Briefing

Resolution Foundation

One foot on the ladder

How shared ownership can bring owning a home into reach

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Executive Summary

Home ownership in Britain is in decline. A combination of historically high house prices, falling wages and a tighter mortgage market saw ownership fall back from 69 per cent of households in 2001 to 64 per cent a decade later. Among younger, less well-off households, half now live in the private rented sector and in high price areas such as London, more people rent than own.

Nevertheless, the vast majority of people in Britain still aspire to own their own home and expect to own in the future. The motivations for home ownership are varied: an investment for the future; reducing costs in retirement; stability to raise a family; security of tenure; a better financial deal than renting in the long term. But millions of low and modest income people in Britain are unable to realise their aspiration to own a home because traditional mortgaged home ownership is now unaffordable. Their only housing option is the private rented sector where rent rises are unpredictable; tenancies are only six to 12 months and quality is variable.

The government has sought to grow the ranks of home owners through Help to Buy, a two pronged programme of support for home buyers offering equity loans and government-backed 95 per cent mortgages. Both approaches reduce deposit requirements to 5 per cent. This will help families on middle incomes and above who struggle to save for a larger deposit but are well able to meet the ongoing costs of a mortgage, even on a high loan to value basis.

For low and modest income families, however, saving for a deposit is only one of the barriers to home ownership. They also struggle to meet the monthly costs of a mortgage, especially in high price areas. A couple with one child with a net income of £22,000 would struggle to afford the monthly payments on a 95 per cent mortgage for a two-bedroom home in just over two thirds (71 percent) of all local authorities. The South East, South West, East of England and the East Midlands are all areas where high monthly mortgage costs are a particular barrier to getting on the housing ladder for low and modest income households.

Moving from private renting to home ownership is now too great a stretch for many low and modest income households. Improving what the private rented sector can offer them will be critical but insufficient. Shared ownership can act as a bridge between renting and owning, offering low and modest income households a route to home ownership that is more affordable and much lower risk than a conventional mortgage. A couple with one child with a net income of £22,000 could afford a 25 per cent share of a two bedroom home under shared ownership in 87 per cent of local authorities in the country. Private rent would be affordable for the same family in only 60 per cent of local authorities.

While shared ownership provides an affordable option and greater security than private renting, it is currently very limited in scope. There are only 174,000 shared ownership homes in the country and many of them are smaller properties. This limits access to the tenure as well as restricting the ability of those who are already shared owners to move as their family grows or their job changes. Shared ownership is also subject to a series of rules and regulations set by government, local authorities, lenders and Housing Associations that make it inflexible and less attractive to consumers.

More new shared ownership homes need to be built to help many more low and modest families get a foot on the ownership ladder and make an important contribution to new housing supply. Shared ownership needs to stop being seen as a form of social housing and be repositioned as the fourth tenure in the UK housing market – a first time buyer product targeted at low and modest income households.

To play this new role, shared ownership has to become a more customer-focused product and differentiate between different types of customer: those who staircase to full ownership and those who remain part-owners for the long term. Buyers need greater choice over property types not just small, new

build properties. Do It Yourself Shared Ownership that allows buyers to choose from existing homes provides an opportunity to bring more family sized homes into shared ownership and should be reinvigorated. The rules and regulations around shared ownership that currently put off buyers should be stripped back to a set of standards that are easily understood and strongly communicated.

Scaling up shared ownership will require upfront investment from government which can be repaid over time as shared owners accumulate more equity in their homes. Government should set up a new shared ownership equity fund, building on the current Build to Rent fund that was announced in last year's Autumn Statement to kick start purpose-built private rented accommodation. Action from central government should be complemented by a more proactive role for local authorities in the use of their land and planning to enable shared ownership rather than relying on growing the stock through Section 106 agreements alone. Private finance also has an important role to play and Housing Associations need to work together to develop portfolios of sufficient scale to kick start an institutional investment market in shared ownership.

Taken together, these changes can provide Britain's low and modest income households with an opportunity to invest in a more affordable, more secure home; to address Britain's growing wealth gap; and make an important contribution to new housing supply targeted at those low and modest income families who currently have few housing options outside the private rented sector.

Introduction

Since the end of the Second World War, Britain has transformed itself into a nation of home owners. Although the percentage of households owning a home has been falling over the last decade, the desire for home ownership remains strong. According to the British Social Attitudes Survey, 86 per cent of Britons would choose to buy their own home if they had a free choice,[1] and among those whom we surveyed who do not currently own, the desire is equally strong – 92 per cent aspire to own.[2]

Home ownership provides several things that are important to people: security; the ability to make a house a home; an asset which can be leveraged; and the prospect of no housing costs in old age when incomes reduce.[3] No other housing tenure provides all of these, although the popularity of home ownership clearly goes beyond any one of these attributes. Its popularity is cultural.

However, there is a growing group of people for whom ownership on a conventional basis is now largely out of reach. It would take them many years to accumulate a deposit, if this was even possible and they would struggle to meet the ongoing costs of a mortgage in high cost parts of the country. For these households, largely in the bottom half of the income distribution, ownership is likely to remain an unfulfilled aspiration. The government's Help to Buy scheme is unlikely to change this situation for large numbers of them. These families will continue to rely on the private rented sector for a home. The majority of younger households in the bottom half of the income distribution now rent privately, a growth of a third since the 1980s.[4]

There is a clear need for a different offer for tenants in the private rented sector to respond to the growth of long term renting. A build to rent model of purpose built properties, professional management and longer tenancies offers potential in this area.[5] However, there is also a need to respond to the aspirations of working families and to narrow wealth gaps that will continue to grow if home ownership is entirely closed off to those on low and modest incomes.

For the last thirty years, shared ownership has enabled households who cannot meet the full costs of home ownership to get a foot on the ladder. It is the principal intermediate tenure that has been available to less well off families and has offered them security of tenure at an affordable price as well as the ability to accumulate an asset. However, fewer than 1 per cent of households live in shared ownership and there are significant barriers to extending its scale. This means that only a small number of households are able to access shared ownership and it also limits the opportunities of those who are shared owners to move as their families grow or in search of employment. The product can also be inflexible and is not designed around the needs of different types of shared owners in different parts of the country.

This report argues that, with the gap between renting and conventional ownership now bigger than ever, there are large numbers of working households who will need a part ownership product to get a foot on the ladder. Shared ownership should no longer be seen as a form of social housing but should be seen as a product for less well-off first time buyers – the fourth tenure in the UK housing market. Without an increase in the scale of shared ownership and greater flexibility in how the product works, over time a significant gap in asset ownership as well as home ownership will emerge.

Rather than relying on debt finance to narrow the home ownership gap which will exclude large numbers of less well-off families and place those who are able to access it at significant risk from mortgage market

[1] DCLG (2011) Public attitudes to housing in England. Report based on the results from the British Social Attitudes survey
[2] Resolution Foundation survey of 235 non-home owners
[3] Wallace, A. (2010) Public Attitudes to Housing, York; Joseph Rowntree Foundation
[4] Whittaker, M. (2012) Essential Guide to Squeezed Britain, London: Resolution Foundation
[5] Alakeson et al (2013) Building Homes for Generation Rent: Can institutional investment meet the challenge, London: Resolution Foundation.

changes[6], government should create an equity fund to take shared ownership to scale. Unlike traditional capital grant funding, this investment would be repaid when shared owners buy bigger shares of their homes. Alongside this, government should remove many of the restrictions that make shared ownership inflexible, recognising that other government-backed products such as Help to Buy operate with fewer restrictions. It should encourage product innovation that starts from the needs of shared owners not Housing Associations, local authorities or central government; and seek new roles for private finance.

This report draws on a survey of 235 people who do not own their own home about attitudes to ownership and the desirability of the current shared ownership product. The survey was followed up with 23 structured interviews with shared owners and prospective shared owners conducted in conjunction with Thames Valley Housing, a leading provider of shared ownership in London and the South East. The report also draws on interviews with a range of housing providers about innovations in low cost home ownership as well as a roundtable held in June 2013 with a range of experts to consider the barriers to scale. Finally, the analysis relies on a database of housing costs by tenure across all local authorities collected by Hometrack between August 2012 and January 2013.

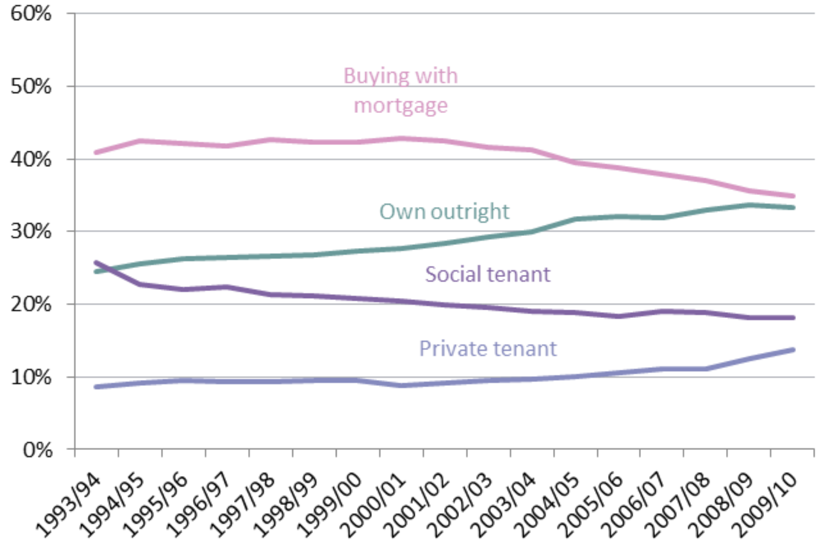
Section one of the report looks at attitudes towards ownership and the endurance of the home ownership dream. Section two discusses shared ownership and assesses the product against a range of criteria that are important components of ownership – affordability, security, flexibility and asset accumulation. Section three looks at a range of innovations that have been tried in the intermediate market and the lessons they offer for any future product. Section four identifies the outlines of a new shared ownership product and strategies for how it can be taken to scale.

[6] Smith, S., Whitehead, C. and Williams, P. (2013) *A Role for Equity Finance in UK Housing Markets?* York: Joseph Rowntree Foundation

Section 1: Attitudes to Home Ownership

In common with other developed economies, home ownership in Britain is in decline and has been falling since its peak of 69 per cent of households in 2001, long before the financial crisis. In London where house prices are particularly high, more households were renting than owned their own home in 2011. Two markedly different trends underlie the fall in home ownership that we have seen: the percentage of outright owners is rising, just as the percentage of mortgaged home owners falls (see Figure 1). Buying with a mortgage declined from 43 to 35 per cent of households over the 17-year period to 2009-10, with a significant fall in mortgage activity following the financial crisis in 2008. Outright ownership moved steadily upwards over the same period from 25 to 33 per cent. This reflects a generational split between older households who got on the housing ladder in the past when prices were lower and younger households who are now struggling to get on the ladder at all.

