative and not through individual mortgages. This means that repayment can be spread over a longer period – 30 years rather than the 25 typical of an individual mortgage. The assumption has also been made that index-linked or other low-start finance will be used. Low initial payments increase with inflation, not quite keeping pace with rising rents if a deferred interest mortgage is used (which rise by RPI + 0.5 per cent).

The effect of both of these is that equity created through repayment of the loan builds up very slowly in the initial years compared with Shared Ownership or Homebuy (or may even go into reverse if property prices do not rise). But as Table 6.4 shows, the tenure is affordable to people on lower salaries for the same input of subsidy. (It has generally been proposed here that the land value should be taken out of the equation using a Community Land Trust but a capital subsidy has an equivalent effect.) The cost of services has also been assumed to be around 25 per cent less as a result of tenant management. The main economies here are feasible because a) individual residents carry out routine repairs and b) there is far less management time involved in repairs or lettings.

The model is more flexible than Shared Ownership or Homebuy in allowing differential payments for an equivalent property and in relating payments to salary rather than offering only limited-equity share options such as 25 or 50 per cent. (Some RSLs sought to make Shared Ownership more flexible but have been discouraged from doing so because of the costs involved in purchases of small tranches). The model also differs in making a direct connection between salary levels and payments. In Shared Ownership and Homebuy, it is left up to the purchaser to calculate what they can afford. As each person's lifestyle places different demands on their salary, it can be argued that it is better to leave them to decide. On the other hand, for those on low incomes, housing benefit is fixed with reference to salary alone, and a counter-argument is that, where public subsidy (or free land as a community benefit) is involved, there has to be a consistent and fair approach relating payments to salary through a formula.

Shared Ownership provides for staircasing so that further shares can be purchased if salary rises or circumstances change – or for staircasing down to a lower share if salary falls. Some consideration has been given to basing payments in this model on a percentage of salary with deduction at source by the employer, so that payments could rise or fall. However, for simplicity, it is proposed that the payment should be fixed when the lease is signed based on current salary. The model does allow, however, for further optional payments to secure a larger equity stake if the resident wishes; subject to cash flow, the co-op could have a discretion to agree to allow payments to be reduced, with a corresponding reduction in the resident's share of the co-op's equity.

The other negative consequence of staircasing is that it means the tenure has only a limited life. Shared owners quite often choose to make back-to-back transactions: obtaining a resale valuation, buying the remaining equity at this price and seeking to sell on the basis of 100 per cent ownership at a marginally higher price, especially in recent market conditions where valuations rapidly become out of date. Homebuy also generally ends on the first resale. The shared-equity co-operative model uniquely maintains each unit as permanently affordable for future generations: any subsidy is retained and used over and over again.

In theory, staircasing releases equity to enable a low-cost home to be provided again, but there are other demands on this RSL income, such as winning competitive bids for Social Housing Grant elsewhere. In any case, it may eliminate affordable homes in the original high cost area where an intermediate form of tenure was needed.

The shared-equity co-operative model described here thus compares very favourably with the Shared Ownership or Homebuy options in terms of affordability. It compares extremely well in its ability to lock in the value for future generations.

Against these advantages, it is legally and financially more complex. For example it works less transparently in relation to the purchase of extra, or fewer, shares. But this should be overcome by tenant ownership and co-operative education. As the Focus Group findings in Section 5 show, potential residents have not found the shared-equity co-operative model hard to understand. Most importantly, the increases in affordability and long-term sustainability of the model, deal with major criticisms that have been levelled against Shared Ownership and Homebuy.

Table 6.5 Comparison with Shared Ownership and Homebuy

Individual mortgage rate	5%	RSL borrowing rate	4.85%
Years for mortgage	25	Years for RSL loan	30

	Model	**Shared Ownership**		**Homebuy**	
		Normal subsidy	At model level	Normal subsidy	At model level
	£	£	£	£	£
Value of property	115,000	115,000	115,000	115,000	115,000
Subsidy	29,354	34,500	29,354	28,750	29,354
Individual mortgage[1]		46,000	46,000	86,250	85,423
Net cost to Co-op/RSL	85,646	34,500	39,646	0	223
Payment by resident					
Services etc	328	410	410	410	410
Management	146	182	182		
Rent		2,206	2,535		
Mortgage or equivalent[2]	5,476	3,264	3,264	6,120	6,061
Total initial payments	5,950	6,061	6,390	6,529	6,470
Salary level for affordability*	**22,660**	**24,469**	**25,801**	**26,301**	**26,064**

1 mortgage at 3.5 times salary plus non-mortgage costs 32.5% additional salary
2 based on 100% mortgage for comparison purposes: model proposes a 4% deposit

Notes:
The advantages of the model over Shared Ownership might be cited as:
- slightly lower payments as a result of longer mortgage period and marginally lower rate
- reduced management costs
- no requirement to have both an individual mortgage and pay rent/services
- greater share of equity appreciation
- equity locked permanently into CLT
- more flexible affordability calculation

The advantages of the model over Homebuy might be cited as:
- lower payments as a result of longer mortgage period and lower rate
- equity locked permanently into CLT
- more flexible affordability calculation

7. Conclusions and Next Steps

In 2002, as the stock market continued to fall, the national housing market increased in value by over 25 per cent. As a consequence, housing prices in London even for small flats in most boroughs jumped in value by more than the level of the average wage for key workers. This market increase is clearly unsustainable and, since February 2003, house prices in London and the South East have begun to fall. According to some experts, this is likely to lead to a repeat of the negative equity crisis of the early 1990s. In any event, most experts agree that we have seen the end of the huge explosion in house prices. However, in London, the South East, and the East of England there is now a serious mismatch between housing supply and housing demand.

The size of the deficit in housing supply is controversial. The Joseph Rowntree Foundation estimates it to be at least 100,000 units per year. The Government has recognised the gap as about 60,000. Part of the gap can be addressed by releasing some of the more than 700,000 empty properties for housing. But many of these are in areas of low housing demand.

As far as the supply of new housing is concerned, the pattern is mixed. In the North of England, supply has outstripped demand in many areas and the Government has concluded that clearance will be needed in some places to balance this. In the West Midlands, supply and demand are closer to equilibrium. In the South West, population growth is twice as fast in rural areas as in urban centres, and the location of housing supply is a problem. Here, more creative intervention is needed in coastal and market towns and in villages to increase supply sensitively in order to tackle the lack of affordable housing.

To compound problems for key workers in the South West, while house prices are similar to London and the South East, average wages are 10 per cent below the national average despite very low levels of unemployment. There is only limited and patchy provision of Starter Homes Initiative funds for key workers – mainly in the northern areas of the region surrounding Bristol and Bath.

The Government has decided to concentrate its efforts on London and in four growth areas in the South East including the Thames Gateway, Ashford in Kent, Milton Keynes, and the South Midlands, and the London-Stansted-Cambridge corridor. In his *London Plan*, Ken Livingstone is seeking to secure housing development of 23,000 per year over the next 15 years. In 2001, only 1,200 low-income homeownership properties were constructed in London against applicant demand of 41,000. The challenge is enormous.

The Government's *Sustainable Communities Plan* sets out a bold new vision for more inclusive, mixed communities with better amenities, improved local public transport and health facilities. The objective over the next three years has shifted from Labour's initial focus of tackling a huge backlog of council housing disrepair to a new agenda of affordable housing development, with lower cost construction methods and high ecological standards. Over the next three years, £5 billion will be spent on this new housing strategy and £1 billion on key worker housing. The Government would like to secure two units of key worker housing for the same subsidy as one unit of social housing, and John Prescott's Homeownership Task Force has been charged with developing a sound implementation strategy.

This research has sought to explore the potential for reintroducing the forgotten limited-equity co-operative model, popular in Britain before the First World War in the form of tenant co-partnership and co-ownership in the 1960s and 1970s. It was a model that was lost because, as a tenure form, it was unstable, poorly adapted from Sweden and had no design features preventing demutualisation.

The limited-equity housing co-op model operates extensively in other countries – including Sweden, Norway, Denmark, and the US. Land price inflation in Scandinavia has led to unaffordability for the low- and moderate-income households it was designed for. In both the US and Canada, Community Land Trust mechanisms have been developed to maintain the permanent affordability of limited-equity and par value rental co-ops. To date, this mechanism has been limited in application, but it demonstrates that a sustainable solution can be found.

The Joseph Rowntree Foundation Land Inquiry report recommended that the Government adopt three main measures to address the housing supply problem. The first two were to increase supply in a strategic way in areas where it is needed, and to modernise and regionalise the planning system in ways proven to work better and more efficiently in other European Union countries. But thirdly, the report called for the Community Land Trust model to be applied to secure long-term affordability in order to meet housing needs. The Greater London Authority has highlighted the potential for mutual housing solutions to be developed more cost effectively in order to deliver housing solutions for key workers.

In its *Sustainable Communities Report*, the Government has implemented the first two of the Joseph Rowntree Foundation recommendations, but not the third. This report has researched and tested the market feasibility for a new mutual housing solution, a shared-equity housing co-operative. Using the CLT structure to underpin this form of mutual housing provides a permanent means of locking in any required subsidy in the form of free or discounted land (or an equivalent sum in grant aid) in ways that other low-cost homeownership schemes do not.

In addition to the CLT mechanism, this new model draws on effective elements of the tenant ownership co-operative model, which has been successful in Scandinavia since the 1920s in providing housing for between 20 and 25 per cent of all households. The research concludes that the shared-equity housing co-operative can operate in Britain as a sustainable low-cost form of key worker housing.

Moreover, the research team has tested the specific elements of the shared-equity co-operative model in focus group discussions with key workers in both London and the South West. The model has proved to be highly attractive to them. It also appealed to the housing professionals we consulted, from co-op practitioners to RSL developers, local authorities and key worker employers.

In the *Sustainable Communities Plan*, the Government has announced that it is considering widening the delivery of low-cost home ownership schemes to non-housing association bodies. As an experiment to test this potential, it is recommended that a pilot project be funded to test the shared-equity co-operative model on at least three sites in London, Milton Keynes and the rural South West.

Endnotes

1 The symbiotic nature and scope of these practical reforms along with some of this correspondence is reproduced in Chapter 11, 'Comparison of Community Land Trusts and Co-operative Land Banks' in *Building Sustainable Communities: Tools and Concepts for Self-Reliant Economic Change,* a book edited by Ward Morehouse based on contributions by Bob Swann, Shann Turnbull and C. George Benello.

2 This research builds upon recent studies funded by the Housing Corporation Innovation and Good Practice Programme into the design and implementation of Community Land Trust solutions for affordable housing needs, which in turn were led and co-ordinated by Robert Paterson at the Centre for Community Finance Solutions at the University of Salford. Many of those involved with these earlier studies, including Robert Paterson himself, have been involved in the fieldwork for this project, particularly in the South West.

3 The financial terms here are explained in detail in the Glossary.

4 See Section 6.

5 This could be applied to limited or restricted equity housing if established through new social enterprise delivery agencies as suggested by the Joseph Rowntree Foundation Land Inquiry report. However, extension of such tax credits would require a shift in Treasury policy. Social enterprise investments qualify for tax credits but housing investments are currently excluded.

6 This represents more than a six-fold increase in 20 years; in 1982, the average house price in London was £38,500. Average prices vary widely from the five main tracking bodies, which include HM Land Registry, Halifax, Nationwide, RICS and Hometrack. Consequently the ODPM will be introducing in autumn 2003 an official Government index to be compiled by the Treasury and the Bank of England (Collinson and Stewart, 2003).

Oswald has forecast that up to half a million homeowners are now in danger of losing their properties. Martin Ellis, chief economist, for both Halifax and the Royal Bank of Scotland, has said "There is no doubt there will be pockets of negative equity in the capital and the South East over the next year". (Hill, 2003).

7 The prevalence of a widespread diversity of leases with varying clauses in each leads to higher legal costs and to frequently low standards for occupiers in terms of legal rights.

8 At the end of the Second World War, 156,000 prefabricated houses were erected to deal with the acute housing shortage (Hetherington, 2002a). These were of poor quality, designed to last only 15 years and only about 500 remain today. Modern day equivalents are of much higher quality and will last far longer. Moreover, construction time on site can be cut by up to two thirds – only six weeks, compared to conventional site building time of 16-18 weeks. At present only about one per cent of housing construction is modular and factory built – but major house builders like Westbury and Barratts have set up factories to expand operations dramatically in the years ahead. Registered Social Landlords in the South East have been encouraged under the Government's new Challenge Fund to use modern, off-site methods for new provision. Increased demand by developers and Registered Social Landlords should lead to further investment in production facilities. As well as quality control improvements, modern methods of provision easily meet the Egan agenda to rethink construction, and will help with the various aspects of sustainable development.

9 The Greater London Authority was interested in limited-equity or shared-equity models beyond conventional Shared Ownership and including lessons from limited-equity co-operative models overseas.

10 See Glossary for explanations of par value (non-equity) co-operatives and commonhold in respect to Leasehold Enfranchisement.

11 According to the Institute for Community Economics (the American national association body for CLTs), "This is regarded as fair by CLT owner occupiers, who are educated, as members, to understand the social purpose of housing."

