Written Evidence Submitted by G15 [SHO 0075]

Executive Summary

As London's biggest Housing Associations, and as a group responsible for over 38% of all Low Cost Homeownership[1] stock in England and Wales we believe that Shared Ownership delivers affordable, quality and stable housing for many who are underserved by the private market.

In London, Shared Ownership gives a wide range of households the chance to own in a city that has extensive affordability challenges. Across London Shared Ownership meets local residents' genuine need for homeownership which the open market cannot provide.

Unlike private sector options, Shared Ownership is uniquely flexible for many different life circumstances. However, as we previously stated in our response to the 2020 consultation on 'Making home ownership affordable', while we support measures to ensure that Shared Ownership is affordable and built, it cannot come at the expense of genuinely affordable social rental homes that are desperately needed in London and across England.

Responses to Call for Evidence questions

Question: *Do the schemes Shared Ownership and Right to Shared Ownership offer good value for money for the potential users of the scheme?*

Response: Yes. The low deposits required make the product accessible to those with lower earnings and modest savings. Rental increases are based on published formulas and housing associations demonstrated our approach to supporting customers by capping increases well below the maximum allowable in 2023/24.

Shared Ownership remains an affordable option for those who are priced out of the outright sale market. Recent research using official resident data shows that Shared Ownership buyers typically have about half the income of open-market buyers. Shared owners are households who, in general, are not able to afford a property on the open market in the same location.[2]

To illustrate this, we used the example of a property worth £425,000 (the average sales price at L&Q) Table 1 below shows the difference in income and deposits required for a property at this level:

£425,000 property	**Private Sale**	**Shared Ownership** (25% initial share))
Required deposit	£42,500	£10,625
Required income (before tax)	£98,586	£60,629
Monthly housing cost	£2,443	£1,454

Assumptions used: Single purchaser, with a 6% mortgage rate and 30 year repayment, Deposit of 10% (of equity bought), service charge of £150 and a ratio of payments to income of 40%

One of the main advantages of Shared Ownership is its flexibility. At the point of sale a purchaser will only purchase a share (above the minimum) that they can afford. For instance, we have found that in the current high interest rate environment, buyers are purchasing lower shares. Housing associations also have the flexibility to vary the rent on unsold equity at the point of sale, which is often necessary to keep the product affordable in high value areas.

Residents in Shared Ownership properties also have the benefit of a stable home which, compared to the most likely alternative of private renting, comes with lower housing costs, including rents that only increase by a measure linked to inflation and not the market.

We recognise that more could be done at the point of sale to ensure customers are aware of service charges and potential costs and are acutely aware that inflation has increased the cost of service-chargeable items recently. Where possible, we look to design down costs of service charges early on in the design process and have worked with the GLA to deliver a Service Charge charter[3].

Other reforms are in flight to improve shared owner rights. Members have started the transition to the new model Shared Ownership lease which introduces a £500 per year contribution for repairs from the provider for the first 10 years, as well as a new 10% lower stake and easier options for staircasing.

Question: *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?*

Response: Cost pressures are impacting the entire economy, including Shared Ownership. In a more benign environment, there is nothing inherent in the Shared Ownership model that means costs are higher than other housing options. Efforts to bring down inflation are welcome, and the Charter for Lenders has given some assurance that the Government is aware of the impacts of high interest rates.

Any assurances that government could provide on the future of the tenure would be welcome. During difficult economic times, housing providers are seeking clarity and certainty for the long-term in order to be able to plan. We also need urgent review of the grant levels that are being offered and whether they need to be revised up in light of increasing inflation especially in the housebuilding market.

Some of our members have noticed an inverse correlation between the average share being purchased by Shared Ownership buyers and interest rates – people buy lower shares when mortgage rates are higher. This demonstrates that when costs are higher, Shared Ownership can adapt and still be an attractive product as purchasers can reduce their share to lower their monthly costs. This does mean that in the short term as Housing Associations we have less initial cash flow and has some marginal impacts on viability.

Measures that make the Shared Ownership product more affordable to the buyer/owner (lower rents on unsold equity, lower shares purchased, £500 towards maintenance) have a negative impact on income to the Housing Association, and this means there is less to invest in new affordable homes. We would welcome additional grants / subsidies to ensure a strong supply of new affordable homes.