Figure 1: Housing tenure, England

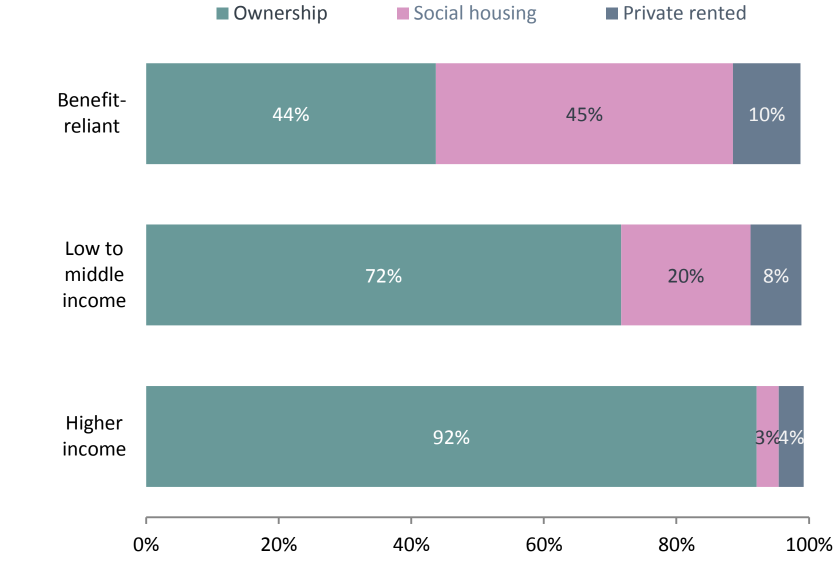


Source: Whitehead et al (2012) Housing Tenure in Transition: Understanding the dynamics of tenure change

Despite an overall fall in home ownership, most people in Britain expect to own. Among all households, 78 per cent expect to be home owners in the future regardless of their current tenure. While this varies by income, it is only among the lowest income households that the vast majority do not expect to own in the future. As Figure 2 shows, among households in the top half of the income distribution, 92 per cent expect to own and among low to middle income households – those in the bottom half of the income distribution but largely in work - 72 per cent expect to own.[7] Although the private rented sector is by far the fastest growing tenure, only a small percentage – 6 per cent - expect to be renting privately in the future.

[7] The Resolution Foundation defines the low to middle income group as households in deciles two to five of the working-age household income distribution, excluding those who receive more than 20 per cent of their income from means-tested benefits.

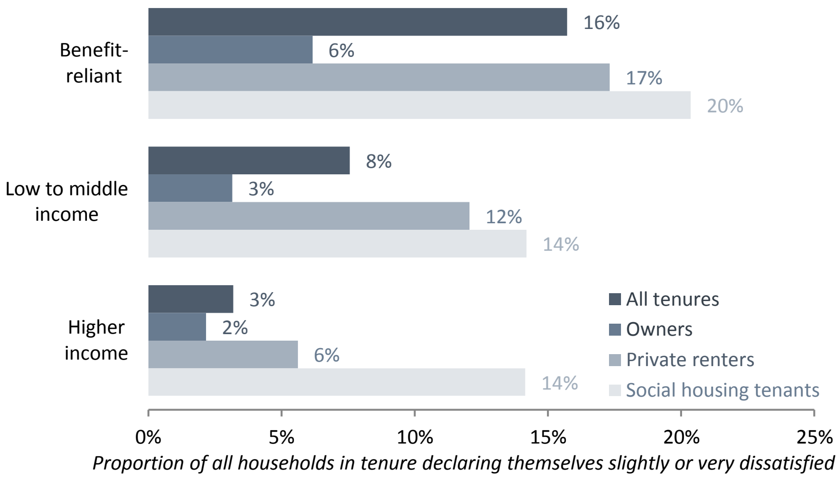
Figure 2: Housing tenure expected to be held in the long term 2010-11



Note: Income groups based on EHS definition
Source RF analysis of CLG, English Housing Survey 2010-11

In line with the aspiration to own, home owners are less likely to be dissatisfied with their housing tenure than those living in either privately or socially rented housing. As Figure 3 shows, this is true regardless of household income.

Figure 3: Dissatisfaction with current accommodation by tenure: England 2010-11



Note: Income groups based on EHS definition
Source RF analysis of CLG, English Housing Survey 2010-11

Our survey of attitudes to home ownership

This national preference for home ownership was reflected in a survey of 235 people, predominantly non-home owners between 25 and 44 years of age, conducted for this project. Among respondents 92 per cent still aspired to own their own home but a third said that they had now given up on the idea. Nevertheless, nearly half (47 per cent) had not. The percentage who reported having given up is significantly higher than the 21 per cent reported by the Halifax in its *Generation Rent* survey.[8] Almost all respondents in our survey cited at least one barrier to ownership, with more than half (53 per cent) claiming two or three obstacles to owning their own home.

[8] Halifax (2013) *Generation Rent: A Society Divided? Perceptions of the First-Time Buyers Market 2013,* London: Halifax plc.

The most frequently cited obstacle to ownership was an inflated housing market: 81 per cent of respondents said homes were too expensive to purchase in their area. Almost two thirds (62 per cent) said they were unable to save a deposit for a mortgage. Half (51 per cent) also said their income was simply too low to access traditional mortgaged home ownership. This reflects the national picture reported in the English Housing Survey and shown in Table 1. Among all households in England, the most common reason given for not eventually owning a home is not being able to afford one.

Table 1: Reasons given for not owning a home in the future, 2010-11

	Benefit-reliant	Low to middle income	Higher income	All households
All possible reasons				
Unlikely to afford it	84%	78%	56%	77%
Wouldn't want to be in debt	18%	18%	16%	18%
Don't have secure job	26%	16%	11%	19%
Wouldn't want the commitment	13%	14%	10%	13%
Repairs and maintentance too costly	13%	13%	7%	12%
Like it where I am	12%	12%	12%	12%
Prefer flexibility of renting	9%	9%	14%	9%
Other reason	7%	10%	21%	11%
Main reason				
Unlikely to afford it	69%	71%	61%	69%
Don't have secure job	13%	6%	1%	8%
Wouldn't want the commitment	3%	5%	8%	4%
Wouldn't want to be in debt	4%	5%	8%	5%
Prefer flexibility of renting	1%	4%	8%	3%
Like it where I am	5%	4%	8%	5%
Repairs and maintentance too costly	2%	2%	1%	2%
Other reason	3%	3%	5%	3%

Note: Income groups based on EHS definition: see Chapter 7 notes.
Source RF analysis of CLG, English Housing Survey 2010-11

The financial crisis and credit crunch do not seem to have significantly dulled the appetite for ownership. Just a quarter (24 per cent) of respondents to our survey stated that fears over falling into negative equity were holding them back from owning their own home. Openness to financial risk was also not noted as a significant barrier to home ownership, with less than a fifth of respondents to our survey (17 per cent) agreeing that home ownership was a financial risk that they were unwilling to take. This echoes the national picture presented in Table 1. Only 5 per cent of households in England cite not wanting to be in debt as their main reason for not eventually owning and only 4 per cent do not want the commitment that comes with owning.

The Resolution Foundation survey

A survey to assess how buyers and renters view home ownership and low cost home ownership models was distributed online during June 2013. The survey questions were published on the Resolution Foundation website, and circulated via the Guardian Housing Network which reaches 10,000 *Guardian* readers specifically interested in housing issues, including renters' campaign groups. Thames Valley Housing also shared the survey with its contacts.

The survey, which was carried out over a period of three weeks, attracted 378 responses, of which 235 respondents completed the full set of questions. Throughout this section, the statistics refer to full respondents rather than initial contributors.

The majority of respondents were aged between 25 and 44, with more than half (58 per cent) aged between 25 and 34. Just 13 per cent were aged between 16 and 24, with 11 per cent over the age of 45. This trend matches the target demographic for low cost home ownership products, including so-called "Generation Rent". Respondents were not asked for geographic location, but it is likely that the majority were based in London and the South East due to the nature of the distribution lists through which the survey was shared.

Almost half of all respondents (45 per cent) were in a relationship and lived with their partner. Of these, half were either married or in a civil partnership (23 per cent) and half (22 per cent) were in a cohabiting couple. A significant minority of the respondents (38 per cent) were single, and 18 per cent were in a relationship but living apart, with cohabitation or living apart a more common relationship status among younger respondents. The vast majority (83 per cent) had no children.

The majority of respondents (62 per cent) rented from a private landlord and a further 15 per cent rented a room in a shared house; 12 per cent lived with their parents, and a small minority were in social rented accommodation. Only 4 per cent already lived in shared ownership accommodation.

More than half (51 per cent) of respondents had an annual combined family income of £34,000 or less, with a quarter (24 per cent) taking home £24,000 and under. However, 29 per cent had a combined income far above the national average at £50,000 or more, reflecting the London and South East focused demographic. Respondents living with family or renting a room tended to have a lower income than those renting from a private landlord.

According to our survey, reliance on housing equity to fund the costs of old age and retirement is still driving attitudes towards home ownership across the UK. Half of survey respondents (49 per cent) agreed with the statement: "I should own my own home because I need to save for the cost of care in later life". Only 22 per cent disagreed. The *Generation Rent* survey from the Halifax finds similarly that 57 per cent of non-homeowners are concerned that they will be unable to retire if they have to rent all their life.[9]

A majority (57 per cent) of survey respondents also agreed that they should own their own home before starting a family because it "provides better stability for children"; only a quarter disagreed. The *Generation Rent* report confirms this finding: 47 per cent of its respondents thought that it was important for parents to bring up children in a home they own, not rent.[10]

Security was an important issue for respondents in tenure choice. Half said that they would be happy to rent for life if they were able to stay in one property without fear of being forced to move. However cost was also a motivating factor in the desire to own. Three quarters of respondents (76 per cent) agreed with the statement: "I worry that renting will cost me more than home ownership in the long term".

[9] ibid
[10] ibid

However, in contrast to other recent surveys, our survey did not find that younger people were unwilling to make sacrifices to become home owners. The majority disagreed with the statement “I would rather spend my money on other things than mortgage repayments”. In contrast, the *Generation Rent* survey found that a third were willing to only save for three years to get on the housing ladder.[11]

Home ownership and wealth inequality

Despite these strong preferences for home ownership, as we saw at the beginning of this section, home ownership is in decline. The private rented sector is currently the fastest growing tenure and has now overtaken social renting. While changing patterns of tenure have clear implications for the extent to which individuals can achieve their aspirations, there is a further question of the extent to which the closing off of home ownership to millions of households in Britain will exacerbate existing asset inequalities and restrict the opportunities of those who remain asset poor.

Wealth inequalities have consequences for people’s own lives, for example in the funding of long term care, and for those of their children. The implications for the next generation go beyond inheritance and include the ability of parents to buy a home in the catchment area of a popular primary school; to pay university tuition fees; and the likelihood of the next generation being able to get on the housing ladder through the bank of mum and dad.[12] Having wealthier parents and more financial assets in early adulthood are both associated with better outcomes in education, employment and health, even after controlling for a wide range of other factors.[13] The significance of asset ownership for life chances motivated previous policies such as the Child Trust Fund and Savings Gateway, both of which have since been scrapped.[14]

There is a long running debate in the UK about the merits of accumulating wealth through housing.[15] Housing is relatively illiquid, making it difficult to access equity when it is required compared to other types of savings. Furthermore, the link between housing and asset building is partly responsible for the lack of stability in the housing market which has negatives consequence for individuals and the wider economy.[16] However, the preferential tax treatment of housing as an asset compared to other types of savings and the fact that housing is the only asset against which individuals can borrow makes it difficult to disentangle housing from asset accumulation in the UK.

Asset inequality in Britain is multi-dimensional, varying by age, occupation and region. For example, among those who own their home outright, the wealthiest 10 per cent have £1.6 million in wealth compared to the least wealthy 10 per cent who have only £199,000 (see Table 2). However, there is also a strong correlation between wealth and housing tenure. Table 2 highlights the enormous gulf in wealth between those who own their own home, whether outright or with a mortgage, and those who rent. Median wealth including property for mortgagors is nearly 10 times that of private tenants - £245,000 compared to only £25,000. This gap will widen as the percentage of people renting for the long term rises. Shared ownership provides a route for those who cannot access home ownership through a conventional mortgage to accumulate an asset that will give them some of the advantages that wealth offers the better off.

