



# Rent to Buy Policy

## 1. Policy

- 1.1 The intention to offer Rent to Buy was approved as part of the Irwell Valley Homes (IVH) Development Strategy and the Sales and Marketing Strategy 2020-2025.
- 1.2 Developing Rent to Buy homes links to the IVH mission to 'Create More' and corporate priority to 'maximise our potential to develop new homes in our core operating areas'.
- 1.3 This policy provides a set of principles to manage Rent to Buy effectively and ensure homes developed as Rent to Buy are let and sold in accordance with grant funding conditions, legal and regulatory requirements, and Irwell Valley Homes'(IVH) strategies, values, and commercial interests.

## 2. Scope

- 2.1 This policy applies to homes developed as Rent to Buy either with Homes England grant under the 2016-2021 Shared Ownership Affordable Homes Programme or the 2021- 2026 Affordable Homes Programme or specified Rent to Buy homes developed as part of a Section 106 agreement.

## 3. Key Principles

- 3.1 Rent to Buy entails specified homes to be initially let to eligible households, at 80% of market rent, on a fixed-term tenancy agreement. There is potential for customers to buy after the property is five-years old, subject to terms and conditions.
- 3.2 A tenancy agreement for a Rent to Buy home is not an agreement for IVH to sell the home to the tenant and places no legal obligation on the customer to purchase the property.
- 3.3 Sales will be based on a RICS market value at the time of sale, not when the property was let.
- 3.4 Rent to Buy homes will be let on an Assured Shorthold Tenancy Agreement with a fixed-term of 6-months to 2-years (but no longer, although a new fixed term tenancy can be entered into with the same tenant).
- 3.5 IVH will seek consent from Homes England to not sell to a tenant wishing to buy if the value has fallen below the 'cost floor' (cost of development), to avoid IVH selling at a loss.

## 4. Applying for Rent to Buy and Eligibility

- 4.1 There is no obligation to promote Rent to Buy homes through the local authority Choice Based Lettings systems or accept local authority nominations.

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4.2 All applicants will be required to complete a Rent to Buy application form, provide all supporting evidence requested and satisfy any affordability, credit, and landlord reference checks. IVH will use third party referencing agents to assist with checks.

4.3 Applicants must also meet the following criteria to be considered eligible:

<ul style="list-style-type: none"> <li>• Be a first-time buyer or a former homeowner returning to the market, for instance following a relationship breakdown.</li> <li>• Not own any other property including holiday homes or homes abroad</li> <li>• Must be in employment.</li> <li>• Have a stated intention (through the application form) to purchase a home in the future.</li> <li>• satisfy any tenant referencing checks.</li> <li>• not have sizeable savings, access to cash or assets available that would clearly enable the applicant to purchase a suitable home on the open market immediately and without assistance (equivalent to 10% of market value unless clear evidence this is insufficient).</li> <li>• applicants must not be excluded from local housing registers, for example due to rent arrears or anti-social behaviour.</li> <li>• applicants will not be accepted if they have unspent criminal convictions.</li> </ul>	<ul style="list-style-type: none"> <li>• applicants must be eligible to rent a property in the UK as per Home Office guidance</li> <li>• applicants will not be allowed to proceed if their expected household size will lead to statutory overcrowding.</li> <li>• applicants must not knowingly require major adaptations that could be considered unreasonable, for instance if the works will invalidate the defects liability period or new home warranty, unless agreed in advance (note- all reasonable adaptations will be permitted).</li> <li>• not have adverse credit registered within the last 12 months, including County Court Judgements; Individual Voluntary Agreements and Debt Relief Orders.</li> </ul>
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**5. Assessing affordability and sustainability**

5.1 IVH will need to be satisfied that applicants can afford to pay the rent whilst having some current and future financial additional capacity to save towards a deposit.

5.2 As a gauge IVH will seek that applicant’s combined household income is at least 35 x the monthly rent payable. In considering the household income, other payment commitments the applicant has, such as child maintenance payments, loan and hire purchase commitments, credit card debt, and any other binding financial commitments considered by IVH to have a material impact on the applicant’s ability to make rent payments.

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5.3 IVH may refuse applicants who are reliant on a guarantor to satisfy credit and sustainability checks, unless there are exceptional circumstances that satisfy IVH.

## 6. Deposits and advanced payments

6.1 Once offered, a Rent to Buy home the applicant will be required to pay the equivalent of one-week rent as a refundable holding deposit to reserve the property. This holding deposit will be returned to the applicant within seven days of either the tenancy agreement being signed or if the offer is revoked by IVH. If the application is proceeding the holding deposit can be used by the tenant as part payment towards the deposit or advanced rent payment.

6.2 If the Rent to Buy home is already built (or in the case of a re-let will be ready in time) the deadline for tenancy commencement will be no longer than 21-days from when the holding deposit was paid.

