



# Shared Ownership 2.0

## Towards a fourth mainstream tenure

### Final Report

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## Executive Summary

We are in the midst of a housing crisis. Home ownership is now a distant dream for increasing numbers of people who face a growing 'affordability gap' as a result of house prices outstripping wages. In London house prices have grown by more than 20 per cent in the last year alone.<sup>1</sup> As a result, the private rented sector has doubled since 2000, and now accounts for 18 per cent of the total UK housing stock.<sup>2</sup> We believe that shared ownership could help fix our broken housing market. With the right policy interventions, shared ownership could increase from around 15,000 new homes a year to 30,000 (or more) by 2020, thereby contributing at least 13 per cent of the 240,000 new homes this country needs each year. This report explores the barriers, challenges and policy solutions across the product, brand, and investor and lender confidence to make shared ownership a mainstream tenure and an option for many more people. We have analysed a wealth of data, spoken to current and possible future customers and sought the views of key national stakeholders.

Achieving this step change will require a concerted effort from housing associations, private developers, local and central government, lenders, investors and regulators. Creating a more streamlined, consistent and simplified product with increased flexibility for consumers will enable more people to access affordable home ownership.



<sup>1</sup>Nationwide (2014) Nationwide House Price Index, Q3 2014. Available at: [http://www.nationwide.co.uk/~media/MainSite/documents/about/house-price-index/Q3\\_2014.pdf](http://www.nationwide.co.uk/~media/MainSite/documents/about/house-price-index/Q3_2014.pdf)

<sup>2</sup>DCLG (2014) Table 101: Dwelling stock: by tenure, United Kingdom (historical series). Available at: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants>



# Summary of Recommendations

## The product

### In terms of the product, the report identifies the need to:

- Increase awareness of the product and brand amongst households, and provide easier access, which is in common with routes into open market home ownership.
- Develop a shared and common approach to the product and use of the 'brand' and shared access points for example through online search engines, including existing sites such as Rightmove.
- Ensure a consistent and streamlined product that households, lenders and regulators can have confidence in. By having greater consistency in eligibility criteria, and consistent use of standard applications and leases to reduce lenders' and regulators' perception of risk.
- Provide greater flexibility for households, so that they can stay in the tenure as their life circumstances change. This includes allowing people to move within the tenure, and having the diversity of size and types of properties across localities, and allowing movement across local boundaries.
- Look at ways to help people increase their equity share without excessive costs. And to support people to make informed choices about staircasing, and help to manage other costs including repairs and service charges.

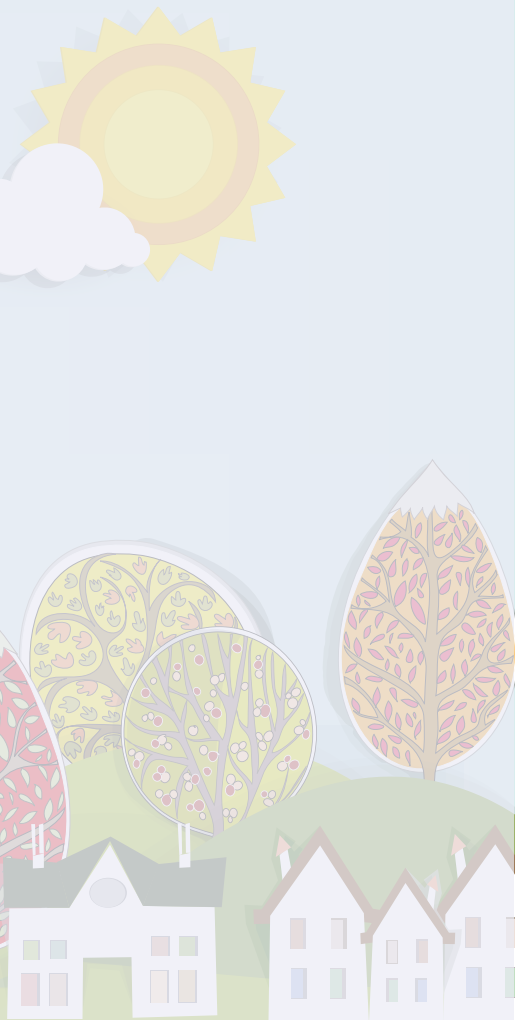
## To achieve that we need:

### Providers to:

- Ensure clear and effective communication about the product at the start and through the lifetime of the occupancy.
- Support shared owners to move within the tenure (for example through effective and speedy resales).
- Develop services that enable shared owners to plan financially throughout their time in the tenure and make choices that best fit their circumstances, affordability etc.
- Develop schemes to help to reduce/limit increases in additional costs (repairs, service charges) and encourage a diverse range of customers.

### Providers and regulators to:

- Agree upon a shared and consistent shared consistent data collection methodology, to support increased lender and investor confidence. Data to include staircasing activity, arrears levels, and levels of default.



**Central, local government and regulators to:**

- Agree a framework that establishes consistent criteria, and enables movement of shared owners within the tenure, and which minimises use of variable criteria that negatively impacts lender confidence.
- Incentivise more shared ownership homes through Local Plans and use of public land.
- Work with providers to pilot and then promote schemes that support choice and control, such as Shared Ownership Plus.

**Local government, lenders and Homes & Communities Agency to:**

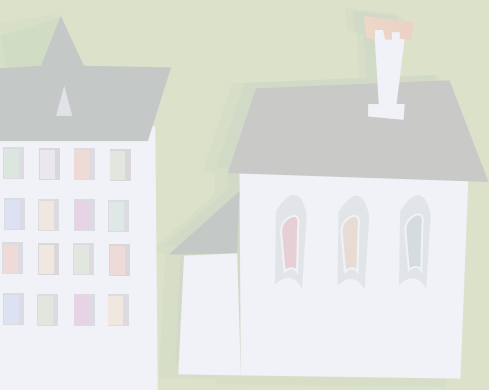
- Model alternative routes to retaining shared ownership homes as affordable in rural settlements, that will facilitate increased lender engagement and access to mortgages.

**Central and local government, regulators and providers to:**

- Reintroduce DIYSO linked to areas with a clear commitment in Local Plans to increasing overall affordable homes provision.

**NHF/CIH to:**

- Develop a Voluntary Code of Practice/charter with sector leaders.
- Promote good practice in development and service delivery, through awards, publications, and events.



## Scale and investment

**To increase the scale and diversity of the tenure, and to increase investment the report identified key challenges, namely:**

- Growing the pool of providers both within the housing association sector and amongst private developers.
- Engaging more lenders in supporting the product and increasing their level of lending as delivery increases and the value of shared ownership can be demonstrated in terms of demand, success (low levels of default and arrears), and consistency.
- Better and consistent collection of data across and by providers will enable them to demonstrate the strengths of the tenure.
- Numbers and range of size/types of homes needs to be produced at scale, through stronger Section 106 agreements, priorities for shared ownership in Local Plans, and increased use of public land for development.

**To achieve that we need:**

**Government and Prudential Regulation Authority to:**

- Consider and review the capital weightings requirements for shared ownership lending so as to level the playing field, as far as possible, between shared ownership lending and that for traditional ownership.

**Government to:**

- Support the normalisation of shared ownership as a mainstream product, so as to aid the development of a more diverse mortgage market for this type of lending.

**Homes and Communities Agency to:**

- Maintain current levels of grant funding and support the development of an equity loan model to increase scale.
- Widen the scope of data collected through the annual Statistical Data Return, and stipulate the type and format of additional data to be compiled, following sector consultation. (Key areas for lenders and investors are listed above in recommendations on the product)
- Require Help to Buy agents to streamline the collection of shared ownership data to ensure consistency and comparability and that this is published annually.

**Providers to:**

- undertake a modelling exercise to establish the impact of equity investment on housing associations' level of returns.





