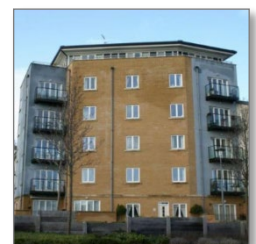
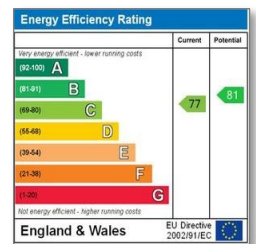




## South Gloucestershire: LHNA Shared Ownership Addendum November 2024





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- 1.1 South Gloucestershire Council appointed Opinion Research Services (ORS) to prepare a Local Housing Needs Assessment (LHNA), which was completed in December 2023 (“South Gloucestershire Local Housing Needs Assessment Report of Findings December 2023”)<sup>1</sup>. South Gloucestershire Council have subsequently requested that the modelling in the document concerning shared ownership be expanded to incorporate a variant assumption. This addendum paper sets out the results of this further modelling.
- 1.2 Within the LHNA (para 3.63) the calculation for shared ownership schemes follows certain assumptions:
- » 40% equity share purchased by the occupier;
  - » 10% of the equity purchased is available as a deposit;
  - » Mortgage costs based on a 30-year repayment mortgage at 6.25% interest (a typical rate for a shared ownership mortgage);
  - » Rent based on 1.5% of the retained equity paid each year; and
  - » Service charge of £10 per week.
- 1.3 The data underpinning these assumptions, along with the associated property values, may have changed slightly since the calculations in the LHNA were made, however, to maintain consistency with the LHNA, the same assumptions have been used for this addendum.
- 1.4 Figure 23 and 24 of the LHNA show the weekly costs of shared ownership based on the above assumptions, and the impact of varying the equity share. For contrast and comparison purposes the LHNA also highlights the costs associated with shared ownership properties when rent is based on 2.75% (as opposed to 1.5% in the above examples) of the retained equity annually, while all other assumptions are kept constant. This is shown in Figure 25 of the LHNA.
- 1.5 As an addition to the work in LHNA, South Gloucestershire have requested that the tables referred to in the previous paragraph are reproduced showing the impact of a rent charged at 2.5% of the retained equity, with all other assumptions held constant.
- 1.6 Figure 1 shows the costs associated with a shared ownership scheme. When all other assumptions are kept constant, the change from 1.5% to 2.5% in rent charged results in an average 15.8% increase in weekly costs across all property sizes.

**Figure 1: (Adapted from LHNA Figure 23) Shared ownership costs (Note: Mortgage costs based on a 30-year repayment mortgage at 6.25% interest. Rent based on 2.5% of the retained equity annually. Service charge assumed to be £10 per week)**

Property Size	Property Value	40% Equity Share	10% Deposit	Weekly Cost - Mortgage	Weekly Cost - Rent	Weekly Cost - Service Charge	Weekly Cost - TOTAL	Weekly Median Private Rent Costs
1 bedroom	£156,190	£62,476	£6,248	£80.45	£44.93	£10.00	£135.38	£172.48
2 bedrooms	£270,268	£108,107	£10,811	£139.21	£77.75	£10.00	£226.95	£201.23
3 bedrooms	£334,973	£133,989	£13,399	£172.53	£96.36	£10.00	£278.90	£252.98
4+ bedrooms	£448,342	£179,337	£17,934	£230.93	£128.98	£10.00	£369.90	£402.46

<sup>1</sup> <https://beta.southglos.gov.uk/static/d9a1ff8e60af34811bc36c8bdb5d199a/South-Gloucestershire-LHNA-2023.pdf>

**Figure 2: (Adapted from LHNA Figure 24) Total weekly costs for shared ownership based on different equity shares (Note: Mortgage costs based on a 30-year repayment mortgage at 6.25% interest. Rent based on 2.5% of the retained equity annually. Service charge assumed to be £10 per week. (Cells highlighted in orange are above the equivalent median private rent.)**

Property Size	Median Private Rent	New Lower Quartile Property Value	10% Equity Share	25% Equity Share	40% Equity Share	50% Equity Share
1 bedroom	£172.48	£156,190	£97.51	£116.44	£135.38	£148.00
2 bedrooms	£201.23	£270,268	£161.42	£194.19	£226.95	£248.80
3 bedrooms	£252.98	£334,973	£197.68	£238.29	£278.90	£305.97
4+ bedrooms	£402.46	£448,342	£261.19	£315.55	£369.90	£406.14

1.7 The LHNA contains a further figure pertaining to shared ownership, Figure 26. This figure compares the outputs from the 1.5% scenario in Figure 24 of the LHNA with affordable rent, lower quartile rent, median rent, and other low-cost homeownership options.

