

## Members' Library Service Request Form

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Document Title	Grant to East Lothian Mid-Market Homes LLP

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Designation	Exec Director Place/Cncl Resources
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**REPORT TO:** Members' Library Service

**MEETING DATE:** February 2021

**BY:** Executive Director for Council Resources and Executive Director for Place

**SUBJECT:** Grant to East Lothian Mid-Market Rent Homes LLP

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## **1 PURPOSE**

- 1.1 To update members on the decision taken at Cabinet on 19 January 2021 to grant East Lothian Mid-Market Homes LLP, funding from the Council's Second Homes Council Tax budget to enable the LLP to purchase a second discounted property for sale in Wallyford. This will help to ensure this unit is retained as an affordable tenure by renting as a mid-market property.

## **2 RECOMMENDATIONS**

- 2.1 To note that the Council has utilised a total of £142,914.96 of the Council's Second Homes Council Tax budget to fund the purchase of one unit at the discounted sale price and rent as a mid-market unit in accordance with the Council's Mid-Market rent criteria by East Lothian Mid-Market Homes LLP.
- 2.2 To note that the total amount stated in 2.1 above comprises: (i) a grant to East Lothian Mid-Market Homes LLP of £137,620.48 which represents the purchase of the property at £132,326 and Additional Dwelling Supplement of £5,294.48; (ii) an amount of Additional Dwelling Supplement of £5,294.48 payable by the Council to facilitate the back to back transfer of the Property from the Seller to the Council then from the Council to East Lothian Mid-Market Homes.

**NOTE: The above recommendation should be reviewed once Missives are concluded with the Seller. Legal are exploring whether there is required a back to back in this case. If not then transfer would be directly to the LLP. If that is the case the numbers will need to be adjusted as the Council will not require to pay ADS on the transaction.**

### **3 BACKGROUND**

- 3.1 In January 2015, East Lothian Council were given approval to deliver a Discounted Housing for Sale model to help meet the range of tenures accepted as part of the Council's Affordable Housing Policy.
- 3.2 The Discounted Housing for Sale model has delivered a number of units across East Lothian in the last four years. The model is administered by the Council through the Section 75 agreements that secure the provision of affordable housing. The units are marketed at a discounted price below the open market value and are marketed to applicants who meet the Council's discounted sale eligibility criteria. The percentage difference between the discounted price and the open market value price is secured by a standard security in favour of the Council. The purpose of the standard security is to ensure that the property can remain affordable to future first time buyers with conditions attached to the property. The standard security is also ranked after any granted by the mortgage provider.
- 3.3 The terms of the discounted sale model restrict future resales to ensure they are marketed at the same level of discount which was initially applied. The terms also restrict any future purchaser to ensure they meet the Council's eligibility criteria. If an eligible purchaser is not identified within a thirteen week period (advised by the Council of Mortgage Lenders) then the Council would have first refusal to buy the property.
- 3.4 If the Council did not wish to purchase the property, it would be sold on the open market for the full market value. The Council would then receive the equivalent value of the discount from the open market value which would be reinvested into delivering affordable housing within the same ward area in East Lothian.
- 3.5 A property recently came on to the market in Haddington at a discounted price of £136,255. There had been a number of applications for this property, however unfortunately all applicants have struggled and been unsuccessful in securing a mortgage for this property. The thirteen weeks is up and if there is no other alternative, this property will be remarketed at the full market value, resulting in the property being lost as an affordable unit.
- 3.6 The Council have considered purchasing this unit, however feel that it is not suitable for social rent based on the house type, location and surrounding tenures as it would be the only social rented unit in this estate.
- 3.7 Through exploration of potential funds the Strategy & Development team looked at the possibility of the newly established Mid-Market Homes LLP purchasing this unit. This company is very new and has not been established long enough to accumulate reserves to enable new acquisitions. The team therefore explored other opportunities to assist and investigated the use of the Council's Second Homes Council Tax Monies. The Scottish Government's guidance for the use of this fund states that *This income can be used by local authorities to support revenue and capital expenditure related to a range of affordable housing activity including (but*

*not limited to): providing new-build affordable housing through Registered Social Landlords (RSLs) or new council house building.*

- 3.8 Through discussions with the Scottish Government, they have confirmed that they would support the use of this fund to allow East Lothian Council to provide a grant to East Lothian Mid-Market Homes to purchase 100% of this property and retain it as an affordable mid-market rent unit.
- 3.9 Prior to seeking approval from Cabinet on the 19<sup>th</sup> January, the Housing Strategy & Development Team were made aware of a further discounted sale property in Wallyford where the mortgage had fallen through at a very late stage. This property was at risk of being re-marketed on the open market and a decision was taken to seek approval at Cabinet to purchase this one also.
- 3.10 Approval was recommended and agreed at Cabinet on Tuesday 19<sup>th</sup> January to formalise the decision to purchase the property in Haddington along with the approval to purchase a further unit in Wallyford subject to the necessary approvals from East Lothian Council's Executive Director for Corporate Services and East Lothian Mid-Market Homes LLP.

### **Conclusion**

- 3.11 This further unit at Wallyford becomes the second property that East Lothian Mid-Market Homes Ltd has purchased through grant monies funded through the Second Homes Council Tax monies. The property at the discounted sale price of £132,362 which is a 22.14% reduction in the market value. It will also incur an additional cost of £10,588.96 as a result of the additional dwelling tax applied to both transactions i.e. the Council's purchase the subsequent sale to ELMMH's. As part of the terms of sale East Lothian Mid-Market Homes would be required to enter into an agreement secured by a Standard Security with the Council to ensure the property would remain affordable.
- 3.12 East Lothian Mid-Market Homes Ltd propose to set a rent for this property in line with the Council's Affordable Housing Policy and consistent with other similar properties of that tenure in Wallyford.

## **4. POLICY IMPLICATIONS**

- 4.1 This property would be retained as an affordable unit under the terms and criteria of the Council's Affordable Housing Policy.
- 4.2 The use of the Council's Second Homes Council Tax -to support both acquisitions referenced within this report is consistent with the Council's approved Financial Strategy.

## **5. INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **6. RESOURCE IMPLICATIONS**

- 6.1 Financial – a contribution of £142,291.98 from East Lothian Council's Second Homes Council Tax fund within financial year 2020/21. Any other costs associated with the mid-market rent criteria will be met by the Company i.e. cleaning, decoration, landlord compliance.
- 6.2 Personnel – none.

## **7. BACKGROUND PAPERS**

- 7.1 None.

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