Report to: Cabinet Meeting - 4 November 2024

Portfolio Holder: Councillor Lee Brazier, Housing

Director Lead: Suzanne Shead, Housing, Health & Wellbeing

Lead Officer: Cara Clarkson, Business Manager - Regeneration & Housing Strategy, Ext. 5293

Report Summary	
Type of Report	Open Report, Key Decision
Report Title	Yorke Drive – Equity Loan Offer
Purpose of Report	To seek approval for an equity loan model as part of the decant strategy to facilitate the Yorke Drive regeneration scheme.
Recommendations	That Cabinet: a) approve, in principle, the equity loan model detailed at **Appendix 1** with delegated authority being granted to the Director - Housing, Health & Wellbeing in consultation with the Section 151 Officer and the Assistant Director - Legal & Democratic Services to finalise the final terms and form of agreement; and b) grant delegated approval to the Director - Housing, Health & Wellbeing, in consultation with the Section 151 Officer, to enter into individual equity loan agreements in accordance with the principles detailed in the Appendix. c) Re-confirm that authority is granted to the Director of Housing Health and Wellbeing, in consultation with the Director of Resources and the Assistant Director Legal & Democratic Services, to acquire privately owned properties, or enter into option agreements for their acquisition, where essential for land assembly to deliver the Yorke Drive regeneration project.

Alternative Options Considered	A range of alternative shared ownership/ equity models were considered and consulted upon with residents; detail on the alternative options considered can be found at section 2.3.3. It remains an option for each homeowner to agree a straightforward sale to the Council, and this will still be offered to homeowners as an alternative to the equity loan arrangement, including provision for 'option agreements' – which allow the homeowner and Council to enter into a legally binding arrangement for the sale to be finalised at an appropriate time in the future. If the Council fails to reach agreement with any homeowner the alternative is compulsory purchase.
Reason for Recommendations	To continue the delivery of the Yorke Drive Regeneration Programme, a key action within the Community Plan and delivering overarching transformation for the Bridge Ward.

1.0 <u>Background</u>

1.1 As part of the Yorke Drive regeneration scheme, Newark & Sherwood District Council committed through its Yorke Drive Decant Policy (approved November 2019), to provide a shared ownership option for existing homeowners on the estate whose property fell within the demolition zone.

1.2 The offer recognises that in the depressed housing market of Yorke Drive, residents are unlikely to realise a property value through the sale of their property (to the council) that will enable them to buy either a similar property on the open market or one of the new build properties on the estate, without support. This offer will allow Yorke Drive owners to remain in home ownership and on the estate should they wish.

1.3 The Yorke Drive Decant Strategy states:

i. *Resident owner occupiers will receive compensation equivalent to the market value of their homes plus a home loss payment of 10% of the market value. An independent valuation will be necessary and paid for by NSDC.*

ii. *Where a resident owner wishes to stay on the Yorke Drive estate, there will be the opportunity to purchase one of the newly built homes either outright or on a shared ownership / equity basis. The full purchase price of their property plus any Home Loss Payment should be invested into meeting part of the value of a new home.*

iii. *Alternative options for re-housing may include:*
- *Reverting to a tenancy (only where it is evidenced that the resident cannot afford to purchase a new home outright or on a shared equity basis)*
- *A swap to another NSDC property of similar value*
- *A bespoke and equitable solution based on the resident's individual needs*

2.0 When developing the shared option, several alternatives were initially considered with, and discounted by, residents:

i. A true “Shared Ownership” offer whereby the resident owns a proportion of the property and pays rent on the remaining proportion. This was discounted following feedback from residents who would not accept a financial position whereby they were paying rent (when some are currently mortgage free).

ii. NSDC entering a shared/ joint mortgage with the resident in the purchase of their home. As above, resident feedback when discussing options included a strong refusal to ‘part-own’ their home – favouring an outright ownership with clear roles and responsibilities for maintenance and repairs.

iii. NSDC providing a mortgage to the resident – something councils can legally provide but with significant administrative burden.

2.1 The model now proposed is an equity loan model, whereby the council will loan the homeowner the difference between the cost of their new (like for like) property and the value they have realised from the sale of their existing property (including the 10% home loss compensation). Further details of the offer can be found in Appendix 1.

