
The role of shared ownership in the future housing market

- discussion paper summary

This report assesses the value of shared ownership in the housing market, now and for the future, and considers the level of funding shared ownership should attract within the next National Affordable Housing Programme.

It is relevant now for a number of reasons. First, government housing budgets are likely to be severely constrained over coming years and difficult decisions will need to be made about funding. Second, the shared ownership product has come under critical scrutiny from government, lenders and policy groups during the last two years. And third, the intermediate market as a whole is the subject of review once again by government and the Homes and Communities Agency.

Using new evidence the report dispels a number of myths, re-examines the value of shared ownership and presents some new ideas for the future of the shared ownership product. It is intended as a contribution to the national debate about how the intermediate housing market should develop.

“There are some interesting facts and ideas here and the report is a valuable contribution to the debate we should be having about how we make our housing market function more effectively and more affordably for the long-term.”

ALISTAIR MCINTOSH, CHIEF EXECUTIVE, HOUSING QUALITY NETWORK

“Shared ownership provides a vital way into the housing market for many, particularly first time buyers. It is also the most efficient way for government to support the home purchase sector of the housing market. This report gives an excellent overview of the market and helps to counter many of the negative myths about shared ownership loan performance.”

STEPHEN NOAKES, COMMERCIAL DIRECTOR, LLOYDS BANKING GROUP

Executive summary

The role of shared ownership

Shared ownership (New Build HomeBuy) is the most established of the current range of intermediate housing products and governments have used it to fulfil a number of social and economic policy objectives over the past 30 years.

It has released existing social rented housing at low public cost by enabling occupants to buy into the housing market; helped reduce strain on social housing waiting lists by offering an alternative affordable housing option; supported recruitment and retention of key workers in high pressured housing markets; and assisted in creating more mixed and balanced communities.

More recently, it has had a specific role in helping lower and middle income working households access the housing market, establishing assets and supporting aspiration in an era of rapidly rising house prices.

At the same time, larger programmes of shared ownership building have enabled considerable cross-subsidies from sales revenue to flow into the development of new social rented housing, helping to reduce social housing development costs to the public purse.

The future housing market

The dramatic mismatch in demand and supply of housing in England suggests that, despite some powerful short to medium term headwinds for the housing market, the trend in house prices over the coming two decades will be up, with potentially substantial further rises in house prices a plausible scenario.

In 2009, just 118,000 new homes of all tenures were built. This is half the minimum annual level of house building advocated by the National Housing and Planning Advice Unit in its advice to ministers last year and half the Government's own target. Even delivering 240,000 new homes a year, house prices are likely to cost over seven times incomes by 2026, and there is little sign that house building can realistically achieve these levels any time soon.

We therefore face the prospect of much higher numbers of lower and moderately paid households being unable to afford to access the open market in the future.

Shared ownership and shared equity – a place for both

There has been a tendency recently to lump shared ownership and shared equity together in policy debate. But they are different products meeting different price points in the intermediate housing market.

Buyers of shared equity homes generally have higher incomes than shared owners, often by 30% or more. And the terms of the different schemes, with shared equity buyers purchasing a minimum 70% of the market value of a home on day one, compared to the more usual 25-50% initial stake of a shared owner, also tend towards higher incomes for shared equity.

The boundaries between the products have been blurred a little by recent changes in shared equity, including new build shared equity schemes and interest payments on equity loans. But despite several efforts, government has not been able to provide long-term support for a shared equity scheme with lower income requirements that is cost effective with limited public funding. Shared ownership and shared equity therefore continue to attract different target markets.

With the gap between the income base of the social rented sector and the open market likely to widen further as housing supply shortfalls increase, and with population and household numbers forecast to grow quickly over the next 20 years, the volume of people needing the intermediate market will rise substantially. In these circumstances, it makes enormous sense to maintain an intermediate market with at least two products targeted at different points in the price spectrum.

The value of shared ownership to government

Broadly, in terms of public expenditure per home, the government can deliver two shared ownership homes for every 1.5 shared equity homes and one social rented home. The bang per buck is significantly higher for shared ownership. By funding more shared ownership, government is able to effectively deliver extra cash from the overall national development programme to fund additional affordable housing.

This exceptional leverage is due to housing association cross-subsidies from sales, additional borrowing in the private finance markets, and the recycling of grants when people sell their home.

Shared ownership also delivers social and economic benefits for government and the country. A long-term average of just over 25% of shared owners staircase to outright ownership, encouraging social mobility. And around 70% of shared ownership homes that are sold remain within the sector, benefitting a new generation of lower to middle income households. These benefits are over and above the specific social role outlined above in reducing social housing sector strains, supporting key workers and so on.

