



Shared Ownership 2.0

Towards a fourth mainstream tenure

Interim Report

December 2014





Executive Summary

There is a growing recognition amongst housing professionals that, as housing costs continue to outstrip many people's ability to meet them, shared ownership has the potential to establish itself as the country's 'fourth tenure', thereby increasing housing choice and making a significant contribution to addressing our housing shortage.

Orbit Group and the Chartered Institute of Housing (CIH) have analysed a wealth of data, spoken to current and possible future customers, and sought the views of key national stakeholders to evaluate the capacity for shared ownership to expand at scale and become a more significant tenure in its own right. The final report will explore potential solutions and also look at how, by increasing the scale and improving the product for customers, shared ownership can become a fourth mainstream tenure, provided by a wide range of developers and with a vibrant resale market that enables customers to move within the tenure.

This interim report summarises our findings so far and sets out the key issues that need to be further explored in detail to enable shared ownership to increase from around 15,000 new homes a year to 30,000 (or more) by 2020. This would equal at least 13 per cent of the 240,000 new homes this country needs each year.

Policy thinking, practice and the customer experience around shared ownership has not kept pace with the realities of the structural change in the housing market over the last decade.

In this interim report we identify four key areas which need resolution and begin to explore some of the issues and potential solutions.

1. **Market – demand and customer experience**
2. **Product – strengths and limitations**
3. **Scale – barriers and opportunities**
4. **Investment – financing and expansion**

Our full findings and detailed recommendations will be published in February 2015.





Market

Homeownership remains the tenure of choice¹ for most of the population. But the affordability gap is rising; in England less than one-fifth of families on a lower quartile income could afford a two-bedroom home with a 90 per cent mortgage². For example, among social tenants, it is the aspiration of close to one-third to own their home³. Although current interventions, such as Help to Buy, have enjoyed success (more than 48,000 sales since inception⁴), they still remain beyond the reach of many in the growing 'middle market'. Shared ownership at scale can play a key role in meeting more of those aspirations and delivering the new homes this country needs.

Simon Sanderson was in the Army for 13 years as a mechanic in the Royal Electrical Mechanical Engineers, and now lives in a shared ownership home with his wife and four children. He said:

“Without shared ownership I don’t think I would have been able to purchase a house suitable for my family, due to my household income not allowing for a large mortgage and having no savings. If shared ownership did not exist I’d have been forced into private rent and don’t know if I would ever have got out of expensive rentals.”



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

Overall, however, there is a lack of robust and consistent local, regional and national data about shared ownership applications, completions, staircasing and defaults which needs to be addressed to develop a product that works at scale, and which can attract more lenders and increased investment.

¹ Ipsos MORI (2014) Public are positive towards contribution and value of social housing. [online] Available at: <https://www.ipsos-mori.com/researchpublications/researcharchive/3474/Public-are-positive-towards-contribution-and-value-of-social-housing.aspx>

² Shelter (2013) Homes for forgotten families: Towards a mainstream shared ownership market. [online] Available at: http://england.shelter.org.uk/_data/assets/pdf_file/0014/702023/Shelter_-_Homes_for_forgotten_families.pdf

³ Johnson A (2014) Nearly a third of social housing tenants want to buy their own home. The Independent [online] 13 November. Available at: <http://www.independent.co.uk/property/nearly-a-third-of-social-housing-tenants-want-to-buy-their-own-home-9855927.html>

⁴ DCLG (2014) Help to Buy: Helping First Time Buyers onto the housing ladder. [press release] 2 September 2014. Available at: <https://www.gov.uk/government/news/help-to-buy-helping-first-time-buyers-onto-the-housing-ladder>



“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. With the more than reasonable rent Orbit charged, it meant I was able to work on buying the rest of the property as and when I could afford to.”

- Customer

“... We view it as a kind of renting with the security of it being your home plus an added savings account for the future.”

- Customer

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 authorities in the country, and a 50 per cent share in three-quarters of local authorities.⁵ Perhaps not surprisingly, it is this segment of households with an income of between £20,000 and £35,000 which has accounted for the majority of Orbit's shared ownership applications year-on-year since 2010-11.

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.⁶ Private rent would be affordable for the same family in only 60 per cent of local authorities.⁷ Overall, shared ownership is more affordable than buying with a mortgage, and renting privately, in all regions, except the North East.

