

WMCA Board

Date	18 March 2022
Report title	The Marches Help to Own Project, Wolverhampton
Portfolio Lead	Housing & Land - Councillor Mike Bird
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Report has been considered by	Housing & Land Delivery Board - 19 January 2022

Recommendation(s) for action:

The WMCA Board is recommended to:

- (1) **Welcome and endorse** the positive findings of a review undertaken by WMCA into Help to Own (HTO) which provides strong evidence to support the case for a wider roll-out beyond the pilot project on **policy grounds**, consistent with the WMCA's approach to housing and regeneration and the Housing and Land Delivery Board's 2021/22 and 2022/23 Deliverables.
- (2) **Note that this is not an investment decision** and any future funding would need to be subject to receipt of an appropriate application and appraisal via WMCA's Single Commissioning Framework.
- (3) **Note** the initial findings of a review of HTO, presented overleaf and summarised in Section 3.7.

- (4) **Note** that monitoring the progress of HTO forms an important part of the WMCA Housing and Land Delivery Board's remit in relation to affordable housing¹, Housing & Regeneration deliverables and delivery of the commitments made in the Housing Deal to driving innovation and supporting new housing products.
- (5) **Note** that the HTO product is an innovative approach to making home ownership more accessible for some, but is not the sole solution to addressing affordable housing need in the region. WMCA will continue to work with Local Authorities to ensure the appropriate **mix** of affordable housing is brought forward and agreed on a site by site basis.

1.0 Purpose

- 1.1 This paper summarises the findings of an initial high-level review of the Help to Own (HTO) pilot project commissioned by WMCA and undertaken by AMION consulting, which involved analysis of management information and consultation with key stakeholders.

2.0 Background

- 2.1 HTO is a new affordable housing product which provides a rental solution to local residents that gives long-term tenure security, the benefits of home ownership without many of the risks and complete flexibility to leave whenever the tenant wishes. HTO has been developed to address the substantial issues that many potential buyers who are in work face in raising the deposit to secure a mortgage.
- 2.2 HTO has been recognised as one of the products to address local needs, but is only part of a wide-ranging requirement for affordable housing products in the region. Housing needs are set by local authorities in the region and WMCA, alongside a range of other partners supports delivery of housing to meet those identified local needs. Social housing, intermediate rent, shared ownership and other products are all part of the comprehensive range of affordable products WMCA looks to secure through its investment. Through our relationships with Registered Providers, Homes England, the minimum affordable housing requirement in SCF, working with institutional investors to attract funding for affordable homes, maximising public land disposals, and close collaborative working with each local council on the affordable housing mix, WMCA will continue to seek delivery of the most appropriate affordable product for each scheme.
- 2.3 In January 2020, the WMCA Board approved investment of up to £4.78 million from WMCA's devolved housing and land funds to deliver a 100 unit HTO pilot scheme at The Marches site. Further investment was provided by City of Wolverhampton Council (CWC), the local planning authority and project promoter. A Real Estate Investment Trust was established by the shareholders (WMCA, CWC and Finance Development Capital) to deliver the scheme - 'The Marches HTO'.

¹ Based on the WMCA definition of Affordable Housing

3.0 Operation of the Help to Own Pilot

- 3.1 The pilot HTO scheme was established at The Marches development in Wednesfield (Wolverhampton) in April 2021. It makes 100 properties available to tenants who meet the criteria in an allocation policy and who can demonstrate that they can afford to rent the properties at a market rent over the long-term. This market rent meets WMCA's Affordable Housing Definition and has provided local keyworkers and those from lower socio-economic backgrounds who would not otherwise be able to access the housing ladder a route to home ownership.
- 3.2 The WMCA equity investment in the scheme is part of a wider programme to support and secure more genuinely additional affordable homes coming forward in the region. It is important to note that whilst the HTO scheme is a high profile example, it forms one part of a wider approach to affordable housing delivery that includes investor and developer engagement, a proposed pilot initiative with housing associations and wider collaboration between WMCA and housing associations and the WMCA Single Commissioning Framework's minimum criteria of 20% affordable homes on all schemes receiving WMCA Housing and Land funds.
- 3.3 Under HTO, the customer pays a market rent for up to 25 years, which is built up as a Loyalty Premium. After 25 years, the customer is given the option to buy their home for £1. If they leave the scheme prior to this, they can take the Loyalty premium as cash with no penalties. If customers stay for the full 25 years then at the end of the period the investors have access to their loyalty account pot. Customers can also use their loyalty account to help with a deposit to purchase the property they occupy at any point during their tenancy, providing additional flexibility for customers.
- 3.4 The Marches HTO purchased the 100 homes on the Marches development in April 2021. These are being received in tranches as they are completed. During the term, once operational costs are accounted for, an annual dividend is distributed to shareholders. Any disposal during the 25 years results in a capital receipt to the Marches HTO.