12 CLBs mitigate the problems of shared-equity co-operatives discussed above by combining a number of innovations, including the principles of modern US Real Estate Investment Trusts (REITs), duplex tenure, dynamic tenure and self-governance control architecture. Duplex tenure is fundamental to a CLT and is delivered by the resale formula, which allows the value of improvements on land to be separated from the value of the site so that these values can be equitably allocated on a sustainable basis. Dynamic tenure allows ownership to transfer from non-users to users at the depreciation rate of capital; this feature serves to eliminate alien ownership and control of communities and to avoid overpaying investors. It is by capturing over-payments to investors that CLBs provide a more efficient and equitable tenure system, which in turn avoids the need for continuous subsidy to provide low-cost housing. Dynamic tenure also provides a formal framework to legitimise squatter settlements and provide a systemic improvement in land tenure. CLBs accordingly are more ambitious than CLTs and the precise difference between both forms of land stewardship is set out in a sequence of papers by Turnbull (1977, 1983, and 1986) listed in the Reference section.

13 The generalisations made here draw on substantial research undertaken in 1984 by J Birchall for his PhD. This consisted of qualitative interviews with active members of four co-ownership societies, a quantitative interview survey of all members of one society, interviews with key informants such as Harold Campbell and Housing Corporation officials, and documentary analysis of Corporation documents and the archive of the Council of Co-ownership Housing Societies.

14 Its magazine the *Co-owner* and minutes of its meetings are a valuable source of information.

15 In the sense of an autonomous group of people who identified with it and wanted to make it work.

16 Figures supplied by the Housing Corporation.

17 At first the Greater London Council was the relevant local authority, then the London Borough of Tower Hamlets.

18 Amortised means the gradual reduction of the outstanding balance of a loan.

19 See Glossary.

20 The actual percentage will need to be tested and developed in piloting work and through experience in projects gained through working with financiers.

21 Rent paid by co-operative members includes maintenance of the fabric of the building, hence the assumption that the element of payments applied to repaying borrowings for construction and acquiring units equates to a value with no depreciation factors. In other words, the depreciation element is covered as part of the service charge.

22 However, there is a danger with this method that building costs can rise either much faster or much slower than

market valued generally. As a result of periodic shortages in skilled labour, inflation in building costs above a long-term average is common and there are also significant regional variations in building costs from time to time.

23 Coventry Churches Housing Association developed a mutual mortgage scheme for housing for retired people in 1980s. Mortgage Interest Relief up to £30,000 was then available and this was used as part of the incentive package for a typical 12-unit development. The scheme was called the Sundowner Plan and co-owner members paid a £1 member share and took responsibility for their share of the group mortgage which was based on a fixed charge plus an additional payment to hedge against an increase in interest rates. The Housing Association developer retained five per cent of any increase in market value and Sundowner members could secure 95 per cent. However the scheme became problematic when negative equity emerged in the early 1990s and the properties could not be sold. Sundowner is still in operation and now part of Touchstone Housing Association.

24 Such as the Co-operative Housing Finance Society Ltd, the loan guarantee society established by CDS Co-operatives. The principle is that the co-op has to borrow to maintain its mutual advantage; the CHFS can provide a loan guarantee at low cost. It would take a second charge over the asset (the land) and provide a 12 month interest guarantee to offer the main lender continuity of payment in the event that a co-operative project becomes insolvent. This has the effect of reducing interest rates and making more funds available. If, on the other hand, the CHFS could act as a wholesale lender and advance, say, 15% of the amount borrowed, there would be no need for a guarantee and the loan could be even cheaper. This would be contingent on CHFS becoming a Community Development Finance Institution. At present, Treasury rules focus on community finance for enterprise and tax credits for housing finance are not yet available.

25 As income from members' monthly payments rises over time, tracking open market rents, the co-op's ability to borrow will also rise and it will be in a position to borrow additional sums at a level which takes into account increases in expenses over the same period.

26 This is defined as "a scheme under which the dwelling is let by a housing association and the tenant or his personal representative will under the terms of the tenancy agreement or of the agreement under which he became a member of the Association, be entitled on his ceasing to be a member and subject to any condition stated in either agreement to a sum calculated by reference directly or indirectly to the value of the dwelling."

27 To ensure that either Housing Benefit or Income Support is available, the scheme should be cleared with HM Treasury and the Department of Work and Pensions.

28 The scheme needs to be cleared with the Inland Revenue to ensure that it accepts that it should be treated in the same way as Shared Ownership.

29 If the lease is assignable at a nil price, the 1% payment would only be payable once; it is important that assignments be completed through the co-op, however, which would contract to assign the tenancy on its existing terms, to avoid informal 'deals'. Thus a provision for assignment at a nil price adds complexity for relatively small gain.

30 Again, the scheme should be cleared with the Inland Revenue.

31 It was the Great Depression in the 1930s and the mortgage foreclosures by banks and evictions of poor farmers in Denmark that stimulated creative action to avoid this calamity in the future from reoccurring.

32 This was crucial in Scandinavia as, unlike in Britain and Ireland, where credit union loans are for small sums to service basic consumer needs, most JAK loans in Denmark and Sweden are for housing finance. Thus today, JAK banking in practice more closely resembles the financing action of small to medium-size building societies.

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Glossary of terminology

Community Interest Company
This new company form is still subject to consultation. It is intended to be an appropriate vehicle for social enterprises that aim to use their profits and assets for the public good. They should be easy to form and flexible, but have certain special characteristics designed to ensure they operate for community benefit. CICs will report to an independent regulator, and be accountable for how they benefit the community and for the involvement of their stakeholders in their activities. A key feature is an asset lock.

Community Land Trust
Trust for holding land for community benefit; distinguished from conservation land trust or environmental land trust because its purpose is the development of the land for social or community purposes, as opposed to the preservation of its environmental integrity.

Egan construction
Principles developed in response to the 1998 report *Rethinking Construction* by Sir John Egan's Construction Taskforce. Principles included targets relating to productivity, profits, defects and reduced accidents and it aimed to encourage RSLs (see below) to take opportunities for standardisation, pre-fabrication and modularisation into account.

Equity-linked mortgages
Similar to Shared Ownership, but the lender takes a stake in the equity of the property directly rather than the RSL and lends less than the full amount required to buy the home. Interest is only charged on the amount of the loan and not on the full value of the property. When the property is sold, the lender receives payment in proportion to the amount of equity that they own, and therefore also benefits from any increase in the price of the property.

Homebuy
A government-backed scheme, funded by the Housing Corporation and operated by Registered Social Landlords (RSLs). It is available only to existing RSL tenants and those on local authority waiting lists for housing. The buyer contributes 75 per cent of the price of the housing through personal savings and a mortgage, and the RSL lends the remainder. There are no repayments on the 25 per cent typically funded by the RSL; it is repaid when the property is sold, and the amount repaid in these cases is 25 per cent of the value of the property on resale. If the purchaser dies, the arrangement may be transferred to a family member/partner, who then takes over the payments and repays the element owned by the RSL when they eventually sell.

Housing Association
Housing associations are non-profit organisations that build, regenerate and manage social housing. They are usually registered with the Housing Corporation and aim to house people on low incomes and those who are homeless or living in poor conditions. Many housing associations rent most of their housing to families and people nominated by local authorities; most will therefore not accept applications direct from single homeless people. Some also manage hostels and housing projects and lease buildings to voluntary organisations providing accommodation, care and support to homeless people and other groups.

Housing Corporation
A government body operating under the Office of the Deputy Prime Minister, responsible for public investment in housing associations.

Index-linked mortgage
Both the annual mortgage payment, and the outstanding debt at the year end, are increased annually by the rate of inflation. The interest rate charged should normally be the interest rate on a conventional mortgage less the rate of inflation (e.g. if the conventional mortgage rate is 4.5 per cent and inflation is two per cent an index-linked mortgage would be at an interest rate of 2.5 per cent). Where this formula is used, an index-linked mortgage repays a debt over the same period as a conventional mortgage. Payments start at a much lower level than the fixed payments of a conventional mortgage but increase throughout the term and will be considerably in excess of the annual conventional mortgage payment by the final year. Index-linked mortgages are a form of low-start mortgage and provide a way in this model of matching loan repayments to rental income throughout the period of repayment. A conventional mortgage by contrast will result in surplus income as rents rise with inflation but needs higher initial rents to cover the cash flow.

Innovation and Good Practice Grant
A revenue programme managed by the Housing Corporation; its aim is to help housing associations, tenants and others develop new ways of managing housing and related issues and disseminate information among social housing providers.

Intermediate and sub-market housing
Housing whose cost falls between open market and social housing levels either in the rented sector or the area of low-cost home ownership

Islamic Finance (Unit Trust Funds)
The main objective of an Islamic Unit Trust is to invest in a portfolio of 'halal' stock that complies with the Islamic principles of the Shariah. Such 'halal' stocks will exclude companies involved in activities, products or services related to conventional banking, insurance and financial services, gambling, alcoholic beverages and non-halal food products. The returns of the Islamic Unit Trust will also avoid the incidence of 'riba' or usury interest through the process of cleaning or purification by the removal of such amounts representing the interest element which has unavoidably accrued. Such proceeds are normally donated to charities. For a brief description of the application of this principle to the purchase of housing through an Islamic Property Unit Trust as set out in Section 4.1.

Land pooling
A process in which landowners of fragmented parcels of land collaborate to pool land for major development or re-development schemes. Landowners may retain a stake in the land ownership. A plan sets out the procedure for land assembly, servicing and disposal, and may involve some form of compulsion.

Leasehold enfranchisement
Under certain circumstances, leaseholders of a house or flat have the right to purchase an extension to the existing lease or to purchase the freehold from the existing freeholder. Leaseholders of flats can exercise the right to enfranchise by purchasing the freehold collectively. The right was introduced by the Leasehold Reform Act 1967 and originally applied to houses only. It was then extended to leaseholders of flats by the Leasehold Reform Housing and Urban Development Act 1993, and then further extended

under the The Commonhold and Leasehold Reform Act 2002.

Low-start mortgage
Similar to a repayment mortgage but with an interest-only or discounted introductory payment period. Repayments of capital and interest are then introduced and sometimes phased in. The total amount of interest and repayments over the life of the mortgage are higher than with a normal repayment mortgage, but payments during the initial low-start period are reduced.

Mother-daughter co-operative structure
A system of co-operative development especially strong in the field of mutual housing where a secondary co-operative, or 'mother society' in a geographic region provides development expertise for new housing and helps arrange finance as well for founding new primary housing co-operatives, or 'daughter societies'. The mother society also provides training for new members and arranges or directly provides other core services at low cost on behalf of all daughter societies. Accountability is to the daughter societies as each daughter society member democratically elects the board of the mother society.

Par-value co-operative
Members take out a nominal share which is returned 'at par', or for the same cost, when they leave. May also be referred to as a 'non-equity' or, in the US, a 'zero-equity' co-operative.

Planning Policy Guidance Note 3: Housing
Sets out government policies for planning in relation to housing.

Regional Planning Guidance
Sets out government regional planning policy.

Property Unit Trust
Property unit trusts invest in real property through a pool of funds with exposure to the property market. Returns are generated from the rental income, plus any capital appreciation over the period the units are held. Most property units are listed on a stock exchange to ensure that the fund manager has sufficient funds over the life of the Trust to maintain a sufficient level of investment without the need to maintain a pool of liquidity to handle redemptions/sales of units.

Real Estate Investment Trusts
Primarily a US phenomenon, although they do exist in other countries. They are regulated under general US corporate law. Unlike banks, they do not offer any special protections. They function in much the same way as a mutual fund or unit trust for real estate, in that investors obtain a diversified portfolio under professional management. Its shares are freely traded, usually on a major stock exchange. It has special status under the US tax code, allowing it to pay no corporate income tax provided its activities meet certain statutory requirements, including requirements as to number of shareholders, restrictions on its business to certain commercial real estate activities and certain other ownership limitations. REITs must distribute 90 per cent of net income. Most American states also exempt REITs from state income tax. Shareholders pay tax on the income they receive.

Registered Social Landlord (RSLs)
Registered Social Landlords (RSLs) are independent housing organisations registered with the Housing Corporation under the Housing Act 1996. Most are housing associations, but they also include trusts, co-operatives and companies.

Rental purchase
The resident has a lease of the dwelling and pays rent for a specific term, at the end of which ownership is transferred to him or her. Used in the past to avoid Fair Rent provisions under the Rent Acts (no longer in force), but now applied in Islamic finance instruments to enable home purchase over time without application of interest. Rent is acceptable as a payment for a real benefit and takes the place of interest, which is prohibited under Islamic law as usurious.

Re-sale formula
Formula for calculation of the price to be paid to homeowner residents or limited-equity co-op leaseholders on departure from a community land trust.

Section 106 Agreement
Section 106 Agreements are a type of 'Planning Obligation' authorised by Section 106 of the Town and Country Planning Act 1990. A planning obligation is a legal agreement between the planning authority and the applicant/developer, any successive owners and any others who may have an interest in the land. It either requires the developer to do something or restricts what can be done with land following the grant of planning permission. Planning obligations tend to apply to major development schemes. They should represent a benefit for the land and/or the locality; they are registered as Local Land Charges and are normally enforceable against the people entering into the obligation and any subsequent owner of the site.

Section 236 funding
US legislation enacted in 1968 (Housing and Urban Development Act). It provides a subsidy to housing projects to reduce mortgage interest payments. The maximum subsidy was set at the difference between the monthly payment for principal, interest, and mortgage insurance premium on the outstanding mortgage at the market rate of interest and the monthly payment, which would be required under a mortgage bearing an interest rate of one per cent.

Shared Ownership
Shared Ownership schemes are administered by Housing Associations. They provide for the purchase of part of the value of housing (conventionally 50 per cent) by the prospective resident, with the option to 'staircase' up to a higher percentage of ownership in the future; the registered social landlord (RSL) retains ownership of the remainder of the equity, for which it then charges the leaseholder rent. The rent charge is set as a percentage of the affordable rent the RSL would charge for a similar rented property; the percentage reflecting the percentage of the equity retained by the RSL.