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[11] ibid

[12] Hills, J. (ed.) (2013) Wealth in the UK: Distribution, accumulation and Policy, Oxford: Oxford University Press.

[13] McKnight, A. and Karagiannaki, E. (2013) ‘The wealth effect: how parental wealth and own asset-holdings predict future advantage’, in Hills, J. (ed.) (2013) Wealth in the UK: Distribution, accumulation and Policy, Oxford: Oxford University Press.

[14] Prabhakar, R. (2009). The development of asset-based welfare: the case of the Child Trust Fund in the UK. *Policy and Politics*, 37(1) pp. 129–143.

[15] Birmingham Policy Commission on the Distribution of Wealth (2013) Sharing Our Good Fortune: Understanding and responding to wealth inequality, Birmingham: University of Birmingham.

[16] Smith, S., Whitehead, C. and Williams, P. (2013), op cit.

Table 2: Differences in total wealth by housing tenure (GB, 2006/08, 55-64 only)

	Median financial and physical wealth, excluding property	Median financial and physical wealth, including property	Total household wealth (incl. pension rights)		
			10th percentile	Median	90th percentile
Outright owners	95	334	199	572	1612
Mortgagors	68	245	148	474	1262
Private tenants	25	25	*	62	*
Social tenants	15	15	3	26	186
All	66	243	28	416	1342

Source: ONS based on the Wealth and Assets Survey July 2006-June 2008, £000s
Hills, J. (2010) The Wealth Chasm: From inequality to inclusion in housing, pensions and financial assets
http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/presentations/john-hills-presentation.pdf

This section has examined the ongoing aspiration among households in Britain to own their own home and highlighted the growing challenge that low and modest income households face in realising this aspiration. While limited access to home ownership is significant from a housing perspective given that ownership currently offers greater security and satisfaction compared to other tenures, it is also significant in two other respects. As things currently stand, millions of Britons on low and modest incomes will not be able to meet their aspiration to own their own home despite working hard and playing by the rules. Making the private rented sector better suited to the needs of these families is critically important but an insufficient response. Furthermore, declining home ownership will open up a greater wealth gap in Britain, leaving many with little to fall back on in times of need or in old age.

The next section discusses low cost home ownership, the current option for those who struggle to access conventional home ownership. It assesses the dominant product – shared ownership – against four specific criteria that are commonly identified as important dimensions of home ownership: affordability, security, flexibility and asset accumulation.

Section 2: The current shared ownership product

Shared ownership as a form of low cost home ownership has been in existence for 30 years. It was introduced in the 1980s to help people who were in housing need and could not afford to buy a home outright. Shared ownership funded with government grant is open to households on incomes below £60,000 outside London and below £66,000 or £80,000 in the case of families in London. While a significant percentage of the population falls into this category, there are only 174,000 shared ownership properties in England and the tenure houses only 1 per cent of working age households.[17] This is largely because most shared ownership is delivered through Section 106 requirements placed on residential for sale developments as an alternative to, or alongside, affordable housing rather than being planned as a distinct part of the housing mix in the UK.

Given the income eligibility criteria for shared ownership, take up is distributed between households on low to middle incomes and on higher incomes as shown in Table 3 below. Although higher income households make up half of all working-age households, they are overrepresented among shared owners, accounting for 74 per cent of households living in shared ownership.

Table 3: Distribution of shared ownership across the working age household income distribution

Shared ownership by position in working-age household income distribution: 2010-11

	Proportion in shared ownership	Distribution of shared ownership households	Distribution of all households
Benefit-reliant	0%	3%	20%
Low to middle income (lower)	0%	9%	12%
Low to middle income (higher)	0%	14%	18%
All LMIs	0%	23%	30%
Higher income (lower)	1%	61%	40%
Higher income (higher)	1%	13%	10%
All higher income	1%	74%	50%
All working-age households	1%	100%	100%

Source: DWP, *Family Resources Survey 2010-11*

Most of our survey respondents (88 per cent) had heard of shared ownership. In fact, it had higher recognition that the government's new Help to Buy scheme and other rent-to-own and rent-to-save schemes which were only familiar to just over half of respondents (51 per cent). This echoes findings from other surveys of shared ownership. For example, a YouGov survey for Lloyds TSB in 2012 found that eight out of ten first time buyers claimed to have a basic or good understanding of shared ownership.[18]

[17] Promoting Shared Ownership Group (2010) Shared Ownership: Facts and figures http://www.rightmove.co.uk/property-for-sale/property-43341995.html?premiumA=true
[18] Lloyds TSB (2012) 'First time buyers turning to affordable housing schemes to get onto the property ladder', http://www.lloydsbankinggroup.com/media1/press_releases/2012_press_release_brands/ltsb/1011_Housing.asp.

How shared ownership works

The purchaser buys a share of the property title on a leasehold basis and pays rent on the unowned share to a Housing Association who owns the remaining share. The initial share can be between 25 per cent and 75 per cent of the value of the property. The share that is owned is usually purchased with a mortgage. However, the deposit requirement is based on the value of the share purchased not the entire property. For example, a 25 per cent share requires a 10 per cent deposit based on the value of the share.

Usually, the shared owner pays rent on the unowned share of the property and an annual service charge to the Housing Association or a third party managing entity. The initial rent is capped at 3 per cent of the unowned equity and a target of 2.75 per cent is encouraged. Rents are increased annually in line with the lease provisions which usually allow for RPI plus 1 or 2 per cent. Commonly, on government grant funded shared ownership, Housing Associations have applied an annual rent increase in line with that set for social rents of RPI plus 0.5 per cent. Increases in service charges are not capped.

The purchaser can buy further 10 per cent shares as and when he or she can afford to and the rent paid on the unowned share is reduced accordingly until 100 per cent ownership is achieved when no further rent is paid. This process is known as 'staircasing'. Staircasing down to reduce the percentage of equity owned is only possible in exceptional circumstances and at the discretion of the Housing Association.

Although the property is not owned outright initially, the shared owner takes on the usual responsibilities of a full owner-occupier in terms of repairs and maintenance.

A separate Social Home Buy scheme exists for social tenants who want to become shared owners of their property. This scheme also offers a discount on the sale price of the property similar to Right to Buy.

When asked why people prefer home ownership to other types of tenure, there are usually three dimensions: security, the flexibility; and the investment potential of home ownership. It is, therefore, important to assess shared ownership against these three dimensions and also against affordability as this is of paramount importance for the low to middle income group for whom the product was designed. However, given that shared owners cannot afford to be conventional home owners, it is realistic to assume that, if they did not buy a shared ownership property, they would be living in the private rented sector. Therefore, comparisons will be drawn to that sector as well as to conventional home ownership.

The affordability of shared ownership

Outside of social housing, shared ownership is the most affordable tenure on an ongoing cost basis in the initial years. Looking across all local authorities in Great Britain, we can compare the initial costs of shared ownership, excluding service charges, with those of social renting, private renting and conventional home ownership. Table 4 below shows the percentage of local authorities where a couple with one child with a net income of £19,000, £22,000 and £28,000 can rent or meet the initial ongoing costs of owning a two bedroom property without paying more than 35 per cent of their net income in housing costs – a commonly used measure of affordability.[19] These three net income levels represent households at different points in the working-age household net income distribution – 35th percentile, 25th percentile and 50th percentile.

[19] Alakeson, V. and Cory, G. (2013) *Home Truths: How affordable is housing for Britain's ordinary working families?*, London: Resolution Foundation.

Table 4: Affordability under a 35 per cent income cap: summary for a couple with one child living in a two bedroom home

	Proportion of LAs in which a family can afford housing under a 35 per cent income cap			
Household income	Own with 90% mortgage (% of local authorities)	Rent (% of local authorities)	Social rent (% of local authorities)	Shared ownership (% of local authorities)
Couple with one child on £19k – (25th percentile)	27	38	100	78
Couple with one child on £22k – (35th percentile)	44	60	100	87
Couple with one child on £28k – (50th percentile)	67	78	100	95

Notes: Data refers to family of a couple with one child living in a two bed home. Housing costs are for properties at the median of the local housing distribution. Due to some cases of missing data, a small number of local authorities have been excluded. Standard ownership assumptions: 5 per cent deposit, 6 per cent mortgage rate, 25 year mortgage period. Shared ownership assumptions: 25 per cent equity share, 10 per cent deposit on the equity share, 5 per cent mortgage rate, 25 year mortgage period, 2.75 per cent annual rent on unsold equity
Source: Authors' analysis of Hometrack 2012/13; HCA, Statistical Data Return 2012; Statistical Directorate of the Welsh Government, Scottish Government Housing Statistics

As Table 4 shows, a 25 per cent share is affordable in most local authorities and is a far more accessible tenure than private renting or owning with a 90 per cent loan to value mortgage. Even in London, a 25 per cent share is affordable for a couple with one child with a net income of £28,000 in nearly half of all boroughs (16 out of 33). There is, however, no London borough where the same couple could rent privately and not spend more than 35 per cent of its net income on housing.

The above analysis has looked at the initial ongoing costs of shared ownership excluding service charges. This is because service charges vary significantly by local area, by provider and by property type. Applying a single service charge across the board is, therefore, inaccurate. But high service charges are a common source of complaint among shared owners and do affect the affordability of the tenure. To assess their impact on affordability, Table 5 below focuses on three local authorities, Greenwich in inner London, Bexley in outer London and Thanet in the South East and applies different monthly service charges in each area: £200 in Greenwich, £125 in Bexley and £90 in Thanet. It then assesses the percentage of net income a couple with one child on £22,000 would have to spend to meet the ongoing costs of a 25 per cent shared ownership property, with and without service charges. In Thanet, the family spends 21 per cent of its net income before service charges and 26 per cent after. In Greenwich, however, the high service charge makes shared ownership far less affordable, increasing the costs from 35 per cent of net income to 46 per cent.

Table 5: Impact of service charges on the affordability of shared ownership for three local authorities

	Before service change			After service change	
	Monthly housing costs	Cost to income ratio	Monthly service charge	Monthly housing costs	Cost to income ratio
Thanet, Kent	£385	21%	£90	£475	26%
Bexley, London	£531	29%	£125	£656	36%
Greenwich, London	£643	35%	£200	£843	46%

Notes: Data refers to family of a low income couple with one child living in a two bed home. Housing costs are for properties at the median of the local housing distribution. Due to some cases of missing data, a small number of local authorities have been excluded.
Source: Authors' analysis of Hometrack 2012/13; HCA, Statistical Data Return 2012; Statistical Directorate of the Welsh Government, Scottish Government Housing Statistics

Shared ownership and Help to Buy

The above analysis has looked at home ownership on the basis of a 90 per cent loan to value mortgage. There is an argument that the principle barrier to home ownership is raising a deposit. Our analysis suggests that it would take low to middle income households 22 years to save for a typical first time buyer deposit if they saved at least 5 per cent of their income a year which many do not.[20] Therefore, higher loan to value mortgages which require only a 5 per cent deposit are one means of enabling more people to access home ownership. In fact, in 2006-7, 30 per cent of the low to middle income group bought a home with a 100 per cent mortgage, a product that has now been regulated out of the market.[21]

Increasing access to high loan to value mortgages is the focus of the second phase of the government's Help to Buy scheme which is now underway. The first phase offered 20 per cent equity loans for the purchase of new build properties worth up to £600,000. The second phase which began in October 2013 offers a government guarantee on 95 per cent loan to value mortgages for home buyers wishing to purchase any property worth up to £600,000. Buy to let and second home owners will be excluded but the scheme is open to all other buyers.

