

HOME GROUP LIMITED

AFFORDABLE RENTS

1.0 Continuing to be a leading provider

- 1.1 Current projections show that over the coming decade household growth will continue to outstrip the supply of new housing, placing increasing pressure on all forms of housing tenure, including affordable housing. Home Group, by virtue of our national footprint, our size as an organisation, strong balance sheet and experience of development makes us well placed to continue to develop new homes to help meet the rising demand for affordable housing.
- 1.2 As we have discussed at length with officers and the Board, we also have an obligation as a charitable body to continue to meet the housing needs of the vulnerable in society. We believe that developing new affordable homes in a responsible manner helps us to meet those needs.
- 1.3 The introduction of a new level of affordable rent set at 80% of market rates provides extra incentive to develop but it is not without its challenges. The flexibility in rents is welcome and will provide Registered Providers (RPs) with increased income on which to borrow against to fund new affordable homes. However, this increased flexibility will have different implications in different areas of the country. We have discussed with the HCA our commitment to look to develop new homes throughout our footprint and not only in areas that generate the greatest return. This we believe will enable us to provide new homes where there is a demonstrable need.

2.0 Meeting local priorities

- 2.1 Our aim is to provide new homes in communities where customers have a choice of affordable housing products. We recognise that single-tenure estates of affordable rented homes can prove difficult to sustain, so our developments will aim to offer a mix of tenures informed by our insight into the current and future housing market needs. Home Group has always looked to develop new homes in the areas of most need, informed through local knowledge and the ambitions of local authorities and the communities that they serve and we aim to continue this approach. For example, our programme includes a significant element of rural housing in areas where we already operate successfully. Also, through our care and support business we are proposing supported housing for vulnerable and older people. This approach has been well received by the HCA.

3.0 Affordable Rent

- 3.1 The introduction of Affordable Rent through the Affordable Homes Framework provides a new model for the delivery of affordable homes. We are well placed to respond to the flexibility of the new framework and to work within it to continue to develop new affordable homes over the coming spending review period.
- 3.2 We have carried out extensive analysis and modelling of the introduction of the Affordable Rent product to understand how the introduction of Affordable Rents can be used to maximise the delivery of new affordable homes.
- 3.3 Through discussion with the HCA we understand the need to make the most of the new Affordable Rent product, setting rents at or close to 80% of market rents wherever possible. New homes developed through the new Affordable Homes Programme will be set at Affordable Rent levels where possible, excluding Care & Support and certain committed regeneration schemes, and we will look to re-let our current stock that turnover at the new Affordable Rent levels where this generates a rent increase and is still deemed to be affordable by utilising our affordability cap (see below) on rents.

4.0 Affordability

- 4.1 Affordability is a key element of our offer to the HCA. Through our modelling we have considered a range of factors when developing our bid. We have aimed to strike a balance of raising the rental levels to enable us to maximise our development programme whilst also ensuring we maintain sustainable neighbourhoods and communities, delivering homes for those in need. We are aware that the affordability of our rent levels in a local area is a key issue for many of our local authority partners.
- 4.2 Ensuring all of our properties serve those in need and are not set at levels out of reach of the local community is a key element for our approach in relation to affordability. In order to maintain rents at a level which does not exclude large sections of the local community we have applied an affordability filter when putting together our bid.
- 4.3 Our starting position has been to charge 80% of market rents where possible and only to revise this down where affordability constraints make this necessary. As a reference point for our housing spend assumptions, recent research for the Department of Works and Pensions (DWP) indicates that low income working households are spending an average of 35% of gross income on rent (rising to 39% in London).
- 4.4 In putting together our bid we have applied an affordability filter for each local authority, we cap rents by looking at the level of gross

income households currently spend on rent and the implications for rent setting when moving to the new affordable rent model in line with the afore mentioned DWP research. Our filter also takes into account the implications surrounding the revised LHA and housing benefit caps and rents on specific properties and development schemes are assessed to strike the right balance between income, risk and affordability. In line with the expectations of the Home Group Board this approach is currently under review after the initial twelve months of operating. The review will be finalised in late September 2012.