



Rural Economies Intelligence

September 2009: Rural Housing – Briefing note to Hilary Benn

Summary and key points

- The average rural house price remains substantially higher than the average urban house price – and the gap is widening.
- Average house prices are falling at a much slower rate in sparse rural areas than elsewhere and rural housing remains substantially less affordable than urban.
- Repossessions have been declining dramatically both in rural areas and nationally and are now below 2007 levels.
- There is widespread evidence that housing need, demand for housing advice and numbers of housing register lists in rural areas has been rising.
- The Homes and Communities Agency's (HCA) internal target of 2,800 units for new rural affordable housing for 2008/09 has been missed by 13.75%, with 2,415 units completed.
- The Homes and Communities Agency has recently revised its rural affordable house building target in settlements below 3,000 population for 2008 to 2011 down 17.5% from 10,300 units to 8,500 units.
- Private sector housing construction and affordable housing as a by product of market development remains “at a standstill” in many rural areas and mortgage finance for Shared Ownership or restricted equity properties is difficult to obtain.
- Registered Social Landlords (RSLs) appear reluctant to take on rural schemes due to the higher costs and greater risks involved. This is coupled with evidence of a downturn in housing starts and planning applications, lack of future land supply and worries about future grant availability.
- We welcome the higher than average grant funding and greater level of flexibility by the HCA to rural housing schemes but are concerned that the criteria for some HCA programmes excludes rural areas – notably the Kickstart programme and the recently announced Public Land Initiative.

CRC Recommendations

The Homes and Communities Agency 2009/10 Corporate Plan published in late September included the announcement of the reduction in targets for affordable house building. This included the Government's target for affordable housing in rural settlements below 3,000 population, which has been revised down 17.5% from 10,300 to 8,500 for the years 2008/11.

This comes after HCA's own internal target of 2,800 units for new affordable housing for 2008/09 was missed by 13.75%, with 2,415 units completed.

It is disappointing, although perhaps understandable given current market conditions, that there has been a revision of the rural affordable house building target downwards. CRC is currently conducting analysis to assess whether this revision has been proportionate for rural in relation to changes to the national target. We are discussing the statistical details with the Department for Communities and Local Government, the Department for Environment, Food and Rural Affairs and the Homes and Communities Agency and will report on this separately.

Given the long standing and larger shortfall of social housing provision and the substantially worse levels of affordability in rural areas meeting rural need should be a priority in revised investment decisions made by the HCA.

Both HCA and CLG have stressed to us that the revised rural target should not be seen as a 'ceiling' for rural. Rural could achieve more than these revised targets.

But in order to do so it is important that government maintains the current incentives to deliver rural affordable housing and also seeks to address obstacles to this happening.

These obstacles include a dysfunctional land market, problems in sites coming forward but also some biases in current housing delivery. Two notable issues highlighted in this report include RSL reluctance to deliver rural sites and also a failure to adequately allow rural to take advantage of mainstream national housing programmes – most notably Kickstart and the recently announced Public Land Initiative.

Recommendation

- *The government should ensure that grant levels for rural housing stay at current levels for the remainder of the HCA 2009/2010 and 2010/11 programme.*
- *The increased money recently pledged to affordable housing by the Prime Minister should include continued support for flexible grant rates that are enabling rural housing schemes to be built.*

The understandable attempt to focus on 'getting the market moving' through prioritising volume in both stalled developments and land acquisition has the potential to miss out rural needs. It is important that government and the HCA are aware of this and ensure suitable adjustments to new policy programmes to allow rural areas to access initiatives equitably.

Recommendation

The HCA should:

- *Emphasise the importance of rural areas being included in proposed development packages as part of its ongoing 'Single Conversation' with Local Authorities and seek to meet reasonable additional costs involved.*
- *Change the funding criteria for the second round of the Kickstart programme to ensure that its access for rural areas is significantly improved.*
- *Provide ring fencing for rural areas to ensure equitable take up in this second phase of the Kickstart programme*
- *Deliver the South West phase of the Public Land Programme and bring forward a nationwide programme as soon as possible – ensuring that rural areas are able to access and benefit from the programme.*
- *In its discussions with Local Authorities around the Public Land Initiative make clear that it will allow clusters of smaller units of Local Authority land to be used and set a rural target for land utilised in the Initiative. The CRC would be willing to help in formulating this target.*

We are pleased to report that since our last housing report in March, although not providing a buy back guarantee to mortgage lenders, the HCA have agreed to fund the repurchase of homes in protected areas through housing associations if they were originally funded with Social Housing Grant. This step is welcome, although it is too early to see if it has been sufficient to drive changes in lending practice.

Recommendation

- *The Department for Communities and Local Government in its regular engagement with mortgage lenders should raise the issue of lending to rural properties with perpetuity clauses and clarify what obstacles remain to a resumption of lending.*

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The State of the Rural Housing Market

1. In this report we use Land Registry figures for the housing market. Because of the time lag in collection, these figures do not include some recent signals of an upturn in sales, mortgage approvals or house prices contained in more recent announcements by Halifax, Nationwide or RICS. However Land Registry figures benefit from being the only nationally comprehensive data source for all types of transactions (both cash purchases and mortgages) and also, because Land Registry data is recorded at postcode level, allow unrivalled spatial analysis to show what is happening in different rural and urban areas.¹
2. Our reports are also strengthened by input of many closely involved with rural housing and the day to day issues being faced by those 'at the coal face'. This includes housing teams from many rural local authorities, housing associations, builders and developers with a strong rural presence, rural housing enablers and parish councils across England.

