



THE NATIONAL AFFORDABLE HOUSING PROGRAMME (NAHP) AND THE CURRENT HOUSING MARKET

Purpose

- 1.** The purpose of this paper is to give a broad outline of the progress of the NAHP for the current year, and provide some analysis of the impact of current market conditions on the delivery of the programme for discussion.

Context

- 2.** At the beginning of September, Ministers announced a package of measures to respond to the difficulties in the housing market. These came on top of previous announcements. The September measures were:
 - Introduction of Homebuy Direct product.
 - Announcement of mortgage rescue product.
 - Bringing forward resources from 2010/11 to support the rented programme.
- 3.** Coupled with earlier measures to boost the new build shared equity programme, and facilitate the purchase of unsold units from developers these initiatives were designed to maintain the momentum of the programme towards national targets and provide support to the construction industry. In addition, the Corporation has indicated a willingness to be flexible in the use of low cost home ownership properties, which may be let at a submarket rent until the market improves, and the introduction of a specific “rent to buy” model which offers the resident the option to purchase at a later date. There is also an indication that flexibility will be used regarding regional efficiency targets in order to ensure that the programme retains momentum and that partners are able to bring forward new schemes.
- 4.** However the factors which are causing problems for private sector developers – the availability of mortgage and development finance – are also impacting on affordable housing providers, who use cross subsidy from market and low cost home ownership sale to reduce grant requirements. This effect is, predictably, manifest across the country and is affecting all Housing Corporation regions. The impact is widespread, in that it affects the viability of existing schemes, and the submission of potential new schemes. Thus, in terms of the existing programme, providers are approaching the Corporation for a discussion about grant rates or tenure mix, or cancelling schemes as developer led projects are mothballed. With regard to the forward

programme, partners are delaying the submission of new schemes so that they can be used to replace failed schemes, reducing their exposure to the market by not submitting mixed tenure developments, or submitting schemes which are not value for money and would not allow the Corporation to meet its volume or efficiency targets.

2008/9 National Affordable Housing Programme – Yorkshire and Humberside

5. In order to provide some perspective on the scale of this effect on the current HC programme in Yorkshire and Humberside, please see below some figures which show the progress of the current year’s programme against start of year predictions (“trajectories”).

Completions - Yorkshire and Humberside 2008-9

Product	Target (incorporating Open Market Homebuy and adjusted for Additional Resources)	Start of Year Trajectory to 31 August	Actual to 31 August
Rent	1580	234	328
LCHO	933	88	175
Total	2513	322	503

6. The above shows that for the period to end August 2008 the programme is running ahead of schedule for completions. The programme is backloaded (as has traditionally been the case) with the majority of completions forecast in the second half of the year. However this positive aspect does not reflect the fact that at present, the programme does not include sufficient units to reach the revised end of year targets. Delivery of the programme is therefore dependent on admission into the programme of new allocation which will complete within the financial year – realistically this will mean off the shelf purchases (including homebuy for existing properties) or refurbished units. Therefore whilst progress leading up to the end of quarter 2 is good, the reliance on a deliverable pipeline of new schemes, especially towards the latter half of the year, makes the programme vulnerable to the deterioration of the market.
7. Completions have also historically been supplemented by units provided through s106 agreements at nil grant. The slowdown in developer starts and completions has meant that this source of new affordable units has slowed down considerably and is likely to continue to do so for the foreseeable future. Changes in site economics also mean that where developments are progressing, developers may seek to renegotiate the proportion of affordable housing, or seek a price for units from RSLs which they do not find economic. In addition, where the units are for affordable sale, RSLs may be reluctant to enter an agreement, for the reasons outlined above regarding limiting their exposure on unsold units.

Starts on Site Yorkshire and Humberside 2008-9

Product	Target	Start of Year Trajectory to 31 August	Actual to 31 August
Rent	1,500	181	111
LCHO	505	42	31
Total	2505	223	142

- 8.** The above illustrates that starts on site are considerably lower than anticipated. This is in addition to the fact that the initial programme allocation did not (predictably) generate sufficient starts on site. Further allocation through regular market engagement was anticipated to complete the programme, and we have now moved to continuous market engagement, so that bids can be submitted, assessed and transferred in to the programme at any time.
- 9.** Whilst the two rounds of regular market engagement (in April and July 2008) have generated a further £16M of allocation, (included in the figures above), this will not *all* incur expenditure within the current year and in the majority of cases will not generate completions this year. Whilst the effect of market conditions has been mitigated to a degree by the introduction of units from developers, there is great concern within the RSL sector about committing further resources and incurring further debt in the current climate. The degree of unsold market and low cost home ownership units (including those funded by social housing grant, and those delivered without grant or through the planning process) is being closely monitored by the Housing Corporation locally and nationally, and by partners. The availability of mortgage finance for potential customers is universally cited as a causal factor in the slow down in sales. Partners report that demand and interest remain relatively strong (a finding echoed by the private sector) but that translating this interest into sales is proving at best very slow, and generally very difficult.

Moving Forward

- 10.** There is no doubt that achieving the regional targets will be very challenging, both for the current year and the remaining two years of the programme. It is still the Corporation's view that the targets for completions for the current year can and will be achieved. A variety of measures are in place to maximise programme delivery in the current circumstances:
- Continuous market engagement.
 - Programme management measures (e.g. bringing forward schemes from 2009/10).
 - Purchase of completed units from developers.
 - Introduction of new products –e.g. Homebuy Direct.
 - Marketing and launch of new Shared equity products.
 - Flexibility on the short term use of LCHO units (e.g. intermediate rent).
 - Realistic and flexible approach to grant rates.

- Increased start on site payments.
- 11.** The current situation also provides opportunities on existing developer sites to increase the proportion of affordable housing, providing cash flow to developers and ensuring continued production. In such circumstances, consideration is given to the quality and strategic fit of the available units, and the resulting overall tenure mix on the site, as well as value for money aspects. Falling house prices also present the opportunity to look again at purchase and repair options, which have the benefit of being deliverable and providing completions in the current year. A number of partners are looking at this option, in some cases in the context of using joint funding from empty property grant or other sources of additional subsidy.
 - 12.** The situation is a fast changing one, both economically and in the policy context. We have already seen a number of initiatives and more may be anticipated to make best use of public funding. For example, the purchase of land for future development, and the development of different models of investment and risk sharing are already under consideration. A re-profiling of the NAHP has already begun, facilitated by the changes outlined above, with resources brought forward from future years. This, combined with the introduction of new products, developing relationships with private sector partners, and a realistic approach to grant rates will, (notwithstanding any further drastic deterioration in the financial markets), enable the delivery of the current year's programme, and will retain the overall shape of the programme outputs over the three year period 2008-2011.

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