## Introduction

Shared ownership was introduced in the late 1970s to help people unable to afford a home on the open market get on to the property ladder. Provided by housing associations, it allows the purchase of a share in a property (typically between 25 and 75 per cent). The housing association owns the remaining share, on which the shared owner pays a subsidised rent.

Over time, the shared owner can purchase additional shares up to 100 per cent of the equity, a process known as ‘staircasing’. Shares can be sold on to a new owner when the shared owner wishes to move. Over the years there have been various iterations under the umbrella of low-cost home ownership (LCHO). The popular Do-It-Yourself-Shared-Ownership (DIYSO) scheme on offer throughout the 1990s allowed buyers to choose an existing property from the open market, rather than a newly-built home. Government funding for the scheme was withdrawn in 1999, but DIYSO is still offered in small pockets by housing associations and local authorities to this day.

Shared equity products emerged following DIYSO’s demise. The Starter Home Initiative, introduced in 2001, was an equity product targeted specifically at ‘key workers’ in high value areas. HomeBuy required buyers to take out a mortgage for a 70-75 per cent share, with the remainder provided as an interest-free loan by the participating housing association and paid back once the property had been sold. Help to Buy, the government’s current equity loan product, is a variation of this earlier scheme.

Shared ownership currently accounts for 0.8 per cent of households in England,<sup>3</sup> but there is potential for it to play a much bigger role in the housing market. The demand is there from consumers and the desire to expand among providers is also strong. Growing shared ownership requires a concerted effort on the part of not only housing associations and other potential providers, but government and lenders too.

**“Help to Buy has already helped 58,000 first time buyers into their own homes, but as the report shows, increasing shared ownership has the potential to open access to the housing market even further. This report is an important first step towards shared ownership making a serious contribution and I look forward to reading the final conclusions.”**

**-Nadhim Zahawi MP**

<sup>3</sup> The Lyons Housing Review (2014) Mobilising across the nation to build the homes our children need. Available at: [http://www.yourbritain.org.uk/uploads/editor/files/The\\_Lyons\\_Housing\\_Review\\_2.pdf](http://www.yourbritain.org.uk/uploads/editor/files/The_Lyons_Housing_Review_2.pdf)

# Market Context

## Housing market

The growing importance of shared ownership as a potential tenure in its own right needs to be understood in the context of conditions in the wider housing market.

The UK's housing shortage is now widely recognised and all major political parties have made commitments to increase the delivery of new homes through a range of differing policies. A particular symptom of this shortage is the emergence of 'Generation Rent' who have no choice but to turn to the private rented sector (PRS), due to the growing gap between house prices and incomes, high mortgage deposit requirements, limited mortgage availability, and ineligibility for the limited number of social rented homes.

The private rented sector has doubled in size since 2000. It has now eclipsed the social rented sector, accounting for 18 per cent of the total housing stock<sup>4</sup>. By 2019 it is estimated that a quarter of all households will live in the PRS<sup>5</sup>. The sector is no longer home only to young professionals; increasing numbers of young families and older people are now renting privately. The proportion of private renters aged 36-49 is expected to increase by 31 per cent over this period.<sup>6</sup>

Meanwhile, home ownership has declined in recent years, down to 65 per cent in 2012-13, from a peak of 71 per cent in 2003<sup>7</sup>. This is set to continue, with ownership predicted to fall to 59 per cent over the next five years.<sup>8</sup> Equally, the generational divide will continue to widen; home ownership for under 35s will fall from 28 to 16 per cent, but it will grow from 75 to 80 per cent for the over 65s. Just over 55 per cent of 36-49 year olds will own their home by 2019.<sup>9</sup> Increasingly people are in their thirties before buying a home for the first time.<sup>10</sup>

## Future demand and supply

The 107,970 homes completed last year<sup>11</sup> were less than half the homes needed to meet demand. This mismatch between supply and demand is set to continue. House building is projected to increase to 152,000 a year by 2019, but this would still leave a shortfall of about 90,000.<sup>12</sup>

Demographic pressures will continue to drive demand for housing. The latest available household projections for England<sup>13</sup> show a 10 per cent rise in the number of households between 2011 and 2021, equating to 221,000 households per year. The number of single households is expected to grow by more than a quarter (28 per cent) over the period. Looking further ahead, we will also see unprecedented growth in the older population of the UK. By 2037, just over two in five (42 per cent) will be over the age of 65, with the number of those aged 80 and over more than doubling to 6 million.<sup>14</sup>

<sup>4</sup> DCLG (2014) op. cit.

<sup>5</sup> Savills (2014) Residential Property Focus Q4 2014. Available at: [http://www.savills.co.uk/research\\_articles/141285/183846-0](http://www.savills.co.uk/research_articles/141285/183846-0).

<sup>6</sup> ibid.

<sup>7</sup> DCLG (2014) op. cit.

<sup>8</sup> Savills (2014) op. cit.

<sup>9</sup> ibid.

<sup>10</sup> The Guardian (2015) First-time home buyers at seven-year high. Available at: <http://www.theguardian.com/money/2015/jan/06/first-time-home-buyers-property-uk>

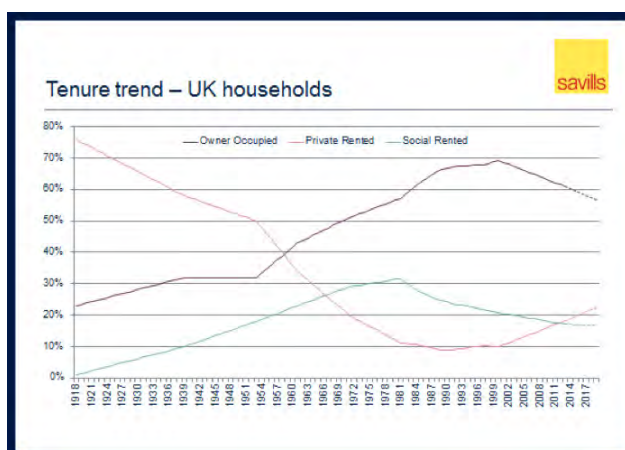
<sup>11</sup> DCLG (2014) House building: September quarter 2014, England. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/376588/House\\_Building\\_Release\\_-\\_Sept\\_Qtr\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/376588/House_Building_Release_-_Sept_Qtr_2014.pdf)

<sup>12</sup> Savills (2014) op. cit.

<sup>13</sup> DCLG (2013) Household Interim Projections, 2011 to 2021, England. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/190229/Stats\\_Release\\_2011FINALDRAFTv3.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/190229/Stats_Release_2011FINALDRAFTv3.pdf)

<sup>14</sup> ONS (2013) National Population Projections, 2012-based Statistical Bulletin. Available at: [http://www.ons.gov.uk/ons/dcp171778\\_334975.pdf](http://www.ons.gov.uk/ons/dcp171778_334975.pdf)

Figure 1: UK tenure trends



Source: UK Census, Savills Research

### Affordability

Home ownership remains the tenure of choice<sup>15</sup> for most people. Among private tenants, for example, close to two thirds aspire to own<sup>16</sup>. But the affordability gap is rising; in England less than one fifth of families on a lower quartile income can afford a two-bed home with a 90 per cent mortgage<sup>17</sup>. Although current interventions such as Help to Buy have enjoyed some success (more than 73,000 sales since inception<sup>18</sup>), they remain beyond the reach of many in the growing ‘middle market’.

The main reason for the recent decline in home ownership is that incomes have failed to keep pace with house prices. House prices increased from 3.6 to 6.5 times the average salary between 1997 and 2011.<sup>19</sup>

The requirement to put down a large mortgage deposit is one of the most significant barriers for first time buyers. Taking into account earnings and outgoings, the average-earning couple with a child would take almost 12 years to save up a deposit on a two bedroom home.<sup>20</sup> But the high cost of renting makes it difficult for low and middle-income families to save for a deposit. More than half of renters are able to save less than £100 a month.<sup>21</sup>

**“I would never have been able to buy the home I required without Orbit. Banks and building societies would not have loaned me what I needed. The reasonable rent Orbit charged with shared ownership, meant I was able to work on buying the rest of the property as and when I could afford to.”** (Focus group respondent)

**“... We view shared ownership as a kind of renting but with the security of it being your home and an added savings account for the future.”** (Focus group respondent)

In 2012 two thirds of first time buyers relied on financial support from their parents. Almost a third of parents have used savings to help their children buy a property, 12 per cent have given their child some or all of their inheritance early, and 6 per cent have dipped into their retirement fund.<sup>22</sup> Among this group, 30 per cent have concerns that the support they provided may affect their own financial future.