Market Observations

House Prices

Seasonally adjusted average property sale price by rural and urban definition, April 2000 to April 2009

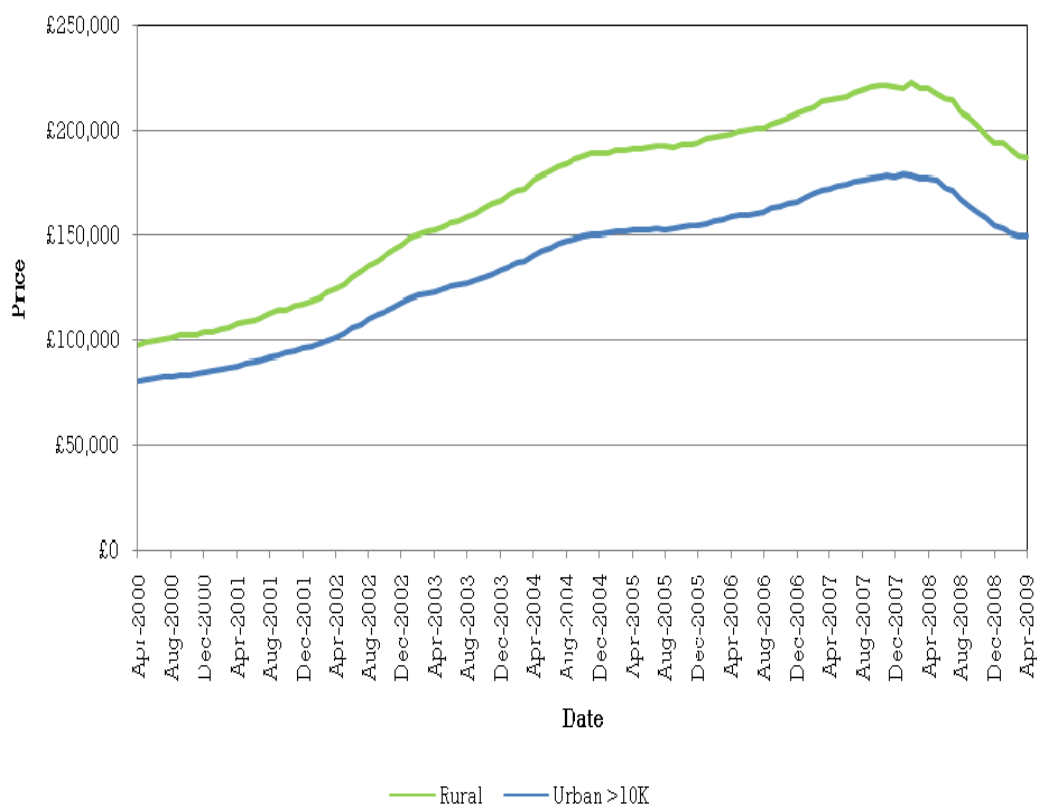


Figure 1. HM Land Registry - Rural and urban average house prices April 2000 – April 2009

3. Since our last report, rural house prices have continued to fall. The average rural house price now stands at £187,539, an annual decline of 15% from April 2008. This takes rural house prices to below prices last seen in October 2004.
4. We are now beginning to see significant spatial differences in the rate of price falls in England. The average rural house price remains substantially higher than the average urban house price – and the current rate of price falls is larger in urban than in rural areas (see Figure 1); meaning rural house prices are becoming relatively more expensive.

¹ Both Halifax and Nationwide report prices based upon their own mortgage data, which under current market conditions provides both a smaller, more volatile and less representative sample than Land Registry data.

5. Particularly striking is that average house prices are falling at a much slower rate in sparse rural areas than in less sparse rural and urban areas. Prices in sparse hamlets and isolated dwellings have fallen 7.6% in the year to April 2009, whilst in sparse villages average prices have fallen at 8.3% annually. This is compared to an average 15.6% fall across all urban categories.