Social Housing Grant
A capital grant provided by the Housing Corporation to fund housing associations and develop social housing.

Starter Home Initiative
The Starter Home Initiative (SHI) is a Housing Corporation scheme to help key workers, primarily teachers, health workers and the police, to buy a home in areas where high house prices are undermining recruitment and retention. The scheme is available in London, the South East and housing hot spots in Eastern and South Western England.

Tilting mortgage finance
A tilting index-linked mortgage works in the same way as an index-linked mortgage, but applies a lower annual increase to both loan repayments and the outstanding debt. Where inflation is 2.5 per cent and a one per cent 'tilt' is applied, the mortgage profile will be

similar to that for an index-linked mortgage based on inflation of 1.5 per cent. The tilt means that where the income to pay the mortgage comes from rents, which rise annually with inflation, a surplus will arise which is smaller than for a conventional mortgage but larger than for an index-linked mortgage. In the case of an index-linked mortgage, the surplus is eliminated in favour of the lowest possible starting payment.

Unitary Development Plan
Contains the planning policies governing development in an area and controls development in unitary authorities such as London boroughs at both strategic and local level.

Appendix 1: Research Terms of Reference with the Housing Corporation

1. **Research Title:** *Mutual Solutions to Meet Housing Need for Key Workers in London and other Higher Cost Regions of England – Market Feasibility Study*

2. **Project Purpose:** To research the feasibility of developing an intermediate sub-market form of limited-equity housing co-operative for key workers who are currently priced out of the market in high housing cost areas and to market test the model to assess the likely demand.

3. **Project Objectives:**

   The research will seek to develop innovative funding mechanisms that create an attractive way of enabling key workers on low to middle incomes of investing in their homes without some of the costs attributable to other forms of low-cost home ownership with subsidy levels that are attractive to government;

   The model developed will be market tested with key worker focus groups to test likely demand and to verify that the limited-equity model is an attractive sub-market form;

   Exit routes from the investment will also be considered and tested;

   A report will be produced detailing the research methodology, the model devised and the results of the market research to test likely viability and likely demand;

   A key desired outcome from the project is to create a viable model that can be subsequently be piloted, with local authority support, in London and the South West.

Appendix 2: List of Third Party Interviewees

London

1. Rachel Power
   Richard House Children's Hospice

2. Jakki Moxham
   Springboard Housing Association

3. Cllr Alec Kellaway
   Cabinet Member, London Borough of Newham

4. Redhika Bynon
   London Borough of Newham, Education Department

5. Bridgette Osakuni
   London Borough of Newham, Housing Partnerships

6. Peter Elia
   West Ham and Plaistow New Deal for Communities

7. Mike Youkee
   NOAH Ltd.

8. Sher Khan
   Noah's Ark Ltd

9. Peter Corbishley
   Bromley Street Housing Co-operative

10. Steve Inkpen
    London Borough of Tower Hamlets, Housing Department

11. Christine Czechowski
    Coin Street Community Builders

12. Fiona Austin
    Coin Street Community Builders

13. Gwyneth Allen
    Kensington Housing Trust

14. Stephen Hill
    Capital Action

15. John Prewer
    Peabody Housing Trust

16. Jenny Goodwin
    The Housing Corporation

17. Adrian Tomms
    Boleyn & Forest Housing Association

18. Kate Eldridge
    Hackney Borough Council

19. Augustina Nyamaah,
    Tower Hamlets Borough Council

20. Alex Gipson
    Royal Bank of Scotland/NatWest

The South-West

21. Martin Large
    Stroud Common Wealth Ltd

22. Max Comfort
    Stroud Cohousing Ltd

23. Andrew Beard
    Architect

24. Gabrielle Kaye
    Wynstones School

25. Philip Kerwin
    St. Luke's Medical Centre

26. Simon Charter
    Kolisko Farm Ltd

27. Sir David McMurtry
    Renishaw plc

28. Peter Bowles
    Renishaw plc (Personnel Manager)

29. Jane Emanuel
    South-West Foundation

30. Julie Stafford
    Gloucestershire Housing Association

31. Stephen Holt
    Royal United Hospital, Bath (Director of Facilities)

32. Peter Eley
    Royal United Hospital, Bath (Human Resources Manager)

33. Kathrin Luddecke
    Oxford Swindon and Gloucester Co-operative Society Ltd

34. Jane Shayler
    Strategic Housing Department, Bath and North-East Somerset District Council

35. Lizzie Cox
    Bath and North-East Somerset District Council

36. Jane Alderman
    Somer Housing Group

37. Barry Wyatt
    Head of Development Services, Stroud District Council

38. Andrew O'Brien
    Head of Planning, Stroud District Council

39. Sue Creasy
    Knightstone Housing Association, Weston-super-Mare

40. Shirley Evans-Jones
    Hastoe Housing Association

Appendix 3: Legal Advice Summary of Key Issues

1. Legal structure

The two core objectives of the scheme are the protection of the element of public subsidy (the commons) for future generations and the opportunity for occupiers to participate in equity growth. The central mechanisms for this are a Community Land Trust, to protect subsidy in the form of land, and a co-operative as a vehicle for providing occupation rights and equity participation.

1.1 Community Land Trust
The CLT owns the freehold of the land, of which it grants a lease to the co-op. The value of the land is used to assist the co-op to provide security for borrowings to fund construction in the same way as a shared ownership lease; with the chargee retaining the right to sell the whole if the project fails. There would also be scope for a potential second charge to a guarantee society[25] (relevant in the context of a guarantee mechanism for the purposes of reducing the cost of borrowing).

Issues arising
Prevention of leasehold enfranchisement and protection of subsidy (in the form of the land)

Membership and governance of the CLT; who will be the stakeholder members? In this context, a separate area of concern is control of the subsidy held by the CLT. Likely stakeholders would be:

- The local authority
- Key worker employers
- The occupiers/leaseholders.

Proposed solution to enfranchisement concern
The model will always be at risk of statutory measures, which is to some extent therefore a political issue. As the law stands at present, the land would be protected if the CLT were to grant a lease to itself and the co-op on the basis of a joint tenancy, so that it could veto any application against itself for enfranchisement.

The recitals should make explicit that the land is intended to be preserved as an asset to maintain the availability of affordable housing in the future and that the intention of the lease is to create obligations of mutuality to that end. This would help address the possibility of a nil/nominal valuation of the freehold in the context of enfranchisement (the valuation being a multiple of the rent, which would probably be nil or very low).

A further possible solution would be a notional full rent relating to the subsidy element, which would not be payable while the asset was being applied to its intended purpose. It would be calculated as a percentage of the value of the land at the relevant time, and would therefore fall due on enfranchisement. The sum payable on enfranchisement would be a multiple of the rent, and the financial advantage would be lost. In this scenario, the CLT would still grant the lease to itself and the co-op jointly.

Otherwise there would be nothing particularly unusual about the lease.

To ease administration, a power of attorney could be granted by the CLT to the co-op on closely defined terms.

1.2 The Co-operative
The co-op would be fully mutual; occupiers would be members, each with one vote. The co-op would raise mortgage finance collectively, and therefore cheaply, and the co-op would benefit from tax advantages available to fully mutual co-ops. These relate to the tax status of repayment of the principal debt. While payments of interest are treated as expenditure for tax purposes in the case of conventional landlords, repayment of the principal is not allowed as an expense and is therefore taxed. However, if the co-op is fully mutual, repayment of the principal is treated in the same way as it would be in the case of an individual homeowner, the co-op being the expression of its members' identity, and is not subject to tax. Thus, there is a saving of 30 per cent on capital repayments.

The function of the co-op would be to raise finance on a wholesale basis, manage the mutual home ownership mortgage scheme and control the terms under which rights of occupation could be transferred.

The CLT and the co-op would grant an under-lease to the CLT, the co-op and the occupier jointly (again, to prevent enfranchisement). It would be a long lease, so that responsibility for maintenance of the internal parts could rest with the occupiers and so that they could jointly raise mortgage finance through the co-op.

The lease would be drawn up on a quasi-shared ownership basis, and allow occupiers to 'staircase' their equity participation up and down within certain defined limits.

1.3 The Occupiers – Equity participation and "Deposit"
"Deposit" – may be affordable initially from occupiers' savings/unsecured borrowings but, if their stake is based on a percentage of the open market value of the properties, there is a risk that the amount would rise steeply as a proportion of average public sector earnings, and affordability may become a problem for future occupiers without the possibility of raising a secured loan. The level of deposit would initially be set at 5%, but should be kept under review by the co-op. For fully developed schemes, this percentage may be reduced in later years in order to maintain its affordability in relation to earnings.

Equity release mechanism – equity withdrawal should be related to the capacity of the co-op to borrow additional funds based on a transparent formula agreed at the outset. It should be swift and flexible in releasing small capital sums to occupiers as the need arises, and not confined to restricted purposes such as a deposit on another property on exit.

Mutual mortgage contribution scheme – set at a percentage of current open market rent (possibly one-third on the basis of the one-third rule of thumb in relation to land, construction and profit costs), or the co-op's ability to meet its debts, whichever is the greater (to cover the risk that the proportion would find itself out of step with open market rents in a volatile market). Thus, payments by members would principally support the construction costs (as well as major repairs, maintenance and administration). The co-op's capacity to borrow[26] would rise in line with the rise in monthly receipts in the form of member payments and it could use the borrowings to buy out departing occupiers and release equity to occupiers (see above).

Income – within that aggregate framework, mortgage contributions would be set for individual occupiers on the basis of a percentage of their income **at the time of entry**. It would not then vary up and down as their income changed subsequently, but they would have the opportunity to 'staircase' up or down.

2. Significant ancillary issues

2.1 Housing Benefit

Under current legislation, Housing Benefit may be excluded by operation of the 1987 Housing Benefit Regulations, para 2(1), because the scheme may be held anomalously to fall within the definition of co-ownership.[27]

In the event of unemployment or long-term illness, occupiers as mutual homeowners would therefore have to rely on Income Support and claim a payment to cover mortgage interest, service charges and Council Tax rebate. Under existing regulations, benefits to cover mortgage interest would not be available until after a period of six months' unemployment, so consideration should be given to a collective insurance scheme arranged by the co-op for its members to cover payments for that period. The equity release provision (see above) will also be available to cover short-term member payment problems of this nature.[28]

2.2 Stamp Duty

Stamp Duty is payable by the co-op on the lease granted by the CLT. If it were a building lease at a nil premium and a nil rent containing an obligation for the co-op to construct the dwellings and let them, no stamp duty would be payable. However, the value of the building could be treated as consideration for the grant of the lease, giving rise to stamp duty on the cost of construction.

Stamp Duty is payable on a weekly tenancy at a rent of more than £5,000 per year. It is also payable on surrender or assignment on capital value only, currently if the value of the transaction is more than £60,000. In Shared Ownership schemes, it is possible to elect to be treated as having bought the property in its entirety at the outset, so that Stamp Duty is payable on the full purchase price at a rate of one per cent but not the lease. As Stamp Duty is 12 per cent of annual rent, this election is likely to be more advantageous.[29] This will require careful drafting of the lease/equity participation agreement.[30]

2.3 Capital Gains Tax Exemption

The current annual taxable threshold is £7,700. An 'interest in' a dwelling house benefits from the "only or main residence exemption", which appears to be taken as a legal or equitable interest. Occupiers under the proposed scheme should, therefore, benefit from the exemption.[31]

2.4 Income Tax

Accommodation provided at a discount by virtue of the occupier's employment is subject to income tax on the difference between the discounted price and the market rate. This would therefore be a problem for, say, health workers entitled to live in the scheme because of their work. Further, the co-op would be liable to pay National Insurance on the same sum.

It is therefore essential to ensure that the purpose of the housing is expressed to be to provide housing to people unable to afford to purchase in the open market, and that members are chosen by the co-op, and not by an employer. If a local employer wished to have nomination rights, this would be expensive as they would have to underwrite the costs involved.

However, indirect arrangements are possible. For example, if occupation of the property is determined through a Section 106 planning consent, the value of the accommodation is itself limited by the planning restriction and this also avoids the problem. Another solution may be for, say, a health workers' club to form the co-op and then to develop the scheme.

