

## **Cabinet**

**19 March 2014**

## **Homesteading Scheme**

## **Key Decision R&ED/03/14**



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**Report of Corporate Management Team**  
**Ian Thompson, Corporate Director Regeneration and Economic Development**  
**Councillor Eddie Tomlinson, Cabinet Portfolio Holder for Housing and Rural Issues**

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### **Purpose of the Report**

- 1 The purpose of this report is to seek approval to the introduction of a discounted sales scheme for long term empty homes owned by either the Council or housing associations in County Durham, often known as a 'homesteading' scheme.
- 2 The report sets out the background to homesteading and how a scheme can bring empty homes, often in need of repair and improvement, back into use through discounted sale prices, with additional assistance, if required, through the provision of an interest free loan.
- 3 A pilot programme is planned in Coundon for the sale of up to 6 DCC owned houses. These will be sold alongside 8 houses in the ownership of a local housing association, living, in the Dean Bank, Ferryhill neighbourhood. If successful, further phases across a wider range of renewal areas and across a wider range of social landlords are planned for 2014-16.

### **Background**

- 4 The term 'homesteading' has been used in housing renewal to describe a policy where empty homes, in public ownership, are offered for sale at a discounted price to prospective owner occupiers. The homes are difficult to let and have been empty for at least 6 months.

- 5 A renewed emphasis on policies that bring empty homes back into use has raised the profile of this type of initiative.<sup>1</sup> Although there are no current schemes in the North East, there are other examples in other parts of the country (see examples in Appendix 1).
- 6 Homesteading can help to increase the level of owner occupation in an area; improving community sustainability through the introduction of long term residents who are investing in the neighbourhood.
- 7 The concept and proposal has been shared with the Economy and Enterprise Overview and Scrutiny Committee Working Group on Empty Homes and a recommendation was included in their February 2013 Cabinet report to develop this initiative further.
- 8 Recent research<sup>2</sup> has also concluded that homesteading could form part of the Council's overall strategy on empty homes.
- 9 It is proposed that the overall scheme is aligned where possible to the Council's renewal areas. These areas have higher than average percentages of empty homes and receive other public funding to help bring empty homes back into use. A list of these areas is set out below.
  - Easington Colliery
  - Chilton West
  - Dean Bank, Ferryhill
  - Coundon and Dene Valley
  - Craghead and South Moor
- 10 Maps of the two pilot areas are attached in Appendix 4 with the proposed DCC properties identified for disposal (on the map of Coundon).
- 11 It should be noted that the extent of DCC commitment in the pilot scheme is limited to 6 houses. The partnership with livin means that a broadly similar scheme is offered in an additional location. Sharing resources and experience through partnership will create a stronger identity for the homesteading programme and allow learning from both elements of the pilot to be shared.
- 12 To help any homesteading programme, it is recommended that interest free repayment loans, available to owner occupiers buying long term empty homes in the private sector, are offered as an additional incentive.

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<sup>1</sup> Univ. of Sheffield 'DIY Regeneration? Turning Empty houses into homes through homesteading' Nov 2013

<sup>2</sup> Arc 4 'Bringing Empty Homes back into Use in County Durham' December 2012

## Details

- 13 The outline proposals for the scheme are set out in Appendix 3. The Council will deliver the pilot scheme alongside a livin scheme (formerly Sedgefield Borough Homes) but in total, three key partner housing association partners have agreed in principle to participate, namely:
- livin
  - Four Housing Group
  - Accent Housing
- 14 The sale price will be discounted to a figure which is significantly below open market value. The following is proposed:
- For properties owned by the Council the level of discount is fixed at the minimum level of discount ordinarily available through Right to Buy (a 35% discount on the open market value<sup>3</sup>)
  - For properties owned by housing associations the minimum level of discount will be at the minimum discount available under the Right to Acquire (£9,000) (for a house worth £30,000 this would be the equivalent of a 30% discount). The discount may be increased above this minimum level but this will be at the housing association's discretion. For the pilot, it is possible that the discount is increased to 35% (to equate to the RTB discount above) if this represents a better financial incentive to the purchaser (subject to approval by the housing association Board and the HCA)
- 15 Eligibility would be as wide as possible subject to the initial purchaser completing an agreed schedule of works and making the house his/her principal home for a period of 5 years from the date of purchase (for more details on eligibility – see paras 25-30 below).
- 16 In addition to the discount outlined above, an optional interest free loan would be made available (up to £15,000) for periods of up to 10 years to assist with paying for any identified repair and improvement works. Regular monthly repayments would be required. Loan conditions will be the same as for the interest free loans scheme provided by the Council in Empty Homes Cluster Areas.
- 17 Any required works will be specified by the Council's Housing Service to provide purchasers with an indication of what improvements and repairs are expected of them. The specification would be flexible and broad to give purchasers appropriate freedoms and flexibilities.