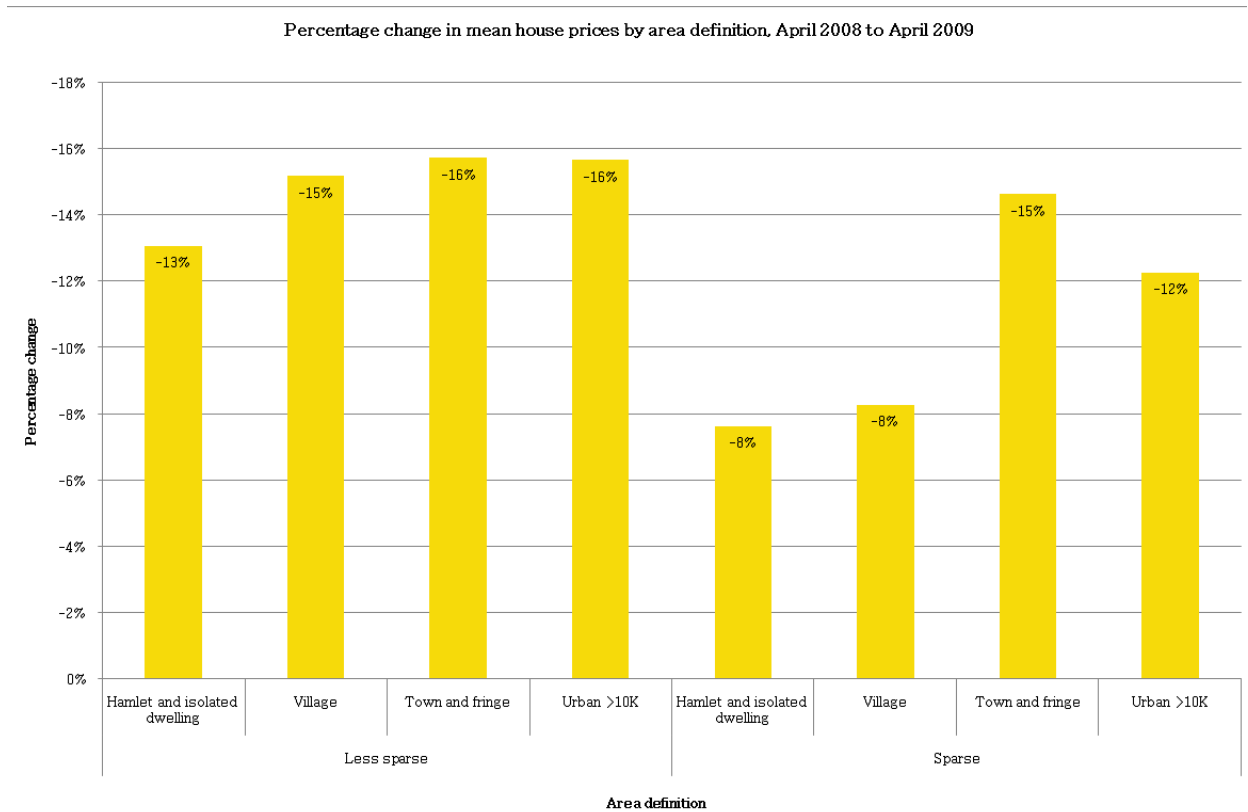


Figure 2. Percentage change in rural and urban average house prices April 2008 – April 2009

Housing Transactions

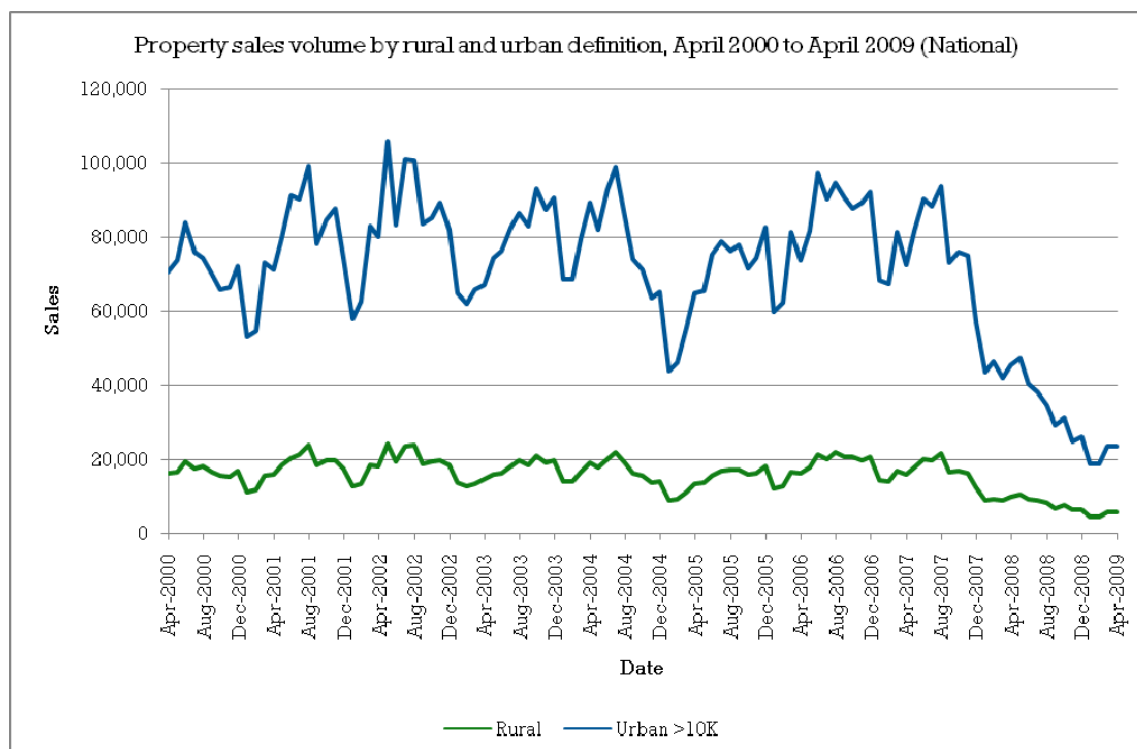


Figure 3: HM Land Registry - rural and urban transaction volumes Apr 2000 – April 2009

- Transactions have recovered somewhat from their low point in January 2009 but still remain extremely low by historical standards. There does not appear to be any significant spatial differentiation in transaction levels between different categories of rural and urban settlement.