High loan to value mortgages do bring ownership within reach of a greater number of less well off households. Buying a two bedroom home with a 10 per cent deposit would require a low income household with a net income of £22,000 to save for 10 or more years in two thirds of all local authorities. This falls dramatically to only 10 per cent of local authorities once the deposit requirement is reduced to only 5 per cent and falls even further in the case of a 25 per cent share of a property to only 2 per cent of local authorities (see Table1a in the Appendix for further details).

However, there are two elements to home ownership: raising a deposit and meeting the ongoing costs of a mortgage. For households on middle incomes and above, it is primarily saving for a large deposit that present a barrier to home ownership. For low and modest income families, however, meeting monthly mortgage costs can also be a significant challenge, particularly in high price areas and on a high loan to value basis. A couple with one child with a net income of £22,000 would be able to keep up with the ongoing payments on a 25 per cent share of a two bedroom property in 87 per cent of local authorities and a 50 per cent share in 74 per cent of local authorities. But the same family would struggle to meet the ongoing costs of a 95 per cent mortgage in more than two thirds (71 per cent) of all local authorities (see Table 2a in the Appendix for more details).

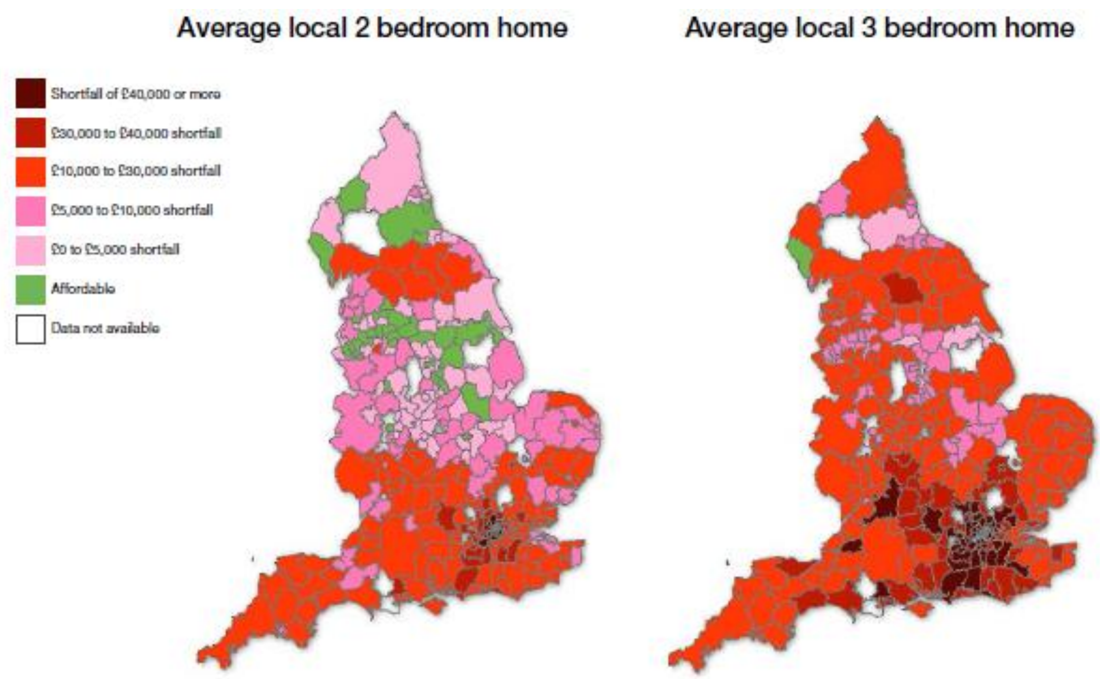
[20] Whittaker, M. (2012) The Essential Guide to Squeezed Britain, London: The Resolution Foundation
[21] ibid

Many places where a low income family could save for a 5 per cent deposit in less than 10 years are unaffordable on an ongoing cost basis. Looking at two bedroom properties, for example, there are 340 local authorities where a low income family can accumulate a deposit within 10 years but two thirds of these (229) are unaffordable on an ongoing cost basis. These local authorities are predominately in the South East, South West, East of England and in the East Midlands. For example:

- In Cambridge, they would have to spend 85 per cent of net income (£1,557 per month) on meeting monthly the costs of a 95 per cent mortgage compared to 42 per cent of net income (£772 per month) for shared ownership;
- In the London borough of Hounslow, they would have to spend 76 per cent of net income (£1,395 per month) on meeting the monthly costs of a 95 per cent mortgage compared to 38 per cent of net income (£692 per month) for shared ownership;
- In Exeter, they would have to spend 53 per cent of net income (£970 per month) on meeting the monthly costs of a 95 per cent mortgage compared to 26 per cent of net income (£481 per month) for shared ownership;
- In Aberdeen, they would have to spend 50 per cent of net income (£918 per month) on meeting the monthly costs of a 95 per cent mortgage compared to 25 per cent of net income (£455 per month) for shared ownership.

In these areas, high loan to value mortgages as intended under Help to Buy will not bring ownership within reach. The housing charity, Shelter, has made a similar argument, highlighting in red on the maps below the areas of the country that are not made accessible to a family with lower quartile earnings by Help to Buy. Shared ownership, however, provides an alternative which is more affordable and lower risk for low and modest income families.

Figure 4: Areas affordable to lower quartile earning families with a 95 per cent mortgage



Source: Shelter (2013) *Homes for Forgotten Families: Towards a mainstream shared ownership market*, London; Shelter

Shared ownership and shared equity

Alongside high loan to value mortgages, another route to home ownership is equity loans, as offered under the first phase of Help to Buy. With a 20 per cent equity loan, buyers have to only find a 5 per cent deposit and the remaining 75 per cent is covered by a mortgage. While equity shares and loans have been the government's intervention of choice, they are similarly beyond the reach of large numbers of low to middle income households, especially in high price areas.

Owners have to buy a larger stake than under most shared ownership agreements, usually between 60 per cent and 80 per cent and the loan only remains free for the first five years. Research carried out by Affinity Sutton found that equity loans were less popular than shared ownership in London and the South East because most low and modest income families who actually qualified for shared equity schemes were still unable to stretch to the size of deposit needed.

Elsewhere in the country, local market conditions have made equity shares more attractive. In Birmingham, for example, the eligibility window for shared ownership is so small (for example, it may be fixed between £16,000 and £20,000 a year) that equity loans become more attractive because they are available to a larger group of middle income households.

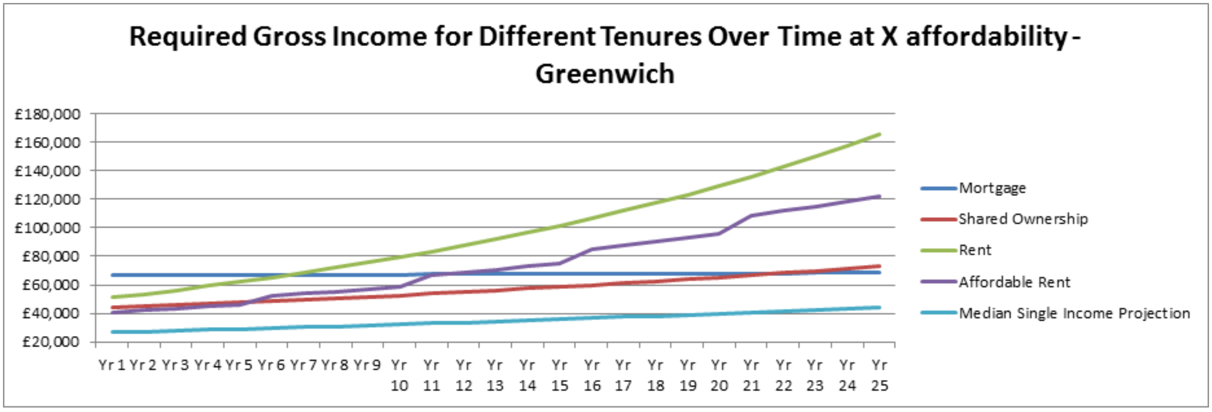
Housing Associations report that, although customers said they liked the idea of a choice between equity shares and classic shared ownership, most ultimately did not actually have a choice of product. Where they did - particularly in the North, where house prices are more sensibly linked to income levels - most chose a larger property with less equity through shared ownership. Equity shares are also more expensive in terms of grant funding, with many deals requiring four times the government support in order to pass on the same share to a customer.

Long term affordability

The affordability of shared ownership overtime is driven by mortgage interest rates and the annual rent increase, as well as annual service charges and the costs of any maintenance and repairs that tenants have to undertake.

Looking over 25 years, analysis by L&Q presented in Figure 5 below shows that shared ownership is a more affordable tenure than private rent or mortgaged home ownership, even with the annual rent rise and increases in service charges. Figure 5 looks at the income required to afford each tenure over a 25 year period in one local authority, with affordability set at 35 per cent of net income spent on housing. The rise in income required to afford shared ownership on an ongoing basis is less steep than it is for the other tenures, including affordable rent. However, Figure 5 assumes that the shared owner remains a shared owner and does not staircase to full ownership. To achieve full ownership , on the other hand, does require shared owners to experience significant increases in income, either through their own earnings or because they become a couple household.

Figure 5: Gross income required for different tenures over 25 years assuming affordability of 35 per cent of net income, Greenwich



Notes: Assumptions: wage growth 2.1 per cent p.a. (Greenwich average. using ASHE data); median rent £1000 pcm; house price £285,059 (median for Greenwich; mortgage rate 4.3 per cent, 90 per cent LTV; rent inflation 5 per cent; affordable rent rebasing every 5 years; affordability – 35 per cent of net income.
Source: L&Q analysis

When surveyed and in interviews, prospective and current shared owners both expressed concerns about the affordability of shared ownership over time. The majority of survey respondents agreed with the statement that "shared ownership is still too expensive for low and middle income households", while only 13 per cent disagreed. Those with a lower income were more likely to agree. Interviewees agreed, raising doubts about the affordability of the product. Almost all of the interviewees who had already entered shared ownership said that they had not been prepared for the impact of rising annual rents on the share of the property they did not own. The cost of service charges for the maintenance and repair of common areas and grounds was also identified as a potential financial burden for low income households living in shared ownership.

Ongoing affordability has been particular challenging over the last five years as wages have been falling in real terms, while rents on the unowned equity and service charges have continued to rise. This has placed unexpected pressure on households but has also been the case in the private rented sector with rent increases in the year to August 2013 of 1.2 per cent for Great Britain as a whole. This prompted some interview participants to describe shared ownership as a "fairer" deal for low income households than renting from a private landlord. One respondent suggested that for many households in London and the South East, living on small incomes but who would not be eligible for social housing, shared ownership is now the only affordable tenure as they are priced out of the private rented sector.

Concern about rising costs among survey respondents and interview participants highlights an important issue with communication. Not only did shared owners say that they had not expected the rent increases they experienced, but also that they had been surprised by the costs associated with staircasing up to a higher percentage of equity. This will be looked at further in Section 4 when we discuss the features of a new shared ownership product.

Security

The above analysis has demonstrated that shared ownership offers low and modest income families an affordable housing option when compared to other housing tenures, both initially and over the long term. The next dimension against which we need to assess shared ownership is security.