<sup>15</sup> Ipsos MORI (2014) Public are positive towards contribution and value of social housing. Available at: <https://www.ipsos-mori.com/researchpublications/researcharchive/3474/Public-are-positive-towards-contribution-and-value-of-social-housing.aspx>

<sup>16</sup> Council of Mortgage Lenders. (2013). Still Aspiring. Available at: <http://www.cml.org.uk/cml/publications/newsandviews/134/508>

<sup>17</sup> De Santos, R (2013). Homes for forgotten families: Towards a mainstream shared ownership market. Shelter. Available at: [http://england.shelter.org.uk/data/assets/pdf\\_file/0014/702023/Shelter\\_-\\_Homes\\_for\\_forgotten\\_families.pdf](http://england.shelter.org.uk/data/assets/pdf_file/0014/702023/Shelter_-_Homes_for_forgotten_families.pdf)

<sup>18</sup> DCLG (2014) Help to Buy sales hit 73,000 homes. [press release] 8 January 2015. Available at: <https://www.gov.uk/government/news/help-to-buy-sales-hit-73000-homes>

<sup>19</sup> Keep, M. (2012). Regional House Prices: Affordability and Income Ratios. House of Commons Library. Available at: <http://www.parliament.uk/business/publications/research/briefing-papers/SN01922/regional-house-prices-affordability-and-income-ratios>

<sup>20</sup> De Santos (2013) op. cit.

<sup>21</sup> Shelter (2013) The rent trap and the fading dream of owning a home. Available at: [http://england.shelter.org.uk/data/assets/pdf\\_file/0007/624391/Rent\\_trap\\_v4.pdf](http://england.shelter.org.uk/data/assets/pdf_file/0007/624391/Rent_trap_v4.pdf)

<sup>22</sup> Halifax (2013) Generation Rent: Attitudes towards homeownership start to change. Available at: [http://www.loydsbankinggroup.com/globalassets/documents/media/press-releases/halifax/2013/1706-generation\\_rent.pdf](http://www.loydsbankinggroup.com/globalassets/documents/media/press-releases/halifax/2013/1706-generation_rent.pdf)

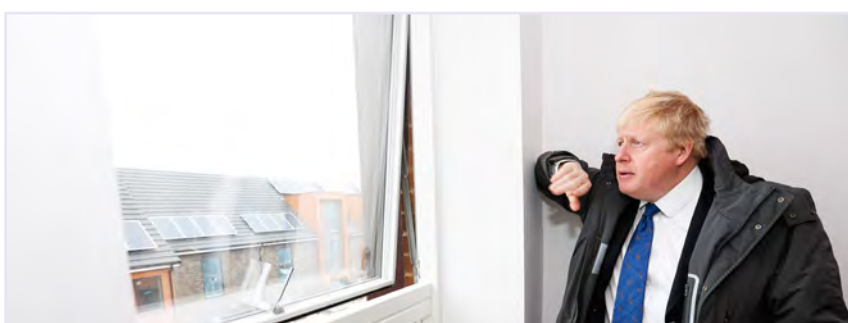




The growing gap between incomes and house prices is a long-term trend which shows no sign of reversing. While the Office for Budget Responsibility expects average earnings to rise by 2 per cent this year, it forecasts house prices rising by 7.4 per cent<sup>23</sup>.

Affordability is most stretched in London, where house prices increased by 21 per cent over the last year, twice the rate of annual house price inflation across the UK<sup>24</sup>. On average, prices in London are now 14 times the mean annual salary; in 2013, households needed an income of £108,500 to qualify for an 80 per cent mortgage<sup>25</sup>.

With more people locked out of home ownership in the capital, demand for private renting has soared over recent years, leading to a steep rise in private sector rents. The average monthly rent in the London PRS is over £1,400 - almost twice the national average<sup>26</sup>. A tenant on an average income now needs to spend over half their income to rent privately in the capital<sup>27</sup>.



**“Shared ownership is crucial in helping the unprecedented numbers of people in London desperate for good quality low cost housing.”**  
(Boris Johnson, Mayor of London)

<sup>23</sup> Office for Budget Responsibility (2014) Economic and fiscal outlook, December 2014. Available at: [http://cdn.budgetresponsibility.independent.gov.uk/December\\_2014\\_EFO-web513.pdf](http://cdn.budgetresponsibility.independent.gov.uk/December_2014_EFO-web513.pdf)

<sup>24</sup> Nationwide (2014) op. cit.

<sup>25</sup> National Housing Federation (2014) Home Truths 2014/15: Broken Market, Broken Dreams. Available at: <http://www.housing.org.uk/publications/browse/home-truths-2014-15-london/>

<sup>26</sup> NHF, opt. cit.

<sup>27</sup> HomeLet (2014) HomeLet Rental Index. Available at: <http://homelet.co.uk/assets/documents/May-2014-HomeLet-Rental-Index-HL3106-06-14.pdf>



## Case Study - Helping young families

**“I really think [shared ownership] opens doors for renters to get on the property ladder.”**

In 2010, Tom Hooper and his fiancée, Hayley, discovered they were expecting their first child. Their immediate thought was ‘where will we live?’ Both were living with their parents and neither wanted to rent. They felt they had limited options and renting a home would be their only solution.

After discovering a new development close to where they lived, they visited the sales office and were introduced to shared ownership. Tom and Hayley decided this was the perfect solution for them and decided to purchase a three-bedroom house. Tom said: “Within one morning we went from feeling isolated and without choice to knowing we could own our own home.”

Four years on, Tom and Hayley continue to live happily in their shared ownership home. The couple have chosen not to staircase on their share of the property. Tom explained:

*“It feels more beneficial not to staircase because the rent on the Orbit portion of the property is so reasonable. It potentially means I can save more towards a larger mortgage deposit in the future. Dependent on circumstances, we may skip staircasing and simply move to a bigger home when the time comes. Either way, the shared ownership frees up more disposable income.”*

## Shared ownership as a potential solution

With structural problems in the housing market set to persist, an increasing number of households will be unable to realise their aspiration to own in the foreseeable future. Shared ownership at scale can play a key role in meeting more of those aspirations and delivering the new homes this country needs.

Research by Shelter has shown that a couple with one child and a net income of £22,000 could afford a 25 per cent share of a two bedroom home in 87 per cent of local authority areas in the country, and a 50 per cent share in three-quarters of local authority areas.<sup>28</sup>

The same family would struggle to meet the ongoing costs of a 95 per cent mortgage under Help to Buy in more than two-thirds (71 per cent) of all local authorities.<sup>29</sup> Private rent would be affordable for the same family in only 60 per cent of local authorities.<sup>30</sup>

Perhaps not surprisingly, it is households with an income of between £20,000 and £35,000 which have accounted for the majority of Orbit's shared ownership applications year-on-year since 2010/11. For the market as a whole, the median household income of a shared ownership purchaser in 2011/12 was £27,000.<sup>31</sup> This is significantly lower than the £39,585 income needed to afford an 80 per cent mortgage on an average first time buyer house.

Table 1 shows clearly that shared ownership is more affordable than buying outright and renting privately in all regions except the North East.