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

Response: Our members provide support to Shared Ownership tenants, and many benefit from 990-year leases, peppercorn ground rents and the removal of marriage values for lease extensions. We have also looked into a range of options that could be looked in to for Service Charges including with the National Housing Federation

The G15 is supportive of leasehold reform. One area that has currently restricted is the ability for shared owners to staircase-down if required. This is due to capital funding guidance about the use of grant and greater discretion for providers, within a framework set out would be a good step.

Consideration should be given, by government and providers, to the respective responsibilities of leasehold owners and the landlord to Shared Ownership properties.

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

Response: The move to allow a minimum purchase of a 10% initial stake is unlikely to have a significant impact. There has been minimal interest from banks in offering mortgages on such purchases; we are aware of only two banks currently offering mortgages in this space

We are aware of a small number of G15 partners who have sold Shared Ownership schemes with a minimum 10% share so far. They report minimal uptake of shares less than 25%, and they report that those purchasing <25% tend to be cash buyers.

More time will be needed to be able to fully assess the overall impact of the new Shared Ownership regulations on the sector.

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

Response: At present, there are more lenders in the Shared Ownership market than we have ever seen. Most lenders are supportive and will lend on Shared Ownership products; but some members have reported that recently a number have been imposing tighter financial restrictions on household income. There are also more Shared Ownership independent financial advice specialists in the market to help assist customers.

In the past, Shared Ownership was viewed as a niche product, which limited the data available to lenders and subsequently the market for it. However most lenders are now familiar with the product, especially as the Mortgage Protect Clause in Shared Ownership leases has reduced their exposure to credit risks. Increasing public awareness, driven by housing association development and government support, is driving a large market for Shared Ownership products.

There remains a need to ensure that mortgage brokers and bank employees are well-briefed on Shared Ownership and know how to advise customers correctly.

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

Response: Here there are clear differences between the two models and leases for Shared Ownership. The 2011 lease the challenges are well documented, including identifying the differences between repairs and defects that might be able to be covered under the warranty of a building. The new lease released in 2022 includes a £500 a year repair budget that can be used. We still have limited data on this, as there are still only a low number and have only been on the lease for a short period of time. While we feel this will help a number of users, most repairs will either fall out of this criteria or be covered by warranties.

One area is ensuring that all owners have a clear understanding prior to purchase of what is their responsibility. Members are constantly working on packs to ensure that they are clear but additional work with government and partners could be looked at.

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

Response: Shared Ownership does offer a viable route into long-term full ownership. Through saving money and paying down mortgages, buyers are able to build capital to ultimately move into full ownership, whether through staircasing their existing property or purchasing a home elsewhere.

Particularly with the new model lease, Shared Ownership offers a good opportunity for renters to get on the housing ladder, and is often the most viable homeownership product. Most people buying Shared Ownership homes are in the 20-40 age bracket, while single-adult households make up 50% of buyers.

Some members are evaluating the proposal of offering financial health checks which would be carried out by an independent specialist mortgage broker. Reviewing the shared owners financial situation could help them to save money and save for the future, which could lead to them being able to staircase earlier or to a greater stake.

Nonetheless, achieving full ownership will always be a challenge for households earning average salaries in high-cost areas and does not need to be the be-all and end-all of Shared Ownership. Median house prices in London are currently 12.54 times higher than median gross annual earnings[4], so achieving full ownership would require most households to spend a very long period of time as very committed savers. House of Commons 2021 briefing on Shared Ownership highlighted that the number of 100% full staircasing has remained at a similar level for the past few years[5].

Households with partial shares still benefit from the equity they hold in their home (which could be worth more than full ownership in a lower-cost area). They also benefit from being in a Shared Ownership property compared to being in the most likely other option which is a private rental market property, such as: a secure tenancy, fixed rental increases set to inflation not market values, and the ability to make home improvements and decorations within line of their leaseholder.

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

Response: On the whole, our members expect take-up rates on the Right to Shared Ownership to be low. One of our members reports having very little uptake where it was recently offered at a scheme in Barking & Dagenham. Another member has reported that a scheme they have for all their Intermediate Market Rent tenants to purchase their property through Shared Ownership (with a minimum of 25% share) only saw two sales in three years.

