

Housing SPC Meeting 26th February 2021

Affordable Housing Bill 2020

General Scheme of Affordable Housing Bill 2020 - Overview

The Affordable Housing Bill 2020 was published on 20th January 2021 and provides for the introduction of three new schemes delivering on the Government's commitment to put affordability at the heart of the housing system and increase the supply of affordable homes. These schemes are:

- **Local Authority Shared Equity Scheme** – dwellings built on local authority and state lands
- **National Affordable Purchase Shared Equity Scheme** – intended to be available in the open market for new dwellings
- The introduction of a new form of tenure in “**Cost Rental** “. The legislation will provide the basis for the first 400 Cost Rental homes in the State and is where rent is linked to the cost of provision and maintenance

This Bill outlines the General Scheme of the proposed legislation and is currently being developed further with a view to introducing it into the Houses of the Oireachtas later in 2021.

The Bill addresses three schemes aimed at delivering affordable homes. The first two schemes are for the provision of affordable homes for sale to eligible households and the Bill sets out amendments to the existing Part 5 of the Housing (Miscellaneous Provisions) Act 2009. The third scheme is for the provision of cost rental homes.

The Bill sets out the legislative basis for direct state led construction of affordable homes for purchase.

It is envisaged that when the Affordable Purchase Shared Equity scheme details are finalised, it will be open to all new builds, subject to regional price caps and targeted at first time buyers.

It is further intended to bridge the gap between maximum mortgage that might be available to a household and the actual cost of a new home.

An initial €75m in Budget 2021 has been set-aside to start the National Affordable Shared Equity Scheme and the intention is to boost this with additional private investment to purchase properties in the open market.

When the scheme is finalised it will be subject to appropriate control mechanisms and in accordance with Central Bank rules. It is noted there will be no obligation to repay the loan after a certain point until the house is sold but there will be an obligation on the owner to repay the equity share, so ultimately the purchaser pays full value.

The Bill sets out the proposed legislation for implementation of new Affordable Housing schemes. It contains amendments to the previous Act (Housing Miscellaneous Provisions) Act 2009 Sections 78 to 96 inclusive. It proposes allowing the local authority to enter into arrangements with the various stakeholders such as approved housing bodies, public private partnerships, Land Development Agency and Housing Agency for the provision affordable dwellings.

The amendments are wide ranging and detail that when the Bill is enacted with regulations, to be determined, for the implementation of the scheme, a presentation will be made to the Committee.

Local Authority Provided Affordable Housing

The amendments to the sections dealing with the provision of affordable housing by local authorities include:

- Updated income eligibility provisions.
- A simplification of the provisions related to the scheme of priority. The previous Scheme of Allocations adopted by Council in May 2019 is no longer valid. The new scheme provides for allocations on a first come first served basis, rather than on an agreed priority basis.
- Local authority engagement with the Land Development Agency (LDA) to select and prioritise eligible purchasers for homes sold by the LDA.
- Updated provisions in relation to charging orders, the charged period and the facilitation of regulations in relation to the manner in which houses will be advertised.

Affordable Purchase Shared Equity Scheme

Additional sections (96A and 96B) are proposed to permit the Minister to contribute funds to a Special Purpose Vehicle (SPV) for the purpose of operating the national Affordable Purchase Shared Equity Scheme. This scheme will make funds available for the SPV to acquire an equity stake in houses for the purpose of assisting eligible persons to purchase a home.

Under both schemes, purchasers will take out a mortgage that they can afford in order to buy their homes. In the case of local authority provided homes, the mortgage plus deposit will cover the cost of the home, which would include any cost reduction measures applied (e.g. land, site services fund). The difference between the amount paid and the market value of the property will be the equity charge. In the case of the national Affordable Purchase Shared Equity Scheme the balance will be funded by way of a second loan provided by the SPV.

In both cases, the value of the equity or the equity loan, expressed as a percentage of the value of the property, will be registered as a second charge over the home. No repayments will be due on this charge during the term of the affordable dwelling purchase agreement. However, the purchaser may opt to repay some or all of the outstanding equity liability at any stage. At the end of the agreement term, the value of the outstanding charge becomes repayable, but the purchaser may elect not to repay this charge, and it will remain as a charge on the property to be recovered in the event of a change of ownership. Either way the equity share is fully repayable.

It should be noted that the Economic and Social Research Institute (ESRI) has advised that the planned shared equity scheme will drive up property prices and exacerbate existing affordability problems. Researchers have argued that housing supply in Ireland is “so constrained” that increasing purchasing power for some households through such a scheme “will very likely lead to higher house prices”, noting that shared equity schemes operate by stimulating more demand in the market, rather than by alleviating supply issues. While the scheme may help some buyers who are currently locked out of the market to finance home purchases, they say, “on balance, with the current supply shortages it is likely these benefits will be outweighed by inflationary pressures”

Cost Rental

For the third scheme, a new Part 5A is proposed, to provide a framework for the Minister to make regulations to introduce cost rental as a specific category of long-term rental housing targeted at moderate income households. The new sections address a definition of cost rental, eligibility of

households, rent reviews and some amendments to the Residential Tenancies Acts to provide longer term certainty and security of tenure to tenants.