**Table 1: Affordability of home ownership, shared ownership and private rent, by region**

Region	Average first-time buyer house price <sup>28</sup>	Average first-time buyer deposit <sup>29</sup>	Average income needed to afford an 80% mortgage <sup>28</sup>	Average shared ownership sales price <sup>31</sup>	Average shared ownership deposit <sup>22</sup>	Median income of a shared ownership buyer <sup>33</sup>	Average initial share bought <sup>34</sup>	Average monthly private rent <sup>35</sup>	Average first-time buyer monthly housing costs <sup>34</sup>	Average shared ownership monthly housing cost <sup>37</sup>
England	£173,185	£34,637	£39,585	£178,572	£15,000	£27,000	42%	£784	£893	£668
South East	£195,638	£39,128	£44,717	£174,049	£14,272	£27,500	41%	£845	£1,008	£656
London	£333,629	£66,726	£76,258	£240,943	£18,794	£33,460	39%	£1,348	£1,720	£857
East	£169,565	£33,913	£38,758	£165,263	£14,213	£25,787	43%	£689	£874	£630
South West	£161,046	£32,209	£36,811	£151,919	£13,065	£22,800	43%	£659	£830	£566
West Midlands	£126,473	£25,295	£28,908	£132,777	£12,215	£22,000	46%	£566	£652	£533
East Midlands	£117,303	£23,461	£26,812	£123,873	£9,414	£19,567	38%	£511	£605	£466
Yorkshire and Humber	£116,312	£23,262	£26,586	£118,933	£10,466	£19,245	44%	£537	£600	£438
North West	£116,810	£23,362	£26,700	£129,281	£11,894	£19,000	46%	£524	£602	£511
North East	£102,429	£20,486	£23,412	£129,990	£11,699	£23,979	45%	£472	£528	£509

Source: NHF<sup>32</sup>

**“For many people in the South East, shared ownership is not just the most affordable housing option, it’s the only affordable housing option.”** (Marilyn DiCara, Director of Sales & Marketing, Moat)

<sup>28</sup> De Santos (2013) op. cit.

<sup>29</sup> *ibid.*

<sup>30</sup> Resolution Foundation (2013) One foot on the ladder: How shared ownership can bring owning a home into reach. Available at: [http://www.resolutionfoundation.org/media/media/downloads/One\\_foot\\_on\\_the\\_ladder.pdf](http://www.resolutionfoundation.org/media/media/downloads/One_foot_on_the_ladder.pdf)

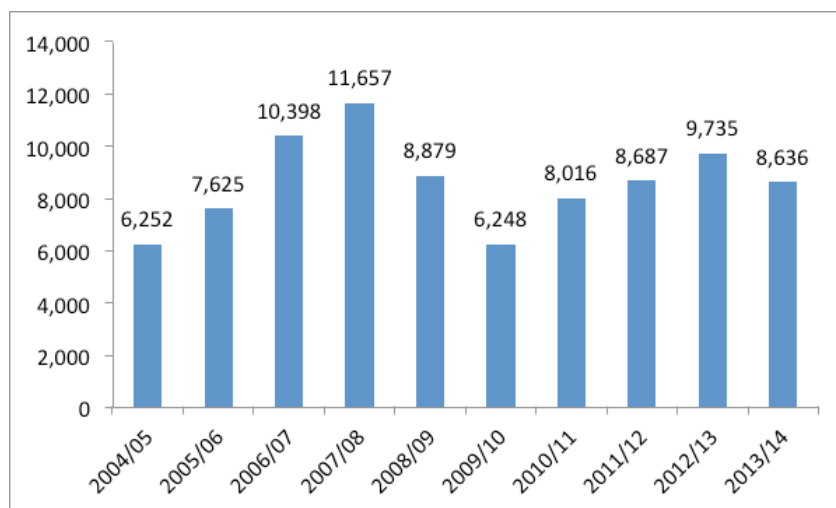
<sup>31</sup> NHF (2013) Shared ownership: meeting aspiration. Available at: <http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/SharedOwnership-MeetingAspiration.pdf>

<sup>32</sup> *ibid.*

## Profile of the current shared ownership market

Having fallen following the global financial crisis, shared ownership sales have recovered over the past few years nearer to pre-crash levels. In 2013/14 there were 8,194 shared ownership sales across England, with a median market value of £169,259. Most initial equity stakes are in the 25-50 per cent range.

Figure 2 : Housing association shared ownership sales, by year



Source: CORE

More people are also staircasing and selling on their shared ownership properties. Staircasing to 100 per cent ownership has more than trebled since 2011 to 4,107 sales in 2014. And the proportion of resales has roughly doubled over the last decade, peaking at around 43 per cent during 2010/11 and 2011/12, before dropping back to 38 per cent in 2013/14. Demand for shared ownership vastly outstrips supply, with housing associations approving around 85,000 applications a year, against government funding for the development of just 11,000 shared ownership homes.<sup>33</sup> Shared ownership enquiries in 2013/14 were up 17 per cent on the previous year.<sup>34</sup>

Since 2010/11 Orbit has received 25,460 applications for shared ownership against total completions of 2,400 homes. Demand has outstripped supply over that four year period by a factor of more than 10:1. Applications in each of the last two years approached 7,000 but annual completions peaked at 913.

At the same time, the profile of customers in shared ownership has been changing. The private rented sector has become a more important 'feeder' tenure. Around 50 per cent of households now entering shared ownership previously lived in private rented accommodation. Conversely, the proportion of households entering shared ownership from the social sector is currently at its lowest.

<sup>33</sup> The Lyons Housing Review (2013) op. cit.

<sup>34</sup> Data from local HomeBuy/Help to Buy agents monthly returns.



Figure 3: Previous tenure of shared ownership purchasers

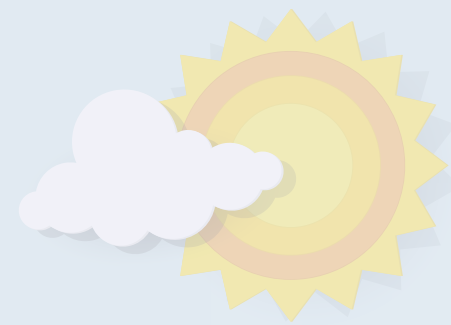


Source: CORE

We are now seeing two different cohorts of shared owners: one entering shared ownership with aspirations to staircase to full ownership, and the other comprising households unlikely ever to be in a position to staircase, but who value shared ownership for the increased choice, control and security it offers, as well as the opportunity to build up some assets. These benefits are viewed as clear advantages over private renting in particular.

For those currently in shared ownership, and many who would like to access it, there is a real desire to see not only increasing numbers of homes provided, but also an expanded range of house sizes, types and locations, so people can move more easily as they experience significant life changes, such as job moves, having children, or downsizing and moving in retirement.





### Case Study – First time buyers

Brendan Head, 21, and partner Chloe Breeze, 20, recently purchased their first home, thanks to shared ownership. They are now the proud owners of a two bedroom house at Orbit Homes' Frenze Hall Mews development in Diss.

Only needing to raise a deposit on the value of the percentage share they were buying was a huge draw for mechanic, Brendan, and nursery nurse, Chloe. Brendan explains: "We were living with my parents and it was starting to get very crowded. We both work, but our salaries aren't huge, so it would have taken a long time to save a big deposit. We'd done a lot of looking online, trying to find houses we could afford, but there was very little in our price range. This was pretty much the first place we actually viewed. As soon as we saw this house, we knew we wanted it."

"Shared ownership allowed us to start investing our earnings into buying our own property straight away, rather than having to wait until we'd saved a big down payment."

Brendan says he and Chloe found the process very straightforward. "To be honest, we wouldn't have had a clue what we were doing, but Orbit Homes were really helpful and supportive. We used their recommended solicitor and we had a friend who was a financial adviser with plenty of experience of shared ownership, so we had lots of excellent advice. It was all really clearly explained, so we just followed the instructions and it seemed to happen very smoothly" he said.

