Written Evidence Submitted by Great Place Housing Group [SH0 0049]

Plumlife Homes Limited is a subsidiary of Great Places Housing Group. Plumlife operates as a brand under which the Group's sales activity and management of shared ownership, leasehold and privately managed homes is undertaken.

Plumlife / Great Places are responding to the Committee's queries as follows:

Do the schemes Shared Ownership and Right to Shared Ownership provide good value for money for the potential users of the scheme?

Our focus is upon low rise family housing for shared ownership. In the northern regions, this low rise family housing is affordable for customers and demand is outstripping supply. The homes provide a genuine opportunity to access home ownership, helping to fulfil aspirations for customers to buy high quality new homes. As such, it can be deemed to provide good value for money.

Ongoing high demand for the product supports the premise that Shared Ownership provides value for money, and in addition to this, greater financial and home-life stability versus privately renting. Most of our buyers will have done their research and compared their options across these considerations before taking the leap into shared ownership.

What shared ownership has always done is make buying a new home more affordable at the point of entry, by significantly reducing the deposit and loan required, when compared to the open market. Data is presented here from a recent scheme in Wigan, comparing income requirements, monthly costs and deposit requirements between market sale and shared ownership at 25% purchase tranches:

House type	Sq ft	100% Value	Income Requirements		Monthly Costs		Deposit Required	
			SO	MS	SO	MS	SO	MS
2 bed mid terrace 'Yew'	755	£200,000	£16,037	£45,037	£621	£1,157	£2,500	£20,000
2 bed semi/ end terraced 'Yew'	755	£210,000	£16,837	£47,287	£652	£1,215	£2,625	£21,000
3 bed mid terrace 'Fir'	755	£235,000	£18,837	£52,912	£729	£1,359	£2,938	£23,500
3 bed semi/ end terrace 'Fir'	911	£245,000	£19,637	£55,162	£760	£1,417	£3,063	£24,500
3 bed semi detached 'Oak'	911	£245,000	£19,637	£55,162	£760	£1,417	£3,063	£24,500
3 bed detached 'Oak'	911	£250,000	£20,037	£56,287	£775	£1,446	£3,125	£25,000
3 bed detached 'Teak'	914	£250,000	£20,037	£56,287	£775	£1,446	£3,125	£25,000
4 bed semi detached 'Larch'	914	£275,000	£22,037	£61,912	£852	£1,590	£3,438	£27,500
4 bed semi detached 'Sycamore'	914	£280,000	£22,437	£63,037	£868	£1,619	£3,500	£28,000
4 bed detached 'Sycamore'	1122	£290,000	£22,437	£63,037	£868	£1,619	£3,500	£28,000

This data highlights the significant impact shared ownership has in counteracting the typical affordability barriers many potential buyers face when trying to purchase outright, a key barrier being the amount of savings required to fund buying on the open market.

We also appraise our shared ownership developments to ensure that typical combined mortgage and rent costs aren't more expensive than the equivalent private rent. Furthermore, the product provides value for money when compared to privately renting because shared owners have greater security of tenure, more certainty around future costs and are gradually acquiring equity in the property in a way that is affordable to them, rather than paying off someone else's buy to let mortgage.

In the financial year 2022/23, for newbuild shared ownership homes sold by Plumlife, average household income was £34,360 and the average deposit level was £16,000. This is significantly lower than incomes and deposits required to access homes on the open market.

With rising salaries following inflation and increasing property values, now may be an appropriate time to consider increasing the income cap of £80,000 in our regions. We do receive applications where customers are very close to this threshold, and particularly with the loss of Help to Buy and shared ownership attracting a different, broader audience, this will likely happen more frequently. The household income cap potentially limits providers ability to offer shared ownership in higher value areas due to affordability concerns.

Standard shared ownership rents are charged at 2.75% of the unsold equity. This offers assurance and certainty upfront as to the rent level. Further protection is offered to customers because there is clarity around the mechanism for uplift (linked to inflation) rather than being at risk of market influences.