3.0 <u>Potential Uptake of the Equity Loan Model</u>

3.1 Five owner-occupied properties remain within the demolition zone on Yorke Drive. It is proposed that a loan be made available on a maximum of five properties, to bridge the gap between the value realised by the sale of the original home (inclusive of Home Loss payment) and the market value of a new similarly sized property. All properties in question are three beds.

3.2 Market research has indicated that the sales values for a three-bedroom property in the new development will range from £231,000 to £267,750 depending on house type. It is proposed that the offer of replacement is limited to two, three bed semi-detached property types (rather than a detached or 2.5 storey property type) at a maximum value of £241,500.

3.3 The most recent valuations on the five owner occupied properties estimate the total value at £475,000 however, these valuations will be recast given the delays in the project and are therefore likely to increase.

3.4 At a property valuation of £475,000 plus 10% Home Loss at £47,500 the difference between five properties at £241,500 per property (£1,207,500) would be a maximum loan value across all properties of £685,000.

4.0 <u>Implications</u>

In writing this report and in putting forward recommendations, officers have considered the following implications: Data Protection; Digital & Cyber Security; Equality & Diversity; Financial; Human Resources; Human Rights; Legal; Safeguarding & Sustainability and where appropriate they have made reference to these implications and added suitable expert comment where appropriate.

Financial Implications FIN24-25/8838 -

4.1 The above equity loan model would be treated within the Council's accounts as a Capital Debtor and as such would not need budget attributable to it. As the Council would receive the funds back at a point in time in the future, the debt would sit on the Council's Balance Sheet until such time that the debt is settled.

4.2 As no interest payments would be required, due to a zero percent interest rate, the Council would therefore lose out on any interest it could generate should it have not given the loan originally.

4.3 The Council will have to treat the loan as a soft loan (due to the loan being below market rate) for accounting purposes, but there are no financial implications attributable to this, other than the loss of interest described above.

4.4 The maximum overall debt liability would be £685,000 as per paragraph 3.4 above. The maximum individual liability would amount to £158,500.

4.5 Should all five properties need the maximum amount of loan (hence the £685,000), based on the current average interest rate that the Council is receiving, this would be a loss in interest of £29,000 per annum.

4.6 Where any of the loans defaulted at the point of repayment, due to insufficient equity in the sale value of the property, the difference would need to be financed by the Council at that point in time.

Legal Implications

4.7 The Council has the power under section 17 of the Housing Act 1985 to acquire properties for housing purposes and under section 120 of the Local Government Act 1985 the Council may also acquire properties for any purpose authorised by that Act or any other act (including for housing purposes).

4.8 Section 12 of the Local Government Act 2003 provides that the Council may invest for any purpose relevant to its functions under any enactment and Section 1 of the Localism Act 2011 gives the Council power to do anything that individuals generally may do. Therefore, the Council can provide the equity loans as outlined in this report subject to the terms and conditions being agreed.

4.9 Conventionally, an equity loan would constitute the provision of credit to a consumer which would be caught by the Consumer Credit Act 1974 however local authorities are exempt from the 1974 Act meaning that the loan would not be a regulated agreement.

4.10 The offer of any equitable loan will be subject to the resident homeowner disposing of their property to the Council for its value, purchasing a new property and the loan then being secured as a legal charge at HM Land Registry against the new property acquired with that loan by the homeowner.

4.11 Where the Council is securing the repayment of the loan through the use of a second legal charge ranking behind a first qualifying lending institution (i.e. the homeowner's mortgage company or bank), there will be no Financial Conduct Authority concerns and the loan will not constitute a 'regulated mortgage contract' for the purposes of the Financial Services and Markets Act 2000. The Council will not therefore carry on a regulated activity by lending, administering, advising on or arranging such equity loans.

4.12 Any form of 'overage' imposed upon a homeowner's new property needs to be considered carefully. Overage usually arises where a commercial property seller reserves for themselves a slice of any increase in value of the sold property where the buyer has improved the property. Any improvements to the new property upon which the Council has a charge may not amount to improvements but merely be maintenance work – for example, things like roof replacement. The fairness of this will need to be considered as does whether a sophisticated form of agreement identifying what amounts to value enhancing improvements can be drafted. It might be that the Council needs to seek external advice on this aspect. The initial quote received for this is in the region of £7,000. It is anticipated that any provisions will be similar to statutory arrangements under the Housing Act 1985 regarding the right-to-buy process; meaning any increase in value attributable to home improvements as opposed to maintenance following purchase will be disregarded.