Rural Housing Affordability

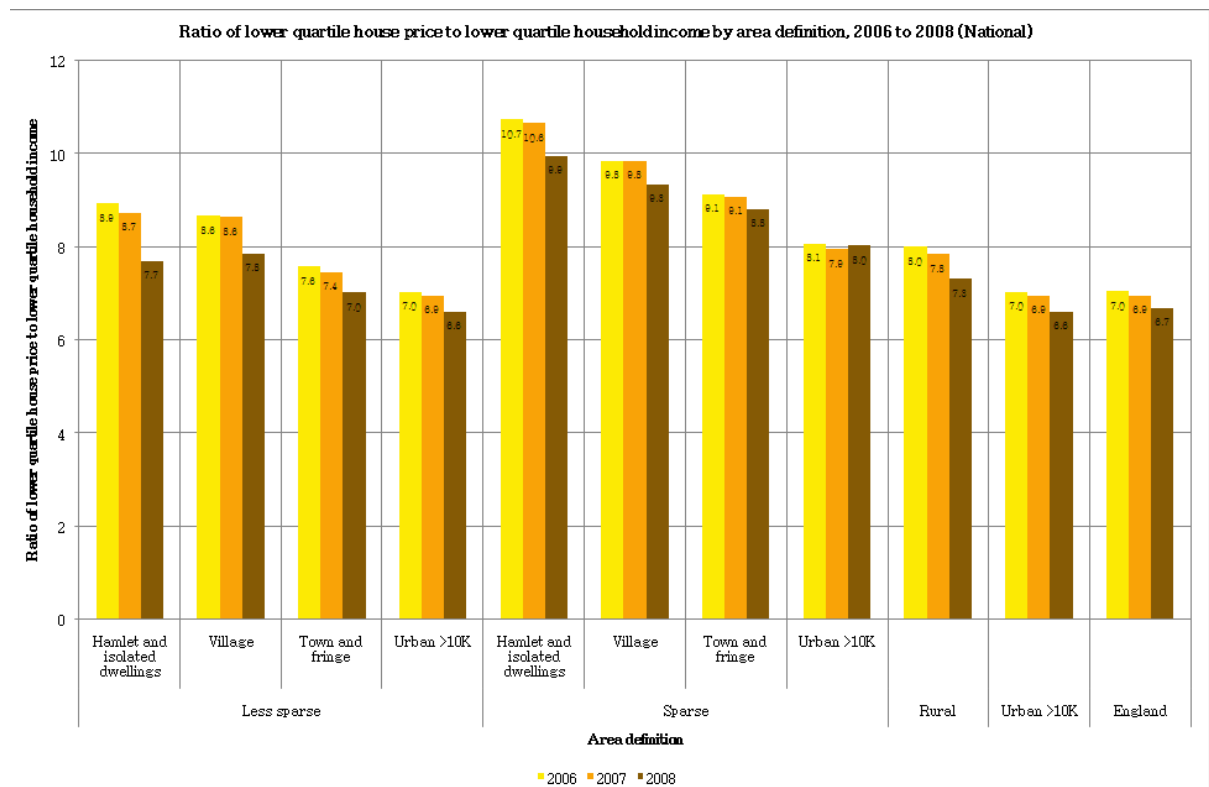


Figure 4. Lower Quartile Affordability 2006 - 2008²

- Lower quartile affordability³ has improved at a faster rate in less sparse rural areas than in sparse rural areas, nonetheless remaining worse than urban areas and the national average. In sparse rural areas lower quartile affordability remains very poor – with substantially worse levels of affordability than the UK average.
- As with the rest of England, lower prices are not benefiting the majority of possible rural purchasers due to tightened mortgage availability. Large deposits are now required for all borrowers – from 20% and up to 40% in some cases – and this is a particular problem for first-time buyers who lack equity [Hambleton District Council, West Devon Borough Council, South Hams District Council, Lincolnshire, Devon Community Council, Midlands Rural Housing, Leicestershire].⁴
- According to the Council for Mortgage Lenders the average deposit required by a first-time buyer has increased slightly since our last report and is now 25%¹

“First time buyers are still rare and the apparent ‘green shoots’ are being produced by wealthy individuals with access to finance” [Harborough District Council].

² Source: HM Land Registry with CACI Paycheck 2006/07/08

³ Lower quartile affordability is the ratio of median lower quartile house price (the lowest 25% of house prices) to median lower quartile household income (the lowest 25% of household income) by area definition.

⁴ Text in [square brackets] in this report refers to the submissions to CRC where this evidence has been cited.