Criticisms of the scheme and its affordability / value for money are often linked to apartments and service charge issues, for example, where shared owners have bought 25% but have to pay 100% of service charge costs. While this can impact some of our existing stock and some of our buying market, our main focus and offer is low rise family housing.

It is also important to remember that Shared Ownership as a product was only recently changed and so it is too early to comment on whether the new product is perceived to deliver improved value for money. The repairing liability, reduced staircasing tranches and lack of fees may go some way to assist this and evidence that work has already been done to tackle perceived poor value for money and lack of fairness.

It is too early to comment on Right to Shared Ownership as we have not had any transactions complete.

How can the Government ensure that Shared Ownership and the Right to Shared Ownership remains an affordable programme in light of rising provider costs and inflation?

The Shared Ownership product has only recently changed in order to prioritise even greater affordability for customers. Providers have a responsibility to ensure that purchasers can proceed in different markets with local market values matched to local income levels. This is always prioritised on our potential developments and monitored across our affordable housing programmes. Furthermore, values are limited by RICS Red Book valuations, unlike market sale products and so there are controls in place around realistic prices which avoids speculation.

Continued support for Shared Ownership through the provision of capital grants is crucial to sustain a flow of delivery which assists with affordability for buyers in specific localities.

Service charges are heavily influenced by building insurance premiums and energy cost rises, which are subject to external market forces, and so these can be challenging to remain affordable as they are a direct recharge to customers, so the RP has to have a lens on customer affordability on the other services provided to help mitigate or cushion the impact alongside a broad support offer for those who do get into difficulty. The same applies to management fees which can be impacted by rising provider costs and inflation. In terms of these matters, it may be necessary to engage with providers to understand different ways to help mitigate rising costs such as reviewing rents differently and greater controls to ensure that sinking funds are realistic from day 1 to smooth out affordability for customers.

Realistic sinking funds from day 1 as a requirement for third party schemes would also benefit customers. Lots of private developers do not have a sinking fund in the early years until they have fully sold and left site, whereas we have sinking funds at standard from day 1 to better protect customers.

It is fair to say that interest rates are significantly impacting affordability. Close work is necessary with lenders to understand customer profiles and requirements and ensure products are available on the market to match these and fit with the parameters of Shared Ownership. This is a timely piece of work given that lenders can price in risk when the reality under the Mortgagee Protection Clause is that they get greater protection anyway.

The further protection of Shared Ownership and having a RP landlord is the broader support on offer. This includes downward staircasing, extending mortgage terms, financial resilience advice, etc which we offer as part of our income management protocols. This helps with the ongoing assurance around affordability when we can't control external costs and we need to support customers in different ways.

What support can be offered to Shared Ownership tenants given the impact of leasehold properties?

The Shared Ownership product was only recently changed to improve the position for 2021-26 funded homes by introducing the minimum 990 year lease term. However, this will exacerbate the challenge for customers who bought through previous forms of shared ownership across the last 20+ years, some of whom acquired with a 99-year lease term. The cost of lease extension, premium and all legal costs can amount to a significant sum to enable them to resell.

The equitability of the different products needs some real consideration and some policy or guidance is required from government to support the sector.

Greater consistency around how lease extensions are priced would be helpful for shared owners and the sector given some charge based on 100% and others on the percentage owned. There are some providers offering this for free to customers to align the old product with the new, but there have been queries from a governance perspective as this means effectively selling a social housing asset below market value which is against the Homes England Capital Funding Guide and our own standing orders. It would be helpful to providers and shared owners to have a unified approach which is supported by the regulator.

As above, lenders can price in risk when the reality under the Mortgagee Protection Clause is that they get greater protection anyway. If the changes proposed under Renters Reform and following recent case law mean that the shared ownership lease is recognised as a long lease, it would be an opportunity for lenders, with government influence, to reflect this in their pricing as this confirms that they get their money first – meaning that the loan to value rates should reflect this increased protection.