Security was the one dimension where interview participants felt that shared ownership had the most to offer. Interviewees agreed that shared ownership provided a sense of security when compared to other tenures such as private renting or living with family. Private rented sector tenants only have the security of a six to 12 month assured shorthold tenancy. Longer tenancies are rare and this can create a perception of insecurity, particularly for tenants with children. Shared owners, on the other hand, enjoy the security of home owners. They cannot be asked to leave and repossessions due to arrears are less common than in the conventional home ownership market. One interviewee described shared ownership as: “like paying rent but more secure”.

Another dimension of the security offered by shared ownership is the quality of the home that shared owners can access. Almost half the interviewees stressed that shared ownership allows low and modest income households to access a better quality home than they could afford to obtain on the open market. The quality of build and fittings (such as new kitchens and bathrooms) were noted as a benefit, while the low cost of maintaining a brand new property was mentioned by a number of respondents: “because it’s a new build you don’t need to make much of an allowance for that [repairs],” said one interviewee.

Importantly, interviewees claimed that shared ownership models would allow them to buy their first home in a more desirable area which they would otherwise be pushed out of by the high cost of accommodation.

One existing shared owner also suggested that the customer service and support that a Housing Association can offer was a significant benefit to the inexperienced first time buyer going through the process of purchasing a home: “I think shared ownership is attractive especially when you’re a first time buyer as you have your hand held through the process. You always have someone to go to speak to about any questions that you might have and that is reassuring when buying your first home.”

Flexibility

In contrast to private renting, shared owners are responsible for the upkeep of their property and can make modifications with the permission of the Housing Association concerned. This means that they are in a better position to make their property feel like a home. However, given that shared owners pay for the full costs of improvements themselves, it is not always straightforward for them to realise the full increase in the value of their property once it is sold. For example, a 50 per cent shared owner of a £200,000 property may add £10,000 in value to the property but her share would be worth only £105,000 once sold not £110,000.[22]

As a subsidised product, shared ownership can be inflexible in several ways. Local Authorities impose relatively strict eligibility criteria beyond the basic national income criteria. This can make it difficult to access shared ownership and was identified as a barrier to considering shared ownership by a third (34 per cent) of survey respondents. When interviewed, prospective shared owners criticised the application process for shared ownership, suggesting that the eligibility criteria made it very difficult to be offered a property despite multiple needs or being trapped in unfit or overcrowded private rented accommodation. This can be a particular problem in London where many people live and work across borough boundaries but would not necessarily be eligible to apply for shared ownership based on where they work.

As well as local authority eligibility criteria, there are a range of other restrictions placed on shared ownership from government, lenders and Housing Associations. These include restrictions on how properties are marketed and valued that together add cost and complexity to the product for buyers. For example, outside of London, shared ownership properties that come onto the secondary market have to be advertised to prospective shared owners before existing owners can buy. Resales are also subject to a nomination period before they can be advertised on the open market. Prospective buyers have to pay for a RICS valuation which is more expensive than an estate agent’s valuation and has to be paid for upfront.[23] Sub-letting of shared ownership properties is generally not allowed. Four out of ten survey respondents cited restrictions on sub-letting as a barrier to considering shared ownership and the same number said

[22] Heywood, A. and Clarke, A. (2012) Understanding the second hand market for shared ownership properties, Cambridge: Centre for Housing and Planning Research
[23] ibid

that they were afraid that they would not be able to sell their the property and would become 'trapped'. There are also stricter capital adequacy rules for shared ownership than for high loan to value mortgages which make it harder for prospective buyers to secure a mortgage.

In contrast to Help to Buy which is a government backed product for which there are few restrictions, shared ownership has not been established to maximise flexibility and be as attractive as possible to buyers. In reality, many of the restrictions are relaxed by Housing Associations if necessary but this is done on a case by case basis according to individual needs rather than being standard practice. This creates a lack of transparency and uncertainty for shared owners and there have been several calls for practice to be reformed to provide greater simplicity, flexibility and transparency.[24]

Asset building

The initial conception of shared ownership as a product where individuals would buy an initial share and continue to buy shares over time until they eventually owned the whole property has become more challenging in recent years.

As house prices have risen and incomes have failed to keep up, staircasing has become more difficult, much as accessing home ownership in general has become less affordable. The contraction in the mortgage market following the financial crisis also made staircasing more difficult. In 2010-11, staircasing to 100 per cent accounted for only 0.9 per cent of the existing shared ownership stock compared to 4.3 per cent in 2001-02.[25] Microstaircasing where individuals buy very small chunks of equity, for example 1 per cent at a time, has been strongly disincentivised by the fact that shared owners have to pay for a RICS valuation for every tranche of equity they wish to purchase, however small. As a result of the challenges of staircasing, shared ownership has become more of a part ownership product for large numbers of people rather than a sureroute to full ownership.[26]

This has implications for Housing Associations as well as for owners. The business model underpinning shared ownership is predicated on a percentage of shared owners achieving full ownership within 30 years. As well as the income stream from the rent, Housing Associations also benefit from staircasing receipts. Unlike social and affordable housing which remains in rent, the government grant used to build shared ownership is released when the product is sold. It can then be recycled and an initial injection of capital into shared ownership can be re-used as development finance to grow the stock over time.

Part ownership can be valuable in and of itself, although shared owners will continue to have housing costs in retirement unlike most mortgaged home owners who will have paid off their debts. Shared owners who never achieve full ownership still enjoy security of tenure and have a stable home. They have a route through which to accumulate assets and can build up savings through shared ownership to eventually take out a conventional mortgage. However, the legal rights of part owners to the equity they own within the property remain somewhat unclear and could be usefully clarified.[27]

Furthermore, for shared ownership to work more effectively as an asset building vehicle without staircasing to full ownership, it has to be predicated on the ability to move from one shared ownership property to another in different parts of the country and to move between property sizes as family circumstances change. But here there are problems too. Many of those we surveyed who were not interested in shared ownership were worried about their ability to move if they could not staircase. Less

[24] De Santos, R. (2013) Home for Forgotten Families: Towards a mainstream shared ownership market, London: Shelter
[25] Heywood, A. and Clarke, A. (2012) op cit.
[26] Wallace, A. (2008) Movements of Households in Shared Ownership Housing in the UK, York: JRF
[27] Peaker, G. 'The hidden dangers of shared ownership', Guardian Housing Network http://www.theguardian.com/housing-network/2013/sep/03/hidden-dangers-shared-ownership

than 1 per cent of shared ownership sales are to those already in the sector.[28] A common criticism among interview participants was the lack of availability of shared ownership housing, with not enough new properties developed to meet demand for the product in buyers' local areas.

The challenges with the secondary market in shared ownership stem in part from the cumbersome rules that make sales of shared ownership more difficult. More important than these restrictions, however, is the issue of scale and the nature of shared ownership properties. Shared ownership properties are more often smaller properties, particularly in London where one and two bedroom flats have been most common in the last 10 years. This means that the current stock of shared ownership is poorly suited as a life-time tenure. It is currently difficult to transfer the equity accumulated in a two bedroom property into a share of a three-bedroom property and it is not usually possible to buy a share of a property that has not been purposefully built for shared ownership.

This section has assessed shared ownership against four specific criteria: affordability; security, flexibility and asset accumulation. It has highlighted the fact that shared ownership should increasingly be seen as two different products: one which leads to full ownership through complete staircasing and one in which the shared owner remains a part owner for the long term. In both cases, the current product presents limitations that need to be addressed if shared ownership is to make a more significant contribution to bridging the gap between renting and conventional home ownership. It needs to become more flexible, with a new set of standards rooted in simplicity, flexibility and transparency and be able to offer people a home as their family and circumstances change. This is as relevant for young families needing bigger properties as it is for older people wanting to downsize.

The next section looks at innovations that have been tried in the past and the lessons they offer for how shared ownership might be improved in the future.

[28] Heywood, A. and Clarke, A. (2012) Understanding the second hand market for shared ownership properties, Cambridge: Centre for Housing and Planning Research

Section 3: Innovations in shared ownership

Over recent years, there have been a range of innovations in the intermediate market that have sought to address a number of barriers to ownership for low and modest income households. When thinking about the future of shared ownership, it is important to understand what has been tried before and what can be learned from these earlier experiments. A range of innovations will be summarised in this section, both past and current, that address affordability, asset building and scale, before drawing together a set of common themes that underpin previous innovations and offer guidelines for the future.

Initiatives to improve affordability

While shared ownership removes barriers to owning a home by significantly reducing the size of deposit required, raising even a small deposit can be difficult for those on low incomes, particularly those who cannot rely on the 'bank of mum and dad'. In response, there have been several different attempts to reduce deposit requirements to lower barriers to entry to shared ownership.

Micro-shares

In the mid-2000s, many Housing Associations looked at new ways to promote local regeneration by encouraging home ownership on their developments. Some trialled sales of micro-shares – 10 to 12 per cent shares - to help low income families secure a stake in their home. Micro-share models aimed to get social tenants into home ownership, although accepted they may never staircase further. It was a way of building an asset. A similar approach has recently been suggested by Shelter as a solution for low to middle income households.[29]

Notting Hill Housing Group, for example, began offering 10 per cent shares to its tenants and prospective shared owners in 2005. However the model relied on balancing the financial cost across a full development. In order to support a 10 per cent share on one property, other properties within the development had to be sold at either 60 per cent or 80 per cent ownership. Notting Hill was only able to offer one or two properties at a 10 per cent share within each development. After the financial crisis, it proved even more difficult to find 80 per cent shared owners, as salaries for low and modest income households fell and mortgage lending was restricted. The scheme was terminated.

As an approach, micro-shares had its critics. First and foremost, outside of London and the South East micro-shares open up home ownership to households who are very much on the edge of being able to afford to own and as such, place those households at significant risk of default and negative equity. Arguably, the risks may not outweigh the benefits of asset accumulation in the context of shares as low as 10 to 12 per cent. Second, a shared ownership lease comes with full repairing and maintenance liabilities which again is a significant cost to bear for only a very small equity share and may not be a fair balance between reward and responsibility and third, the shared ownership product becomes difficult to finance for Housing Associations with low starting shares. If staircasing is a challenge in general, then it is even more of a challenge for those who start on very low shares. Low share shared ownership requires a higher level of grant funding to be viable.

Rent to Buy

In the midst of the banking crisis, many homes built for shared ownership and outright sale were left standing empty as lending dried up across the market. A new product, rent-to-buy was designed to tackle Housing Association voids. Aimed at those who would have accessed shared ownership before the credit crunch, the product allowed a tenant to rent a home at an affordable rent (usually 80 per cent of market

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[29] De Santos, R. (2013) Home for Forgotten Families: Towards a mainstream shared ownership market, London: Shelter

rent) for five years, during which time they were expected to save for a deposit. After five years they could move into owning the property on a shared ownership basis.

Some associations included a forced savings scheme, charging full market rent and saving 20 per cent of it towards the tenant's deposit, to be gifted at the end of the tenancy. However most associations did not and expected tenants to save for themselves. As these tenancies draw to a close most tenants are no longer in a position to buy, do not wish to buy or have failed to save a sufficient deposit as requested. Many are now continuing as sub-market rent tenancies. In some cases, the deals offered to tenants were unattractive and better served the Housing Association rather than the tenant. For example, the purchase price was sometimes fixed at the point when the tenant took on the property rather than at the point of purchase. In a declining market, this meant that tenants were paying above market price.