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<sup>3</sup> The General Housing Consents 2013 allows local authorities to dispose of any empty property at a discount up to the minimum of the Right to Buy discount without CLG consent.

- 18 The following table illustrates how homesteading works for houses purchased from either the Council or a registered provider (RP).

	<b>Durham County Council</b>	<b>Registered Provider</b>
	3 bed unimproved house owned by DCC	2 bed unimproved house owned by a housing association
Open Market Value (OMV) of unimproved house	£30,000	£27,000
Homesteading discount	£10,500 (35% of OMV)	£9,000 (Right to Acquire discount)
Sale Price	£19,500	£18,000
Cost of Works to fully improve house	£5,000	£4,000
Estimated Open Market Value of Improved House	£32,500	£29,000

Table 1: Indicative financial breakdown of typical homesteading sales

- 19 The marketing will be undertaken directly by the Assets section of the Council with support from the Housing Service and Dale and Valley Homes. Houses will be also offered through the Durham Key Options (DKO) website.
- 20 Each party to the transaction will be responsible for their own conveyancing and other costs. Therefore all relevant legal fees and agents/surveyors fees will be paid by the vendors, whether that be the Council or a housing association. This arrangement does not normally occur in relation to DCC property transactions where the purchaser would be expected to bear DCC's costs. However, given the low sales prices and the need to incentivise sales as much as possible, it is considered that an extra charge for our fees will be unpopular. DCC will cover these costs from the sales receipts.
- 21 The same arrangement would apply to sales of housing association properties where legal and estate agents fees would also be borne by the vendor (i.e. the housing association).
- 22 The Council owned homes are in Rutland Street and Buckingham Terrace, Leeholme, Coundon and their indicative full and discounted valuations are as follows:

<b>INDICATIVE VALUES</b>	
<b>FULL OPEN MKT VALUE</b>	<b>DISCOUNTED AT 35%</b>
£25,000 - £34,000	£16,250 - £22,100

- 23 The Registered Providers (RP's) will be offering the vast majority of the homes earmarked for homesteading. Proposals will be submitted to the HCA to secure their approval. The disposals will also require approval from the RP's respective Boards/Committees and their funders (where appropriate). A RP will also want to be sure there are no adverse consequences for their business plans.
- 24 Overall divisions of responsibility will be as follows:

<b>Durham County Council</b>	<b>Registered Providers</b>
<b>ROLES UNDERTAKEN BY ALL LANDLORDS</b>	
<ol style="list-style-type: none"> <li>1. Identification of long term empty homes in renewal areas</li> <li>2. Survey of property and creation of Schedule of Works</li> <li>3. Marketing and Disposals</li> <li>4. Monitoring of works completion and continued occupancy</li> </ol>	
<b>Roles for Durham County Council</b>	<b>Roles for Registered Providers</b>
<ol style="list-style-type: none"> <li>1. Overall strategic direction of programme</li> <li>2. Provision of Interest Free Loans (subject to eligibility)</li> <li>3. Advertisements on Durham Key Options system</li> </ol>	<ol style="list-style-type: none"> <li>1. Approvals from HCA</li> </ol>

Table 2: Overall divisions of responsibilities between DCC and housing associations

### **Conditions**

- 25 Once sold, the ideal would be to keep the houses in owner occupation 'in perpetuity'. Owner occupation needs to be encouraged in these areas but a balance needs to be struck between imposing restrictions on occupancy and allowing purchasers the freedom to move on.
- 26 Several options for imposing conditions which maximise the period within which owner occupiers are expected to remain in the property were considered. The options ranged from a simple three year residency requirement through to owner occupation 'in perpetuity'.