4.0 Review Findings

- 4.1 One important element of the HTO pilot was to **test demand for this new affordable housing product** – to check whether there is a market for a long-term rent to buy offer. **This aspect of the pilot is progressing well.** The most recent management information shows that there has been **considerable interest in the product** which has been converted into applications from households which meet the eligibility and affordability criteria. By December 2021 all of the properties had been allocated to prospective tenants.
- 4.2 The provision of homes through HTO is providing a new route onto the housing ladder for 100 households, complementing other affordable housing policies and products and meeting the needs of a specific group of households for whom it is raising the required deposit which is the greatest barrier to home ownership. Whilst the number who go on to purchase their properties will only be known in the long-term, **in the short-term the scheme is already proving attractive to target households.**

- 4.3 The financial performance of the Marches HTO pilot will also only be fully known in the longer term. However, **the project has to date successfully addressed several key financial risks identified at appraisal including securing the debt funding on appropriate terms and achieving rental levels in line with the project's financial model.**
- 4.4 The pilot project has also allowed HTO to develop and refine a number of processes / ways of working which have proved to be successful and could therefore be rolled out to other HTO schemes. For example, the approach to marketing the product included the use of social media and harnessed early adopters as effective advocates, whilst resources were invested in educating the local legal community in how HTO works to enable them to advise clients who wished to participate. An allocations policy was developed which ensures support is targeted on key workers but has not constrained demand for the scheme. Important lessons have also been learned about the types of properties which are most attractive to the target market, and how the handover of properties from the developer to the property manager should be handled.
- 4.5 The pilot has also provided very valuable learning with regard to the management and governance of what is a complex scheme, involving a number of different funders, partners and stakeholders each of whom have their own priorities and responsibilities.
- 4.6 The pilot has benefited from considerable investment of senior Officer time from within the public sector organisations involved, reflecting the high profile, innovative nature of the intervention and the level of public sector funding invested in HTO.
- 4.7 **The results of the initial high level review are very positive and indicate that the pilot has:**
- demonstrated that there is demand for the HTO product as part of the housing mix for the area;
 - provided a new route for households to get onto the housing ladder – complementing rather than duplicating other schemes;
 - established governance structures and documentation that could be replicated for any future HTO projects offering economies if more schemes are brought forward;
 - successfully passed the first risk hurdles, although as would be expected various potential risks remain such as longer-term void levels, the long-term attractiveness of the properties and the impact of economic downturn / higher unemployment / higher interest rates;
 - the Marches HTO has secured debt funding, achieved the target rental levels and expenditure has been in line with expectations. Any future scheme will need to show whether the concept can be delivered without the need to acquire equity using grant funding; and
 - indicated that the approach is potentially scalable. Finding appropriate sites will be key - the homes will need to be affordable for those who do not have sufficient funds for a deposit – but of a high enough quality and in an attractive enough area to be appealing as a long-term home. It is interesting to note that several local authorities in other parts of the Country have already expressed an interest in HTO.

4.8 **Overall, the pilot has successfully proved the concept and there is strong evidence from the review by AMION Consulting to suggest that the approach should be endorsed for a wider roll out on policy grounds, although each future investment would need to be fully assessed on its own merits and, as noted above, subject to the relevant appraisal and approvals process via the WMCA's Single Commissioning Framework. This approach was strongly supported and endorsed by WMCA's Housing & Land Delivery Board at its January 2022 meeting.**

5.0 Financial Implications

5.1 This report sets out a review of the progress to date of the HTO pilot. There are no unbudgeted financial implications as a result of the recommendations within this report.

5.2 As detailed above, whilst the pilot has managed address the initial key financial risks identified at appraisal including securing the debt funding on appropriate terms and achieving rental levels in line with the project's financial model, the financial performance of the pilot will also only be fully known in the longer term.

5.3 The HTO scheme was conceived as a project that would not require Grant funding. It was appropriate to make an investment via Grant sources and inject this as Capital for the pilot scheme as the uncertainties at that point were much more numerous than currently evidenced. Whilst a number of risks remain, potential investors will form their own opinions based upon the particular property and locality under consideration for any future roll out.

5.4 Where any investment in future schemes is to be considered by the WMCA, the decision will be based upon the funding source and risk associated. As is usual for a Housing proposition, investment would be subject to compliance with the Single Assurance Framework, the Single Commissioning Framework and Commissions Pathway and in line with the accounting and taxation policies of the WMCA and HMRC.

6.0 Legal Implications

6.1 This paper provides an update review on the Marches HTO project. The HTO concept has been developed and implemented with the support of external legal advisors for the purpose of providing strong evidence of a wider roll out beyond the pilot project. Any future applications for funding will be supported by legal advice on individual schemes.

7.0 Equalities Implications

7.1 The Marches HTO project is considered to be having a positive impact on people from lower socio-economic backgrounds due to its delivery of a new form of affordable housing. Equality Impact Assessments will be carried out as part of the allocation and scheme management process.

8.0 Inclusive Growth Implications

8.1 With its location in Wednesfield, the HTO Marches project is promoting regeneration and supporting the government's "Levelling Up Agenda". It is piloting of a new form of affordable housing and approach to increasing owner occupation including amongst key workers, which is a core element of the WMCA's Affordable Housing definition.

9.0 Geographical Area of Report's Implications

9.1 The full site address is:
The Marches
Lakefield Road
Wolverhampton
WV11 3ES

10.0 Other Implications

10.1 None

11.0 Schedule of Background Papers

WMCA Brownfield Land and Property Development Fund – Application for Funding.
WMCA Investment Panel – Marches Help to Own (H2O), Wolverhampton (23rd November 2020)
WMCA Investment Board – Marches Help to Own (H2O), Wolverhampton (14th December 2020)
WMCA Board – The Marches Help to Own (H2O) project, Wolverhampton (15th January 2020)