

Empty Homes Conference

“Loans – Best Practice”

Presented by

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Empty Homes Training Ltd.



What Are You Trying to Achieve

What is the Local Authority overall aim:

- Bring long term empty properties back into use
 - Provide affordable housing (rental / shared ownership)
 - Regenerate and improve properties / area
 - Encourage people onto the property ladder (first time buyers / key works)
 - Combination of the above
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- **Look at the scheme from the applicants point of view (not the LA's)**
 - Needs to be sufficient incentive to bring the party on board
 - However, LA needs to obtain maximum benefit for investment
 - The more conditions and hoops - the less attractive the scheme is to owners
 - Payment of funds upfront or in arrears (arrears may prevent schemes moving forward)



Loans & Equity Release – Four Models

- **Grants or Recyclable Grants**
 - Offer grant normal way, condition full amount repaid on sale of the property (with or without interest)
 - Council has no certainty of when repayment will occur
- **Equity Release**
 - Provide monies in return for an equity share in property
 - Council receives value when property sold (rising market, additional monies)
- **Loans (Capital / Interest Repayments)**
 - Provide monies for repair: repaid monthly or on an agreed date
 - Capital release loans (interest and capital roll up) paid on death
 - Interest only loan i.e. buy to let
 - Capital and interest repayment loan (normal mortgage)
- **Front Funding**
 - Council carries out the works itself at own cost, property let to Council or RSL.
 - Repayments made from rental income (EDMO/LOTS/ HARP)



Grants

- Cost of the repairs – significant reason why properties are left empty
- Grants, a tried and tested method to tackle the problem (terminology)
- RRO Policy, allows you to set your own grant levels, priorities and conditions (Government encouraging loans)
- Often inked to PSL, reduced rent level, nomination rights etc
- May encourage owners to neglect their properties
- Are grants good value for money
 - Benefits gained worth the investment (Property let @ LHA or affordable rent level)
 - May not be recyclable, ever decreasing funding - once spent lost forever
- Grants offered to make non-viable scheme viable (Listed Buildings / Low demand area)



Loans & Equity Release

- Loans: benefit that the money can be recycled
- Set up costs can be high and take up rates have been historically low
- Art Homes, Wessex Reinvestment Trust, House Proud, individual Authorities
- Must consider what conditions attached to the loan
- What interest rate do you charge, if any
- Bank interest rates at the moment are low, if interest rates were to increase, Council loans may be more attractive
- Council offering loans and equity release products exempt from financial regulations, but must comply with (DCLG) mortgage sales guidance i.e. providing independent financial advice & other safeguards



Underwriting Private Loans

- Value of derelict property in certain areas, insufficient to use as security for a loan to pay for renovation
- Major lenders will lend up to a maximum of 60-75% LTV and hold a retainer back for any renovation works.
- Resulting in owners having to find substantially amount of funding to make the scheme viable.
- Council can underwrite the loan during the development period. On completion should be sufficient equity to take on the security of the loan

Benefits

- LA does not have to do any for the financial assessment / register charge (Lenders) Responsibility
- Money remains with the LA unless there has been a default

Risks

- Putting the Council at risk should the project not be completed
- Additional cost of work not originally identified
- Value of property has not increased sufficiently
- Risky in current financial climate

Loan Scheme



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- Kent County Council – not a Housing Authority (Complications)
 - Loans - £25,000 per unit, maximum of £175,000 per applicant.
 - Properties must be sold (maximum of 2 years) or let on completion (maximum of 3 years)
 - Properties expected to meet the decent homes standard on completion
 - Do not offer loans where property will be occupied by applicant (FSA – Local Housing Authority have their own mortgage guidance)
 - Secured as a financial charge against property (first or second only)
 - Maximum LTV 90%, independent RICS valuation (charged to applicant)
 - Funding provided upfront before works start