Brendan was also pleasantly surprised by the ease with which they secured a shared ownership mortgage. He said: "Our IFA seemed to know exactly where to apply for our mortgage, so we had no problems and got approval very fast. The fact that the house is shared ownership hasn't caused us any difficulties at all. It's just made it much more affordable!"

"We're really happy. It's so nice to have the space and privacy to spend time together. It's giving us a chance to be independent and take responsibility for ourselves. It's a steep learning curve, but it's great. It feels homely and it's so nice to have the freedom to do our own thing."





## Product

**“We underestimate what we can do as a sector to improve the product and promote it better. If we come together, explain it properly, are consistent in our terms, invest in it better and promote it more effectively, we can go a long way to resolving some of the issues holding shared ownership back.”** (Steve Michaux, Group Director of Leasehold Services, A2Dominion)

### Understanding the brand

Shared ownership has huge strengths as a product. It is a real and affordable alternative to private renting, offering people more choice, the chance to gain some equity and, for some, the opportunity to move into mainstream/full home ownership, should they wish to. It also offers the security of tenure that private renting rarely provides. Shared ownership supports community stability as well; evidence suggests that having a stake in their home makes people more likely to invest in their neighbourhood.<sup>35</sup>

**“We see it as a flexible situation. We know that if I return to work when the kids are older we could staircase into full ownership. Or if our finances/the economy don’t allow it we can stay as we are.”**  
(Focus group respondent)

However, shared ownership as a brand suffers from a lack of awareness, and limited understanding of exactly what it is, how it works, who it is for and how to get it – 89 per cent of CIH election panel members surveyed identified tackling this as a key way to grow the tenure.<sup>36</sup>

The current lack of awareness is not helped by variations in the product names used by different providers, and the range of additional eligibility requirements across different localities.

Providing a more consistent approach and set of eligibility criteria across local areas, and looking at how to increase the awareness and understanding of what shared ownership actually is would be more effective than trying to re-launch the brand under another guise. Fundamentally, the shared ownership concept is easy to grasp, but the brand and product are being inadvertently undermined by well-intentioned but unhelpful inconsistencies in use.

There is also a wider challenge about how the tenure is viewed and used by government, providers and consumers. Historically, shared ownership has been regarded as a ‘social’ product, and this has shaped how people access it.

For example, the application process is seen as bureaucratic, including in some cases multiple applications to the provider, the local authority and the Help to Buy agent. Where a property attracts more than one interested party, the sale is based on need, which reinforces customers’ perceptions that the process is more like ‘allocation’ of a social home than buying a home to own, and reflects a failure to keep pace with changes in the wider market and consumer service expectations. Outside London, customers have to access it through Help to Buy agencies rather than the estate agents they would use for home ownership or private renting.

<sup>35</sup> NHF (2013) op. cit.

<sup>36</sup> CIH election panel is a collection of over 400 members who are regularly surveyed on key housing issues and policy solutions, as part of CIH’s work. [Ticking the box for housing](#). Results from the low-cost homeownership survey can be found [here](#)



**“Being able to buy through other sources would be beneficial as people are not aware they are eligible. I came across the shared ownership properties by luck.”** (Focus group respondent)

**“Buying a home is one of the biggest, most stressful things anyone does, and needs to be facilitated as seamlessly as possible.”** (Focus group respondent)

**“I wasn’t always sure where we were with the process. I had to keep chasing and found I was dealing with two or three people. It would have been more helpful if there was just one person who could have given me weekly updates, even if nothing new was happening.”** (Focus group respondent)

There is also an eligible income threshold, generally of £60,000, or £66,000 (up to £80,000 for a three bedroom home) in London. Local authorities can add further criteria, such as local connection, through Section 106 agreements. Additional restrictions limit the pool of potential consumers and increase confusion about the product.

Importantly, restrictive criteria also increase lenders’ perceptions of the risk shared ownership poses; 86 per cent of CIH election panel members highlighted the restricted number of lenders and lenders’ risk-averse approaches to shared ownership as another critical barrier to expansion. Although anecdotally the product is highly successful, experiencing low arrears and defaults, providers do not yet have a consistent approach to data collection that can counter this perception.

## Satisfaction

Until people achieve full ownership, they remain tenants in law, rather than owners. They cover all repair and maintenance costs, seen by many customers as a significant downside, and have to notify landlords of any significant home improvements. Leases can be complex for the buyer and mortgage lenders. Therefore, customers may feel that the balance of ‘benefits’ is weighted in favour of the provider associations.

Developing a more balanced approach could lead to a stronger consumer offer, and better communication about responsibilities at the outset would help to manage expectations and boost satisfaction levels.

Benchmarking organisation HouseMark’s<sup>37</sup> work on satisfaction amongst tenants and leaseholders of housing associations highlights lower overall levels of satisfaction for shared owners than for tenants, but, significantly this is more likely to centre on the services and neighbourhood rather than the home or product itself. Repairs and maintenance is the highest driver of dissatisfaction for both tenures. Satisfaction with private renting is generally higher at 84 per cent, according to the English Housing Survey 2012/13, yet only 53 per cent of people in the PRS think the tenure is a good way to occupy a home, compared to 93 per cent of owners.<sup>38</sup>

## Simplification

We need to remove the ‘red tape’ and learn from the success of products like Help to Buy, which has benefited from clear government backing, simplicity and standardisation. To position shared ownership as an affordable option for the large and growing middle market, many of

<sup>37</sup> HouseMark (2014) STAR benchmarking service: Analysis of findings 2012/13. Available at: [http://www.housemark.co.uk/hmresour.nsf/lookup/STAR\\_BM\\_report\\_2014.pdf/\\$File/STAR\\_BM\\_report\\_2014.pdf](http://www.housemark.co.uk/hmresour.nsf/lookup/STAR_BM_report_2014.pdf/$File/STAR_BM_report_2014.pdf)  
<sup>38</sup> DCLG (2014) English Housing Survey: HOUSEHOLDS 2012-13. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/335751/EHS\\_Households\\_Report\\_2012-13.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/335751/EHS_Households_Report_2012-13.pdf)  
Note: the English Housing Survey does not differentiate between shared owners and owners more generally.





whom would not think of or know how to access social housing, access routes and purchase processes need to become more 'mainstream' and in line with open market ownership.

Achieving this shift requires the agreement of central and local government, the Greater London Authority and the Homes and Communities Agency. Outside London, the average level of public grant going into each new shared ownership home is now only around £8,000 (with an estimated average of just £15,000 grant per unit nationwide, i.e. only around 10 per cent of average total build costs). Yet substantive and often historic requirements to demonstrate appropriate use of public money continue to have a profound effect on the shape of the product in the market and on its marketability.

We need to achieve a better balance between the expectations that accompany the investment of (now relatively small amounts of) public money, the pressures of local priorities, and the need to design a more attractive product that is simpler and more flexible for the consumer.

Local authorities need a more modern take on shared ownership and consumer expectations. In particular, shared ownership would benefit from local authorities working across boundaries and housing market areas to ensure that there are standard criteria to support people to move within the tenure.

Rural areas provide a particular challenge for shared ownership, with many authorities restricting the ability to staircase to 80 per cent, so as to retain the home as affordable in perpetuity. Such restrictions add to lenders' perception of risk; in some places there are only one or two lenders available. This can cause difficulty for people needing to access mortgage finance. Potentially, other routes to retaining affordable homes could be considered; for example, allowing full staircasing but the provider having the right to re-purchase on sale, and with re-cycled grant funding prioritised to finance this.

### Increasing flexibility and mobility

There are also issues of flexibility and mobility in and from the tenure. Originally, shared ownership was intended to lead to full ownership by staircasing as job prospects and wages grew. However, in the changed employment climate, the significant cost implications that arise with each staircasing (valuations, legal fees and other expenses) represent a major barrier to moving into full ownership, because many shared owners are only able to staircase in stages over time, rather than through a one-off share purchase. This limits the ability of households to fund a move into full ownership.