East Thames Housing Group has almost 500 properties tied up in a rent to buy scheme; so far only 25 have converted from tenancy to shared ownership. Only four of the 449 tenants from L&Q's original rent to buy pilot *Up to You* have purchased, although the oldest *Up To You* scheme is only three and a half years old and customers would typically be expected to staircase from year four or five onwards. Affinity Sutton, on the other hand, only converted 10 units intended for shared ownership into rent to buy and has converted six back into shared ownership. A new rent to buy initiative was recently launched by the Scottish Executive for the Highlands. After renting the property for five years, tenants have the option to buy and are gifted the value of the deposit. The Highlands Small Communities Housing Trust which manages the scheme holds a 20 per cent equity stake in the property in perpetuity and has the right to buy it back at the point of sale. This ensures that the property remains affordable and within the local community.

Some associations have also tried direct savings schemes for social and affordable rent tenants, to help meet the costs of moving into shared ownership later down the line. Notting Hill was one association that trialled this in the boom years, alongside a savings scheme for staff. But retaining the element of choice means that many families often choose not to use this money to purchase a low cost home ownership product.

Home purchase plans

Home purchase plans are another innovation that aim to reduce the barriers to entry, in this case by eliminating deposit requirements altogether. Other zero deposit shared ownership products have been launched in the past without success but home purchase plans are somewhat different. Individuals do not buy a share and pay rent on the remaining equity. With a home purchase plan, buyers make monthly payments with which they accumulate equity shares over time. These monthly payments rise year on year so that by the end of 30 years, buyers have purchased the entire property.

While home purchase plans are not new, they have only recently been refocused to address the needs of those who cannot otherwise afford to get on the housing ladder. The Registered Provider, Gentoo, first piloted its Genie home purchase plan product with 64 properties in the North East. It has since signed a Memorandum of Understanding with Orbit Group, a nationwide Housing Association, which is currently undertaking due diligence towards a proposed investment of £20 million into the Genie home purchase plan. Gentoo is also in talks with other associations and investors to open up access to first time buyers and long term tenants in other parts of the country.

How the Genie home purchase plan works

Individuals chose from a selection of newly built properties. The individual then enters into a long term payment plan (typically 30 years) to acquire an increasing share in the property and secure a tenancy. The home purchase plan is regulated by the Financial Conduct Authority. At the end of the contract, the individual owns the home outright and the legal title transfers over. In the intervening period, individuals have the same rights and responsibilities as a mortgaged owner. Table 7 shows how the amount of equity purchased increases year on year.

Table 7: Payment and equity accumulation schedule for the Genie product over 30 years

Contract periods					
From Year	To Year	'Genie Increase Rate	Share of property acquired with lump sum	Projected share of property acquired each year	Projected total share acquired in period
1	5	3.0%	0.0%	1.7%	8.5%
6	10	3.0%	0.0%	2%	10%
11	15	3.0%	0.0%	2.5%	12.5%
16	20	3.0%	0.0%	3.2%	16%
21	25	3.0%	0.0%	4.3%	21.5%
26	30	3.0%	0.0%	6.3%	31.5%

Total projected share at end of term: 100.0%

Promoting asset accumulation

Staircasing has become more difficult due to reduced mortgage availability following the financial crisis and the fact that prices have run ahead of wages and incomes in some parts of the country. L&Q reports that in 2006 it typically experienced staircasing rates of 4 to 5 per cent of its shared ownership portfolio every year. This dropped to just 1 per cent in 2010 through a combination of high house prices, falling real wages and restricted mortgage availability, reflecting the state of the wider housing market at the time. L&Q reports staircasing rates are beginning to rise although they are still below the 2006 level.

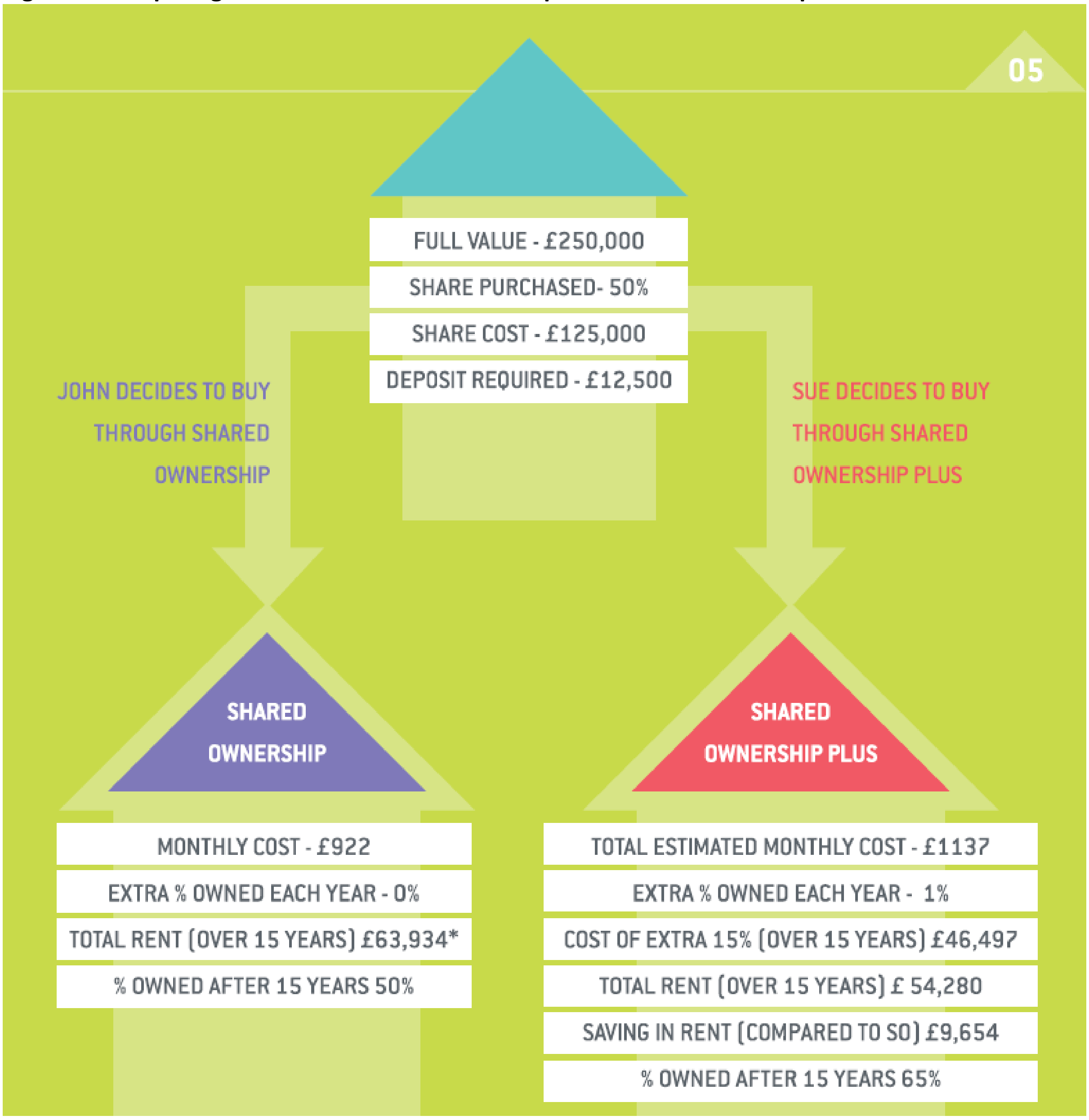
As well as removing financial barriers to entry, home purchase plans make it easier to staircase because individuals accumulate equity incrementally rather than in larger chunks that can be difficult to afford. However, in areas where house prices are high, even incremental staircasing can be challenging for low income households because their wages may not keep up with the annual growth in home purchase plan payments.

More traditional shared ownership providers have also tried to promote staircasing by smoothing the process. Notting Hill introduced 'micro-staircasing' for existing shared owners. The scheme, which was suggested by the association's leaseholders, would allow owners to staircase up by very small percentages – 1 to 2 per cent a year by over-paying their rent each month on the share which they did not own. At the end of each period (a year or six months) this accumulated fund would be converted into additional equity. The scheme was suggested as a partner to the resident savings scheme Notting Hill offered to all tenants through an over-payment scheme, and the staff salary savings scheme.

However, this micro-staircasing initiative failed to satisfy financial due diligence as lenders working with the association to provide shared ownership mortgages stated that they would require a valuation of the property as each 1 per cent share was gained, as they do with larger shares. The cost of the valuation rendered the scheme too expensive for both the association and shared owners.

Thames Valley Housing has removed the upfront cost of the valuation for those who wish to staircase, recouping it at the point of sale. Building on this, it has recently introduced a pilot of a new product called Shared Ownership Plus in which new shared owners can agree to a higher monthly rent which goes to purchase an additional 1 per cent equity a year without requiring further valuations or legal fees. The purchase price for shares is based on the valuation of the property when it was bought plus an annual fixed price increase rather than being based on a revaluation of the property which creates a further incentive to staircase. Individuals can stay within Shared Ownership Plus for up to 15 years or opt out of the higher payments at any point. If they opt out, they stop accumulating additional equity and simply pay rent on the unearned share of their property as normal. If they stay in, they pay less rent because as they incrementally purchase equity, their rent payments go down. Figure 6 compares the costs of traditional shared ownership and Shared Ownership Plus.

Figure 6: Comparing the costs of shared ownership and Shared Ownership Plus



Source: Thames Valley Housing (2013) Shared Ownership Plus Customer Brochure

Increasing the scale of shared ownership

Attempts to increase the scale of shared ownership have been two-pronged. One strand of innovation has been to develop shared ownership products that do not rely on government funding, either because they are built without government grant or because they draw in other sources of private capital. The second has been to go beyond delivering shared ownership through Section 106 agreements to allow shared ownership on existing housing stock and to deliberately plan larger shared ownership schemes. Both are particularly relevant to the future of shared ownership in which capital grant from government is unlikely to be significant. These two prongs will be discussed in turn.

Grant-free shared ownership

Building shared ownership without grant was originally the model developed by the Rural Housing Trust which retained properties as affordable for the local community and, therefore, did not allow outright purchase.

The Rural Housing Trust scheme originally offered a fixed equity share on a shared ownership basis with no staircasing allowed and charged no rent on the unowned share. However, recent changes to the banking system and lenders' demands have required the Trust to switch to a more conventional shared ownership product, allowing staircasing and charging rent on the unowned equity. The Trust continues to develop shared ownership without government grant but has had to scale back development since these changes.

The properties carry a covenant prohibiting staircasing beyond 80 per cent which ensures that the properties are retained in circulation for low income households in rural areas where young families are often priced out. There is also no discount option on the purchase price of the property, unlike the Scottish Executive's Rent to Buy scheme described earlier. "Our properties were built without public subsidy so they are sold at cost to the buyer," explains company secretary Liz Fitzsimmons. Qualification for the properties is based on connection to the area.

The Rural Housing Trust co-owns 443 properties across the country, with many of these concentrated in high value rural areas such as Kent, Essex and Oxfordshire. Only two lenders - Nationwide and Halifax - have been willing to work with the Trust to provide affordable lending to rural shared owners despite the fact that the model still requires a relatively large deposit of between £12,000 and £15,000 even for a modest share of a property. According to Liz Fitzsimmons, very few lenders are interested because the owner will never be able to staircase up to 100 per cent. They worry that, because of this, they may be unable to recover their money if there is a default. Nevertheless there have only been two repossessions since 1996.