Plumlife have recently committed to the National Housing Federation Charter assuring our customers that we will not evict them within 12 months if they are working with us on a repayment plan, that we will allow a switch to interest-only mortgages for 6 months and that people can extend their term. This is in keeping with changes we had already introduced and communicated to our customers. This is a real source of comfort to Shared Ownership tenants.

What impact, if any, are changing sector regulations having on the Shared Ownership and Right to Shared Ownership Scheme?

Changing sector regulations are priorities for our organisation and significant work is ongoing to ensure that their impact benefits customers across all tenures. It is fair to say that there are changing expectations of customers which are influencing our customer offer, and building safety regulations will influence the affordability of living in our apartment blocks. Crucially, customers will also have greater influence over policy decision through the draft consumer regulations and so this will need to become a key consideration in the future of the Shared Ownership product.

One area of concern is the wording of some Tenant Satisfaction Measure questions which are deemed to confuse landlord responsibility for the product. Questions, including those on anti-social behaviour create an expectation to provide a more hands-on service, which would impact on management costs. There needs to be clarity on responsibilities related to shared ownership for landlords, the regulator and Ombudsman.

Changing regulations will continue to be a focus and their impact on shared ownership will become clearer with time. Of particular note are changes that may arise from the Renters Reform Bill, and any changes following the current Court of Appeal case which poses that a shared ownership lease is a long lease rather than a tenancy agreement.

Is there a lack of mortgage providers for Shared Ownership properties?

There is no lack of mortgage providers based on our experience to date and that of our advisors and peers. Insight from July 2023 shows lender numbers and product numbers reflect a very healthy Shared Ownership mortgage market. There are 29 lenders in the Shared Ownership market and 19 of these offering 95% LTV mortgages. As at July 2023, customers can access the following numbers of products:

- 95% LTV – 62 products
- 90% LTV – 153 products
- 85% LTV – 195 products
- 80% LTV – 196 products
- 75% LTV – 233 products

The challenge is that shared ownership interest rates are often higher, cited as being the result of lenders connecting additional risk to the fact this scheme serves some lower income households despite the income cap at £80,000 so there is a real range being served. Having strong data available to lenders around actual risk of repossession (and the fact they can claw back their costs via the Mortgagee Possession Clause in the lease) to enable some balancing of interest rates across sales tenures would have real impact for our buyers. This approach by lenders is unfair and continues to be an affordability constraint and a barrier to entry.

What challenges are associated with repair costs being covered by those utilising the Shared Ownership schemes?

Early communication with customers, including excellent provision of information in the Key Information Documentation is essential to ensure that customers understand their responsibilities around repairs. The biggest challenge comes from the passage of time, and customers forgetting their obligations once their home starts to need repair work. With defects covered in the first 1-2 years, this can exacerbate the confusion.

There is chance to reset this understanding at the point of resale. The equivalent information is required in the second hand market. Whilst Plumlife benefit from a specialist team handling this process, many providers use high street agents who do not understand the product which can lead to further confusion and a lack of information share.

The impact of the new product and whether this will further confuse matters related to repairs is yet to be understood.

How viable is full ownership through the Shared Ownership scheme and/or the Right to Shared Ownership Scheme?

The staircasing process is clear, consistent and allows people to increase to full ownership at a time to suit their lives. Smaller fee-free tranche increases have been introduced to encourage those interim steps rather than needing to wait for that sizeable pay rise or inheritance.

The viability of achieving full ownership is constrained by market forces. Since Autumn 2022, we have seen a reduction in staircasing volumes – interest rate rises mean that it is not currently in the interest of many customers to alter their mortgage level. As such, there are personal and market forces influencing the potential and reality of customers being able to reach full ownership. It is this flexibility which adds to the affordability of the product though.

Does the Right to Shared Ownership policy in its current form reduce homeownership risks for individuals from lower income backgrounds?