- 27 Whilst seeking owner occupation in perpetuity is regarded as the ideal it would create too onerous a condition, would prove difficult to monitor and enforce and would deter initial purchasers. Advice from lenders and other professional agencies suggests that sales could be seriously hampered.
- 28 For the scheme to be given a chance of success it is proposed that the pilot scheme is less restrictive. It is recommended that the Council requires a property to be kept in owner occupation for a period of 5 years.
- 29 If demand for the pilot scheme proves strong then consideration will be given to extending owner occupation requirements to longer periods of time in any further sales.
- 30 Penalties will be applied to the first purchaser (through clawback of the full discount) should the house be sold; should specified works not be completed or if the first homesteaders leave the house prior to the end of a 5 year period. A legal charge will be placed on the property equivalent to the full discounted amount for the period of 5 years.

### **Programme and Funding**

- 31 The pilot programme will include up to 6 DCC owned properties. This first phase will be subject to appraisal and evaluation. It is anticipated that the pilot will start in Spring 2014.
- 32 The first pilot phase will focus on long term void properties in Coundon and also properties in Dean Bank, Ferryhill (in the ownership of livin). Dale and Valley Homes manage several long term voids in the Coundon area.
- 33 Any subsequent phases would extend over the entire county.
- 34 The homesteading scheme will complement other empty homes initiatives and provide added value to our overall regeneration investment in the areas.
- 35 As indicated above, registered providers (housing associations) with properties in these areas include Three Rivers; livin; and Accent. Dale and Valley Homes also manage properties eligible for the scheme but the Council's other ALMO, East Durham Homes does not have any long term voids in the identified renewal areas.
- 36 Capital receipts from the sale of Council owned properties will go to the Housing Revenue Account. Proceeds from the sales of houses owned by RPs will be used in the first instance to pay off any outstanding grant but subsequently will be reinvested by the RP.
- 37 It should be noted that any scheme is subject to securing a satisfactory source of mortgage finance.

- 38 Funding for the interest free loans will be taken from the HCA/CLG cluster programme money.
- 39 The regional loans administrator (Five Lamps) is already administering a large regional loans portfolio on behalf of all 12 authorities in the North East and will be asked to appraise applications and set up any new loans to assist new purchasers.

### **Future Action**

- 40 The registered providers have all agreed to participate in this scheme in principle and will work in partnership with the Council to ensure the scheme is launched effectively.
- 41 The Homes and Communities Agency (HCA) will continue to be updated on this initiative and their permission will be sought for the disposal of the RP houses at less than full market value.

### **Recommendations and reasons**

Cabinet is recommended to

- (a) Note the establishment of a Homesteading programme initially for the Council's renewal areas.
- (b) Agree to the proposed sales of DCC houses at below market value equivalent to the minimum Right to Buy discount of 35% (including a provision that the Council bears its own surveyors and legal costs).
- (c) Agree to the establishment of a pilot scheme in Coundon and Dean Bank, Ferryhill for Spring 2014 and subject to its success, extend to other houses in the Council's renewal areas and in other priority locations.

These actions will help to address the high number of long term empty properties in some of areas of older stock where demand is low and sales to prospective owner occupiers have diminished.

### **Background papers**

None

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**Contact: David Siddle Tel: 03000 268010**

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## **Appendix 1: Implications**

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### **Finance –**

The capital receipt received from the sale of council owned properties will be utilised to support the overall HRA capital programme. Resources for loans provided to purchases under this scheme will be provided under existing budgets held under the Council's Financial Assistance Policy. There are no other direct financial implications arising from this report

### **Staffing –**

None

### **Risk –**

The Council will incur marketing costs which will not be reimbursed if the sales do not occur.