Institutional investment

More recently, innovators have sought to draw other forms of capital, notably institutional investment, into shared ownership to replace government grant. The coinvestment model developed my Mill Group is intended to work in this way, with an investor buying the unowned equity alongside an individual and benefiting from the rental income stream paid by the shared owner and capital gains from staircasing. This model works with or without a mortgage but a relatively high rent is required to secure adequate returns in the absence of public investment, making this less appropriate for the low and modest income households.[30]

[30] Mill Group launches 'No Mortgage Co-investment' model
http://www.millgroup.co.uk/pdf/media/4_02_11_MFG_Mill_Group_Launches.pdf

In general, there is a tension between creating attractive returns and maintaining affordability. Above inflation rent rises could improve returns but would challenge affordability overtime, particularly at a point in the economic cycle where wages are not keeping up with the cost of living. This is shown in Table 8 below. Lower rates of rental and capital growth as shown in the low scenario can protect affordability but lower the return for investors compared to the base case or high scenarios. For example, under the low scenario, rental growth is 4 per cent and no capital growth is assumed compared to the base case scenario in which rental growth is 7 per cent and capital growth 6 per cent. The total return to investors (IRR) from the low scenario is 4.7 per cent compared to a more attractive 10 per cent in the base case scenario.

Table 8: Potential investor returns from a coinvestment model of home finance

% of property price unless otherwise stated	Base	High	Low
Customer deposit	10	10	10
Initial transaction cost	4	4	4
Annual rental growth	7	10	4
Annual capital growth	6	12	0
Annual rental management costs (% of rental income)	5	5	5
Maintenance and other costs (annual)	1	1	1
Total return (IRR) to investor	10.0	15.6	4.7
Total return (IRR) to customer	8.6	14.1	3.5

Source: Zest Finance (2013)

The Gentoo Group is seeking institutional investment to be able to increase the stock of properties on which it can offer home purchase plans. As part of this, it is seeking access to the government's £10 billion private rented sector debt guarantee that was announced in last year's Autumn Statement.[31] The guarantee should allow Gentoo to boost its return to investors in two ways. It should, if sufficiently robust, make investors more comfortable with higher levels of debt financing as well as reducing the cost of that debt financing to Gentoo. In this way, the guarantee could help generate sufficiently attractive returns without compromising the affordability of the product. It is currently assumed that the debt guarantee would allow debt to be sourced at between 4 and 4.5 per cent.[32] This is significantly lower than the 7 per cent total return (IRR) currently being targeted for the product.

Institutional investment would free up capacity among Housing Associations to allow them to continue developing new shared ownership properties. If properties were owned by investors and managed by Housing Associations, associations could recycle their capital and keep developing. This would free up the sort of levels of capital that could provide a major boost to the current scale of shared ownership. This is the goal of Asset Trust Housing Association that is seeking to accumulate a large enough portfolio of existing shared ownership assets to attract large scale investment into the sector.

[31] DCLG (2013) *Housing Guarantee Scheme Rules: Private rented sector*, https://www.gov.uk/government/publications/housing-guarantee-scheme-rules-private-rented-sector

[32] Alakeson et al (2013) Build Homes for Generation Rent: Can institutional investment meet the challenge, London: Resolution Foundation and Social Finance

Asset Trust Housing Association has slowly but successfully secured interest in its R3 model which buys shared ownership properties from existing providers. Asset Trust can offer close to 100 per cent Existing Use Value for Social Housing (the valuation methodology for social housing stock) on shared ownership residual shares, releasing grant and privately funded capital for re-investment in social housing. This model is likely to grow in appeal because of lower staircasing rates; less certainty over the surpluses generated through house price inflation in some markets; and growing awareness and appreciation among providers and investors of the index-lined nature of shared ownership rental income streams.

Asset Trust Housing Association's model is based on purchasing units at a discount from existing Housing Associations. This can be attractive for those with small portfolios who need to free up their balance sheets or portfolios where individuals are unlikely to staircase. It is less attractive to those associations that have invested significantly in shared ownership and stand to lose significant capital receipts from staircasing.

Do It Yourself Shared ownership

The second prong to attempts to increase the scale of shared ownership was the creation of Do It Yourself Shared Ownership (DIYSO). This is a variation on shared ownership where individuals are able to purchase a share of an existing property and the relevant Housing Association agrees to purchase the remaining share. DIYSO opened up shared ownership to any available property rather than restricting it to new build properties. It has been particularly significant in bringing larger homes into shared ownership and reduces the new build premium for buyers.

While DIYSO schemes still exist, for example in Maidenhead, they are no longer available in most local areas because they place a greater cost on housing associations. Housing Associations buy shared ownership properties that come through Section 106 agreements at a discount from developers but DIYSO units are bought on the open market, making them more expensive. However, in Maidenhead the local authority is investing Section 106 contributions to make DIYSO possible. In 2012, the Local Authority invested £960,000 of Section 106 contributions to support 16 DIYSO properties with match funding from the Housing Association, Housing Solutions. The Local Authority plans to invest a further £860,000 in DIYSO, offering greater choice to local residents than just new build shared ownership properties.

DIYSO has attracted less attention in recent years because it does not contribute to new supply. However, by bringing larger properties into shared ownership, it can help make the shared ownership market more liquid and attractive to buyers and investors, much as Help to Buy is trying to achieve for the conventional home ownership market. Furthermore, DIYSO could be targeted at new build properties if the buyer was guaranteed a discount to the open market sales value by the house builder, for example as part of a Section 106 agreement. This would lower the grant rate required to support affordability.

Local authority planning-led shared ownership

Another route to creating scale is for Local Authorities to deliberately plan shared ownership schemes in places where the population is well suited to shared ownership rather than allowing shared ownership to be the by-product of a Section 106 agreement. Milton Keynes is the most significant example of this approach. Local planners built shared ownership into the development of the new town which means that 5 per cent of the stock in Milton Keynes is shared ownership. Actively planning for shared ownership also enables Housing Associations to purchase land that they would otherwise struggle to obtain in the face of competition from house builders who can pay a higher price for land because they are building for outright sale.

Having a significant amount of shared ownership within a local area creates a functioning secondary market with individuals able to move within the city on a shared ownership basis. It also normalises attitudes towards shared ownership because significant numbers of people have experience of it or know someone who does. Our survey found those who were more likely to know someone who lived in a shared ownership property were more likely to say shared ownership was an attractive option. Among our survey respondents, most (59 per cent) did not know anyone living in shared ownership, but a large minority (41 per cent) did know someone in this tenure.

Lessons learned

While the innovations discussed above have targeted different aspects of shared ownership, they have generated a common set of lessons that need to be considered in the development of future products.

1. ***Innovation takes time to be well understood***

Standard shared ownership has been around for 30 years and has taken time to become established Several innovations have failed to take off because they could not get the support of buyers and lenders. For example, L&Q's zero mortgage product did not take off because it was viewed with scepticism by buyers, despite offering them a good deal. Similarly, housing providers that have overcome lender resistance have often done so either by setting up exclusive deals with a particular lender (such as East Thames working with Santander) or by building a relationship with a small, local lender instead of looking to the big high street names for support. Innovations should build on a well understood core product and seek to achieve scale to make it worthwhile for buyers, lenders and investors to familiarise themselves with new products.

2. ***Innovations too often start with providers not consumers***

Many of the innovations in shared ownership, arguably the product itself, have been developed with the interests of Housing Associations, local authorities or government in mind rather than with consumers at the centre. For example, many rent to buy products were developed as a response to the financial crisis and the problems providers had with stock that could no longer be sold. The stock was put forward for rent but on terms that were less attractive to the buyer then the provider.

Future innovations need to start from the needs of buyers and differentiate between different regional markets and between the two distinct customer segments in shared ownership: those who staircase and those who remain as part owners. Customers looking to move into shared ownership in northern cities will have a different profile and different needs from those looking to become shared owners in London. The product needs to respond accordingly.

3. ***Savings behaviour needs to be built into the product***

Attempts to encourage people to save have tended to fail. Those on modest incomes struggle to save in general because even an intermediate rent can eat up a significant chunk of their income. Therefore, innovations that encouraged saving but did not require it tended to fail. Even where providers drew up savings plans with tenants but had no means to enforce them, tenants did not tend to accumulate adequate savings for a deposit over a five year period. Newer products that build equity through higher monthly payments are more likely to succeed because they do not depend on a change in behaviour on the part of individuals.

4. ***Flexibility is critical***

Shared ownership is governed by a range of rules and requirements imposed by government, local authorities, providers and lenders. In general, these limit the flexibility of the product, reduce its attractiveness to buyers and increase complexity for all concerned. Sweeping away much of this to provide greater flexibility in how the product is offered will be essential. Help to Buy demonstrates that government support can be provided within a consumer-oriented approach to how the product is offered – commercial marketing, easy to understand rules and limited regulations.

Imposing strict rules on new ownership products will hold housing providers back in their quest to meet broader housing need. Housing Associations should be free to move stock around between tenures in order to innovate quickly and respond where necessary if schemes are not meeting their target customer group. Allowing households to remain in one home while moving between tenures - shifting financial model, not property - may also be desirable.

5. ***Scale is required for investment***

While shared ownership and newer products such as home purchase plans do present clear investment opportunities, the rental income stream generated by these products is unlikely to be attractive to investors and competitive with other types of residential investment unless they can be taken to scale or scale created by accumulating existing portfolios. Institutional investors are unlikely to come forward unless investment opportunities are upwards of £70 to £100 million. At present, shared ownership properties are scattered widely across Housing Associations with little consolidation across the sector.

Similar scale issues exist for lenders who are far more likely to develop mortgage products to support innovative approaches to ownership if the market for these products will be large enough to make the initial investment worthwhile – thousands rather than hundreds of transactions a year.

6. ***Shared ownership is caught between a social product and a market product***

There are significant tensions in the way in which shared ownership is perceived. On the one hand, it is seen as a form of social housing and the challenge is to improve access for lower income families. There is, therefore, pressure to reduce rental payments and allow smaller shares but this challenges the viability of the product from the perspective of providers and investors. On the other hand, shared ownership is more of a market-based product that targets those who could not afford to move into full ownership but who are able to take on the costs of shared ownership. The challenge for this view of shared ownership is to take it to scale to allow a more functioning secondary market and create a viable investment proposition that would support growth in the tenure.

Where shared ownership has been normalised and mainstreamed, for example within Milton Keynes, it is more successful. Any new product must also be partnered by work to challenge cultural norms around buying that put off low and modest income customers from part-buy or equity stake models.

Shared ownership has been a small part of the UK housing market for 30 years. During this time, innovations have abounded. This section has discussed many of those innovations in order to identify how past experience should inform future developments. The next section draws on this experience to focus on how shared ownership needs to change for the future.

Section 4: The future of shared ownership

Shared ownership fills an important gap in today's housing market. It can act as a bridge between renting and conventional home ownership for low and modest income households. It provides these households with a relatively affordable housing option and greater security and flexibility than the private rented sector. In addition, it offers a way for less well off households to meet their aspiration to own and offers a vehicle through which they can build assets without exposing them to significant risk. From the perspective of the wider housing market, shared ownership as an equity-based approach to improving access to home ownership can reduce volatility and add to macro-economic stability, while increase the number of new homes built.[33]

However, there are clear issues with the current product that prevent it from effectively meeting the needs of existing and potential shared owners. These relate both to the design of the current product and to its scale. This section sets out changes to product design and routes to increasing scale before identifying what these changes mean for Housing Associations.

Product design

The fourth tenure not another form of social product

Shared ownership has traditionally been perceived as a form of social housing which has affected both consumer views of shared ownership and provider behaviour, as well as the extent to which it has been promoted by national and local government. Shared ownership needs to be repositioned as the fourth tenure in the UK housing market and be seen as a first time buyer product targeted at low and modest income households.

This does not mean that shared ownership can be entirely delivered by the market alone. Support will still be required from central government and local authorities but this needs to be coupled with a more consumer-oriented approach to product design and sales that priorities simplicity, transparency and flexibility.