Appendix 4: Shared-equity Co-operative Model – Core Elements

Financial and Leasehold Structure:	Reason
1. Land asset value (and/or other subsidy provided) not to be owned by individual co-op members or through limited-equity shares but retained as a permanent social asset for 'Community Benefit' in a tax exempt Community Land Trust, with the co-op holding a 99-year minimum head lease.	***to lock in subsidy in robust ways which prevents demutualisation through privatisation and thus retains housing as a permanently affordable social asset for future generations***
2. Development to be undertaken by the co-op and the CLT; the CLT to grant a charge over its land to the co-op's mortgage; completed homes to be leased to the co-op.	***to enable the lender to have access to the security provided by the CLT equity***
3. Mortgage finance for individual equity stakes to be collective, not individual, and to be raised on either a low-start basis over 25 years, where repayments rise according to a formula (e.g. index-linked or Canadian Tilting mortgage for co-ops) based on inflation or else as conventional repayment finance with a supplementary facility allowing deferment in the early years.	***to achieve more competitive rates, avoid mortgage set-up costs for mutual homeowners and to keep outgoings within 30-35 per cent of net salary levels***
4. Equity stakes to start with an initial payment of five per cent of the mortgage finance required. In future as housing projects developed mature, this deposit might be lowered at the discretion of the co-op.	***to provide a reserve to limit negative equity problems for the co-op and*** to ***demonstrate commitment to the model***
5. Equity stakes to be unitised through a Property Unit Trust type system to provide highly flexible tenure, permitting incremental staircasing – down as well as up when necessary.	***to enable close gearing of asset acquisition to income and thus allowing lower income key workers to become members***
6. Rights of occupation are governed: (i) by a shared ownership lease structured to provide maximum security of tenure and rights to income support and (ii) by the membership shareholding in the co-op	***(i) to permit limited-equity interest to be assigned under Landlord and Tenant law rather than sold – thus saving on legal and other transactional costs of buying and selling property and (ii) to provide a share in accumulated equity through a mutual mortgage scheme***
7. All routine internal servicing and repairs to be the responsibility of occupying members	***to encourage care for property and reduce collective repair costs***
8. Units acquired by outgoing members to be purchased at a price based on an agreed resale formula, based on either an agreed index of local property market values or possibly an index of building costs.	***to minimise valuation fees and legal costs***
9. Co-op to have a charge or lien over members' equity stakes	***to avoid mortgage payment arrears and losses from non-payment***
10. When members leave, they will assign their lease to the incoming member through the co-op	***a) to ensure that units are traded at their proper value and not at a premium, b) to enable the co-op to re-distribute some of the equity units to other resident members, to allow them to increase their investment and to permit a person on a lower salary than the outgoing member to move in and c) to enable the co-op to ensure that incoming members meet the 'key worker' criteria imposed through the lease granted by the CLT.***

Governance Structure

Reason

11. Community Land Trust to be a non-profit Industrial and Provident Society for Community Benefit or similar Community Interest Company with a three part directorate involving one-third leaseholders (ie. members of the co-operative who occupy units in buildings located on CLT land), one-third local authority and the local community interest, one-third key worker employers and volunteer professionals (e.g. lawyers, surveyors and finance experts).

to ensure a board which represents a balance of local and community interests, levers expertise from professionals pro bono, and can maintain the mission of permanent affordability in the local areas served by the CLT in the urban area or rural region

12. Co-ops to be established as fully mutual housing associations under the law, with membership restricted to residents or prospective residents of the association.

to preclude the granting or assignment of occupation rights to persons other than members

13. Operation of housing co-ops in accordance with the seven Co-operative Principles (to be written into the organisation's rules) and management committee elected by members.

to ensure that co-op is bona-fide co-op to ensure full accountability to all members

14. Effective control of day-to-day decisions about the running of the housing co-op to vest with members with a budget for training and educating mutual homeowners.

to ensure genuine ownership of the co-op, decisions and management issues, by members and to ensure that members control the assets in which they are investing

Member Social Investment – Secondary Financing Features

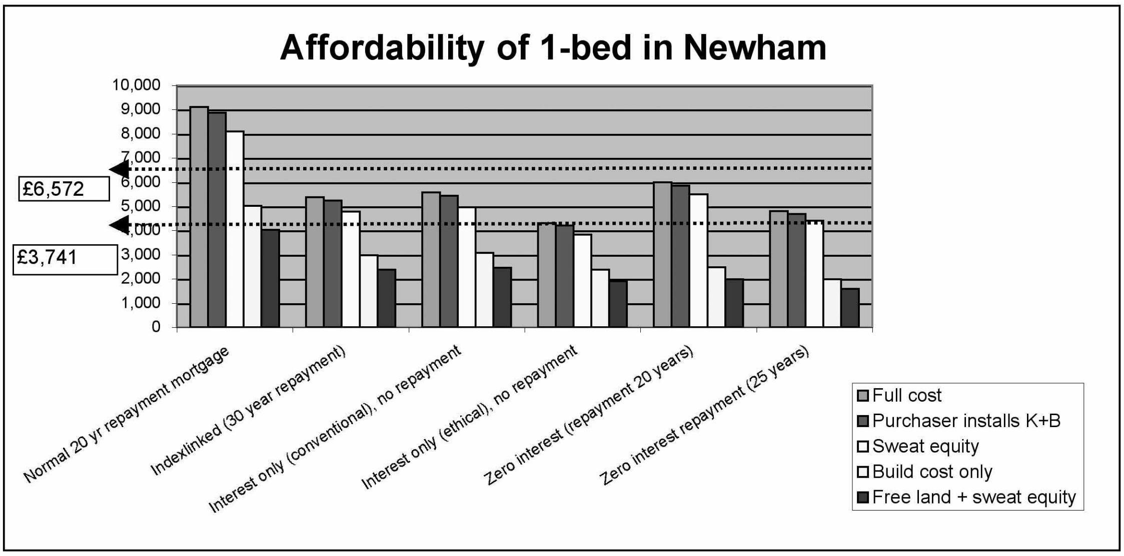
15. Second mortgage finance to be made available through a regional CDFI partner and with either key worker employer or Government 'social investment' of five per cent (i.e. matching the key worker down payment) in order to enable a conventional mortgage to be treated as index-linked (if index-linked finance is unavailable) and to enable equity stakes to be paid as residents leave and the loan debt needs to be increased.

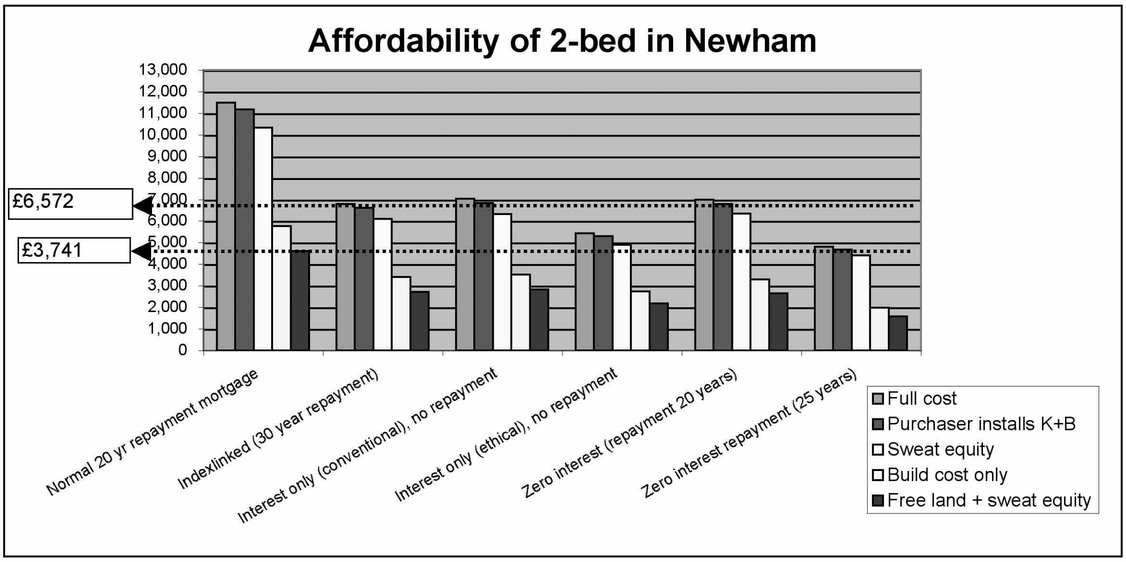
because existing lending institutions will be persuaded to provide finance on the terms proposed in the model with a secondary finance provider sharing any sensitivity risk

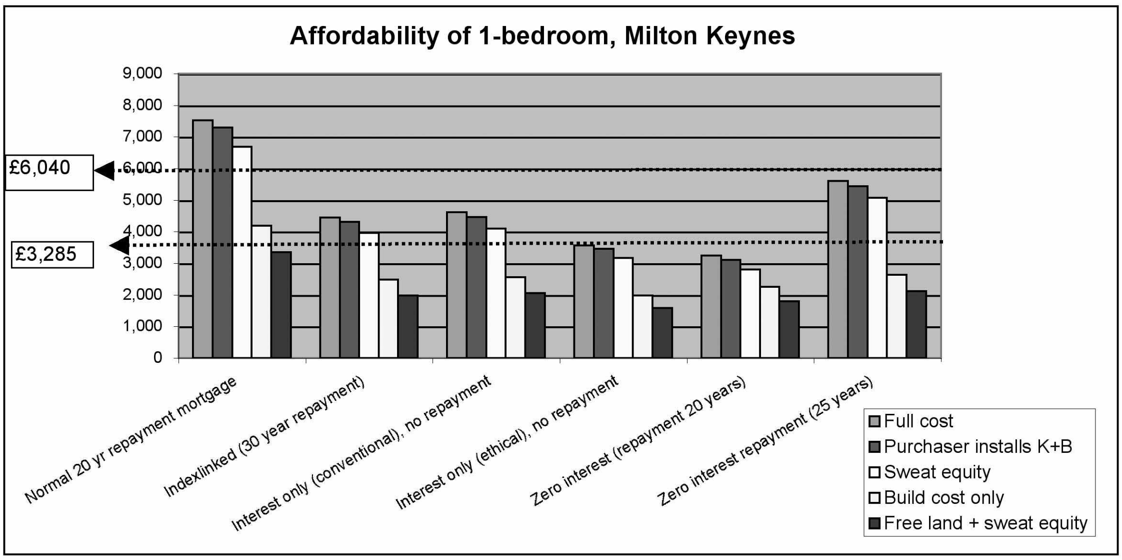
16. Members can also assist the co-op to reduce its debt level by purchasing co-op IPS shares (beyond an agreed minimum entry level up to the legal maximum of £20,000) at a low and variable dividend/interest rate of say one to two per cent which enables the co-op to swap this fund for the debt balance on the properties.

to provide a savings account facility to members that at the same time accelerates debt repayment and also builds additional reserve funds for refinancing exit of members

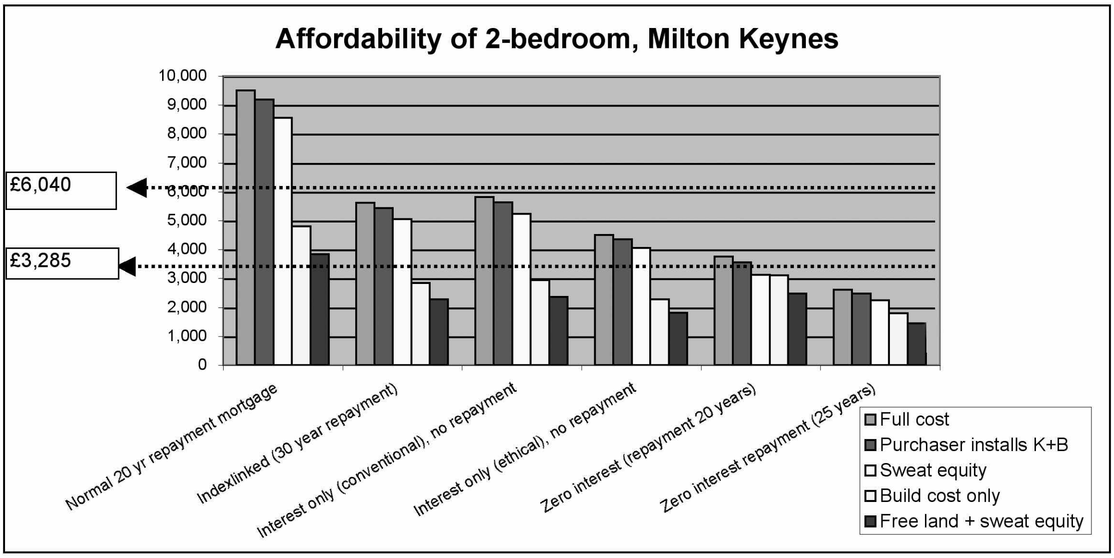
Appendix 5 Annex 1: Affordability of property compared to housing costs

