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Levelling Up, Housing and Communities Select Committee
House of Commons
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Dear Clive,

Follow up to oral evidence on shared ownership

Thank you for the opportunity to provide oral evidence to the Committee on 4th December as part of its inquiry into shared ownership. There was a lot to fit into the session and a wide range of questions, so I am following up to elaborate on some of the key points particularly as they relate to rent to buy.

Benefits of rent to buy compared with shared ownership

You asked about the affordability and value for money of shared ownership, and how rent to buy compares. The key differences are as follows:

- **Deposit:** DLUHC records that for 2021-22, the average initial equity stake purchased under shared ownership was 42%, with an average deposit of £20,800. For those who can't afford to save after paying rent each month or rely on a gift from family - the English Housing Survey notes that half of private renters have no savings at all - this is still a significant hurdle.
- Rent to buy models remove this barrier by enabling a tenant to move into the home they will ultimately own without needing to pay any upfront deposit. Under our model and many others, including those providing the Government's rent to buy scheme, the rental period is managed by a housing association and, just like anyone else paying affordable rent, tenants can move in straightaway without fees.
- **Savings capacity:** Paying 80% of market rent each month rather than the full amount if renting privately enables tenants to save the remaining 20% towards a deposit, or clearing any historical debt, so that they are in the best possible position to buy.
- **Straightforward route to ownership:** under rent to buy models, tenants are 100% renters and then 100% owners, without any confusion in between as is the case with shared ownership. This simplicity extends to liabilities. There is a lack of comprehensive sales information both for rent to buy and shared ownership, however in the case of our own model, 95% of tenants have bought their homes at the planned point using a normal, high-street mortgage.
- **Repair and maintenance costs covered:** because of the above and again, like any other affordable rented tenure, the provider, not the tenant, is responsible for all repair and maintenance costs for as long as the tenant rents. This provides **certainty on costs** for tenants.
- **Service charges included** - for the entire duration of the rental period, the 80% affordable rent is inclusive of service charges, meaning no unexpected increases.

Why is the provision of rent to buy limited?

You fairly asked, why, given the above, rent to buy is not more widespread as a tenure. The sector is relatively new and comparatively less well known as a route onto the housing ladder. There is not the same level of government support and promotion as there has historically been for schemes such as Help to Buy and shared ownership. A proactive campaign of support for the tenure would provide confidence to local authorities to include it within their affordable housing mix, and in turn provide confidence to investors to continue to invest in the sector.

The demand for the tenure is strong and in many cases the homes have been oversubscribed. In some areas we have seen over 200 expressions of interest for each property. We are already seeing the tide turn in terms of the number of new entrants to the market and the sector is scalable with government support.

One of the challenges for privately funded providers is that Homes England has no interest in discussing delivery of the scheme if it does not rely on grant funding.

Often, local authorities are reluctant to accept affordable housing models funded privately because they don't know where the money has come from (as opposed to government grant). Pension funds are highly regulated and investing in housing offers a predictable return for investors. There is a need to reassure and encourage local authorities to look at funding outside of government grant.

To this end, we and other providers are calling for the creation of a Homes England equity programme which invests in rent to buy providers. This would help to provide local authorities with the confidence that the models had the support of government and had been assessed for quality and viability.

As was discussed during the previous committee inquiry into the finances and sustainability of the social housing sector, there is also a need to ensure that local authorities have updated housing needs assessments that take into account the middle market that both rent to buy and shared ownership serve. These households are those who are not a priority for social rented housing but cannot afford to buy on the open market.

By identifying the scale of need of those in the 'middle', this will create a known market for institutional investors to fund affordable housing products for this group, such as rent to buy, shared ownership and affordable rent, which can all be delivered without grant. Grant funding could then be re-focused on delivering homes for social rent rather than being used for home ownership products. This would deliver better value for money for the public purse and result in an increase in overall delivery of affordable homes.

What can be done to help people better understand home ownership products?

As all on the panel agreed, some sort of impartial advice website setting out the different routes to home ownership in one place, with illustrative examples of life-time costs and transparency on all fees and charges, would greatly assist first time buyers to make informed decisions about what product is best for them. There is perhaps a role for the regulator to be involved in this.

I hope that is useful and please let me know if you have any further questions.

Kind regards,

Steve Collins
Chief Executive