Improving value for lenders

The risk of lending into the shared ownership market is already extremely low. Recent figures show that shared ownership buyers are no more likely to be repossessed than home owners in the open market. Even so, the housing association sector has been working closely with lenders and the Government over the past year to resolve a number of issues hampering the development of a stronger lending market for shared ownership. Considerable progress has been made:

- A new standard shared ownership lease has been agreed and is being implemented, which offers enhanced protection to lenders in the event of repossession
- The National Housing Federation has worked up a 'buy-back' proposal for sector discussion, which could mean any shared ownership home threatened with repossession being bought by the part-owning housing association
- The FSA has agreed to review the capital adequacy limits linked to shared ownership lending
- Housing association providers are reviewing their approach to shared ownership arrears information and management

These efforts are ongoing, but the risk profile of shared ownership for banks and building societies might well fall further in the near future. This could open the way for many more banks and building societies to enter the sector, moving shared ownership from a niche to a mainstream lending market. Lenders should see shared ownership as a highly attractive market, with low risk and a rapidly growing base of potential customers.

Improving value for consumers

Shared ownership is extremely popular with consumers and demand remains exceptionally high. Just five Government HomeBuy Agents had over 80,000 current applications at the beginning of 2010 (compared with an annual building programme of around 10-12,000 new homes).

But there are still areas where improvements can be made. These changes are about protecting consumers' future interests and protecting the integrity and reputation of the product, as well as harnessing the potential additional social and economic value shared ownership can offer.

Possible improvements include simplifying and standardising, as far as possible, the terms of the growing number of small-scale, local schemes developed in specific local authority areas; finding alternatives to resale restrictions in areas of acute housing stress; more flexible tenure, supporting people to staircase down as well as up; and improved marketing of shared ownership, particularly to potential suppliers and contractors to the market.

Expanding shared ownership products

Beyond improving the existing product, shared ownership is ripe for expansion. The flexibility of the concept means it has enormous scope to meet housing needs. Potential target markets include more shared ownership for older people, for people with disabilities and for people who have suffered a relationship breakdown.

Many of these people will have equity to put towards a home purchase and it should be possible to devise shared ownership products that either require no government funding or very low levels of grant. Yet these new or expanded products would achieve important social objectives.

Conclusions

Despite the dramatic consequences of the credit crunch and housing market recession, and continuing short to medium term constraints and concerns, the bigger picture is one where shared ownership will grow significantly in importance. Shared ownership is a product consumers will need more and more.

The likely long-term direction of house prices, the long-term commitment of the housing association sector to shared ownership, its powerful social and economic value for government, its improving value for lenders, and its huge scope to meet the needs of a wider range of buyers all suggest that strong public funding for shared ownership within the next affordable housing development programme is crucial.

New build shared ownership should at least maintain its current level of funding when the next National Affordable Housing Programme is decided. This will pay dividends for government and reap benefits for consumers.

Key facts summary

- Close to 170,000 first purchases had been made from housing associations by 2009, with 43,000 purchasers (a quarter of all buyers) having staircased through to 100% home ownership.
- Around 52,000 new shared owners bought between 2004 and 2009, equivalent to over 30% of the entire shared ownership provision since 1979.
- Between 2004 and 2009, over 11,300 shared ownership homes were resold in England, an average of 2,260 a year. Around 70% of resales remain within the sector, recycled to new shared owners.
- In 2007/08 the median income of a household purchasing a shared ownership home was £25,832. The median income of a household purchasing through shared equity was £33,680, 30% higher.
- In 2008/09 shared ownership cost the public purse just under £27,000 per unit. Each shared equity home cost £44,250 in grant (over half as much again), while public finance for each home built for social rent averaged £57,300, more than double the shared ownership cost.
- In 2008/09, 432 shared owners were repossessed (0.38% of the 114,650 shared owners still mortgaged). In 2009, 46,000 home owners were repossessed (0.42% of the market) and 5,700 Buy-to-Let homes were repossessed (0.46% of the market).
- In the last five years:
 - 4,770 social rented tenancies have been released through shared ownership and shared equity purchase.
 - Around 17,500 households have been taken off social housing waiting lists in England through an intermediate market purchase.
 - Nearly 21,000 households have been able to form who were previously living with family or friends.
 - Nearly 2,800 people coming out of owner occupation (mainly as a result of marital breakdown or adverse change in family circumstance) have been able to stay within the home ownership market.
 - From 2006 to 2009 an average of 12,400 new shared ownership homes were completed in England each year. For 2009/10 that figure is expected to be 10,460. A total of just 7,800 new shared ownership homes is currently forecast for 2010/11.

Further information

The full discussion paper can be viewed or downloaded at www.moat.co.uk/sharedowner. Or call Marilyn DiCara at Moat on 0845 359 6372 for more details.

This paper was developed and written by Simon Graham at Blue Sky, with support from the National Housing Federation and the following housing associations:

A2 Dominion, Advance Housing and Support, Affinity Sutton, Bedfordshire Pilgrims Housing Association, Bromford Group, Catalyst Housing Group, The Connected Partnership, Great Places Housing Group, The Guinness Partnership, The Hyde Group, L&Q, Metropolitan Housing Partnership, Moat, Orbit, Raglan Housing Association, The Riverside Group, Southern Housing Group, Sovereign Housing Group, Swaythling Housing Society (part of Radian) and Thames Valley Housing Association.

The National Housing Federation represents 1,200 independent, not-for-profit housing associations in England and is the voice of affordable housing.

designed and published by Moat, April 2010