At the same time, structural changes in the housing market and other social and economic changes are rapidly widening the potential market for shared ownership:

- Many more households with higher incomes are unable to access the open market for sale;
- The lightly regulated private rented sector is insecure, often more expensive, and generally fails to support aspiration, yet has expanded rapidly while shared ownership volumes have stood still;
- Social changes, such as increasing relationship breakdown and older home owners needing to release equity for social care and other purposes, are creating new groups with constrained housing choice for whom shared ownership may be an answer.

Although there is strong demand for shared ownership, a lack of robust data in areas such as default rates and staircasing levels does not support investor and lender confidence.

⁵ Shelter (2013) op. cit.

⁶ Ibid.

⁷ Resolution Foundation (2013) One foot on the ladder: How shared ownership can bring owning a home into reach. [online] Available at: http://www.resolutionfoundation.org/media/media/downloads/One_foot_on_the_ladder.pdf

Product

Shared ownership has huge strengths as a product. It is a real and affordable alternative to private renting, offering people the chance to gain some equity and move towards the generally-held aspiration for home ownership, should they wish to. It also offers the security of tenure that private renting rarely provides. Shared ownership supports community stability too, as evidence suggests that having a stake in one's home makes people more likely to invest in their neighbourhood.⁸

“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.”

- Customer

However, **shared ownership is a complex brand**, hampered by a lack of understanding of exactly what it is, how it works, who it is for and how to get it, not helped by variations in the brand names used by different providers.

The application process is seen as bureaucratic. Customers say it can feel more like ‘allocation’ than ‘ownership’ and it has failed to keep pace with changes in the wider market and consumer service expectations. We need to remove the ‘red tape’ and learn from the success of products like Help to Buy, which have benefited from clear Government backing, simplicity and standardisation.

Income eligibility is set at a ceiling of usually no more than £60,000 a year and local authorities can, and do, stipulate further criteria through section 106 agreements, such as local connection. Where a property attracts more than one interested party, allocation is based on need. Outside London, customers have to apply through one of the Help to Buy agencies, rather than estate agents.

“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.”

- Customer

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

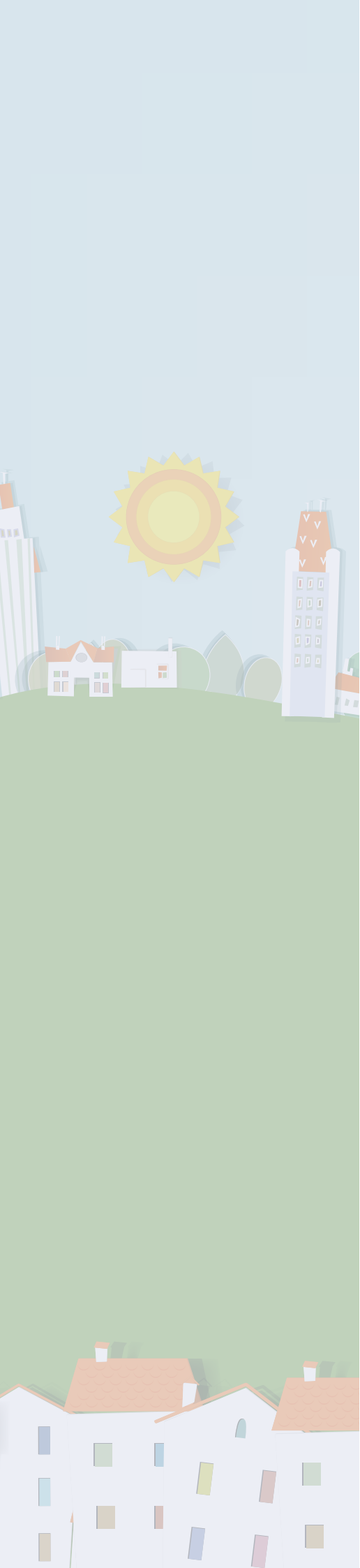
- Customer

“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 in the sequence who could have given me weekly updates, even if nothing new was happening.”

- Customer

⁸ NHF (2013) Shared ownership – meeting aspiration. [online] Available at: <http://s3-eu-west-1.amazonaws.com/doc.housing.org.uk/Editorial/SharedOwnership-MeetingAspiration.pdf>





There are also issues with flexibility and the resale market.

Significant cost implications arise from increasing shares (known as staircasing) with valuations required each time, along with legal fees and other expenses. This represents a major barrier, since many shared owners are only able to staircase over time, rather than through a one-off share purchase.

Shared owners cannot trade up or down to another shared ownership home as their circumstances or household size change. This is significant in an environment where house price inflation outstrips wage inflation, making it difficult to move from shared ownership to full owner occupation. This can potentially 'trap' people within shared ownership and is an element that contributes to lower levels of satisfaction, but which could be addressed by enabling greater flexibility to move within the tenure itself.