Housing Distress

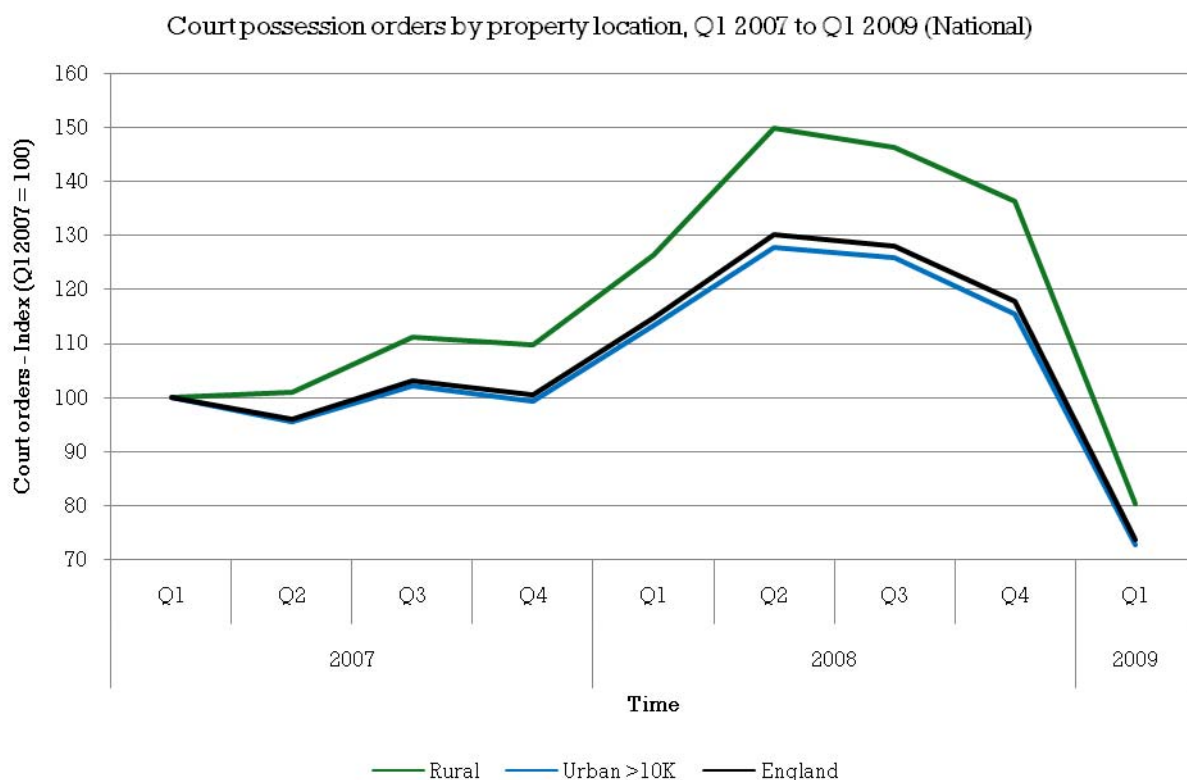


Figure 5. Quarterly Rural and Urban Repossession Data Q1 2007 – Q1 2009

Source: Ministry of Justice, *Possession Claim On Line Data 2009*

10. In March we reported that rural repossessions had been rising at a faster rate than England as a whole during 2007 and 2008. This pressure has eased and since the third quarter of 2008 repossessions have been declining dramatically both in rural areas and nationally and are now below 2007 levels (Figure 5).ⁱⁱ
11. This easing has coincided with lower base rates from the Bank of England and the introduction of the Mortgage Pre Action Protocol for possession claims with selected UK lenders. Both factors have helped reduce the immediate pressure on homeowners with high levels of debt and suggest that unemployment is the most likely driver of future repossession rates.
12. Anecdotal evidence from rural areas with low, temporary or seasonally based incomes suggest this combined link between employment and debt payments in cases of mortgage distress. In Restormel, a recent spike in mortgage distress occurred due to a combination of the collapse in several subprime lenders in September 2007 forcing higher risk borrowers onto higher rates coinciding with a cut in working hours from the town's major employer [Restormel Citizens Advice Bureau].
13. Data shows that other forms of extreme housing stress have shown a decline - with rural homeless households declining between the first quarter of 2008 and the first quarter of 2009, as also happened nationally. Rural homeless households in temporary accommodation have also declined significantly between 2003 / 04 and 2007 / 08.⁵
14. Although these extreme forms of stress have slowed, statistical and anecdotal evidence is suggesting that wider housing need in rural areas has been increasing.

⁵ CRC analysis based upon Housing Strategy Statistical Appendix (HSSA) data. It is important to note that there are known problems of underestimation in rural homelessness figures

15. Rural Local Authority waiting lists show a marked increase from 428,045 in 2005 to 474,970 in 2008 – a growth of 11%.⁶
16. Submissions to the CRC have also documented rising housing need [St Just Town Council, Herefordshire, Rutland Council, Redlynch Parish Council, South Gloucestershire Council, South Somerset District Council], increased demand for housing advice [South Hams District Council, Rutland Council, Harborough District Council, Hambleton District Council], and increasing numbers on the housing register [South Hams District Council, West Devon Borough Council, Chichester District Council, Northumberland County Council, South Gloucestershire Council, South Somerset District Council, East Devon District Council].
17. In Chichester District, for example, the housing list more than doubled from 2,500 people in March 2007 to 5,799 people in April 2009 with new housing being added to the district social stock at a rate of 180 to 200 units per year [Chichester District Council].

Market Based Affordable Housing Delivery

18. We are still experiencing a major shock to market housing in rural areas and this is having a significant impact on rural market based affordable housing provision – particularly through Section 106 Agreements and Shared Ownership developments.
19. We have had almost universal feedback that rural private sector housing construction remains ‘at a standstill’ or is extremely slow [Wiltshire, Dorset, East Riding Council, South Somerset District Council, Rutland County Council, Redlynch Parish Council, Northumberland County Council, Probus Parish Council, Berwick upon Tweed, Hambleton District Council, East Devon District Council].⁷
20. Affordable housing as a by product of market development has therefore been significantly impacted with few sites remaining viable in current market conditions [Winchcombe, the Cotswolds, West Devon Borough Council, South Hams District Council, Hambleton District Council].

Section 106 affordable housing

21. Section 106 affordable housing development has “reduced significantly” or been postponed or abandoned. [East Lindsey District Council, South Gloucestershire Council, Ross-on-Wye, East Devon District Council, Northumberland County Council].
22. For remaining schemes developers are questioning the viability of sites and requesting the removal or a reduction of S106 obligations [Harborough District Council, Hambleton District Council, East Devon District Council] which is leading to levels of provision “well below adopted policy targets” [South Hams District Council]. We also heard anecdotal evidence that more development is taking place at just below the Local Authority’s threshold rate [Winchcombe, the Cotswolds].

⁶ CRC analysis based upon HSSA data, ‘rural waiting lists’ include data compiled from Rural 80, Rural 50 and Significantly rural categories. Rural waiting lists data may also suffer from an underestimation of need, as due to the shortage of available properties rural applicants may be widening the geographical scope of their applications to include nearby urban settlements – something we have heard again in our evidence gathering for this report

⁷ We have heard evidence that small rural house builders are cutting back on the work force through redundancy or shorter hours or are diversifying into housing maintenance [Berwick upon Tweed, Harborough District Council, St Just Town Council] Smaller and medium sized rural house builders have had to bear increased risk that accompanies developing smaller schemes and are suffering from restricted credit lines, introduction fees and exit fees from banks and longer time lags in the development process. [Lincolnshire, evidence from a rural house builder in the east of England]. Some do not have the cash flow to fund these increased upfront and holding costs – meaning some have gone out of business [Lincolnshire, West Devon Borough Council, South Hams District Council]