6.3 48-hours before tenancy commencement applicants will need to pay a deposit equivalent to 1-month rent in advance (this may be partially off-set by the holding deposit). This will be held in a government backed Tenancy Deposit Protection scheme. Applicants will also be required to pay one-month rent in advance and sign a Direct Debit mandate for rent payments. IVH must be in receipt of cleared funds before tenancy commencement.

## 7. Rents and Rent Setting

7.1 Rents will be set at 80% of market rent, including service charges. The initial market rent used for rent setting will be based on an independent market rent valuation arrived at using a method recognised by the Royal Institution of Chartered Surveyors (RICS).

7.2 Rents will be reviewed annually and will rise by a maximum of Consumer Price Index (CPI) + 1%. IVH retains the discretion to not apply the maximum increase. CPI will be based on the previous September figure.

7.3 Rent increases will be applied on 1<sup>st</sup> April each year unless within the first 12 months of a tenancy. As tenancies for Rent to Buy should not run into periodic, it is likely that rent increases will be applied to renewed tenancies that will start on 1<sup>st</sup> April.

## 8. The Tenancy Agreement

8.1 For at least the first five years (unless the property is sold under shared ownership) a fixed term Assured Shorthold Tenancy Agreement (AST) will be used.

8.2 While the property is 'Rent to Buy', the AST will be a maximum of two-years and minimum of 6-months. During the first five years, if the tenant is not in arrears or in breach of the tenancy agreement then each time the fixed term is approaching its end the tenant will be offered a new fixed term AST.

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8.3 IVH will usually offer tenancies that will terminate on 31<sup>st</sup> March. If the start of the tenancy is on or after 1<sup>st</sup> October, then the tenancy shall expire on the 31<sup>st</sup> March after the 6 month minimum period.

## 9. Saving for a deposit to Purchase

9.1 The tenant is expected to make their own arrangements to save towards a deposit to purchase. Rent and service charges do not represent a contribution towards the deposit that will be typically be required by mortgage lenders. IVH will not save money on behalf of the tenant to purchase.

## 10. Repairs and Maintenance

10.1 IVH will repair and maintain Rent to Buy homes in accordance with the tenancy agreement, Landlord and Tenant Act and IVH's Repairs and Maintenance Policy.

10.2 Damage caused to the property or communal areas may be recharged to the tenant or deducted from the tenant's deposit under terms of the Deposit Protection Scheme.

## 11. End of Tenancy

11.1 At the end of the tenancy (including if the tenant is buying), IVH will repay the deposit in full less any legitimate deductions (for example arrears, damage) in accordance with deposit protection rules.

11.2 In some circumstances IVH may agree to requests from the tenant to end the tenancy agreement in advance of the fixed term. This will be required when agreed that the tenant is purchasing the property but otherwise only likely to be agreed to in exceptional circumstances, such as extreme hardship or personal safety.

11.3 When ending a tenancy the tenant will be required to give a month's notice from the following Monday.

## 12. Right to Buy and Right to Acquire

12.1 In all circumstances, those who rent a home under the Rent to Buy scheme will not have the Right to Buy or Right to Acquire. This includes former social housing tenants who previously had such rights.

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### 13. The first 5 years of a Rent to Buy home

- 13.1 IVH will not sell a Rent to Buy home outright during the first five years as this is a grant funding requirement.
- 13.2 IVH may choose to offer shared ownership during the first five years, but whether this is an option will be at IVH's discretion and may vary depending on the financial viability and market dynamics of the development or particular property type. IVH is under no obligation to offer shared ownership and customers are under no obligation to purchase through shared ownership.
- 13.3 If the home is sold through shared ownership, then the property will no longer be a Rent to Buy home and will instead be a shared ownership home governed by the shared ownership lease, including staircasing options.

### 14. After a Rent to Buy home is five years old

- 14.1 After the Rent to Buy property is five-years old, it is possible to sell outright. IVH will sell the home to the tenant, if the tenant is able to purchase, subject to financial viability and tenant conduct.
- 14.2 If after five-years the market value of the property at that point means the sale would create a financial loss to IVH, Homes England will be approached by IVH to approve the decision to not sell to the tenant at that point in time (IVH may still choose to sell if the loss is nominal). The tenant will have been made aware of the minimum sale price prior to tenancy commencement.
- 14.3 Just as during the first five-years, once the property is five-years old, shared ownership will only be offered at IVH's discretion, informed by wider considerations.
- 14.4 The end of a fixed term tenancy or being approached by a tenant wishing to purchase will trigger an **options appraisal**. The options appraisal will consider the objectives of Rent to Buy, the impact on the tenant on any decision, exceptional tenant circumstances, arrears and tenant conduct, financial implications, wider neighbourhood management strategy, asset management strategy, any legal requirements and IVH's values. Possible outcomes of the options appraisal include:
- continue to let the property under the Rent to Buy scheme
  - sell to the tenant outright.
  - sell outright on the open market outright (if void)
  - convert to Affordable Rent.
  - offer shared ownership to the tenant (if eligible) or to a new customer (if void)
  - Convert to market rent.