### **Equality and Diversity / Public Sector Equality Duty –**

None

### **Accommodation –**

None

### **Crime and Disorder –**

None

### **Human Rights –**

None

### **Consultation –**

None

### **Procurement –**

None

### **Disability Issues –**

None

### **Legal Implications –**

As part of each sale appropriate provisions will need to be put in place to protect the discount for a period of 5 years (owner occupation provision) and to secure any loan paid to the purchaser



## APPENDIX 2

### Other homesteading schemes in the country

#### (a) 'Own Place' - Riverside HA

- 1 "OwnPlace" is a Riverside Group initiative involving the sale of their empty properties for home ownership to local people.
- 2 The properties are mainly 2 and 3 bedroom terraced houses, some of which have been empty for some time. Some are in poor condition, but under the scheme Riverside carry out structural repairs and some improvement works to bring all properties up to a standard which allow buyers to secure a mortgage on the property.
- 3 The properties will be sold at market value (independently set), but buyers will receive a grant from Riverside equivalent to 25% of market value. In other words if a property has a market value of £80,000, then allowing for the grant, the buyer would pay £60,000. Sales are on a 125 year lease.
- 4 Riverside will only sell homes to prospective owner occupiers, and only then on the condition that the property is not sub-let. In addition, whilst the lease is in operation the buyer will only be allowed to sell the property to another home owner, to stop the property being let by a private landlord. (It should be noted that the purchaser can choose to purchase the freehold interest after which the terms and conditions of the sale are lifted)
- 5 The buyer keeps the grant provided they live in the property for 5 years. If they sell the property before then they will have to pay some or all of the grant back (on a sliding scale of 20% per year), much as Council tenants have to with a 'Right to Buy' discount.
- 6 Riverside Group believe that by selling some properties to home owners who are willing to stay in an area and invest in the homes, this will help stabilise the neighbourhood and make it more attractive to other people thinking of moving in. It will help shift the balance from rented accommodation to owner occupation.
- 7 The "OwnPlace" scheme is aimed at helping first time buyers onto the first rung of the housing ladder. A simple set of eligibility rules have been developed for the scheme that:
  - Buyers must be 18 years or older;
  - They must either be renting a property or living with family or friends;

- They must be able to show that they need help in buying a property because of limited income although they must also be able to show that buying a home (with the benefit of a grant) and looking after it is something they can afford to do.
- They must be able to fund the purchase either through a mortgage or savings.
- Some existing home owners may also be eligible – for instance if they need to move because their home is being cleared, or they need to move because of a relationship breakdown.

### **(b) Homes for £1 – Stoke-on-Trent City Council**

1. This initiative is part of Stoke's empty homes 'cluster programme' and involves the release of 35 empty homes in social ownership to first time buyers.
2. The Council emphasize that the purchasers should be prepared to commit to being involved in the community and take an active role in its wider regeneration.
3. First purchasers must be resident in Stoke; have specific limits on household income and commit to remaining in occupation for a minimum 5 years.
4. The homes are allocated according to household needs (purchasers do not 'choose' the home they buy)
5. Purchasers can access low interest finance (up to £30,000) from the Council for repayment over 10 years. Should the house be sold before repayment of the loan then all debts need to be redeemed (plus a proportion of any capital appreciation).
6. Any resale must be limited to owner occupation for up to 10 years.

## **APPENDIX 3**

### **Basic details of the homesteading scheme**

#### **Eligibility**

1. Any purchaser who intends to use the house as their principal home will be considered
2. Applicants must be eligible for a mortgage for the property (or be a cash buyer)
3. Applications will be considered from anywhere in the country
4. Successful applicants must undertake to live in the property as their principal residence up to the end of the 5th year from the date of purchase.
5. Should the purchaser leave or sell the property in advance of the 5th anniversary of purchase completion then the Council reserve the right to seek repayment of 100% of the discount incorporated into the scheme.