4.13 Compulsory purchase – the legally enforced purchase of privately owned property in the public interest - is considered a last resort as it is a costly and time-consuming process, and it is preferable to reach an amicable agreement with homeowners.

4.14 There is a risk of non (or reduced) repayment where the value of a property goes down or if a property is re-possessed by a mortgage company. This risk is minimised by the registration of a legal charge in favour of the Council. The risk is considered acceptable as the alternative may be the cost and delay of compulsory purchase and associated delay and risk to delivery of the Yorke Drive scheme. The maximum exposure is set out in the Financial Comments section of this report.

Background Papers and Published Documents
Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

All Member Update workshop – April 2024
All Member Update workshop – June 2023
All Member Update workshop – June 2022
Yorke Drive Decant Strategy – November 2019

Appendix 1 – Equity Loan Model Principles

<table>
<tr><th colspan="2">LOAN DETAILS</th></tr>
<tr><td>Who is eligible for the Homeowner Rehousing Loan</td><td>A resident homeowner who has lived in the property being acquired as their only or main address for at least 12 months.
The homeowner is prepared to invest the full value of the sale of their existing property and their 10% home loss payment into the purchase of their new property.
The outstanding value of any existing mortgage on the property is transferred to the new property.</td></tr>
<tr><td>Amount of loan/ ownership levels</td><td>Amount of loan to be calculated as:
Loan Value = New Property Value – (Value of current property + Homes Loss Compensation)
The loan will allow households to retain 100% ownership of the property.
The maximum loan will be based on a like for like property i.e. 3 bed for 3 bed.
The maximum loan value will be the difference between the independent valuation of the homeowner's property and the value of a property with the same number of bedrooms being developed as part of the regeneration scheme.
The loan will be secured as a charge against the property and be registered with the Land Registry.</td></tr>
<tr><td>How is the loan provided and repaid?</td><td>The interest free secured loan will be granted when the purchase of an alternative property has been agreed and paid at the time the property transfers to the resident homeowner.
The loan and repayment are based on the value of the property.
As part of the loan agreement NSDC will defer repayment of the loan until:
owner wishes to pay NSDC back
sale or transfer of the property
death of the homeowner,
or whichever occurs first.
The homeowner will repay, as a minimum, the full value of the loan on the date it was secured.
On sale/ transfer of the property the proceeds of the sale will be split according to NSDC/homeowners' ownership percentages at the time the loan was entered into.
Example:
Mr. and Mrs. Smith's new home is valued at £100,000
Their current property value is £75,000 (75%)
They take up a loan of £25,000 (25%)

Their Loan to Value on their new property is 25%
In 10 years time the house is valued at £160,000
Mr and Mrs Smith wish to repay the 25% loan.
The loan repayment £25,000
Share of equity (25% of £60,000) = £15,000
Total repayment = £40,000
Mr and Mrs Smith retain = £120,000</td></tr>
</table>

	• The loan can be reduced through part payments or can be repaid in full without selling the property. • Part payments will be accepted at a minimum of 10% of the original loan – using the example above - £2.5k minimum transaction – this is to minimise administrative burdens associated with part payments. • An independent valuation must be undertaken at the homeowner's expense when reducing or repaying the loan. The value of the repayment to be made will be calculated by reference to the current market value at the time of repayment as in the above example. • A mechanism for dispute resolution to be included within the loan terms.
Exempt Disposals	Homeowners will be allowed to pass the property on through inheritance to a spouse or civil partner – detailed provisions will mirror as closely as possible the right-to-buy arrangements in the Housing Act 1985 for 'exempt disposals'.
Interest	• Interest is not being charged on the loan.
Home Improvements	• The council will not benefit from any increase in the value of the property that is because of any significant home improvements made by the owner. • Home improvements should be recorded, and receipts kept securely and shared with the council for record so that these can be discounted is appropriate when the property is finally valued. Improvements will only be discounted where these continue to add value to the property. • The value added by any improvement will be considered by an independent valuation agreed at the time of sale.