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- 14.5 After the property is 5-years old, the appraisal is positive and the customer has no management issues, it will be eligible to be purchased.
- 14.6 IVH will advise customers on enquiry about whether the property can be purchased.
- 14.7 Once a property stops being Rent to Buy, for example is sold or becomes shared ownership or Affordable Rent – then the Rent to Buy policy no longer applies to it.
- 14.8 Rent to Buy homes will only be sold, whether outright or through shared ownership, at a price based on a recent (no older than 3-months) independent valuation by a Royal Institute of Chartered Surveyors (RICS) valuation surveyor. The tenant will be expected to pay for the independent RICS valuation unless this was explicitly offered by IVH as an incentive.

**15. Transition to Sale**

- 15.1 When a Rent to Buy tenant purchases their home the tenancy will end, and the deposit will be repaid less any legitimate deductions. All tenant arrears must be cleared prior to a purchase completion.
- 15.2 Anti-money laundering checks will still be undertaken in respect of any sizeable cash amounts used towards the purchase as with any other IVH property sale.
- 15.3 If a tenant is purchasing through shared ownership, then they must meet the eligibility, affordability, and sustainability criteria for shared ownership.
- 15.4 If the property is being sold through shared ownership, then the percentage share to be sold will be calculated based on the Homes England Sustainability Calculator. As offering shared ownership is an option that is not a requirement of the Rent to Buy scheme but at IVH's discretion, IVH can refuse to sell at a low percentage shares if it is deemed that this will have an adverse impact on IVH's finances.
- 15.5 Any customer who buys outright or through shared ownership will become responsible for repairing responsibilities and service charge payments.
- 15.6 In Rent to Buy blocks of flats, IVH will be responsible for allocating proportional sinking and reserve fund contributions in relation to the rented homes. Values will be informed by planned and cyclical work projections. If a flat is sold, then the leaseholder will be required to contribute the calculated proportional amount.
- 15.7 The tenant is responsible for their own legal, valuation, mortgage, and survey fees when purchasing as well as any admin fees incurred by IVH.

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15.8 Once a Rent to Buy home is sold, whether outright or through shared ownership, IVH has no obligation to buy back.

## 16. Decision making

- 16.1 Sales will be authorised and administered in accordance with this policy, IVH's Standing Orders and Financial Regulations, along with Rent to Buy procedures.
- 16.2 As an affordable home ownership tenure, it is assumed that the sale of a Rent to Buy home to a tenant, **after the home is five years old**, is in principle permitted by default unless this would create a financial loss to IVH, or the tenant is in breach of the tenancy agreement.
- 16.3 The conversion of Rent to Buy homes to Affordable Rent, Market Rent, or shared ownership **after the properties are 5-years old** will require approval by Board or the Development Committee. Such an approval may be of individual property conversions or of the set of conditions when conversion of Rent to Buy homes to other tenures, besides outright sale to the tenant, will be acceptable.

## 17. Responsibility

17.1 The Customers and Communities Director is ultimately responsible for the implementation of this policy.

## 18. Performance indicators/ Targets/ Standards

18.1 Overall performance is measured against compliance with the principles detailed above.

## 19. Current legislation

19.1 The following pieces of legislation and regulations apply to this policy:

Landlord and Tenant Act 1985  
Shared Ownership and Affordable Homes Programme (SOAHP) 2016 - 2021  
Affordable Homes Programme (AHP) 2021 - 2026  
Homes England Capital Funding Guide

## 20. Equality, Diversity and Inclusion

20.1 Irwell Valley Homes is committed to treating people with honesty, dignity, respect, and trust. This applies to colleagues, customers potential customers, contractors, and Board Members. At IVH:

- **Equality** is about ensuring that every individual has an opportunity to make the most of their lives and talents.

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- **Diversity** is recognising difference and responding positively to those differences.
- **Inclusion** is about creating an environment where our services and employment opportunities are accessible to all.

20.2 IVH will be mindful of the Equality Act 2010 in all its actions and will consider all the protected characteristics of the Act which are: Race, Sex, Gender Reassignment, Disability, Sexual Orientation, Religion or Belief, Age, Marriage/Civil Partnership and Pregnancy and Maternity explicitly. Further to the protected characteristics, IVH will be mindful of socio-economic disadvantage and will do everything in its power to minimise this and other forms of disadvantage.

21. Environmental Impact

21.1 There are no environmental impacts from this policy

Cross Reference Documents/Good Practice

This policy should be read in conjunction with the following:

- Private Rented Policy
- Leasehold Policy
- Rent to Buy Procedure (Due April 2022)

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