Some providers are trialling innovative methods to try to overcome staircasing barriers. For example, Thames Valley Housing is supporting people to increase their equity through overpayments and/or 'micro-staircasing' via their 'Shared Ownership Plus' scheme<sup>39</sup>, allowing the purchase of 1 per cent shares without extra fees. The product is attractive to customers. It is early days, but it will be useful to track this and collect data to compare take up, customer satisfaction and understanding of the benefits against other traditional routes for staircasing.

<sup>39</sup> Thames Valley Housing (2014) Shared Ownership Plus. Available at: <http://tvhsales.co.uk/learning/about-shared-ownership/shared-ownership-plus/>



Shared owners are also unable to trade up or down to another shared ownership home as their circumstances or household size changes. This means that many are potentially ‘trapped’ within shared ownership, with an inevitable impact on satisfaction levels.

This could be addressed through a simple change of eligibility rules which would be particularly attractive for the growing proportion of shared owners unlikely ever to move into full ownership. All that is required is for government to include existing shared owners as one of the priority purchase groups, alongside social housing tenants and other local authority determined groups.

Investment by providers in a dedicated and responsive service that helps shared ownership resale would also support greater mobility.

Enabling people to sub-let, with clear, set criteria, would potentially provide another route to achieving mobility while retaining equity.

Overcoming the lack of mobility for existing shared owners would help support a more fluid and better functioning market which, in turn, would encourage development at greater scale.

### **More equitable repairs obligations**

Other potential approaches to improving the product include looking at how the repairs obligation could be shared or costs reduced, for example through insurance cover or through the provider offering a repairs service for a fixed fee, so that shared owners have the confidence of set costs for which they can budget. Such arrangements could be attractive to lenders and investors by assuring the long term maintenance of the property. However, other approaches such as sharing repairs obligations and costs between shared owner and provider according to their equity share are likely to have a negative on the return for investors, as modelling by Savills on page 25 illustrates.

Potentially, shared ownership could be offered with a choice for new owners: to maintain full control in terms of repairs and arrange, undertake and fund fully themselves (as is the current norm), or to buy into a service package or extended insurance programme that would cover an explicit range of repairs.

### **Customer control of future costs**

A sense of lacking control over rent and service charge costs is a further factor in customer satisfaction and take up of the product. While customers can ‘shop around’ for a better mortgage deal, they are tied into rental and service charge costs.

Better ongoing communication and reinforcement of the advantages of the product by providers can help – making clear that rent is reduced by public investment, for example. But there is also a role for tailored and personalised services that help people plan for financial outlay throughout their time as a shared owner. This would enable people to understand better the impacts on their personal circumstances if they staircase – for example, weighing up the advantage of reduced rental payments compared to increased mortgage costs – and restore a sense of controlling their home and future.



This tailored and customer focused service could be promoted through a new Code of Practice, plus activities to disseminate and encourage widespread take up of good practice across the sector.

**“... you are actually better off buying outright if you can. I think that’s why a majority of people stay in rented [accommodation], plus all the hidden costs of shared ownership as well.”**

(Focus group respondent)

To develop more innovative approaches that also maintain the fundamentals of the product will require support from the regulator and local authorities. We suggest new approaches could be tracked as pilots and rolled out across the country once the balance of costs and benefits is understood.

### **Diversity of models and customers**

Historically, the DIYSO programme enjoyed high levels of customer satisfaction. Customers purchased properties on the open market, exercising similar levels of choice and control as traditional ownership, resulting in increased diversity of location and types of homes, something currently limited by the predominant new build approach.

A new DIYSO scheme, if linked to requirements to ensure the overall increase of homes in a local area, could potentially increase the scale, diversity and popularity of shared ownership.

Social changes, such as increasing relationship breakdown and older home owners needing to release equity for social care and other purposes, are also creating new groups with constrained housing choice for whom shared ownership may be an answer.

Currently, shared ownership is mainly targeted at younger households and first time buyers. There is scope to look at ensuring the product can ‘fit’ with wider housing needs and help address some of the challenges and changes in our demographic profile. Increasing opportunities for shared ownership purchase by older people (perhaps purchasing 75 per cent with no rent on the remaining 25 per cent) would allow them to ‘downsize’ and release equity.

Alternative housing that is easier to maintain, helps people to retain some assets, and is fit for purpose as they age could be an attractive product for older people and an increased market for shared ownership providers. This could include not only shared ownership in specialist housing models, such as extra care housing, but in general needs housing as well. The measures considered above to reduce or fix costs (repairs/service charges) would play a significant role in the appeal of this product to older people.



## Recommendations

### Providers to:

- Ensure clear and effective communication about the product at the start and through lifetime of the occupancy.
- Support shared owners to move within tenure (effective and speedy resales, etc.).
- Develop services that enable shared owners to plan financially throughout their time in the tenure and make choices that best fit their circumstances, affordability, etc.
- Develop schemes to help to reduce/limit increases in additional costs (repairs, service charges) and encourage diverse range of customers.

### Providers and regulators to:

- Agree shared consistent data collection methodology, to support increased lender and investor confidence. Data to include staircasing activity, arrears levels, and levels of default.

### Central, local government and regulators to:

- Agree a framework that establishes consistent criteria, and enables movement of shared owners within the tenure, and which minimises use of variable criteria that negatively impacts lender confidence.
- Incentivise more shared ownership homes through Local Plans and use of public land.
- Work with providers to pilot and then promote schemes that support choice and control, such as Shared Ownership Plus.

### Local government, lenders and Homes and Communities

#### Agency to:

- Model alternative routes to retaining shared ownership homes as affordable in rural settlements, that will facilitate increased lender engagement and access to mortgages.

### Central and local government, regulators and providers to:

- Reintroduce DIYSO linked to areas where there is clear commitment in Local Plans to increasing overall affordable homes provision.

### NHF/CIH to:

- Develop a Voluntary Code of Practice/charter with sector leaders.
- Promote good practice in development and service delivery, through awards, publications and events.



### Case Study – Supporting ex-forces personnel

Simon Sanderson served in the Royal Electrical Mechanical Engineers from 2000 to 2013. During his time in the services Simon lived in military quarters. He and his family rented a number of four bedroom houses, often moving every three years or so.

When he left the army, Simon's main concern was trying to find a home suitable for his family. He heard about shared ownership as part of the housing brief he received on leaving.

***“Without shared ownership I don’t think I would have been able to purchase a house suitable for my family as our income and lack of savings would not allow for a large mortgage.”***

Simon and his family found the buying process very easy. After paying the initial deposit, they moved in just over a month later. They have now been living in their three-bedroom home for over a year and Simon is working full-time as a mechanic. So far the family has decided not to staircase, but they plan to do so in the future.

***“Shared ownership appealed to me because it allowed me to buy a house in the area I wanted without the need for a massive deposit (which I didn’t have) or the need to get a large mortgage when I’d just changed job and was unsure of my future income. Eventually I will be able to buy the rest of the house, which is another big plus.”***



# Scale and Investment

## Perceptions of risk

Housing associations and other providers of affordable housing can't sell their shared ownership developments unless mortgages are available to buyers at reasonable cost. Consequently, the support of lenders for the product is a crucial factor influencing the number of shared ownership homes developed.

Shared ownership is seen as complex and potentially higher risk by lenders. Reasons for this include lack of critical mass in the market as a product/tenure and the fact that shared ownership has evolved in a piecemeal way, with local authorities and providers adopting varying requirements.

The perception of complexity around shared ownership relates to the structure of the product, as already discussed; variations from standard application processes and leases, which often requires manual underwriting, involve greater scrutiny and work by lenders. In addition, the approach taken by regulators on the amount of capital lenders must hold against a shared ownership mortgage increases the industry's perception of risk and restricts the level of business lenders will take on.