Shared Ownership

23. Development of affordable housing through Shared Ownership properties is also proving difficult – driven by both credit constraints for developers and potential buyers.
24. We heard widespread evidence that borrowing is problematic for developers with an element of low cost or shared ownership properties [Shropshire County Council, Midlands Rural Housing, Leicestershire].
25. We also heard that mortgage finance for Shared Ownership properties is still very difficult to obtain [Harborough District Council, West Devon Borough Council, South Hams District Council, East Devon District Council] particularly for rural properties with a form of restricted equity, residency conditions and conditions on resale. [Northumberland County Council, Lincolnshire, Waterloo Housing Group, South Gloucestershire Council].
26. These conditions are vital for retaining social housing within rural areas, but at a national level only two or three lenders for this product now exist [National Housing Federation] and *“it is increasingly difficult, if not impossible, to find a mortgage for homes that are subject to restricted equity in rural areas.”* [Midlands Rural Housing RSL, Leicestershire]

Box: Shared Ownership Mortgage Problems

- In East Riding in Yorkshire several shared ownership affordable homes remain unsold, where despite interest from eligible people, there has been difficulty in securing mortgages. There is concern that these may be sold as market housing in order to raise finance for the RSL and damage trust within the locality [East Riding Council].
- In Polruan village in Cornwall development of 15 affordable homes has been achieved after years of work. But shared ownership properties within this development are now unsellable because it has been “impossible” for applicants to obtain mortgages to take advantage of the Home 2 Buy Scheme [Polruan, Cornwall].
- In West Devon a total of 25 affordable homes due to be sold on Shared Ownership leases have had to be converted into social rented units [West Devon Borough Council].
- In Northumberland, Alnwick District Council's 'Homeseekers Register' for affordable housing has ceased to operate because “the overwhelming majority of applicants do not have the necessary deposit” –at one point leading to 15 affordable units in the district standing empty [Northumberland County Council].
- Dartmoor National Park Authority seeks to protect new affordable housing for local people through residency conditions, but when three shared ownership homes were recently completed none of the local people who wished to purchase could obtain a mortgage” [West Devon Borough Council, South Hams District Council].

Social Rented Affordable Housing, Exception Sites and Other Delivery

27. There has been a stronger performance of affordable housing provision through socially rented property and exception sites: according to HCA completions figures over 70% of rural completions last year were in this category.
28. There remains a strong welcome for the higher than average funding and greater levels of flexibility being shown by HCA to rural housing schemes over recent months. One major RSL strongly welcomed the HCA's National Affordable Housing Programme (NAHP) grant target for settlements under 3,000 and wanted to see it strengthened where possible [Harborough District Council, Midlands Rural Housing, Leicestershire, East Lindsey District Council, South Somerset District Council, Lincolnshire / Waterloo Housing Group].

29. We heard evidence of exception sites continuing to progress. Development of 100% rural affordable housing through exception sites continues in many areas. [Hambleton District Council, West Devon Borough Council, South Hams District Council, Tibenham Parish Council, South Somerset District Council]
30. We have heard evidence of how RSLs continue to be able to take advantage of acquisition of unsold market housing units through HCA funding - enabling some developers to continue with more limited build programmes [Shropshire County Council].
31. In Devon, the Local Area Agreement target on rural homes for last year had been exceeded – helped partly by buying lower priced properties from private developers [Devon Community Council].
32. We have also heard of several Local Authorities whose housing capital programmes have been relatively unaffected by the market downturn. [South Gloucestershire Council, North Dorset District Council]. For example East Lindsey District Council continue to fund and build affordable housing through their Housing Capital Programme in partnership with Waterloo Housing Association and the HCA, as adding stability and reliability to housing delivery in the district – which has contributed to East Lindsey reducing its housing waiting list.

Current and Future Weaknesses in Rural Affordable Housing Delivery

33. There appear to be three areas where there are current or potential weaknesses in the ability to deliver rural affordable housing. These are:
 - **Capacity issues:** in addition to the lack of private sector capacity this includes the ability of Registered Social Landlords and Local Authorities to deliver rural affordable housing
 - **Supply issues:** the lack of supply of future land and sites to enable the delivery of rural affordable housing.
 - **Incentive issues:** the lack of adequate or suitable incentives from government programmes to meet rural affordable housing targets.

Capacity Issues

Registered Social Landlords

34. We are picking up consistent concerns that Registered Social Landlord (RSL) capacity and increased financial pressures may be leading some to move away from development in rural areas given the higher costs and risks involved.
35. Unsold Shared Ownership properties are creating cash flow issues for developers and RSLs and reducing the level of cross subsidy available to finance affordable housing projects [East Riding Council, Lincolnshire, North Dorset].
36. RSLs state that lack of borrowing capacity is the major cause of being unable to progress more house building [Midlands Rural Housing, Leicestershire]. In addition to tightening credit terms we heard from several sources how some RSLs seeking to refinance are finding lenders using this as an excuse to renegotiate finance terms across the whole of the RSL's lending exposure. This is combined with some RSLs trimming activity and capacity in activity and staff [Shropshire County Council] and being “generally at capacity and struggling with existing schemes and are reticent to commit to further projects” [Harborough District Council].