Two distinct customer segments

It has become increasingly clear that there are two types of customer for whom shared ownership can provide an effective solution: those who staircase and those who will remain part owners for the long term. The product needs to work better for both types. Government, local authorities and providers need to identify which customer segment they are trying to target and design the product appropriately.

Rent overpayments and microstaircasing need to be built in to encourage the first group to staircase, building on the thinking behind home purchase plans. This overcomes the need for individuals to save separately. While Home Purchase Plans have regulatory implications for Housing Associations, bringing them under the remit of the Financial Conduct Authority as well as the Homes and Communities Agency, experience shows that expecting individuals to save of their own accord is unlikely to be successful. It may even be helpful to build in penalties to encourage staircasing for those who can afford it, much in the same way that Help to Buy charges interest payments on the equity loan after the initial five years to encourage repayment.

For those who remain part owners, the value of part ownership as a route to asset building needs to be highlighted rather than being seen as a failure of the product. There is a need to clarify the legal rights to accumulated equity of part owners to ensure that their assets are safeguarded. There is also a case for allowing shared owners who have at least a 50 per cent stake in their property to access a small amount of that equity without having to sell.

[33] Smith, S., Whitehead, C. and Williams, P. (2013) op cit.

Improvements also have to be made to the secondary market to enable part owners to move without having to staircase first. Part of this is for providers to work together to support resales across different Housing Associations to make it easier for shared owners to move to different parts of the country. The secondary market would also be significantly improved by increasing the scale of shared ownership which will be discussed below.

The affordability of shared ownership for long term part owners of small shares would be improved if they were able to negotiate a different arrangement on repairs and maintenance. For example, it may be advantageous for these shared owners to pay an annual fee to the Housing Association rather than taking on the responsibility for repairs themselves.

One product with multiple entry routes

Previous experience has highlighted the challenge of ensuring that innovation in low cost home ownership is well understood by lenders and customers. Investor understanding will also be important for the future. This means that instead of seeing different routes to part ownership as different products, they need to be thought of as different entry points into ownership. Traditional shared ownership, rent to buy and home purchase plans need to become different options within a single product, offering flexibility to shared owners but maintaining a focus on a single product. This will help normalise new innovations quickly.

Greater choice over property types

As the fourth tenure in the UK, shared ownership has to be able to offer individuals more housing options than the current product can. This means moving beyond new build properties and small homes to include larger properties that are better suited to families, as well as the opportunity to buy a share of an existing property. The future of shared ownership as the fourth tenure depends heavily on the renewal of DIYSO which will make the shared ownership market more liquid and, therefore, attractive, as well as shared ownership contributing to new housing supply.

One route to bringing a wider selection of properties into shared ownership would be for grant to no longer be attached to a property but to follow shared owners from a small property into a larger one. Housing Associations could also invest equity from capital growth to facilitate DIYSO on larger homes. Over the long term, they would benefit from further capital growth in the new property.

Greater flexibility

Several reports have highlighted the rigidity in how shared ownership works, whether because of local authority eligibility requirements or restrictions on the sales process. Making shared ownership more flexible as a form of tenure will be critical if it is to play a larger role. The rules that govern shared ownership should be stripped back and a new set of standards developed that offer a more flexible, consumer-oriented approach.

Sub-letting should be permitted for at least a year; valuations should be done on the same basis as conventional home buying; open market sales should be possible from day one and local authorities should be less rigid in the criteria they apply where these act as barriers to access for those who could benefit from shared ownership.[34] These changes are in line with much current practice among some Housing Associations but a new set of standards would provide clarity for buyers and a level playing field across the sector.

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[34] De Santos, R. (2013) Home for Forgotten Families: Towards a mainstream shared ownership market, London: Shelter; Heywood, A. and Clarke, A. (2012) Understanding the second hand market for shared ownership properties, Cambridge: Centre for Housing and Planning Research

Better and more transparent information

Our survey and others have identified a lack of understanding among shared owners about the costs of the product which can lead to shared ownership being perceived as less affordable over time or a poor deal for shared owners compared to Housing Associations. There is a significant need to improve the transparency of information provided to shared owners, for example by agreeing rents and service charges on a five year basis in order to give shared owners the ability to plan. Moderating increases in service charges in certain parts of the country will also be important. Although agreeing increases in advance creates risks for Housing Associations given a lack of visibility over inflation over this time period, it should significantly help tenants anticipate costs and improve perceptions of the value for money of shared ownership.

As the shared ownership market diversifies and more products enter the market that have not been supported by government grant, it may be valuable to develop a kite mark for shared ownership that can build confidence in the market among buyers, lenders and investors. A central part of this kite mark would be linked to the quality and transparency of information provided to customers.

Scaling up shared ownership

The greatest priority for shared ownership is to increase the number of properties that can be offered on a shared ownership basis. With no expectation of a return to previous levels of government grant in the coming years, there are a range of strategies than can be pursed.

Equity investment by government

The Homes and Communities Agency has the ability to act as an equity investor in housing schemes, taking a long term, commercial return from its investment. This is the approach being used in the Build to Rent fund which was set up in 2012 to stimulate the development of purpose built, market rent homes and is the approach taken by government in the first phase of Help to Buy and its predecessor First Buy. A similar approach could be used by government to increase the scale of development of shared ownership.

Government equity would enable more schemes to get off the ground and as shared owners staircase, the equity would be released. The repaid funds could be reinvested to support further development, as is currently the case with recycled capital grant, or paid back to the Treasury. A ten year programme of equity investment would create significant growth in the sector and start to generate sufficient staircasing receipts.

Unlocking institutional investment

Institutional investors are generally cautious and, therefore, this market will take time to develop. However, it could be substantially supported in two ways. The first is through the creation of scale. The sector itself should take the lead here in developing portfolios of existing shared ownership properties that could reach the scale of investment that pension funds and life companies find attractive – upwards of £70 to £100 million.

Second, the government could open up the existing private rented sector debt guarantee to home purchase plans and other rent to buy schemes to support them in securing greater institutional interest. At present, it seems unlikely that sufficient market rent developments will come forward to use up the full capacity of the private rented sector guarantee. This would also level the playing field with other shared ownership initiatives, for example the accumulation of shared ownership portfolios for the institutional market, which will have access to the affordable housing debt guarantee.

A more proactive role for local authorities

There is an opportunity for local authorities to play a more proactive role in increasing the scale of shared ownership by factoring it into their local planning as the fourth tenure. In doing so, they can start to plan how best to use their public land assets, their Section 106 requirements and other local planning tools to develop larger portfolios of shared ownership where there is strong local demand. Greater use of public land will be particularly significant in supporting shared ownership and providing access to sites when competition for land with house builders is stiff. Site selection will be critical but as this report has shown, in some parts of the country, demand for shared ownership will be strong as other tenures are increasingly unaffordable.

Although covenants on rural shared ownership properties have been challenging because of lender resistance, it is possible that local authorities in high price areas such as London may be able to use covenants that restrict outright ownership in order to maintain a stock of affordable shared ownership properties in areas where pressure on prices is high. This approach is less well tested in cities but high demand for affordable homes may overcome some previous objections to the use of covenants.

The role of Housing Associations

The current stock of shared ownership is distributed across a wide range of Housing Associations, some of whom have large portfolios and others whose investment in the product is only marginal. If shared ownership is to become a more mainstream tenure, there is a strong case for a change in approach from Housing Associations, not just in product design, but also in how they think about shared ownership as part of their wider business plan.

Traditionally, Housing Associations have valued the capital receipts from shared ownership far more highly than the income stream from the rent. However, there is now a growing understanding of the value of the index-linked rental stream that shared ownership provides, particularly for the institutional market. Housing Associations need to take a more balance view of their portfolio and the different sorts of value they can derive.

There is also a strong case for some consolidation across the sector in two ways. First, there is a case for the management of shared ownership to be focused on those providers with experience and a strong track record in this tenure. Shared ownership should be seen as a distinct tenure that requires particular, more consumer- orientated skills rather than just another type of affordable housing. Management consolidation will help support a more professionalised product as shared ownership grows.

Consolidation and coordination will also be critical in terms of securing private investment. In this context, there is a case for consolidation to some extent, particularly where providers have only a small number of units, but also coordination to be able to pool properties across a range of providers into a single portfolio. A large, national portfolio wold provide investors with an attractive proposition and a way of kick starting investment in this sector.

Finally, it may be wise for Housing Associations to separate the two roles they play within shared ownership as co-investor and housing manager into two distinct brands. This would create clarity for buyers and would allow the work that Housing Associations do to support shared owners with the financial management of the product not to become tangled up with issues relating to repairs and maintenance. Housing Associations would retain both functions but operate different brands for each.

Conclusion

The vast majority of people in Britain aspire to own their own home but home ownership is increasingly out of reach for low and modest income households, especially in high price areas such as London, the South East, the South West and the East of England.

Shared ownership is not new but to date, it has played only a peripheral role in the housing market. However, there is now a pressing need for a bridge from renting into home ownership for less well off families and a re-invigorated shared ownership sector can help to meet the needs of these families. To do so, it will need to become a more significant part of the housing market, becoming the fourth tenure alongside conventional home ownership, private renting and affordable and social renting. Making shared ownership fit for its new role will require changes to the traditional shared ownership product to make it simpler, more flexible, more transparent, and better differentiated by customer segment.

It will also require a substantial increase in the supply of newly built shared ownership and new sources of finance and support to deliver this new supply, both public and private. Equity investment from government could kick start the development of more new homes for shared ownership and bring important stability to the housing market in contrast to the debt-funded strategy currently being pursued and the return of high loan to value mortgages.

Action from government needs to run alongside a more proactive stance from local authorities through the use of public land and other planning tools, as well as the development of an institutionally funded market for shared ownership. Housing Associations will have to play a different role too, adapting to new, more flexible standards and working together to take shared ownership to scale.

Taken together, these changes are vital to providing low and modest income households with an opportunity to invest in a more affordable, more secure home and can make an important contribution to increasing the number of new homes built in Britain that are affordable to less well off families who currently have few housing options.

Appendix

Table 1a: Percentage of local authorities where a low income couple would have to save for 10 or more years to accumulate a deposit

Tenure		Percentage of local authorities in which time to save is 10 years or more		
		One bed	**Two beds**	**Three beds**
Standard ownership	Large deposit (10%)	47	67	79
	Small deposit (5%)	5	10	17
Shared ownership	Starter (25% share)	1	2	2
	Advanced (50% share)	5	10	17

Notes: Data refers to family of a low income couple with one child living in a two bed home. Housing costs are for properties at the median of the local housing distribution. Due to some cases of missing data, a small number of local authorities have been excluded.
Source: Authors' analysis of Hometrack 2012/13; HCA, Statistical Data Return 2012; Statistical Directorate of the Welsh Government, Scottish Government Housing Statistics

Table 2a. Proportion of local authorities where the ongoing costs are affordable to a low income family, for different scenarios

Tenure		% Affordable		
		One bed	**Two beds**	**Three beds**
Standard ownership	Large deposit (10%)	64	44	34
	Small deposit (5%)	48	29	16
Shared ownership	Starter (25%)	94	87	81
	Advanced (50%)	87	74	67

Notes: Data refers to family of a low income couple with none, one or two children living in a one, two or three bedroom house respectively. Housing costs are for properties at the median of the local housing distribution. Due to some cases of missing data, a small number of local authorities have been excluded.
Source: Authors' analysis of Hometrack 2012/13; HCA, Statistical Data Return 2012; Statistical Directorate of the Welsh Government, Scottish Government Housing Statistics

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