It’s also worth noting that existing schemes already have low numbers. Right to Acquire, a scheme similar to Right to Buy but at a lower discount, in 2021-2022 saw only 1,397 sales. Social HomeBuy an existing product that offers Shared Ownership to those in affordable rental tenures in the same year only saw 4 sales and in the past 5 reported years only 38 properties sold through it.[6] This is likely to be mainly due to the disparity in incomes. For example, in 2021/22 the average gross income for an individual in a social rented property was £33,212, compared to £53,606 for someone in an owner occupied rental purchase tenure property.[7]

We are supportive of the scheme in principle as something that provides an extra option for those looking to move into homeownership. However, members have raised that the take up of Right to Shared Ownership would have an administrative cost to landlords.

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

Response: Consideration should be given to reviewing the maximum income thresholds attached to Shared Ownership. With the end of Help to Buy, there are customers who are still unable to purchase on the open market, but whose income is just beyond the Shared Ownership income threshold. This is particularly relevant for larger homes in London, and ensuring that families have a route in to affordable homeownership via Shared Ownership.

The government should also recognise the affordability of Shared Ownership compared to First Homes and other discounted market sale housing. Not only do such schemes require more government grant than Shared Ownership, they are also less accessible for customers than Shared Ownership. The risk is that these products are 'cannibalising' Shared Ownership whilst, but benefitting higher income households.

Additionally, anything that would encourage more mortgage providers to enter the market and bring interest rates down would be helpful. Government could also look at options to provide additional grant funding for larger family-owned properties to lower the rents on such homes and increase affordability.

Consideration should be given to the impact of First Homes on the number of Shared Ownership homes delivered through s106 agreements. Under current guidance, the proportion of affordable homes in the s106 that are Shared Ownership would decrease in favour of the inclusion of First Homes. We would like to see the number of Shared Ownership homes stay the same and that the inclusion of First Homes be in addition to the current affordable requirement.

This would probably require extra grant for Shared Ownership products. We note that the now closed Help to Buy scheme granted on average £2 billion worth of equity loans in its 10 years it was open, which peaked at £3 billion in 2019. While Equity Loans are due to be repaid, it shows the scale of gap between funding as the current Affordable Homes Programme is offering on average £1.4 billion a year for both intermediate and affordable products. Shared Ownership properties also remain affordable in perpetuity as when a property is fully staircased the original grant funding gets recycled in a new Shared Ownership property.

Question: *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?*

Response:

While admin fees that our members incur can't be passed on there may be impacts on quality of service as Housing Associations take on the additional administrative tasks. This includes a greater number of small interactions with gradual staircasing and administering a repairs service. This may lead to delays in responding to enquiries but it's important that buyers on low incomes (who may be subject to other financial vulnerabilities) are receiving a professional and fair service.

Question: *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?*

Response: DLUHC should give consideration to the mandatory collection of data on Shared Ownership tenants who either leave their home or staircase. This data is not collected at present and would create additional expense, however would help improve understanding of the post-purchase behaviour of tenants and the 'lifecycle' of the product. This would though create new administrative burdens and costs on providers.

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

Response: Rent to Buy is viable as part of a range of products to offer those looking to go into homeownership. It is critical that customers are clear on what each product is and how it works so they can make the right choice for themselves – at present there is a risk that we have too many similar products which can create confusion.

We are currently investigating the risk that incoming government reforms to the private rented sector (the Renters Reform Bill) will damage rent to buy as a route into homeownership. Current practice is to issue fixed-term tenancies with tenancy renewal conditional on buyers saving for a deposit when they can. The proposed abolition of fixed-term tenancies would mean that we are unable to use tenancy renewals (or the lack thereof) to prioritise Rent to Buy homes for tenants who genuinely want to buy a home, and we are currently investigating workarounds to prevent this.

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

Response: One option could be do it yourself Shared Ownership (DIYSO) or an equity loan scheme, which would give people more choice about which home to live in (including older properties which can be seen as more desirable and affordable).

We would also encourage government to consider ways to make Shared Ownership attractive to a wider range of potential tenants. At present it is heavily tilted towards young, first-time buyers, but this is not the only demographic who struggle to get on the property ladder. Measures on eligibility criteria could be looked at for this- including increasing the income caps especially for larger properties or benchmarking caps to local real-time key worker income data.

More encouragement from government for lenders to get them interested in a lower-share scheme – even if this is not as low as 10% - would also be helpful.

Finally, not all households on a range of income can or want to get on the property ladder. We welcome ongoing reforms in both the private and social rental sector. As stated in our Executive Summary, reiterate our 2020 message, that funding for intermediate tenures like Shared Ownership tenures should not come at the expense of social and low-cost affordable rents.

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