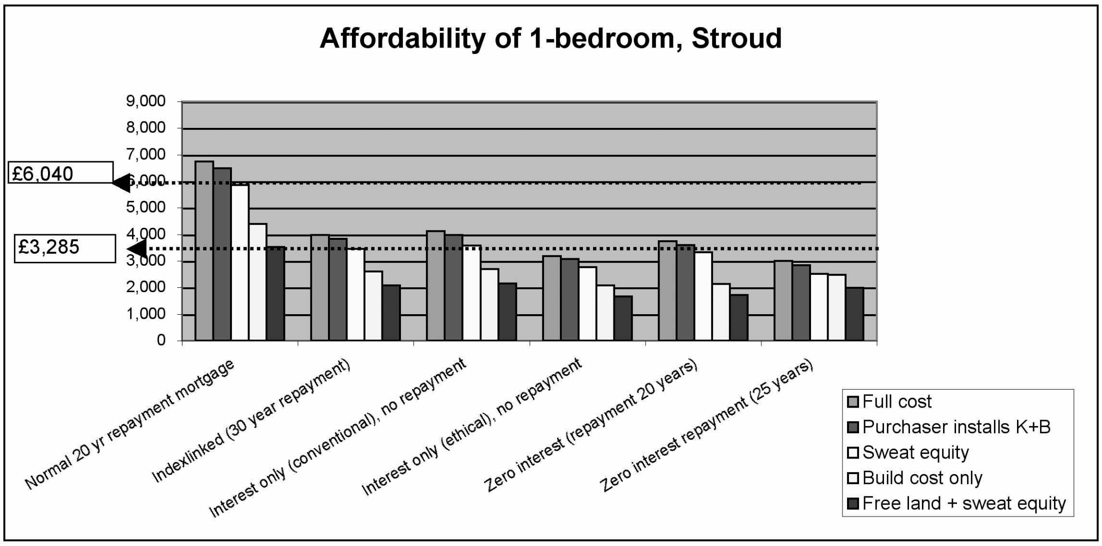


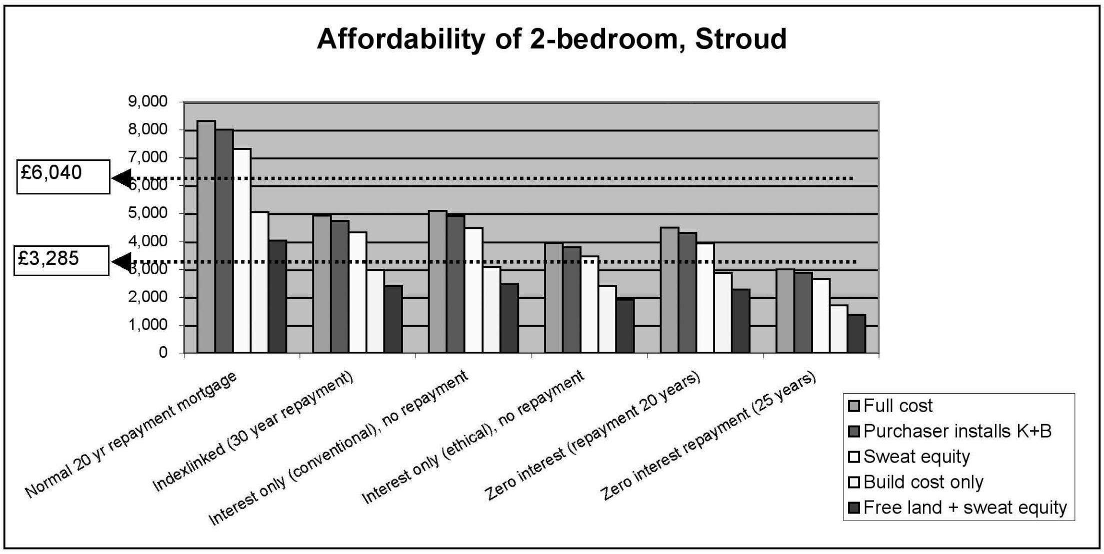




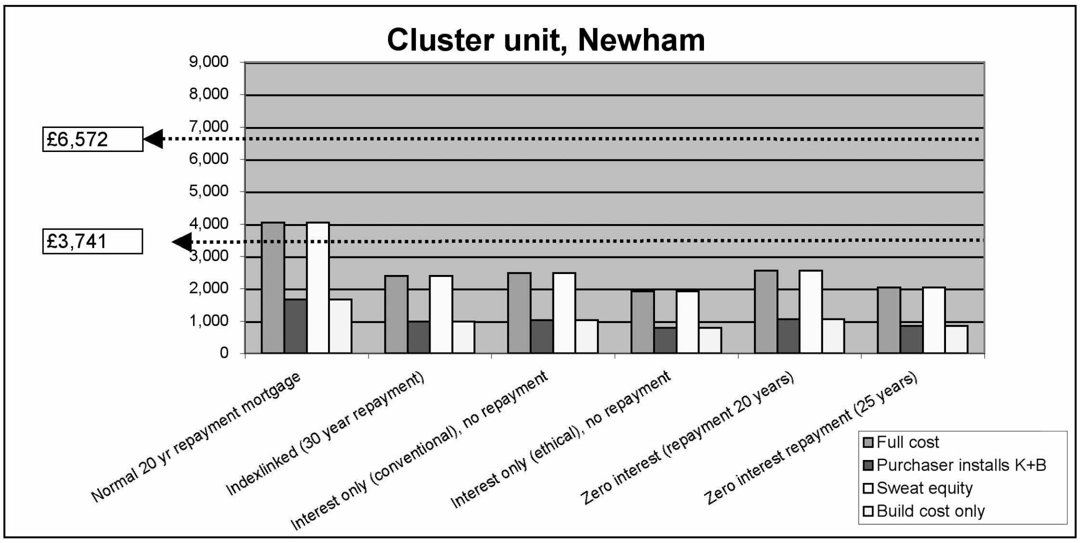
Appendix 5 Annex 1: Affordability of property compared to housing costs (contd)

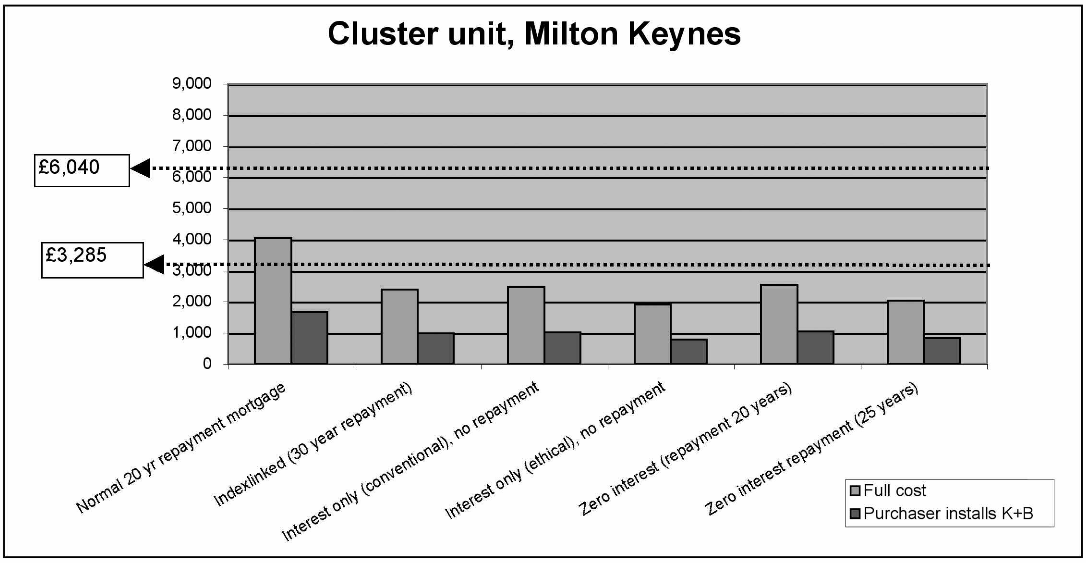


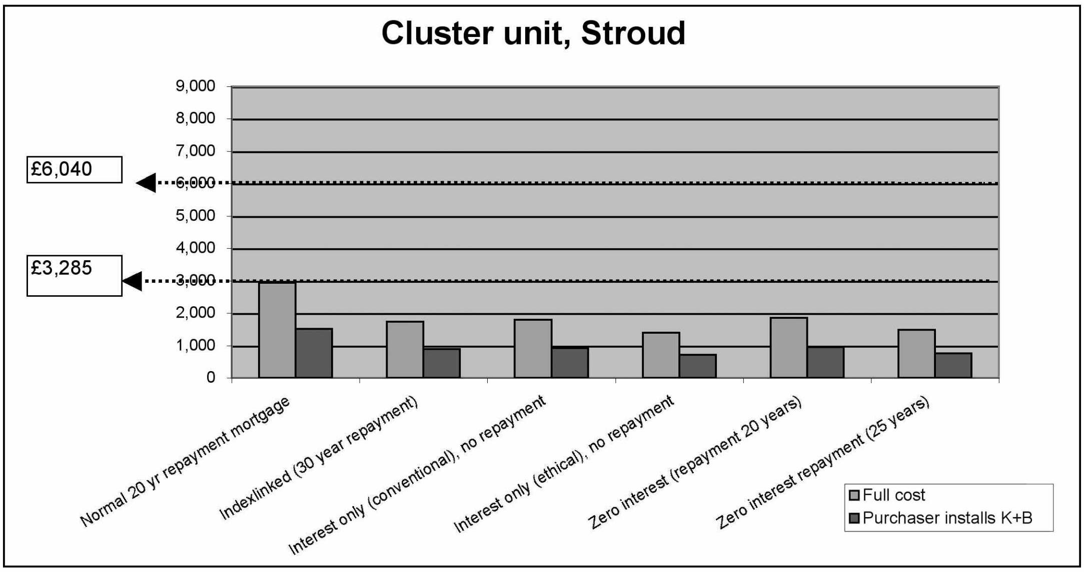




Appendix 5 Annex 1: Affordability of property compared to housing costs (contd)







Appendix 5 Annex 2: House price levels recorded by Nationwide and Proviser for each location

Proviser, Q3	Newham £	Milton Keynes £	Stroud £
All	147,594	130,970	169,911
Flat	135,300	69,366	95,926
Maisonette	153,667	100,079	116,737
Detached	193,800	207,064	253,718

Nationwide, Q4	Outer Metropolitan	Outer Southeast	Southwest
Average	189,738	150,505	136,698
First time buyer	144,843	117,850	106,260
		East Anglia 125,645	
		99,488	

Assumptions for model			
1-bed	115,000	95,000	85,000
2-bed	145,000	120,000	105,000

Annex 3: Estimated construction costs for the three areas

	Size m2		**Cost/m2 Newham £**	**Cost/m2 Milton Keynes £**	**Cost/m2 Stroud £**
		Cost/m^2:	1,200	1,000	1,050
1-bedroom	46		55,200	46,000	48,300
On costs		15%	63,480	52,900	55,545
		Cost/m^2:	1,020	850	893
2-bedroom	62		63,240	52,700	55,335
On costs		15%	72,726	60,605	63,635

Appendix 5 Annex 4: Assumptions made in the model

	Rate	Type	Period (years)
Base rate	3.75%		
% over base	1.10%		
Borrowing rate	4.85%	variable	20
Inflation (assumed long term forecast)	2.50%		
Index-linked rate	2.35%	fixed	30

Capital costs

	Newham		Milton Keynes		Stroud	
	1-bed	**2-bed**	**1-bed**	**2-bed**	**1-bed**	**2-bed**
Assumed values	£115,000	£145,000	£95,000	£120,000	£85,000	£105,000
Cost reduction options						
Build cost only	£63,480	£72,726	£52,900	£60,605	£55,545	£63,635
Assumed land value	£51,520	£72,274	£42,100	£59,395	£29,455	£41,365
Sweat equity potential	£12,696	£14,545	£10,580	£12,121	£11,109	£12,727
Kitchen and decorations potential	£3,000	£4,000	£3,000	£4,000	£3,000	£4,000
Potential for sweat equity in self-build		20%		20%		

Finance options (based on £1,000)

	Year 1	Year 20	Year 30
Normal 20 yr repayment mortgage	£79.23	£79.23	
Indexlinked (20 year repayment)	£63.24	£103.63	
Indexlinked (30 year repayment)	£46.83	£76.73	£98.22
Interest only (conventional), no repayment	£48.50	£48.50	£48.50
Interest only (ethical), no repayment	£37.50	£37.50	£37.50

Revenue

Costs - based on cooperative shared ownership

	Per week	Per annum
Management	£2.80	£146
Planned maintenance inc external painting	£1.10	£57
Buildings insurance	£1.20	£62
Routine maintenance	£2.20	£114
Services	£1.80	£94
TOTAL	**£9.10**	**£473**

Salaries	15,000	17,000	19,000	21,000	23,000	25,000
Net income available after tax						
30%	3,758	4,214				
32.50%			5,060	5,554		
35%					6,513	7,045
Net income available for housing costs after payment of management and maintenance						
30%	3,285	3,741				
32.50%			4,586	5,080		
35%					6,040	6,572

Appendix 5 Annex 5 Examples of the model with different financing options

Annex 5a

Indexlinked finance over 30 years; 2-bedroom flat in Newham

Full cost/value	145,000	Income	21,000
Subsidy	30,708	Payment	32.5%
Deposit (4% value)	5,800		
Debt	108,492	Affordable payments	5,554
		% to equity stake	0%
Finance rate	4.85%		
Real interest rate	2.35%		
Years	30		
Mortgage	5,080		
Mortgage indexation	2.50%		
	Above RPI by		

Inflation	2.50%	
Property inflation (from year 3)	1.00%	3.50%
Increase in rent per annum	0.50%	3.00%
Increase in charges	1.00%	3.50%

Property inflationassumes 1% growth in economy on top of inflation: this increase however occurs erratically in practice.
Because of recent rises in house prices an assumption has been made of no property value inflation for 2 years, indeed the possibility exists of a fall in values.