Capital regulation in the UK is overseen by the Prudential Regulation Authority (PRA), and shared ownership attracts higher capital weightings from the PRA than other mortgage lending. This is because the regulator requires lenders to calculate loan-to-value (LTV) on the buyer's share of the property rather than the whole value of the property, even though the lender can claim against the landlord's retained share should a borrower default on their mortgage, using the Mortgage Protection provisions in the HCA's standard shared ownership lease.

This historic approach to capital weighting has disadvantaged shared ownership as a tenure. It means that lending for shared ownership is more capital intensive for lenders than mortgage lending for outright market sales. But in addition the lender has protection provided by the Mortgage Protection clause. So we need to demonstrate real levels of default to develop an accurate assessment of risk.

The consistent use of the model lease and standard clause (as set out in the joint HCA, Council of Mortgage Lenders, and National Housing Federation guidance in 2012<sup>40</sup>) would also help to reduce risk and due diligence costs.

The lack of consistent, regularly collected and available data on shared ownership (including around staircasing and incidences of defaults) hinders accurate valuations and investment appraisals, and further impact on the ability to lever in investment. It hampers the housing association sector's ability to persuade government, policy makers, institutional investors and other stakeholders about the value and merits of the product.

<sup>40</sup> HCA, CML, NHF (2012) Shared Ownership: Joint Guidance for England. Available at: <http://www.cml.org.uk/cml/filegrab/1shared-ownership-guidance-v7-301012.pdf?ref=8544>.



**“Hard evidence is a powerful tool. When we talk to politicians and policymakers with robust shared ownership data to hand it changes their perceptions. As a sector we need to get our act together on this, and collect the right data in a consistent and co-ordinated way to support the case for growing shared ownership as a tenure.”**

(Tim Willcocks, Assistant Director of New Business, Sales & Marketing, Radian Group)

Another perceived risk and barrier to scale stems from the fact that shared owners are tenants in law and not home owners in the conventional sense. The case of *Richardson v Midland Heart*<sup>41</sup> from 2007 serves as stark reminder. The householder had purchased a 50 per cent share of a property with the housing association for £29,950 in 1995. The association started possession proceedings under the Housing Act 1988 as a result of rent arrears. The court had no option but to grant possession, since two months of rent arrears had accrued at the time of the hearing (Mandatory Ground 8 for Possession).

The case made it clear that the shared owner owns the lease only. Ground 8 doesn't give the tenant a chance to pay off the arrears and rectify the situation. In shared ownership cases, theoretically it also entitles the landlord to the owner's equity share, though the circumstances where a housing association with social objectives would seek to exercise this would surely be quite extreme. For lawyers dealing with shared ownership cases, however, this is a grey area and a potential downside to the product, accentuating risk. This legal uncertainty needs resolving.

### Constraints on increasing delivery

Currently, shared ownership supply is also constrained by the fact that it is usually included in developments primarily to discharge a Section 106 obligation. This remains an important route for supply, but far more needs to be done to ensure that delivery of shared ownership homes goes beyond the limited numbers produced through this mechanism. The proposed new Garden Cities would be a prime opportunity to use land in a more strategic way to expand shared ownership.

Bringing forward public land is crucial in scaling up shared ownership. But the current approach taken by local authorities and other public bodies to disposing of land is not helpful. The focus is usually on maximising the capital receipt through the open market, rather than taking a long-term view and going beyond the narrow definition of 'best value' to recognise the wider social and economic benefits of intermediate products such as shared ownership. This needs to change across all levels of government.

Public bodies across the country should be encouraged to explore and implement more innovative approaches to bringing land through on more favourable terms for affordable housing, including shared ownership. Examples include discounted or deferred payments and equity sharing arrangements. Recent research by Localis and Cathedral Group explored approaches to the release of public land which could maximise receipt of revenue income while increasing community benefits for the long-term through mixed tenure sites, including developing shared ownership and other intermediate homes.

<sup>41</sup> Sefton M and Radley-Garner O (2008) Shared ownership leases, *Richardson v Midland Heart Ltd*. New Law Journal. Available at: <http://www.newlawjournal.co.uk/nlj/content/shared-ownership-leases>



It is important that local authorities and other public bodies recognise the growing demand and need for intermediate housing products, such as shared ownership, setting aside land within their Local Plans for this purpose.

### Growing the secondary market

It goes without saying that the establishment of a healthy, thriving second hand market is vital if shared ownership is to become a fourth mainstream tenure. Implementing our recommendations to improve the shared ownership brand and product would be a good starting point.

More should be done to publicise secondary market shared ownership properties effectively. One mechanism could be the development of a national resale website where all providers could put up their second hand properties (perhaps something along the lines of the national HomeSwapper service for mutual exchange). Help to Buy Agencies would be in a good position to co-ordinate this effort. Equally, both new build and second hand shared ownership properties could be advertised more prominently on property listing sites such as Rightmove. Currently, users need to search actively for shared ownership properties, navigating various pages instead of having a dedicated section promoting the tenure.

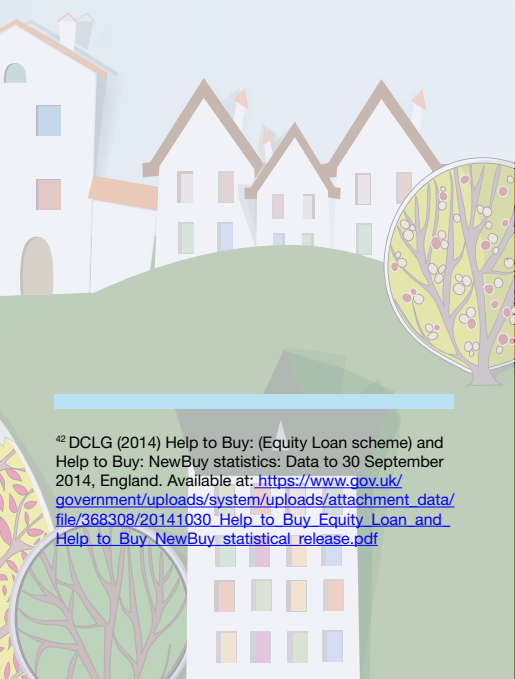
Re-booting the very popular DIYSO model, allowing people to buy a share of a property on the open market, could provide a catalyst for improving the liquidity of the shared ownership market, with potential knock-on effects in terms of attracting buyers and institutional money. If explicitly linked to a commitment to increase overall supply in the local area, this might also support much-needed new supply. By bringing a more diverse range of homes into the shared ownership market, it would extend choice for customers, as well as potentially reducing the new-build premium for purchasers.

### Increasing investment

Ongoing government investment remains a critical factor in increasing the delivery of shared ownership. It provides good value for the tax payer, as grant released through staircasing is reinvested back into new homes. The approximate £15,000 grant cost to government of providing a shared ownership home also compares very favourably to the £41,897<sup>42</sup> average cost of a Help to Buy equity loan and arguably delivers a higher social return, given the target customer base.

However, alternative ways of funding shared ownership alongside grant are clearly needed to expand delivery. Repayable equity funding, similar to Help to Buy, could help developments get off the ground, with the investment being repaid at the point of initial sale and/or subsequent staircasing. It may also be possible to extend or re-direct the existing private rented sector guarantee scheme to allow for the acquisition of shared ownership portfolios by institutional investors.

But in doing this a balance needs to be struck between creating attractive returns and maintaining and improving affordability. Housing associations are already struggling to make shared ownership work in some high value areas, such as London and parts of the South East.



<sup>42</sup> DCLG (2014) Help to Buy: (Equity Loan scheme) and Help to Buy: NewBuy statistics: Data to 30 September 2014, England. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/368308/20141030\\_Help\\_to\\_Buy\\_Equity\\_Loan\\_and\\_Help\\_to\\_Buy\\_NewBuy\\_statistical\\_release.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/368308/20141030_Help_to_Buy_Equity_Loan_and_Help_to_Buy_NewBuy_statistical_release.pdf)



While purchasers might be able to service a mortgage on a 25 per cent share in a high value area, rents set occasionally as low as 0.5 per cent of the unsold equity could leave the owner struggling to staircase or move in the future, at the same time as providing an inadequate return on investment for the housing association. Even in some 'lower value' areas of London, the struggle to afford both a significant mortgage and a substantial rent is stretching new shared owners' financial capacity, despite housing associations curtailing returns to ensure sales can be achieved.