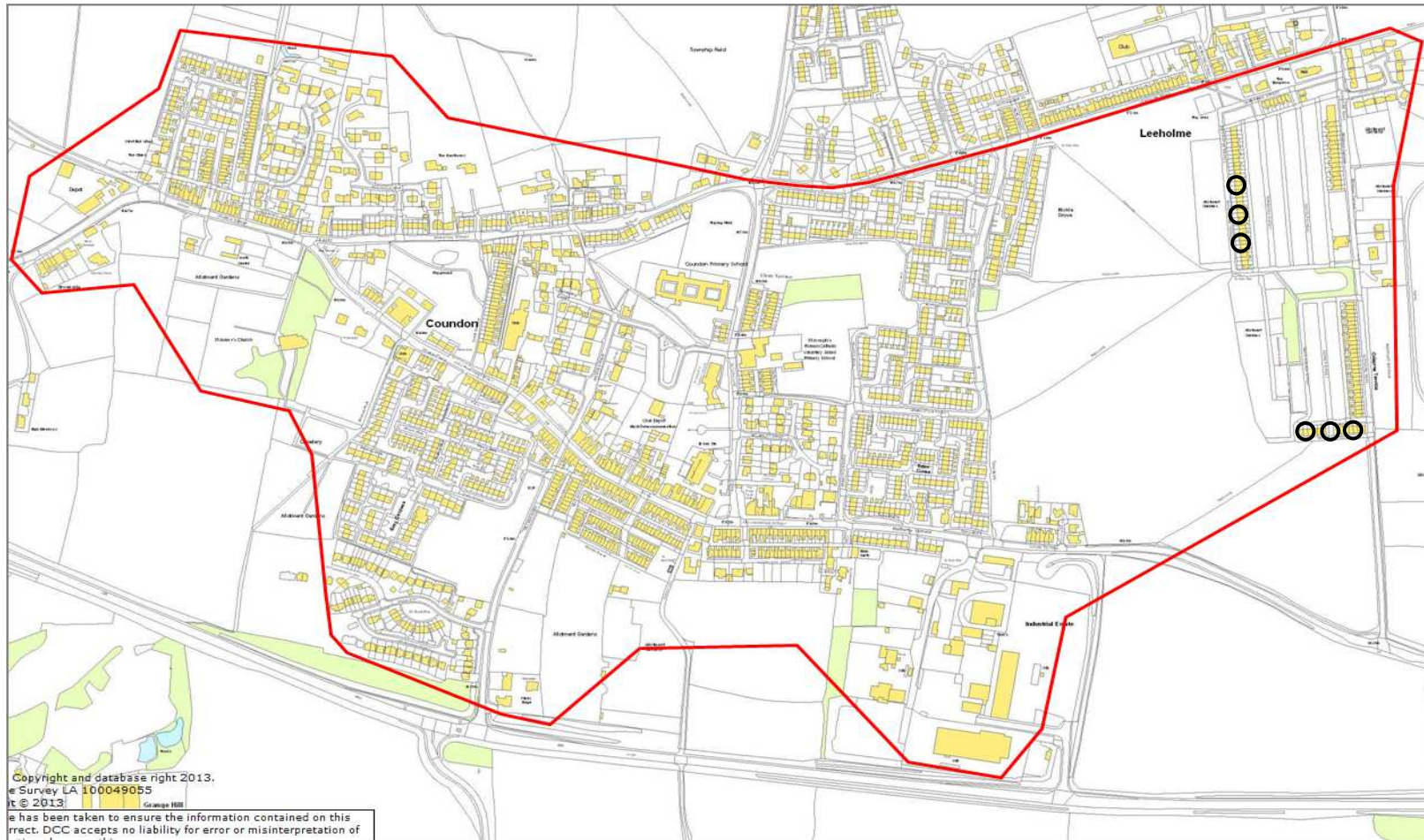
#### **Works**

1. Where necessary, the houses will require repair and improvement work to bring them up to a Durham minimum standard (including the Housing Health and Safety Ratings Standard (HHSRS)).
2. The Council will prepare a schedule of works that will provide a summary of the work required for any prospective purchaser.
3. All relevant works must be completed within one year of purchase.
4. If the required work is not complete within one year of purchase then the Council reserves the right to recover all the discounted element of the purchase price and any loan.

APPENDIX 4 - MAPS

Coundon

DCC houses for disposal under the pilot scheme - 3, 6 & 9 Rutland Street and 16,17 & 24 Buckingham Terrace



# Dean Bank, Ferryhill