Year	Property value inflation	Property value £	Starting debt £	Interest £	Payment £	Index-ation £	Final debt £	Rent £	Charges £	Net CLT income £	Surplus/ deficit £	Reserve balance £
1	0.0%	145,000	108,492	2,550	5,080	2,649	108,610	5,554	473	5,081	0	0
2	0.0%	145,000	108,610	2,552	5,207	2,649	108,604	5,721	490	5,231	23	24
3	3.5%	145,000	108,604	2,552	5,338	2,645	108,464	5,892	507	5,385	48	72
4	3.5%	150,075	108,464	2,549	5,471	2,639	108,181	6,069	525	5,544	73	145
5	3.5%	155,328	108,181	2,542	5,608	2,628	107,743	6,251	543	5,708	100	245
10	3.5%	184,480	104,220	2,449	6,345	2,508	102,833	7,247	645	6,602	257	1,202
15	3.5%	219,105	94,818	2,228	7,178	2,247	92,114	8,401	766	7,635	457	3,067
20	3.5%	260,228	77,927	1,831	8,122	1,791	73,427	9,739	910	8,829	707	6,080
25	3.5%	309,069	50,869	1,195	9,189	1,072	43,947	11,290	1,080	10,210	1,021	10,529
30	3.5%	367,077	10,158	239	10,397	0	0	13,088	1,283	11,805	1,409	16,764

Examples of equity stakes at handover

Tenant leaves at the end of year:	5	7	10	15	20	25	30
Value of property at leaving date	160,764	172,215	190,937	226,774	269,336	319,887	379,925
Original debt as % of value	74.8%	74.8%	74.8%	74.8%	74.8%	74.8%	74.8%
Debt at leaving date	107,743	106,360	102,833	92,114	73,427	43,947	
Repaid equity at leaving date	12,544	22,494	40,031	77,562	128,096	195,398	284,268

Debt for whole scheme as a result of original 20 residents leaving with equity shares

Homes: 20	Starting debt £	Number leaving £	Extra debt £	Interest £	Extra payment £	Index-ation £	Total extra debt £	Total starting debt	Total Interest £	Total Payment £	Total indexation £	Total final debt £	Total net rent £	Surplus/ deficit £	Reserve £
1	2,169,840							2,169,840	50,991	101,608	52,981	2,172,204	101,616	8	8
2	2,172,204							2,172,204	51,047	104,148	52,978	2,172,081	104,617	469	478
3	2,172,081							2,172,081	51,044	106,751	52,909	2,169,283	107,707	955	1,433
4	2,169,283							2,169,283	50,978	109,420	52,771	2,163,612	110,887	1,467	2,900
5	2,163,612	5	62,721				62,721	2,163,612	50,845	112,156	52,558	2,217,579	114,161	2,006	4,906
6	2,154,858			1,474	3,346	1,568	62,416	2,217,579	52,113	118,306	55,439	2,206,826	117,532	-774	4,132
7	2,142,801	5	112,471	1,467	3,432	1,560	174,482	2,206,826	51,860	121,266	55,171	2,305,061	121,002	-264	3,868
8	2,127,206			4,100	9,907	4,362	173,038	2,305,061	54,169	130,686	57,627	2,286,171	124,574	-6,113	-2,245
9	2,107,827			4,066	10,163	4,326	171,267	2,286,171	53,725	133,962	57,154	2,263,088	128,251	-5,711	-7,957
10	2,084,401	5	200,153	4,025	10,426	4,282	369,300	2,263,088	53,183	137,320	56,577	2,435,680	132,036	-5,285	-13,241
11	2,056,653			8,679	23,355	9,233	363,856	2,435,680	57,238	153,421	60,892	2,400,390	135,932	-17,489	-30,730
12	2,024,291			8,551	23,963	9,096	357,540	2,400,390	56,409	157,281	60,010	2,359,527	139,944	-17,338	-48,068
13	1,987,007			8,402	24,589	8,938	350,292	2,359,527	55,449	161,240	58,988	2,312,725	144,073	-17,167	-65,235
14	1,944,477			8,232	25,233	8,757	342,048	2,312,725	54,349	165,300	57,818	2,259,592	148,323	-16,976	-82,211
15	1,896,358	5	387,812	8,038	25,896	8,551	720,554	2,259,592	53,100	169,465	56,490	2,587,529	152,699	-16,765	-98,977
16	1,842,287							2,587,529	60,807	175,396	64,688	2,537,629	157,204	-18,192	-117,169
17	1,781,883							2,537,629	59,634	181,535	63,441	2,479,169	161,840	-19,694	-136,863
18	1,714,744							2,479,169	58,260	187,888	61,979	2,411,521	166,614	-21,275	-158,138
19	1,640,443							2,411,521	56,671	194,464	60,288	2,334,015	171,527	-22,937	-181,075
20	1,558,533							2,334,015	54,849	201,271	58,350	2,245,944	176,585	-24,686	-205,761
21	1,468,542							2,245,944	52,780	208,315	56,149	2,146,557	181,791	-26,524	-232,285
22	1,369,971							2,146,557	50,444	215,606	53,664	2,035,059	187,151	-28,455	-260,740
23	1,262,295							2,035,059	47,824	223,152	50,876	1,910,607	192,668	-30,484	-291,224
24	1,144,960							1,910,607	44,899	230,963	47,765	1,772,309	198,347	-32,615	-323,840
25	1,017,383							1,772,309	41,649	239,046	44,308	1,619,219	204,193	-34,853	-358,693
26	878,949							1,619,219	38,052	247,413	40,480	1,450,338	210,211	-37,202	-395,895
27	729,010							1,450,338	34,083	256,072	36,258	1,264,607	216,406	-39,667	-435,561
28	566,884							1,264,607	29,718	265,035	31,615	1,060,906	222,782	-42,253	-477,814
29	391,852							1,060,906	24,931	274,311	26,523	838,049	229,346	-44,966	-522,780
30	203,156							838,049	19,694	283,912	20,951	594,782	236,102	-47,810	-570,590
31	0							594,782	13,977	293,849	14,870	329,780	243,057	-50,792	-621,382
32	0							329,780	7,750	304,134	8,244	41,640	250,216	-53,918	-675,300
33	0							41,640	979	314,778	1,041	-271,119	257,585	-57,194	-732,494
34	0							-271,119	-6,371	325,796	-6,778	-610,064	265,170	-60,626	-793,120
35	0							-610,064	-14,337	337,199	-15,252	-976,851	272,978	-64,221	-857,341
36	0							-976,851	-22,956	349,001	-24,421	-1,373,228	281,015	-67,986	-925,326
								-1,373,228	0	0	0	0	289,287	289,287	-636,039

Appendix 5 Annex 5b

Indexlinked finance over 30 years; 2-bedroom flat in Newham – unitised model

Full cost/value		145,000	Income	21,000		Units		
Subsidy30,885			Payment	32.5%		Number	Value £	
Deposit (5%)		5,800						
Debt	108,315	145,000	Affordable payments	5,554		1,000	145	
			% to equity stake	0%	CLT	213	213	
Finance rate		4.85%			Occupier	40	40	
Real interest rate		2.35%			Mortgagee	747	747	
Years		30				1,000		
Mortgage		5,072						
Mortgage indexation		2.50%						

	Above RPI by	
Inflation	2.50%	
Property inflation (from year 3)	1.00%	3.50%
Increase in rent per annum	0.50%	3.00%
Increase in charges	1.00%	3.50%

Property inflationassumes 1% growth in economy on top of inflation: this increase however occurs erratically in practice.
Because of recent rises in house prices an assumption has been made of no property value inflation for 2 years, indeed the possibility exists of a fall in values.

Year	Property value inflation	Property value £	Starting debt £	Interest £	Pay-ment £	Index-ation £	Final debt £	Rent £	Charges £	Net CLT income £	Surplus/ deficit £	Reserve balance £
1	0.0%	145,000	108,315	2,545	5,072	2,645	108,433	5,554	473	5,081	9	9
2	0.0%	145,000	108,433	2,548	5,199	2,645	108,427	5,721	490	5,231	32	41
3	3.5%	145,000	108,427	2,548	5,329	2,641	108,287	5,892	507	5,385	56	97
4	3.5%	150,075	108,287	2,545	5,462	2,634	108,004	6,069	525	5,544	82	179
5	3.5%	155,328	108,004	2,538	5,599	2,624	107,567	6,251	543	5,708	109	289
10	3.5%	184,480	104,050	2,445	6,334	2,504	102,665	7,247	645	6,602	267	1,295
15	3.5%	219,105	94,663	2,225	7,167	2,243	91,964	8,401	766	7,635	468	3,215
20	3.5%	260,228	77,800	1,828	8,108	1,788	73,307	9,739	910	8,829	721	6,291
25	3.5%	309,069	50,786	1,193	9,174	1,070	43,876	11,290	1,080	10,210	1,036	10,812
30	3.5%	367,077	10,141	238	10,380	0	0	13,088	1,283	11,805	1,426	17,128

Examples of equity stakes at handover

Tenant leaves at the end of year:	5	10	15	20	25	30
Value of property at leaving date	160,764	190,937	226,774	269,336	319,887	379,925
Original debt as % of value	74.7%	74.7%	74.7%	74.7%	74.7%	74.7%
Debt at leaving date	107,567	102,665	91,964	73,307	43,876	0
Repaid equity at leaving date	12,524	39,965	77,436	127,887	195,080	283,804

Unitised equity stake

	0	5	10	15	20	25	30
Value of unit	145.00	155.33	184.48	219.10	260.23	309.07	367.08
Initial units	40						
Total units - mortgagee	747	693	557	420	282	142	0
Total units - CLT	213	213	213	213	213	213	213
New units purchased	54	136	137	138	140	142	
Total units purchased	0	54	190	327	465	605	747
Total units owned - occupier	40	94	230	367	505	645	787
	1,000	1,000	1,000	1,000	1,000	1,000	1,000

Appendix 5 Annex 5c

Conventional finance over 30 years; 2-bedroom flat in Newham

Full cost/value	**145,000**	**Income**	**21,000**
Subsidy	59,743	Payment	32.5%
Deposit (4% value)	5,800		
Debt	79,457	Affordable payments	5,554
		% to equity stake	0%
Finance rate	4.85%		
Real interest rate	4.85%		
Years	30		
Mortgage	5,081		
Mortgage indexation	2.50%		

	Above RPI by	
Inflation		2.50%
Property inflation (from year 3)	1.00%	3.50%
Increase in rent per annum	0.50%	3.00%
Increase in charges	1.00%	3.50%

Property inflationassumes 1% growth in economy on top of inflation: this increase however occurs erratically in practice.
Because of recent rises in house prices an assumption has been made of no property value inflation for 2 years, indeed the possibility exists of a fall in values

Year	Property value inflation	Property value £	Property debt £	Starting Interest £	Pay-ment £	Index-ation £	Final debt £	Rent £	Charges £	Net CLT income £	Surplus/ deficit £	Reserve balance £
1	0.0%	145,000	79,457	3,854	5,081	1,956	80,186	5,554	473	5,081	0	0
2	0.0%	145,000	80,186	3,889	5,208	1,972	80,839	5,721	490	5,231	23	23
3	3.5%	145,000	80,839	3,921	5,338	1,986	81,407	5,892	507	5,385	47	71
4	3.5%	150,075	81,407	3,948	5,471	1,997	81,881	6,069	525	5,544	73	143
5	3.5%	155,328	81,881	3,971	5,608	2,006	82,250	6,251	543	5,708	100	243
10	3.5%	184,480	82,437	3,998	6,345	2,002	82,092	7,247	645	6,602	257	1,198
15	3.5%	219,105	78,641	3,814	7,179	1,882	77,158	8,401	766	7,635	456	3,060
20	3.5%	260,228	68,002	3,298	8,122	1,579	64,757	9,739	910	8,829	707	6,070
25	3.5%	309,069	46,869	2,273	9,190	999	40,951	11,290	1,080	10,210	1,020	10,517
30	3.5%	367,077	9,916	481	10,397	0	0	13,088	1,283	11,805	1,408	16,747

Examples of equity stakes at handover

Tenant leaves at the end of year:	5	7	10	15	20	25	30
Value of property at leaving date	160,764	172,215	190,937	226,774	269,336	319,887	379,925
Original debt as % of value	54.8%	54.8%	54.8%	54.8%	54.8%	54.8%	54.8%
Debt at leaving date	82,250	82,627	82,092	77,158	64,757	40,951	0
Repaid equity at leaving date	5,846	11,743	22,537	47,109	82,833	134,340	208,191

Debt for whole scheme as a result of original 20 residents leaving with equity shares