One solution may be to build in an incremental approach to increasing equity through rent overpayments and/or 'micro-staircasing' for example, Thames Valley Housing has introduced this via its 'Shared Ownership Plus' scheme⁹ allowing the purchase of 1 per cent shares without extra fees. Equally, housing associations could look to waive or cover valuations or solicitors' fees on staircasing transactions.

"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 this process and move to a bigger home. Either way, shared ownership frees up more disposable income."

- Customer

Until people achieve full ownership, they remain tenants in law, rather than owners. However they cover all repair and maintenance costs, which is 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 housing provider. Developing a more balanced approach could present a stronger consumer offer and better communication about responsibilities at the outset would also help to manage expectations and boost typically lower satisfaction levels.

"... 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."

- Customer

Despite the core strengths of shared ownership, a range of issues around branding, complexity, red tape and the customer experience/benefit need considering. We will also explore how an improved product would increase the tenure's appeal to funders, investors and private developers.

⁹ Thames Valley Housing (2014) Shared Ownership Plus [online] Available at: <http://tvhsales.co.uk/learning/about-shared-ownership/shared-ownership-plus/>

Scale

There are a number of barriers to increasing the number of shared ownership homes being developed. **Shared ownership is seen as complex, and potentially higher risk, by financial regulators. This can affect mortgage lenders' ability and appetite to lend.** There are several reasons for this, including the lack of scale and the fact that it has evolved in a piecemeal way with variations required by local authorities or providers. Perception can be based on either a lack of data and awareness around low default rates, or an historic view no longer reflecting the realities of today's customer base.

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 2012¹⁰) would help to reduce risk and due diligence costs. This, together with tackling other barriers, including the regulator's capital requirements for shared ownership mortgages could help to support shared ownership to become a mainstream tenure in its own right.

Normalising shared ownership as a mainstream product could support the development of a more diverse and competitive mortgage market.

Currently, **shared ownership supply is limited because it is usually included in developments primarily to discharge a section 106 obligation.** Local authorities tend to seek 'best value' for land on the open market. However, the consequence of councils looking to achieve the highest price for the land is that it will then rarely be developed primarily for intermediate products, like shared ownership or even market rent, because the capital return is generally greater for open market sale.

Recent research by Localis and Cathedral Group¹¹ 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 shared ownership and other intermediate models. The proposed new Garden Cities would be a prime opportunity to use land in this more strategic way to expand shared ownership beyond simply discharging a s106 obligation.



¹⁰HCA, CML, NHF (2012) Shared Ownership: Joint Guidance for England. [online] Available at: <http://www.cml.org.uk/cml/filegrab/1shared-ownership-guidance-v7-301012.pdf?ref=8544>.

¹¹Thomson A and Wilkes P (2014) Public Land, Public Good: Getting maximum value from public land and property. [online] Localis and Cathedral. Available at: http://www.localis.org.uk/images/LOCJ2390_Public_land_report_A4_0914_WEB.pdf



Investment

On-going 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 into new homes. The approximate £15,000 grant cost to government of providing a shared ownership home also compares very favourably to the £38,703¹² 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 could 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 accumulation of shared ownership portfolios by institutional investors. Clearly, in doing this, there will need to be a balance struck between creating attractive returns and ways to both maintain and improve affordability.

A recent report by Professor Michael Oxley for the Investment Property Forum¹³, 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 re-sale and new-build market¹⁴.

We also need to better understand and explore the wider potential market for shared ownership which may be able to tap into significant private individual investment, for example where older people may wish to 'trade down' and release equity. The housing market and people's lifestyles, finances and expectations have all changed significantly in the last decade. Increasing the simplicity and flexibility of the model would help to address those changes.

Alongside grant, we need to explore other opportunities for investment. There is clear potential to broaden the current customer base, and in the longer-term, expand delivery beyond housing associations.

¹² DCLG (2013) Help to Buy: Equity Loan Scheme and New Buy Statistics: Data to September 2013, England. [online] Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/260034/HelpToBuy_and_NewBuy.pdf

¹³ IP Real Estate (2014) IPF Study finds limited opportunity in UK social housing. [online] Available at: <http://realestate.ipe.com/news/markets-and-sectors/ipf-study-finds-limited-opportunity-in-uk-social-housing/10004901.article>

¹⁴ Jones M (2014) The future is shared. Inside Housing [online] Available at: <http://www.insidehousing.co.uk/the-future-is-shared/7006694.article>





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