37. Although these financial pressures are clearly a problem for RSLs in both urban and rural areas, some submissions believe that this pressure is meaning that RSLs “are becoming more risk averse ... and this is having a disproportionate effect on smaller rural schemes where substantial up-front costs are at risk” [West Devon Borough Council, South Hams District Council, South Somerset District Council, Berwick upon Tweed, East Devon District Council].
38. We heard that RSLs “seem increasingly reluctant to take on rural schemes” are “questioning the cost and benefit of expending extensive time and effort” on small rural schemes [South Somerset District Council] and are “progressing rural schemes more slowly” leading to “the schemes that appear to be delayed significantly outweigh those that are progressing as hoped” [Devon Community Council].
- For example, Rutland Council now see stalled rural exception sites from a lack of capacity and commitment to develop from RSLs in the current financial year, “with little appetite to commit to schemes in 2010/11” [Rutland Council].
 - We heard evidence that one developer of a medium sized site in a rural town where local RSLs were unable to take forward development due to a lack of finance, concern over unit mix and tenure or because they were retreating from growth strategies [rural house builder in the east of England].
39. There is a worry that more RSLs will opt out of rural provision as greater stress is placed upon the business bottom line [South Somerset District Council] and concern that “RSLs can achieve much higher outputs through ‘mop up’ of larger, more cost effective, stalled private sector sites which seems to be the main focus also of government and HCA funding” [Rutland Council].

Local Authority Capacity

40. This is reinforced by a concern that future cuts from Local Authorities would jeopardise their rural housing support and expenditure – including a reduction in housing and planning staff and resources [Northumberland County Council].

Box: Examples of Declining Affordable Housing Development
<ul style="list-style-type: none"> • In East Riding the development of affordable housing has dropped by 63% in 2008/09 when compared to 2007/08. In the rural parts of East Riding this drop is more significant, falling from 540 in 2007/08 to 154 in 2008/09 – a fall of 71% [East Riding Council, Yorkshire] • In Rutland, stalled Section 106 sites and lack of financial capacity on exception sites mean that following completion of 66 affordable housing units in 2008/09 the Local Authority only anticipate completion of nine units in 2009/10 and outputs for 2010/11 are having to be radically revised – at present anticipating 36 units, down from an initial expectation of 76 units [Rutland Council] • In East Devon, so far during 2008 / 09 there has only been the delivery of nine affordable homes against up to 62 homes in previous years and there is concern that “traditional methods of delivery are not achieving the desired outcomes ... at the moment everything we try in terms of affordable housing delivery seems to be failing or stalling” [East Devon District Council].

Supply Issues

41. Our submissions have raised concerns about the future supply of affordable housing due to a slowdown in housing starts and planning applications and a problem with supply of suitable land for development.

Housing Starts

42. Housing starts have fallen over the past year in Devon, with no starts in the past quarter. [Devon Community Council]. Affordable housing planning applications with approval that have been “mothballed” seem common [West Devon Borough Council, South Hams District Council, Northumberland County Council]. In Rutland, “no imminent new schemes are anticipated” for new rural housing development [Rutland Council].

Planning Applications

43. In the South West the number of planning applications for housing has fallen 42% since 2007 [West Devon Borough Council, South Hams District Council] East Lindsey District Council has seen a drop in the number of housing planning applications
44. In Kent, the number of planning applications submitted for housing development fell from a monthly average of 225 (in 2006-08) to just 38 in April 2009 – a fall of 84%. In rural areas the decline in applications was similar, but the decline in the number of applications actually approved was 96%.
45. Research for Kent County Council also found when examining the numbers of dwellings for which planning permission had been applied, that there has been a significant shift away from rural. In 2006, rural dwellings comprised 42% of all dwellings permitted. In 2007 and 2008 this fell to 16 and 15% respectively. In 2009 the percentage of rural dwellings approved was only 6% of the county-wide total. With 400,000 rural residents and an estimated need of between 946 to 1,925 affordable rural homes per year, Kent is currently building around 90 rural units per year [Kent County Council].

Land

46. We have seen major falls in the market price for land, with residential land prices falling faster than house prices.
47. However, like the housing market, the land market appears to have stalled at very low levels of activity – with difficulty for developers and local authorities realising the positive benefits of lower prices through actual sales.
48. We have heard widespread evidence that landowners are not releasing sites, in part due to the expectation of future price rises, leading to a lack of suitable rural sites for future affordable housing development becoming a ‘significant issue’ [Rutland Council] [Harborough District Council, Herefordshire, evidence from a rural house builder in the east of England, South Somerset District Council, Keswick Town Council, East Devon District Council]
49. Lower land prices are an obvious opportunity to bring forward cheaper housing but with the lack of a properly functioning land market this opportunity is not being fully exploited. This is an area where it is possible for government to effectively intervene through the use of its own surplus public sector land (see recommendations below).

Incentive Issues

HCA Programmes

50. CRC remains concerned that packages announced by Government to improve supply and support future development of affordable housing could divert funding away from rural delivery where the costs of providing new affordable housing are likely to be comparatively higher and that “recent experience shows that [increased funding] is likely to be directed principally towards more cost effective / high output development rather than resource intensive and higher cost rural provision” [Rutland Council, South Somerset District Council].

51. Securing specific and tailored resources for rural areas would ensure that rural areas too can take advantage of current Government measures. As part of this in March we asked the government to ring fence part of the National Clearing House funding to meet specific needs in rural areas.
52. The National Clearing House was only operational for 2008/2009 and HCA have said that it has not been possible to make changes within this programme before it closed. The second programme that has been initiated is Kickstart.
53. The HCA introduced the Kickstart programme in May 2009 in an attempt to help restart stalled market led developments with affordable housing delivery. The current programme has closed for bids but a second round is planned for the autumn.
54. We have received criticism of the Kickstart initiative from rural based developers and local authorities who said that the programme “effectively narrowed funding to a very specific size and form of development site and did little to support or address the needs of smaller developers with funding or cash flow issues” [rural house builder in the east of England, Rutland Council].
55. The HCA have yet to produce an urban and rural analysis of the first phase of the Kickstart programme but CRC has expressed concerns that the criteria within the first phase of the Kickstart programme were badly tailored in being able to allow rural actors to access and use this funding.
56. The HCA has also recently announced the launch of a Public Land Initiative designed to bring forward Local Authority owner land for development. However in discussing the details of the scheme the HCA stated that “we are looking at sites of about 2½ hectares as a minimum ... we are looking at sites that can accommodate a minimum of 100 units”.⁸ These minimum requirements are too large to enable rural to benefit in any meaningful way.
57. It is also unclear how the recent government commitments for additional affordable housing through the Prime Minister's 'housing pledge' contained in 'Building Britain's Future' package will be allocated and made accessible to rural areas.