Homes 20	Starting debt £	Number leaving £	Extra debt £	Interest £	Extra payment £	Index-ation £	Total extra debt £	Total starting debt	Total Interest £	Total Payment £	Total indexation £	Total final debt £	Total net rent £	Surplus/ deficit £	Reserve £
1	1,589,140							1,589,140	77,073	101,615	39,115	1,603,713	101,616	1	1
2	1,603,713							1,603,713	77,780	104,155	39,433	1,616,771	104,617	462	46
3	1,616,771							1,616,771	78,413	106,759	39,711	1,628,136	107,707	947	1,410
4	1,628,136							1,628,136	78,965	109,428	39,942	1,637,614	110,887	1,459	2,869
5	1,637,614	5	29,228				29,228	1,637,614	79,424	112,164	40,122	1,674,224	114,161	1,997	4,867
6	1,644,997			1,418	2,043	731	29,333	1,674,224	81,200	117,011	41,856	1,680,269	117,532	521	5,388
7	1,650,056	5	58,713	1,423	2,095	733	88,107	1,680,269	81,493	119,937	42,007	1,742,545	121,002	1,065	6,452
8	1,652,548			4,273	6,440	2,203	88,143	1,742,545	84,513	127,228	43,564	1,743,394	124,574	-2,655	3,798
9	1,652,206			4,275	6,605	2,204	88,017	1,743,394	84,555	130,413	43,585	1,741,120	128,251	-2,162	1,635
10	1,648,743	5	112,686	4,269	6,775	2,200	200,398	1,741,120	84,444	133,678	43,528	1,848,101	132,036	-1,642	-7
11	1,641,849			9,719	15,877	5,010	199,250	1,848,101	89,633	145,952	46,203	1,837,984	135,932	-10,020	-10,027
12	1,631,188			9,664	16,286	4,981	197,609	1,837,984	89,142	149,614	45,950	1,823,462	139,944	-9,670	-19,697
13	1,616,397			9,584	16,707	4,940	195,426	1,823,462	88,438	153,368	45,587	1,804,118	144,073	-9,295	-28,993
14	1,597,085			9,478	17,140	4,886	192,650	1,804,118	87,500	157,218	45,103	1,779,503	148,323	-8,894	-37,887
15	1,572,828	5	235,544	9,344	17,586	4,816	424,767	1,779,503	86,306	161,166	44,488	1,984,675	152,699	-8,467	-46,354
16	1,543,169							1,984,675	96,257	166,807	49,617	1,963,742	157,204	-9,603	-55,957
17	1,507,615							1,963,742	95,241	172,645	49,094	1,935,432	161,840	-10,805	-66,761
18	1,465,633							1,935,432	93,868	178,687	48,386	1,898,999	166,614	-12,074	-78,835
19	1,416,649							1,898,999	92,101	184,941	47,475	1,853,634	171,527	-13,415	-92,25
20	1,360,044							1,853,634	89,901	191,414	46,341	1,798,461	176,585	-14,830	-107,079
21	1,295,148							1,798,461	87,225	198,114	44,962	1,732,534	181,791	-16,322	-123,402
22	1,221,241							1,732,534	84,028	205,048	43,313	1,654,828	187,151	-17,897	-141,299
23	1,137,546							1,654,828	80,259	212,225	41,371	1,564,233	192,668	-19,556	-160,855
24	1,043,224							1,564,233	75,865	219,652	39,106	1,459,552	198,347	-21,305	-182,160
25	937,372							1,459,552	70,788	227,340	36,489	1,339,488	204,193	-23,147	-205,307
26	819,017							1,339,488	64,965	235,297	33,487	1,202,643	210,211	-25,086	-230,393
27	687,109							1,202,643	58,328	243,533	30,066	1,047,505	216,406	-27,127	-257,520
28	540,519							1,047,505	50,804	252,056	26,188	872,440	222,782	-29,274	-286,795
29	378,029							872,440	42,313	260,878	21,811	675,687	229,346	-31,533	-318,327
30	198,327							675,687	32,771	270,009	16,892	455,341	236,102	-33,907	-352,234
31	0							455,341	22,084	279,459	11,384	209,349	243,057	-36,402	-388,637
32	0							209,349	10,153	289,240	5,234	-64,504	250,216	-39,025	-427,661
33	0							-64,504	-3,128	299,364	-1,613	-368,609	257,585	-41,779	-469,440
34	0							-368,609	-17,878	309,842	-9,215	-705,544	265,170	-44,672	-514,112
35	0							-705,544	-34,219	320,686	-17,639	-1,078,087	272,978	-47,708	-561,820
36	0							-1,078,087	-52,287	331,910	-26,952	-1,489,236	281,015	-50,895	-612,715
								-1,489,236	0	0	0	0	289,287	289,287	-323,428

Appendix 5 Annex 5d

Conventional finance over 30 years; 2-bedroom flat in Newham – unitised model

Full cost/value		145,000
Subsidy		59,740
Deposit (5%)		5,800
Debt	79,460	145,000
Finance rate		4.85%
Real interest rate		4.85%
Years		30
Mortgage		5,081
Mortgage indexation		0.00%

Income	21,000
Payment	32.5%
Affordable payments	5,554
% to equity stake	0%

	Units	
	Number	Value £
	1,000	145
CLT	412	412
Occupier	40	40
Mortgagee	548	548
	1,000	

	Above RPI by	
Inflation	2.50%	
Property inflation (from year 3)	1.00%	3.50%
Increase in rent per annum	0.50%	3.00%
Increase in charges	1.00%	3.50%

Property inflation assumes 1% growth in economy on top of inflation: this increase however occurs erratically in practice.
Because of recent rises in house prices an assumption has been made of no property value inflation for 2 years, indeed the possibility exists of a fall in values.

Year	Property value inflation	Property value £	Starting debt £	Interest £	Payment £	Index-ation £	Final debt £	Rent £	Charges £	Net CLT income £	Surplus/ deficit £	Reserve balance £
1	0.0%	145,000	79,460	3,854	5,081	0	78,233	5,554	473	5,080	-1	-1
2	0.0%	145,000	78,233	3,794	5,081	0	76,946	5,720	490	5,230	150	149
3	3.5%	145,000	76,946	3,732	5,081	0	75,597	5,892	507	5,385	304	453
4	3.5%	150,075	75,597	3,666	5,081	0	74,183	6,069	525	5,544	463	916
5	3.5%	155,328	74,183	3,598	5,081	0	72,700	6,251	543	5,708	627	1,543
10	3.5%	184,480	66,012	3,202	5,081	0	64,133	7,246	645	6,601	1,520	7,305
15	3.5%	219,105	55,659	2,699	5,081	0	53,277	8,400	766	7,634	2,553	17,946
20	3.5%	260,228	42,539	2,063	5,081	0	39,521	9,738	910	8,829	3,748	34,227
25	3.5%	309,069	25,913	1,257	5,081	0	22,089	11,289	1,080	10,209	5,128	57,026
30	3.5%	367,077	4,846	235	5,081	0	0	13,087	1,283	11,804	6,723	87,359

Examples of equity stakes at handover

Tenant leaves at the end of year:	5	10	15	20	25	30
Value of property at leaving date	160,764	190,937	226,774	269,336	319,887	379,925
Original debt as % of value	54.8%	54.8%	54.8%	54.8%	54.8%	54.8%
Debt at leaving date	72,700	64,133	53,277	39,521	22,089	0
Repaid equity at leaving date	15,399	40,501	70,995	108,075	153,209	208,199

Unitised equity stake

	0	5	10	15	20	25	30
Value of unit	145.00	155.33	184.48	219.10	260.23	309.07	367.08
Initial units	40						
New units purchased		80	120	105	91	81	71
Total units purchased		80	200	305	396	477	548
Total units owned - occupier		120	240	345	436	517	588
Total units - CLT		412	412	412	412	412	412
		468	348	243	152	71	0

Appendix 5 Annex 6

Canadian model, "tilted" indexlinked finance over 30 years; 1-bedroom flat in Newham

Full cost/value	115,000	Income	21,000	Normal borrowing rate	4.85%
Subsidy	29,354	Payment	30%	Monthly interest rate	0.40014%
Debt	85,646	Affordable payments	5,554	True annual rate	4.90881%
% to equity stake	0%	Within-year discount factor	95.32%		
Interest	2.35%	Annual equity payment	0	Value of £1/month	11.69
Years	25	Annual cost payment	5,554	Loan period discount factor with tilt	96.75%
Mortgage	5,112			Present value of £1/month over N years	202.30
Mortgage indexation	2.50%			Monthly payment per £1	0.0049432
Tilt	1.00%			Annual payment per £1	0.0593
Inflation	2.50%			Annual payment per £1,000	59.32
Prop. inflation (from yr 3)	3.00%				

Property inflationassumes 1% growth in economy on top of inflation: this increase however occurs erratically in practice.
Because of recent rises in house prices an assumption has been made of no property value inflation for 2 years, indeed the possibility exists of a fall in values.

Year	Property value inflation	Property value £	Starting debt £	Interest £	Pay-ment £	Index-ation £	Final debt £	Rent £	Charges £	Net CLT income £	Surplus/ deficit £	Reserve balance £
1	0.0%	115,000	85,646	4,112	5,080	0	84,678	5,554	473	5,080	0	0
2	0.0%	115,000	84,678	4,041	5,157	0	83,562	5,720	487	5,233	76	76
3	3.0%	115,000	83,562	3,984	5,234	0	82,312	5,892	502	5,390	156	232
4	3.0%	118,450	82,312	3,921	5,312	0	80,921	6,069	517	5,551	239	471
5	3.0%	122,004	80,921	3,851	5,392	0	79,380	6,251	533	5,718	326	797
6	3.0%	125,664	79,380	3,773	5,473	0	77,680	6,438	549	5,890	417	1,213
7	3.0%	129,434	77,680	3,688	5,555	0	75,813	6,631	565	6,066	511	1,725
8	3.0%	133,317	75,813	3,595	5,638	0	73,769	6,830	582	6,248	610	2,334
9	3.0%	137,316	73,769	3,492	5,723	0	71,539	7,035	599	6,436	713	3,047
10	3.0%	141,435	71,539	3,381	5,809	0	69,111	7,246	617	6,629	820	3,867
15	3.0%	163,963	57,199	2,667	6,258	0	53,608	8,400	716	7,685	1,427	9,738
20	3.0%	190,077	36,371	1,634	6,741	0	31,264	9,738	830	8,909	2,167	19,035
25	3.0%	220,352	7,099	185	7,262	0	22	11,289	962	10,327	3,065	32,495
30	3.0%	255,448	-33,122	-1,801	7,824	0	-42,747	13,087	1,115	11,972	4,149	50,990
								13,480	1,149	12,331	12,331	63,322
								13,884	1,183	12,701	12,701	76,023
								14,301	1,219	13,082	13,082	89,106
								14,730	1,255	13,475	13,475	102,581
								15,172	1,293	13,879	13,879	116,460
								15,627	1,332	14,296	14,296	130,755
								16,096	1,371	14,724	14,724	145,480
								16,579	1,413	15,166	15,166	160,646
								17,076	1,455	15,621	15,621	176,267
								17,588	1,499	16,090	16,090	192,357

Examples of equity stakes at handover

Tenant leaves at the end of year:	5	7	10	15
Value of property at leaving date	125,664	133,317	145,679	168,881
Original debt as % of value	74.5%	74.5%	74.5%	74.5%
Debt at leaving date	79,380	75,813	69,111	53,608
Repaid equity at leaving date	14,208	23,474	39,383	72,166

Debt for whole scheme as a result of original 20 residents leaving with equity shares

Homes 20	Starting debt £	Number leaving £	Extra debt £	Interest £	Extra payment £	Index-ation £	Total extra debt £	Total starting debt	Total Interest £	Total Payment £	Total indexation £	Total final debt £	Total net rent £	Surplus/ deficit £	Reserve £
	1,712,920														
	1,693,561							(as above)							
	1,671,241														
	1,646,244														
	1,618,415	5	71,041				71,041	1,618,415	77,018	107,843	0	1,658,631	117,792	9,948	19,370
	1,587,590			1,669	4,898	1,776	69,588	1,658,631	38,978	114,359	41,466	1,624,716	121,325	6,966	26,336
	1,553,598	5	117,371	1,635	4,976	1,740	185,358	1,624,716	38,181	116,079	40,618	1,704,806	124,965	8,886	35,222
	1,516,260			4,356	13,786	4,634	180,562	1,704,806	40,063	126,555	42,620	1,660,935	128,714	2,159	37,381
	1,475,384			4,243	14,008	4,514	175,311	1,660,935	39,032	128,469	41,523	1,613,021	132,575	4,107	41,488
	1,430,7735		196,915	4,120	14,235	4,383	366,493	1,613,021	37,906	130,413	40,326	1,757,755	136,553	6,140	47,627
	1,382,217			8,613	31,266	9,162	353,002	1,757,755	41,307	149,187	43,944	1,693,819	140,649	-8,538	39,090
	1,329,496			8,296	31,779	8,825	338,343	1,693,819	39,805	151,468	42,345	1,624,501	144,869	-6,600	32,490
	1,272,378			7,951	32,304	8,459	322,448	1,624,501	38,176	153,789	40,613	1,549,500	149,215	-4,574	27,916
	1,210,622			7,578	32,843	8,061	305,245	1,549,500	36,413	156,149	38,738	1,468,501	153,691	-2,458	25,458
	1,143,971	5	360,831	7,173	33,395	7,631	647,485	1,468,501	34,510	158,552	36,713	1,742,003	158,302	-250	25,208
	1,072,157							1,742,003	40,937	163,308	43,550	1,663,182	163,051	-257	24,951
	994,899							1,663,182	39,085	168,207	41,580	1,575,639	167,943	-265	24,686
	911,900							1,575,639	37,028	173,254	39,391	1,478,804	172,981	-273	24,413
	822,850							1,478,804	34,752	178,451	36,970	1,372,074	178,170	-281	24,132
	727,422							1,372,074	32,244	183,805	34,302	1,254,815	183,515	-289	23,843
	625,272							1,254,815	29,488	189,319	31,370	1,126,355	189,021	-298	23,545
	516,041							1,126,355	26,469	194,999	28,159	985,984	194,691	-307	23,237
	399,349							985,984	23,171	200,848	24,650	832,956	200,532	-316	22,921
	274,799							832,956	19,574	206,874	20,824	666,481	206,548	-326	22,595
	141,972							666,481	15,662	213,080	16,662	485,725	212,745	-336	22,260
	432							485,725	11,415	219,473	12,143	289,810	219,127	-346	21,914
	-150,284							289,810	6,811	226,057	7,245	77,809	225,701	-356	21,558
	-310,659							77,809	1,829	232,838	1,945	-151,256	232,472	-367	21,191
	-481,202							-151,256	-3,555	239,824	-3,781	-398,415	239,446	-378	20,814
	-662,444							-398,415	-9,363	247,018	-9,960	-664,757	246,629	-389	20,425
	0							-664,757	-15,622	254,429	-16,619	-951,426	254,028	-401	20,024
	0							-951,426	-22,359	262,062	-23,786	-1,259,632	261,649	-413	19,611
	0							-1,259,632	-29,601	269,924	-31,491	-1,590,648	269,498	-425	19,186
	0							-1,590,648	-37,380	278,021	-39,766	-1,945,816	277,583	-438	18,748
	0							-1,945,816	-45,727	286,362	-48,645	-2,326,550	285,911	-451	18,297
	0							-2,326,550	-54,674	294,953	-58,164	-2,734,340	294,488	-465	17,833
								-2,734,340	0	0	0	0	303,323	303,323	321,156

