



Department for  
Communities and  
Local Government

# Affordable Rent to Buy

Working Paper

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# 1. Purpose

- 1.1. Affordable Rent to Buy is a new model for delivering new build affordable housing through recoverable government investments.
- 1.2. The Spending Round 2013 announced that £400 million of government funding will be made available in 2015-17 to pilot the model.
- 1.3. This document describes the key principles of the model and our current thinking about more detailed aspects of its design. We will use this to inform discussions with prospective bidders and other interested parties ahead of planned publication of the bidding guidance for this programme in summer 2014.
- 1.4. We welcome engagement on any of the points in this document. Please direct any responses to this document to [artb@communities.gsi.gov.uk](mailto:artb@communities.gsi.gov.uk)

# 2. Product

- 2.1. Affordable Rent to Buy will provide repayable investment to providers to fund additional new build homes which must be let at Affordable Rent – that is, up to 80% of market rent - for at least seven years.
- 2.2. After this initial seven year period, the requirement to hold the property at Affordable Rent will continue to apply until government's investment is repaid.
- 2.3. On repayment of government's investment, the provider will have full flexibility over the use of their property. For example, they may choose to convert the property for market sale or rent, or to retain the property as affordable housing.
- 2.4. Government's investment must be repaid within fifteen years, even if the provider chooses to retain the homes for affordable housing or other purposes beyond this point.

# 3. Eligibility to bid

- 3.1. Access to the fund will be through a competition.

- 3.2. We want to use this product to increase the number of providers and the amount of private investment in affordable housing. We expect it to be of interest to a wide range of developers, as it combines an affordable rent with the opportunity for a longer term market housing product. We are particularly interested in hearing from non-registered providers who would be interested in delivering this product, as well as housing associations and other currently registered providers of affordable housing.
- 3.3. As this is a returnable government investment, all bidders will need to meet a high standard of credit-worthiness and offer sufficient security to provide a high level of assurance that the government's investment will be repaid.
- 3.4. Bids will additionally be assessed on the criteria of value for money and deliverability.
- 3.5. Local authorities and other public bodies will not be eligible to bid for funding.

## **4. The offer to providers**

- 4.1. For this pilot scheme, in order to deliver homes quickly, we propose that the government funding will be in the form of a loan with a fee. We would however be prepared to consider an equity-style investment – i.e. a model in which government's return was linked to the performance of the investments – for any future rounds of funding. To inform these considerations it would be useful to understand the market appetite for such an approach.
- 4.2. The funding will be provided to meet part of the development costs of the new homes. We expect to take a similar approach to eligible expenditure to that laid out in the prospectus for the 2015-2018 Affordable Homes Programme.
- 4.3. As one of the aims of this scheme is to stimulate the supply of new housing, all properties funded must be newly built, rather than acquired.
- 4.4. To drive value for money, the bidding process will favour schemes that can deliver more homes per pound of government investment. Government funding will only cover a proportion of the development costs of the Affordable Rent to Buy homes in any single scheme.
- 4.5. The fund will only cover homes for Affordable Rent to Buy (so for example, if they are being built as part of a mixed tenure scheme, only the Affordable Rent to Buy homes will be funded by this programme).

- 4.6. We would not expect homes funded under this scheme to benefit from any other form of government financial support, for example social housing grant or affordable housing debt guarantees.
- 4.7. We propose to offer draw down of the loan funding in two tranches, with 50% at start on site and 50% at practical completion.

### **Loan terms**

- 4.8. We propose to offer all successful bidders a loan with a fixed rate of interest. The bidding process would ensure that funding is only offered to providers who have a high level of creditworthiness, offer sufficient security, and who make bids that represent good value for money.
- 4.9. We propose to offer loans with a constant, low rate of interest for the first seven years. Interest rates would increase gradually over the remainder of the term, but would compare favourably to rates available to providers in the market over the lifetime of the loan.
- 4.10. We would expect to require parent company guarantees on any loans to subsidiaries. We are currently considering what type of security it would be appropriate to require from bidders; for example, charges over assets.

## **5. The offer to tenants**

- 5.1. The programme will deliver affordable housing as part of our range of affordable housing products. During the period of the government funding, the properties must be let at Affordable Rent to households whose needs are not met by the market.
- 5.2. This programme is designed to help households with aspirations of home ownership in the medium term, so we expect to set household income ceilings in line with those used for affordable home ownership products. The time-limited nature of this product makes it unsuitable for tenants who are likely to need long-term support in the form of a sub-market rent.
- 5.3. We do not propose to require landlords to provide any other product for the tenants alongside the affordable rent tenancy in order to help them achieve their aspiration of home ownership. However, we would expect providers to ensure that a suitable plan for progression is in place at the end of the tenancy. This could include arrangements to assist tenants in seeking new accommodation, offering tenants a first option to buy, or allowing a tenant to continue to rent the property, if appropriate.

5.4. The provider will be taking the main investment risk, including a requirement to repay government's investment. We therefore expect a provider-led approach to nominations, similar to that used for shared ownership.

## 6. Indicative timetable

Summer 2014:	Publish prospectus inviting bids
October 2014	Deadline for bids to be submitted
January 2015	Funding decisions