If passed into law, the Minister will then be in a position to make regulations to set out more details on how the schemes will be required to operate.

Local Authority Implications

Where local authorities deliver, or arrange to deliver affordable homes for sale, it will be responsible for setting the price to be paid by purchasers, advertising the availability of properties, accepting applications and selecting eligible households to complete the purchase of the homes. A charge in favour of the local authority will be used to secure the difference between the price paid by the purchaser and the market value and this charge will require on-going monitoring and management of equity repayments.

For the national Affordable Purchase Shared Equity Scheme, purchasers will apply directly to the SPV for the required equity loan and the charge will be secured in favour of the SPV. The SPV will retain responsibility for determining eligibility, providing the funding and the on-going monitoring and management of equity repayments.

In relation to cost rental, local authorities may be involved in the provision of sites for the construction of cost rental properties and may consider building and operating cost rental properties as landlords to tenants. It is envisaged that the provider of cost rental properties will be responsible for complying with the terms and conditions for the advertising and filling of vacancies, including the determination of eligibility in accordance with the eligibility criteria to be set down in regulation. AHBs will be the providers and landlords under the Cost Rental Equity Loan funding arrangements and are expected to deliver 350 cost rental units with the €35m allocated for 2021.

Income Eligibility

In relation to income eligibility, the Bill looks to streamline significantly from what was previously advised. The notes General Scheme of Affordable Housing Bill 2020 include that:

“The previous income eligibility criterion of being unable to afford a unit suited to one’s needs by virtue of the fact that the repayments on such a (90%) mortgage would exceed 35% of net household income is removed. Instead a requirement is placed on the housing authority to assess income eligibility on the basis of regulations on the matter to be made by the Minister with the consent of the Minister for Public Expenditure and Reform. It is intended to provide, in the regulations, that the income criterion for eligibility to purchase a particular dwelling will be that the applicant cannot secure a bank/financial institution mortgage for 90% of the market value of the unit.

It is intended that the applicant will be required to take out their maximum bank mortgage (but not necessarily maximum Rebuilding Ireland Home Loan), and the % equity charge will be based on the difference between the purchase price the individual can afford to pay with their full bank mortgage, or the lowest price the housing authority agrees the unit can be sold for, whichever is the lower, and the market value of the unit.”

Equity Charge

Guidance on the operation of the equity charge on both schemes is described as follows:

“Under both schemes, purchasers will take out a mortgage that they can afford to buy their homes. In the case of local authority provided homes, the mortgage plus deposit will cover the cost of the

home, which would include any cost reduction measures applied (e.g. land, site services fund). The difference between the amount paid and the market value of the property will be the equity charge. In the case of the national Affordable Purchase Shared Equity Scheme the balance will be funded by way of a second loan provided by the SPV.”

Charging Period

Rather than lapsing after a charging period, an amendment is proposed to allow the local authority charge (or equity stake) on the property remain in place until bought out by the household. This charge (equity stake) would become enforceable by the local authority on a breach of the agreement, or at the end of a given period, to accommodate the senior mortgage maturity.

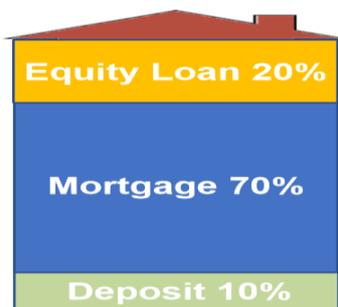
Scheme of Priority

Guidance on prioritisation of applicants is being changed considerably. It is being simplified to a large extent and comes close to a “first come first served basis” but also includes suitability of the home for the eligible household and length of time living in the administrative area. The notes in the recently published General Scheme of Affordable Housing Bill 2020 state: “In these regulations it is intended simply to provide that (new) housing authority schemes of priority must provide that 70% of dwellings in a scheme will be allocated on the basis of (1) suitability of unit for the household and (2) the date/time of application and that the remainder of dwellings may be allocated on a basis to be decided by the housing authority and included in their scheme of priority.”

Financing Simplified Example

The slide below provides a simplified breakdown of how financing would work in one particular example:

Equity Loan – Example 1



New House Price	€300,000
Two Household Gross Income	€62,000
Mortgage (max. 3.5 Loan to Income)	€210,000
Deposit	€30,000
Total (mortgage & deposit)	€240,000
Equity Loan 20%	€60,000
30 year Mortgage Monthly Repayment (3% interest)	€885

Costs & Purchase Price

The local authority will need to establish a projected all in cost for the affordable element of the scheme as a subset of the overall project all in cost. The all in cost includes: All design team fees from the outset, land cost, construction costs, cost of finance, advertising costs, conveyancing and legal fees, utilities costs and incidental surveys and engagements

The aggregate all in cost apportioned to each affordable unit type less the Serviced Sites Fund subsidy leaves us with our proposed sales price. The local authority will then need to establish how that compares with market value for those unit types.

Finance

Another question to address is financing of the project. Any Social Housing element of a mixed tenure scheme will be financed in the normal manner and recouped on an ongoing basis from the DHLGH. With regard to the affordable element it is presumed that the local authority will need to raise a loan to finance the development. This will then be paid down on receipt of purchase money. The local authority will also be drawing down the Serviced Sites Fund money, presumably at a similar time on completion of units.