Recommendations

Funding – Securing Future Funding Levels

58. The shift in focus from market funded affordable house building to socially rented schemes has put a much greater emphasis upon government funding – as social rented schemes require significantly higher grant levels.
59. There is a general concern about future funding levels from the HCA in the remaining 2008 – 11 period, born out in part by its recent revision of its housing targets.
60. Given the long standing shortfall of social housing provision and less affordability in rural areas this should be a priority in any revised investment decisions made by the HCA.

Recommendation

- i) *The government should ensure that grant levels for rural housing stay at current levels for the remainder of the HCA 2009/2010 and 2010/11 programme.*
- ii) *The increased money recently pledged to affordable housing by the Prime Minister should include continued support for flexible grant rates that are enabling rural housing schemes to be built.*

⁸ <http://www.homesandcommunities.co.uk/public-land-workshop>

Funding – Ensuring Rural Access and Recognition of Rural Needs

Recommendation

- iii) *The HCA should emphasise the importance of rural areas being included in proposed development packages as part of its ongoing single conversation with local authorities and seek to meet reasonable additional high rural costs involved.*
- iv) *The HCA should change the funding criteria for the second round of the Kickstart programme to ensure that its access for rural areas is significantly improved.*
- v) *That the HCA provide ring fencing for rural areas to ensure equitable take up in this second phase of the Kickstart programme*

Guarantees on lending involving rural properties held in perpetuity to support rural low-cost home ownership development schemes

- 61. As documented above, in rural areas lenders have almost completely withdrawn from lending on properties subject to a perpetuity clause. This has led to difficulties in progressing many rural schemes, with a knock-on impact of future affordable housing provision.
- 62. In our last housing report we asked for targeted and limited measures to provide lenders with the guarantee that any debt on a rural property held in perpetuity will be repaid, without the home going into the open market. This would help those facing repossession, so they are able to remain in their home and community. In the medium term it would improve the supply and range of affordable housing and help a more people to have an equity stake in their home.
- 63. We are pleased to report that, although not providing a buy back guarantee to mortgage lenders, the HCA has agreed to fund the repurchase of homes in 'protected areas' through housing associations if they were originally funded with Social Housing Grant.⁹
- 64. This step is welcome, although it is too early to see if it has been sufficient to drive changes in lending practice.

Recommendation

- vi) *The Department for Communities and Local Government in its regular engagement with mortgage lenders should raise the issue of lending to rural properties with perpetuity clauses and clarify what obstacles remain to a resumption of lending.*

Ensuring schemes are delivered

- 65. Given the problem in the functioning of the current land market we believe there is space for further government action.
- 66. In 2007 the then Housing Corporation announced a 'Public Land Programme' to release suitable surplus public land holdings at market prices for small scale housing development. This included a pilot scheme in the South West region which identified 25 short-listed sites comprising around 93 hectares of land and with the potential to deliver many hundreds of new homes. This pilot was due to offer these sites for development in the spring of 2009. However the pilot scheme appears to have been delayed, stalling any national roll out by the HCA.

⁹ HCA has said it will provide buy back only in schemes that received Social Housing Grant, were provided and now owned by an RSL and at the time of the initial grant funding the HCA was notified that the scheme was in a protected area and that there was a need for retention.

Recommendation

- vii) *Given the current lack of land supply and concerns about numbers of future sites for affordable housing in rural areas, CRC urges the HCA to deliver the South West phase of the Public Land Programme and bring forward a nationwide programme as soon as possible – ensuring that rural areas are able to access and benefit from the programme.*
67. Given the concerns about the current lack of rural suitability of the recently announced Public Land Initiative:
- viii) *In its discussions with Local Authorities around the Public Land Initiative the HCA should make clear that it will allow clusters of smaller units of Local Authority land to be used and set a rural target for land utilised in the Initiative.*

ⁱ **Table 1: Loans to first-time buyers**

	Number of loans	Value of loans £m
May 2009	14,000	1500
Change from April 2009	+2%	+1%
Change from May 2008	-29%	-42%

	Average loan to value	Average income multiple
May 2009	75%	2.97
April 2009	75%	2.97
May 2008	89%	3.35

Source: Council for Mortgage Lenders, 9th July 2009 <http://www.cml.org.uk/cml/media/press/2329>

ⁱⁱ Many courts do not have access to the Possession Claim OnLine system (which was introduced in November 2006). Around 7% of total orders will therefore be missing from this dataset (by HM Courts Service regions, 1-2% in London, 2% in Midlands, 20-25% in North East, 9-10% in North West, 7% in South East and 0.5% in South West). Smaller courts are more unlikely to have on-site PCOL access, therefore missing orders are likely to disproportionately relate to more rural areas. This is likely to result in the proportion of repossessions that take place in urban as opposed to rural areas as shown by this analysis being biased upwards. In addition, significant numbers of records were not able to be matched to valid postcodes. Of the original 221,316 postcode records received, approximately 12,900 were identified as relating to Welsh and Scottish postcodes, 204,004 (or 98% of the remainder) were successfully matched to English postcodes and 4,419 were unable to be matched.