Appendix 5 Annex 7 Examples of equity stakes

(non-unitised 30 year index-linked finance)

Initial property value: £145,000

£21,000 salary; gross annual payments of £5,554

Occupier leaves at the end of year:	5	7	10	15
Value of property at leaving date	160,764	172,215	190,937	226,774
Original debt as % of value	75%	75%	75%	75%
Debt at leaving date	107,743	106,360	102,833	92,114
Equity stake at leaving date	12,544	22,494	40,031	77,562

£17,000 salary, gross annual payments of £4,214

Occupier leaves at the end of year:	5	7	10	15
Value of property at leaving date	160,764	172,215	190,937	226,774
Original debt as % of value	48%	48%	48%	48%
Debt at leaving date	66,924	64,657	59,948	47,787
Equity stake at leaving date	10,819	18,622	32,386	61,877

£25,000 salary; gross annual payments of £6,513

Occupier leaves at the end of year:	5	7	10	15
Value of property at leaving date	160,764	172,215	190,937	226,774
Original debt as % of value	78%	78%	78%	78%
Debt at leaving date	108,053	104,394	96,791	77,155
Equity stake at leaving date	17,468	30,067	52,289	99,905

Appendix 5 Annex 8 Comparison of the model with Shared Ownership and Homebuy

Individual mortgage rate	5%	RSL borrowing rate	4.85%
Years for mortgage	25	Years for RSL loan	30

	Model	**Shared Ownership**		**Homebuy**	
		Normal subsidy	At model level	Normal subsidy	At model level
	£	£	£	£	£
Value of property	115,000	115,000	115,000	115,000	115,000
Subsidy	29,354	34,500	29,354	28,750	29,354
Individual mortgage[1]		46,000	46,000	86,250	85,423
Net cost to Coop/RSL	85,646	34,500	39,646	0	223
Payment by resident					
Services etc	328	410	410	410	410
Management	146	182	182		
Rent		2,206	2,535		
Mortgage or equivalent[2]	5,476	3,264	3,264	6,120	6,061
Total initial payments	5,950	6,061	6,390	6,529	6,470
Salary level for affordability*	**22,660**	**24,469**	**25,801**	**26,301**	**26,064**

1 mortgage at 3.5 times salary plus non-mortgage costs 32.5% additional salary
2 based on 100% mortgage for comparison purposes: model proposes a 4% deposit

Notes:
The advantages of the model over Shared Ownership might be cited as:

- slightly lower payments as a result of longer mortgage period and marginally lower rate
- reduced management costs
- no requirement to have both an individual mortgage and pay rent/services
- greater share of equity appreciation
- equity locked permanently into CLT
- more flexible affordability calculation

The advantages of the model over Homebuy might be cited as:

- lower payments as a result of longer mortgage period and lower rate
- equity locked permanently into CLT
- more flexible affordability calculation

Appendix 6: Interest-free Home Loans – JAK Co-operative Lending System

In Sweden, the Tenant Ownership Co-operative System has been developed extensively for decades through links between regional secondary housing co-operatives (referred to as 'mother societies'), which provide development support to enable new local housing co-operatives (referred to as 'daughter societies') to become established. Further support has been provided by specialist finance mechanisms.

With the steady growth of Community Development Finance Institutions (CDFIs) in the past 10 years, there is now scope for development of such specialist finance to help support and sustain the development of mutual homeownership projects in the UK. In some English regions, there are also a small number of secondary housing co-operatives that can act as 'mother societies'.

Secondary finance – a role for Community Development Finance Institutions

In the US, from where British CDFIs have gained inspiration and guidance, low-income equity housing co-ops are supported by Community Development Loan Funds in many New England states. Additionally, the Institute of Community Economics (ICE) is an accredited CDFI and operates a national revolving loan fund to assist Community Land Trusts secure primary bank finance for new projects. In New York City, Community Development Credit Unions such as the Lower East Side Peoples' Federal Credit Union and the Homesteaders Federal Credit Union specialise in providing secondary sources of finance for limited-equity housing co-op members to meet needs such as deposits, furniture and internal repairs.

During the course of this research, consideration was given to the scope for development of innovative, low-cost 'interest-free' loans to co-op members to support mutual homeownership. Such a loan system has been developed by the JAK Bank in Sweden since 1965 to meet housing finance needs.

The JAK system was pioneered by the Danish Christian Socialist and co-operative farmer, Christian Christiansen.[32] Christiansen's co-operative lending system developed well in Denmark until the 1970s, when the original co-operative bank was taken over by a traditional bank. Since then the JAK system has revived again in Denmark and has also become successful in Sweden.

In Sweden, initial capital was provided by a handful of co-operative savers aided by a wealthy philanthropist who provided both helpful start-up capital and matched funds to incentivise savings efforts. The initial legal structure in Sweden was a co-operative loan fund similar to Community Development Finance Institutions (CDFIs) such as London Rebuilding Society or the Wessex Reinvestment Trust in the rural South West. The first loan was made in 1970. Today JAK in Sweden has over 25,000 members with savings of 660 million Swedish kroner (£47 million) and loans outstanding of 560 million Swedish kroner (£40 million). JAK secured regulatory authorisation and graduated to a co-operative bank in 1998.

JAK Saving-Point Based Interest Free Lending Systems – Operational Description

JAK, like other co-operatively based lending systems, uses a save and borrow methodology similar to those traditionally practiced by credit unions. Like the early Raiffeisen credit unions in nineteenth century Germany, and as is still practiced in Britain and Ireland today, members must save regularly to build up the co-operative lending funds from which members can then borrow. In Sweden, support from an ethical investment philanthropist assisted fund development in the 1970s and, as a result, a greater multiple of savings was allowed for loans from the very beginning than is normally available from credit unions.[33]

JAK's savings point-based interest free systems differs significantly from ordinary bank, building society, credit union or CDFI lending. There are three main differences:

No net interest is paid by the borrower: Accordingly, the provider of the credit does not charge the borrower anything for comparable earnings on capital, but only for the administrative work involved in the loan and the estimated proportion of risk taken. Thus, a loan-fee payment for administration and risk can be charged in the form of fund management charges in a similar way to a managed collective investment fund (i.e. a unit trust or investment trust), and an average marginal loss of principal predicted in respect to bad debt losses. Based on the size of the loan, typical fee charges in Sweden by the JAK Bank are a 3.5 per cent set up fee and an annual management fee of one per cent.

No interest is paid on saving accounts: instead, the saver receives a saving points total, whose cumulative purpose is to spread the specific savings among individual member contributions which balances loans drawn down by individual borrowers on a medium to long-term basis. Six per cent of the size of any loan taken out is required as an equity deposit in JAK share capital. This is withdrawable once the loan is fully repaid;

A publicised set of operational rules is agreed by the members and periodically reviewed and updated. These provide an equitable means for allocating loans and are needed to ensure sufficient liquidity by encouraging and mobilising collective savings to keep savings and investment funds in balance.

Prudent lending practices are followed in relation to security for credit provided and in assessing an applicant's repayment abilities. In this respect, 'interest-free' finance is precisely the same as interest-based lending by conventional mortgage lenders. The main difference lies in the calculation of the lending costs, risks and charges.

Savings points are issued by JAK in proportion to the savings time and the savings amount. A multiplier (i.e. a Saving factor ranging from 0 to 1) may be added to reflect how usable the savings are for the system. As a result, current accounts in JAK banks generate few points by comparison to long-term, interest-free savings accounts. Thus, current accounts are rated near to zero, as they are hard to use for on lending because of instant access requirements.

The savings factor in the JAK system may also differ over a period of time. This can be calculated to reflect time-dependent fluctuations of the lending system's capital requirements:

> *Savings points = Savings time x Savings amount x Savings factor*

Savings points are exchangeable for an interest free loan on an equal 1:1 point basis. For example, 10,000 savings points derived from the multiple of '£ x months' can be traded against a loan of £10,000 for a one month term or £5,000 for two months. A shortage of matching savings points at a specific borrowing time can be compensated for by the flexible JAK loan-saving contract. This unique two-way contract stipulates not only the interest-free repayment of the loan, but also future mandatory savings agreed in the contract to replenish the fund (known as 'after-savings'). These are used in due course to cancel out any shortfall in savings points prior to drawdown of the loan and repayment of the sums borrowed. This solidarity savings to replenish the mutual lending fund is crucial as, without the contributions in the form of after-savings, the interest-free system could operate for a certain period, depending on loan demand and lending criteria, but would of course in due course malfunction as a result of unpaid IOUs.

This is the fundamental fund management technique that must be mastered by any CDFI provider of such loans. Credit unions in Britain for example normally start with a requirement of three months pre-savings in order to qualify for a first loan of no more than double the amount of savings. JAK works on similar principles but because of the after-savings feature, can in fact lend on higher multiples then with credit unions – 5 to 10 times savings not being uncommon.

Interest–free lending for repairs and maintenance – a JAK system

Given the predictability of the future need, it would be relatively simple to establish an interest-free repairs fund for housing co-op members to cover periodic internal and external repairs**.** The standard JAK loan model readily addresses this need. Where a member of the system intends to take an interest free loan in the future (clearly, this forward planning for repairing and maintaining property is prudent and essential for development of the daughter co-ops in the mutual housing system). In principle, the same need for planning in relation to internal repairs (and household furnishings) applies equally to the co-op members themselves. To acquire this access to credit, individual members and the daughter co-operative need to be prepared to engage in a specified period of interest-free saving.

This need for repair finance is readily tackled in through standard JAK loans, and numbers and figures can easily be added to provide quantitative information about how much the individual or corporate member will have to save, and for how long, in order to secure periodic access to regular interest-free loans to tackle both cyclical, emergency and other periodic repairs to the properties in the future. A JAK system can deliver this finance very flexibly indeed as and when it is required for both minor and major repairs and for modernising and renewing the properties internally and externally, from bathrooms and kitchens to common areas and additions.

The crucial issue for the individual members and daughter co-ops is for members to make decisions mutually in advance as to how to deal most cost-effectively with the global dynamics of the repairs and maintenance system that has been devised and agreed. From an individual member's point of view, an agreed model giving accurate guidance for loan-saving sums is vital, so that advance planning about the necessary savings amount is established, enabling the funds required in the future to be made available for anticipated capital requirements. Clearly, for these future sums to be available interest-free, there is a need in general for the system to be able effectively to match credit sums needed against the pre-agreed savings amounts for the purposes of cash flow forecasting on a monthly basis. These monthly sums should be indicated to members when joining the mutual repairs lending service.

The following example is indicative of a Mutual Aid Fund for interest-free repairs that both the London Rebuilding Society and the Wessex Reinvestment Trust could operate for CLT members across a region.

We assume that there are 30 residents in a given co-operative development. Half of them opt to participate in the 'interest-free' lending scheme. It is assumed that all participants will have saved 10% of the expected loan in advance of the borrowing. During the next six months five of the tenants borrow on average £500 with repayments set at 24 months. During the subsequent six months five more tenants borrow on average £750 with repayments set at 24 months. During the following six months five other tenants borrow on average £1,000 with repayments set at 24 months. The costs involve an up-front fee of 3.5 per cent of each loan and an annual fee of one percent of the amount borrowed. A six per cent share purchase is taken on the value of the loan. After the loans are repaid it is assumed that each tenant takes a new loan of double the value of their initial loan with the repayments set at 48 months. The co-operative pump starts the project by saving for regular (three-yearly) two to three years, which is available to cash flow the earlier loans.

Availability of co-operative funds for individual property improvements

	No. of tenants	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
"Landlord" sinking fund		£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500
Shares purchased		£ 150	£ 525	£ 750	£ 1,050	£ – – –	£ 450
Fees on new loans		£ 88	£ 306	£ 438	£ 613	£ – – –	£ 263
Fees on existing loans		£ 25	£ 113	£ 213	£ 300	£ 300	£ 250
First tenant group savings	5	£ 500	£ 1,000	£ 1,000	£ 1,000	£ 1,000	£ 1,000
– First group 1st loans repaid		£ 625	£ 1,250	£ 625			
– First group 2nd loans repaid				£ 625	£ 1,250	£ 1,250	£ 1,250
Second tenant group savings	5	£ 375	£ 1,500	£ 1,500	£ 1,500	£ 1,500	£ 1,500
– Second group 1st loans repaid			£ 1,875	£ 1,875			
– Second group 2nd loans repaid				£ 1,875	£ 1,875	£ 1,875	
Third tenant group savings	5		£ 1,000	£ 2,000	£ 2,000	£ 2,000	£ 2,000
– Third group 1st loans repaid			£ 1,250	£ 2,500	£ 1,250		
– Third group 2nd loans repaid					£ 1,250	£ 2,500	£ 2,500
Total inflows		**£ 4,263**	**£ 11,319**	**£ 14,025**	**£ 14,588**	**£ 12,925**	**£ 13,588**
Fund application							
"Landlord" property expenses				£ 7,500			£ 7,500
First tenant group borrows	5	£ 2,500		£ 5,000			
Second tenant group borrows	5		£ 3,750		£ 7,500		
Third tenant group borrows	5		£ 5,000		£ 10,000		
Overhead							
Total outflows		**£ 2,500**	**£ 8,750**	**£ 12,500**	**£ 17,500**	**£ – – –**	**£ 7,500**
Fund balance		**£ 1,763**	**£ 4,331**	**£ 5,856**	**£ 2,944**	**£ 15,869**	**£ 21,956**