Right to shared ownership remains an unknown and so it is difficult to judge. It provides an access point to home ownership but as with all home ownership, it comes with liabilities. Unfortunately any policy that encourages people on marginal incomes to become a home owner is fraught with risk.

The difficulty is how the policy aligns with the ethical requirement for providers to ensure that customers are not left in a difficult position which leaves them at greater risk than their previous rental tenure.

What more can be done to secure the Shared Ownership scheme as an affordable route into home ownership?

From a provider perspective, it is important to determine target markets and suitable value levels for the product’s customer base. This requires an in-depth understanding of markets and affordability.

From a customer perspective, the barriers to accessing the scheme are largely around affordability and their ability to obtain a mortgage.
Securing the product as an affordable route to home ownership requires clear marketing, concise messaging, awareness raising, supporting customers to foresee their position in due course (deposits to be saved, credit history to be considered), and a consistent approach to verifying affordability in the absence of Help to Buy agents will be critical.

How does the variation of costs from Housing Associations and other providers impact the Shared Ownership Scheme and the experience of tenants or potential buyers?

Inconsistencies between providers has negatively impacted the reputation of the scheme in the past. The Key Information Documents have addressed this by making the scheme and any costs clear from the outset, ensuring consistency of information across all providers, greater transparency, and an improved customer experience.

There remains a requirement to achieve consistency and upskill all providers, especially in the absence of Help to Buy agents.

Customers and potential buyers can take assurance that providers must justify what they charge and provide clarity of costs. Shared owners can also challenge costs through leasehold procedures to ensure that they are fair and reasonable, and their landlord accountable.

What should be done to improve the Department for Levelling Up, Housing and Communities' data collection regarding Shared Ownership and the Right to Shared Ownership?

Significant amount of information relating to shared ownership is submitted to Homes England on grant-funded schemes. Information on Section 106 is not presented anywhere.

Information on every shared ownership sales is logged on completion via the government website - https://core.communities.gov.uk/public/UploadCOREData.html. This data ask could be varied to capture the intelligence that the Department for Levelling Up, Housing and Communities want to collate.

We would ask to avoid duplication in data submission.

Are alternative schemes such as 'Rent to Buy' viable and do they offer more value for money?

The latest version of Rent to Buy is yet to be fully tested. However, in principle, Rent to Buy offers value for money, benefitting customers by offering rents at a reduced rate of 80%.

The previous Rent to Homebuy offers us little evidence that it works as a scheme as so few customers go on to buy the property; tenants typically move on at or before the 5 year mark.

We would expect the typical Rent to Buy market to be young people who are attracted to the newbuild offering with a lower rent. Typical customers would not quality for social or affordable rent homes in the vast majority of cases. To achieve value for money from the product, more could be done in terms of committing the customer to saving for a deposit, perhaps linked to a ISA saving scheme? However, FCA rules prevent RPs from offering schemes which compel customers save the 20% rent discount towards a deposit.

From a provider point of view, viability calculations are challenging. Our position is that appraisals must assume that homes do not convert, otherwise they hold assumptions which may not come to pass. At present, with little evidence, and pressure to deliver, some assume sales and this is a ticking time-bomb. The other factor that requires careful consideration is how sinking funds are calculated when people buy at different times.

What more should be done to support first time buyers and those from lower household incomes onto the property ladder?

It is important to recognise that home ownership is not the right answer for every household, and there is a real need to achieve balance between tenures available.

It is fair to say that losing Help to Buy has left a gap in the affordable market, boosting shared ownership demand to a certain extent, but the success of the HTB scheme demonstrated perceived value for money while still benefitting customers from owning their own home outright.

There are still people who will not consider shared ownership as they aren't willing to invest in a property that is not 100% in their ownership, and typically the house types on offer for shared ownership being smaller family / starter homes. This group will likely rent privately long term while they attempt to save to purchase on the open market.

The item with the biggest impact on first time buyers and those with lower household incomes is interest rates. Working with lenders to tackle the current high levels is a priority.

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