

APPENDIX FOUR – AFFORDABILITY OF OPEN MARKET HOMEBUY

- 1.1 Current government policy is placing increasing emphasis on assisting first time buyers to purchase in the open market, and a number of new products have been announced in the last 6 – 12 months. The SHMA recognises the extreme pressure on existing and planned new affordable housing, and products which assist people to meet their own housing need in the market can help to reduce some of this pressure. It is recognised, however, that even with the new programmes, the funding for Open Market Home Buy products is small and the current level of investment will make little difference to meeting housing need in the area. It is also recognised that products aimed at higher earners may assist people into home ownership but are not meeting housing need as defined in the Guidance and PPS3.
- 1.2 The number of emerging and new products, coupled with constrained supply in the mortgage market and the impact of recession, has made it difficult to estimate the contribution of these sorts of products to meeting housing need. However, modelling has been undertaken to identify the levels of income which would be necessary to support purchase through Open Market Homebuy based on the principles agreed during the SHMA process and some worked examples for 2 particular zones are set out below.

Box A4.1 Worked Examples of Affordability of Open Market Homebuy

OPEN MARKET HOMEBUY					
<i>Local Authority</i>		BANES	BANES	North Somerset	North Somerset
<i>Zone</i>		Bath City North	Bath City North	Weston-s-Mare	Weston-s-Mare
<i>Household</i>		Single	Couple	Single	Couple
<i>Dwelling</i>		1 Bedrm	2 Bedrm	1 Bedrm	2 Bedrm
<i>Year</i>		2006	2006	2006	2006
<i>Open Market HomeBuy</i>	<i>Factor</i>				
Threshold (entry-level) House Price		148,800	162,518	85,560	104,160
Share Purchased	60.0%	89,280	97,511	51,336	62,496
Deposit	0.0%	0	0	0	0
Mortgage	100.0%	89,280	97,511	51,336	62,496
Lending Multiplier		3.1	3.4	3.3	3.8
Threshold Income to Buy (£ p.a. gross)		28,928	28,928	15,371	16,340
- model, annual net amount		21,431	23,479	12,347	15,045

Threshold Income Amount per month		2,411	2,411	1,281	1,362
Net Income Amount per month		1,786	1,957	1,029	1,254
Alternative Net Income Threshold (Resid Income)		966	1,025	628	713
Threshold Income Amount per week		556	556	296	314
Net Income Amount per week		412	452	237	289
Mortgage Interest	5.17%	4,616	5,041	2,654	3,231
Mortgage Re-Repayment (25 yr term)	2.05%	1,827	1,996	1,051	1,279
Total Mortgage Payment p.a.	7.22%	6,443	7,037	3,705	4,510
Monthly Mortgage Payment		537	586	309	376
Payment as % of Gross Income		22.3%	24.3%	24.1%	27.6%
Payment as % of Net Income		30.1%	30.0%	30.0%	30.0%

Note: Open Market Homebuy model based on new model "Ownhome". Ownhome introduces a rent of 1.75% of un-purchased equity after 5 years. My Choice offers a lower purchase option of 50% share but has a rent charge of 1.75% from inception.