1.8 Figure 3 reproduces Figure 26 of the LHNA with the 2.5% rent on equity share outputs replacing the 1.5% rent data in the LHNA. This summarises the cost for each property size based on a range of potential shared ownership equity shares, the typical 30% first homes discount and 20% discounted market sales housing (see 2019 NPPF Glossary – affordable housing (c), page 64), as compared to various rent levels. As in the previous figures; all inputs and assumptions in the calculations have been held consistent with the LHNA other than increasing the rent on the equity share.

**Figure 3: Comparison of weekly Shared Ownership/First Homes costs by property size and equity share (Source: VOA 2021-2022, Land Registry, ORS model. Assumptions excluding equity share.)**

South Gloucestershire	10% Equity Share	25% Equity Share	40% Equity Share	50% Equity Share	70% First Homes	80% Discount LCHO
1 bedroom	£97.51	£116.44	£135.38	£148.00	£129.84	£148.39
2 bedrooms	£161.42	£194.19	£226.95	£248.80	£224.68	£256.78
3 bedrooms	£197.68	£238.29	£278.90	£305.97	£278.47	£318.25
4+ bedroom	£261.19	£315.55	£369.90	£406.14	£372.72 <sup>2</sup>	£425.96

KEY	Below Affordable Rent: X<AR	Above Affordable Rent and below Max LHA: AR<X<LHA	Above max LHA and below Lower Quartile Rent: LHA<X<LQ	Above Lower Quartile Rent and below Median Rent: LQ<X<Median	Above Median Rent Median<X
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1.9 It should be noted that the above calculations of weekly costs do not impact the overall need for affordable homeownership as set out in pages 43 to 46 of the LHNA; a need that is then incorporated into the housing mix summary in Figure 45. Similarly, neither does the above impact the policy-based refinements to the housing mix presented in the associated addendum “South Gloucestershire: Options for Establishing the Affordable Housing Requirement”. The LHNA utilises a nuanced methodology to establish the overall need for affordable homeownership, whereas the above simply states the cost of one of many potential products that could serve to meet the needs of a portion of these households.

<sup>2</sup> It should be noted that the maximum permitted cost of a First Home after discount is £250,000 outside of London. Based on the £448,300 lower quartile price of a four-bedroom property shown in Figure 23 **Error! Reference source not found.** of the LHNA, this discount would make the cost of such a First Home £313,810, which exceeds the threshold. Therefore, this figure is included only for comparison purposes as in practice this product could not be offered.

1.10 In enumerating the overall need for affordable homeownership, the LHNA sets out to calculate the number of households over the plan period that cannot afford to buy their own home in the open market; but could realistically access some kind of affordable homeownership product (e.g. first homes, shared ownership etc). The criteria utilised by the LHNA to establish this group were that the households:

- Can afford market rent without the support of housing benefit;
- Aspire to own their own home;
- Have at least £5,000 in savings to cover moving costs, legal fees, surveys, stamp duty etc.;
- Cannot afford the mortgage on a lower quartile property;
- Could afford the mortgage on a lower quartile property if it were discounted by 50%.

1.11 Therefore, for the purpose of establishing the plausibility of low-cost home ownership access, the LHNA has assumed a maximum discount of 50% on open market prices for properties which are compatible with the First Homes scheme<sup>3</sup> as a proxy for a maximally low-cost affordable homeownership product. As stated in paragraph 4.60 of the LHNA, in terms of weekly cost, this is approximately equal to a 25%-30% (depending on the size of property) shared ownership product with 1.5% rent on the retained equity. At 2.5% rent, this is approximately equal to a 10-15% shared ownership property.

1.12 As such, whilst it is the case that many (if not all) of the cohort enumerated by the LHNA could in theory afford a shared ownership property based on the alternative assumptions set out in this addendum, it should be understood that the process utilised by the LHNA to establish the level of need for affordable homeownership is not calculated on the basis of the schemes or products a given local authority is intending to make available, and is therefore unaffected by changes to the assumptions/terms underlying such schemes or products. In other words, the need for affordable home ownership products has not changed, and potential shared ownership products at 1.5% and 2.5% residual rent would, if provided, be affordable to different sub-sets of the overall cohort. Whilst some households may only be able to afford the cheaper product, other households may be able to afford both potential products, but at different equity shares.

1.13 South Gloucestershire's intended approach to the affordable homeownership sector is primarily (but not exclusively) focused on fulfilling the needs of these households through shared ownership products (see paragraphs 3.60 to 3.67 of the LHNA).

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<sup>3</sup> First Homes are newbuild properties built as part of wider housing developments, to be sold to first-time buyers with a discount of at least 30%. This discount can be higher if a local need can be demonstrated, up to a maximum of 50%.