Loan Scheme – Investment vs. Leverage

<u>Loan Scheme</u>	Funding By	No. of Units	% of Units	Value NUEI Loan £	Leverage	Total Investment	% of Loan	% of Leverage	% of Total Project
Thanet DC	Individuals (<3 units)	73	31%	£1,805,650	£3,005,691	£3,091,341	41%	36%	24%
Dover DC									
Shepway BC									
Dartford BC	Developers (> 4 units)	159	69%	£2,573,000	£5,422,681	£9,715,681	59%	64%	76%
Sevenoaks									
Swale BC									
Tonbridge & Malling BC	Total	232	100%	£4,378,650	£8,074,785	£12,807,022	100%	100%	100%



Scheme Costs

- Average renovation cost per unit = £47,381 (often very worst properties)
- KCC average investment per unit £18,874
- Actual cost to KCC = £619,691(loss of interest & on costs), loans run to completion
 - Current rate of interest charged @ 3.13% & on costs = £2,975 per unit
- Repayment to date £715,000, (no defaults to date, 1 repaid without works completed, 2 loans extended 6 months before recovery procedure)
- 16% Loan to Sell (2 years) & 84 % Loan to Let (3 years)
- Only 25% of application forms returned , 80% of them approved (some in progress)



Scheme Criteria

Typical Conditions: Value for money / barriers

1. Must own property for min. two years before apply for Empty Property Grant
2. Grant up to £50,000 for properties – Council / RSL lease the properties from the owners for three years. RSL keeps affordable rents for duration of lease and manages property) (Landlord market rent £8k * 3 years = £24K).
3. Grant £4K, nomination rights for 5 years (Market rent / LHA 30%) percentile) difference of £500 a year * 5 years = £2,500. Landlord has no control over the type of tenants.
4. loans up to £10,000 @ 6% @ 75% LTV



Financing Empty Property Strategies



Amber Valley
Borough Council

Moving from Grants to Loans

- About 2/3 owners acquire properties
- Make best use of funding – recycling
- No vulnerability issues for empty property owners
- Sources of funding
 - Decent Homes
 - Internal Finance
 - S106



Renovation Loans

- Strategically select property
- £15,000 max
- This as proportion of property value
- Schedule of work & monitor progress
- Secured as mortgage charge
- Owner repays proportion of value
- Option to staircase out



Worked Example

- Loan of £15,000
- Property Value of £100,000
- Loan = 15% of property value
- Property later sold – valued at £150,000
- Owner repays 15% = £22,500
- Property later sold – valued at £90,000
- Owner repays 15% = £13,500



Developing a Scheme for First Time Buyers

- Free up social rented properties
- Truly integrated/ Supported by local communities
- Support working families on low incomes
- Not time limited
- Support could be recycled
- Target empty properties



Affordable Housing Definition

- Affordable housing (within Amber Valley)
 - Housing which can be accessed by households with an income that is on or below the median income of all households within Amber Valley
 - £25,000 - £29,999 income range
 - In accordance with the Housing Need Survey (2008) households who fall into this category should not spend over 25% of their income on housing.



Home Purchase Scheme

- Council loans up to half the value
- Loan as a proportion
- Later sold, value £120,000
- Or – later sold, value £90,000
- Option to pay off early
- £50,000 of house worth £100,000
- £50,000 = 50% of the value
- Amount repaid £60,000 (50%)
- Amount repaid £45,000
- In instalments of 10% minimum



Real Example

- AV Home Purchase Scheme
 - Price £90,000
 - AV loan - £45,000
 - Customer deposit - £2,250 (5%)
 - Mortgage - £42,750
 - Mortgage repayment - £237.28pm
 - Monthly salary - £1521.49
 - Housing costs = 16% per month
 - Annual salary - £18,257.88
 - Mortgage = 2.3 times annual salary



Comparative Examples

- Shared Ownership
 - Housing costs £484pm
 - £23,232 annual salary
- Private Rented
 - Local Housing Allowance £548pm
 - £26,304 annual salary
- Affordable Rented
 - Housing costs £358pm
 - £17,184 annual salary



Any Questions ?

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