This is becoming a dilemma for housing association developers in high value locations. Increasing supply substantially will be difficult unless shared ownership can be made to look at least as financially attractive as other products, such as Affordable Rent, market rent or outright sale. Ultimately, providers (and private developers in particular) will favour what offers the best return.

There are few easy options for tackling this while parts of the market remain so expensive. A radical shift in approach to land values would certainly help but is difficult to achieve. Attracting investors to provide equity for the development of shared ownership schemes, repayable at the point of sale might also address viability concerns. While this would diminish housing associations' returns, shared ownership needs to remain an affordable product or it loses its *raison d'être*. A further alternative might be for housing associations to subsidise shared ownership to an even greater extent on the grounds that it forms a core part of delivering their social purpose.

If affordability for customers, and therefore development viability, continues to be severely stretched, providers will inevitably ask themselves serious questions about their commitment to the tenure. In parts of the country, we may run the risk of scale reducing at precisely the time when we need it to grow exponentially.

### Attracting institutional investment

On the face of it, shared ownership should be an interesting investment option for institutional investors. The principal benefits are:

- Inflation-plus linked rental stream, reducing volatility.
- Long-term (99yr+) leases, removing void risk.
- Maintenance responsibilities borne by the occupier, protecting net returns.
- Natural access to churn and property value uplift through staircasing.

A recent report by Professor Michael Oxley for the Investment Property Forum<sup>43</sup>, looking at the potential for equity investment into social housing, suggests that the shared ownership and intermediate rental elements of housing associations' businesses would be more attractive to investors than the core social rent model.

It has also been suggested that a government-backed service guarantee scheme, committing owners to take all reasonable steps to protect and enhance the value of their assets in return for the service charge, would instil the much-needed confidence to attract investors and lay the foundation for a shared ownership product that would work in both the resale and new-build market.<sup>44</sup>

<sup>43</sup> IP Real Estate (2014) IPF Study finds limited opportunity in UK social housing. Available at: <http://realestate.ipe.com/news/markets-and-sectors/ipf-study-finds-limited-opportunity-in-uk-social-housing/10004901.article>

<sup>44</sup> Jones M (2014) The future is shared. Inside Housing. Available at: <http://www.insidehousing.co.uk/the-future-is-shared/7006694.article>

However, management of residential schemes tends to be more intensive than commercial property, and higher fees could affect yield levels. Investors will also look at the potential for political or reputational risk (e.g. repercussions from repossessions, concerns over government interference around rent control or security of tenure), and a clear sense of the direction and consistency of policy will be a key factor in investment decisions.

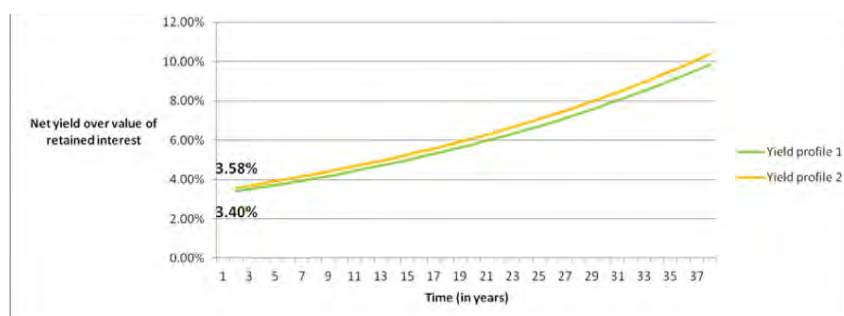
We have asked Savills to look at certain scenarios which we believe could make the product more attractive to consumers and therefore increase scale from the viewpoint of institutional investors, and what impact this would have on the appetite of institutional investors to enter the market.

Whilst many of the measures to benefit customers, explored in this report, would have minimal or beneficial impact – such as encouraging freer movement of shared owners within the tenure, and a more streamlined and less restrictive mechanism for sales and re-sales- some would raise concerns, such how repairs and maintenance costs might be managed.

### Equitable share of repairs and maintenance costs

Apart from increasing uncertainty and level of risk for investors by having shared repairs costs between shared owners and providers, to produce returns that would be attractive, would involve significant subsidy either directly through grant or reduced land costs – from £24,000 on the baseline model, to £36,000 as illustrated below. However, even with this subsidy we can assume that the perceived higher risks of this scenario would be less attractive to investors. An insurance package to cover repairs and maintenance costs as suggested earlier could perhaps alleviate some of these concerns. The establishment of a maintenance sinking fund is not believed to make much difference to investors, except in the case of smaller providers where the locking up of cash would reduce their resilience to risk of default.

**Figure 4: Net Yields over time - baseline versus modelled assumptions**



Source: Savills Research

The baseline assumptions are as follows: shared owner has full responsibility for maintenance costs; 50 per cent share owned; no staircasing; and an annual index-linked rent increase of CPI + 1 per cent. A discount rate of 5.75 per cent is also assumed, reflecting an increased security of income and reduced credit risk due to fairer indexation. This results in a value of the retained 50 per cent share at around £101,000, based on a £250,000 Vacant Possession Value at Day 1, and which would require £24,000 of subsidy per unit.



Modelling assumptions based on: splitting the maintenance costs equitably between occupier and investor as a ratio of equity held in the property; baseline assumptions as above with the exception of maintenance costs at £500 at day 1 indexed using CPI; and Savills's standard cash flow rates. A higher discount rate was used to value the cash flow, reflecting the uncertainty of the maintenance costs. In this scenario, the Vacant Possession Value is 12 per cent lower at £89,000. Figure 4 shows that net yields over time in the case of splitting maintenance costs are lower (green line) compared to present arrangements.

### **Withdrawal of staircasing rights, to simplify the product**

This would be attractive to long-term investors looking for a stable index-linked cash flow. If coupled with the ability to carry over equity shares to another shared ownership property and de-regulated marketing of resales of part shares, it might not damage attractiveness to shared owners. It would however be less attractive to those investors looking to promote staircasing to receive a medium-term return and benefit from house price inflation.

Ultimately, in order to attract institutional investment, shared ownership will need to be able to compete with the private rented sector and other property opportunities over return on investment. This will require significant scale.

### **Recommendations**

#### **Government and Prudential Regulation Authority to:**

- Consider and review the capital weightings requirements for shared ownership lending so as to level the playing field, as far as possible, between shared ownership lending and that for traditional ownership.

#### **Government to:**

- Support the normalisation of shared ownership as a mainstream product, so as to aid the development of a more diverse mortgage market for this type of lending.

#### **Homes and Communities Agency to:**

- Keep current levels of grant funding and support the development of an equity loan model to increase scale.
- Widen the scope of data collected through the annual Statistical Data Return.
- Stipulate the type and format of additional data to be compiled, following sector consultation.
- Require Help to Buy agents to streamline the collection of shared ownership data to ensure consistency and comparability and that this is published annually.

#### **Providers to:**

- Undertake a modelling exercise to establish the impact of equity investment on housing associations level of returns.



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- Adam Morton, Policy Leader, Investment, Planning and Land, National Housing Federation
- Jo-Ann Pepperell, Relationship Director, Lloyds Banking Group
- Kush Rawal, Sales and Marketing Director, Thames Valley Housing Association
- Nick Swinburne, Senior Risk Manager/Regional Managing Valuer, Nationwide Building Society
- Melissa Toomey, Head of Shared Ownership, Hastoe Group
- Christopher Walker, Head of Housing, Planning and Urban Policy, Policy Exchange
- Kate Williams, New Business Project Director, The Hyde Group
- Tim Willcocks, Assistant Director of New Business, Sales & Marketing, Radian

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