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

Our work identifies many satisfied shared owners, glad to have a secure, relatively affordable home of good quality, which can offer them better value for money than private renting, often associated with insecurity, high costs, poor management and poor conditions. Nonetheless, Housemark found shared owners with satisfaction levels of 56% compared to 79% among general needs tenants[1], echoing earlier Tenant Services Authority work. It seems satisfaction declines over time.

Shared ownership offers those with incomes marginal to their local housing markets an initially low entry point to a form of ownership. Shared owners may comprise some higher earners on steep career trajectories, principally in London, but households with traditionally lower household incomes, lone parents, single people, disabled people, women etc. are over-represented compared to the wider homeownership market. Shared owners also display greater financial vulnerability than other mortgagors in the market, with low financial resilience (more overdrafts, debt, lower savings) and lower financial capability (confidence in managing money, financial knowledge, digital exclusion, emotional resilience, financial savviness). The disruptions of the pandemic financially impacted shared owners to a greater degree than other mortgagors. Value for money is therefore an important ambition for such households.

Our qualitative interviews reveal shared owner frustrations with uncontrollable and unpredictable service charge costs, especially in flats and especially in those managed by third parties; rents rising above inflation; repair costs that can be unexpected, cannot control or always afford; as well as an array of arbitrary charges for administrative functions of the housing associations despite paying a management charge in their service charges.

One recent study confirmed Savills analysis that the costs of shared ownership rise to converge with other mortgagors' housing costs around year 15. The long-term rise in costs, plausibly amplified if service charge costs of flats are included, challenges the value for money over the long term, not least for shared owners with low shares. This undermines the value of the hybrid tenure as a long-term permanent form of occupation rather than a transitional arrangement on the way to full ownership.

The proportion of households paying high housing costs relative to incomes is higher for shared owners compared to other homebuyers.[2] For buyers after 2010, shared ownership *slightly reduced* the incidence of high housing cost to income ratios compared to other mortgagors in London and the South East, elsewhere in England, where incomes and house prices are lower, shared ownership almost doubled the incidence of high housing cost to income ratios (31%) compared to other recent mortgagors (17%). FCA data shows greater proportions of shared owners (29%) struggling with their finances compared to other mortgagors (18%).

Given shared owners' greater financial vulnerability, and separate JRF analysis[3] that shared owners have a higher rate of poverty than other mortgagors, further work is required to understand how brokers, lenders and housing associations operationalise affordability at the point of sale and what constellations of factors influence these outcomes.

- **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 costs of shared ownership have not been determined by the recent period of higher inflation and higher operational costs but are a structural consequence of the lease provisions.

Rents are set to rise at RPI (not CPI which is lower) plus 0.5% or more depending on the lease. A ruse to encourage buyers in earlier periods to transition out of the sector to full ownership when wages were higher relative to house prices. This overinflation rent rise is no longer justifiable. Market conditions are not the fault of providers, but their product must remain fit for contemporary contexts in which it is experienced and sold.

Rental income is an attractive revenue stream for providers and institutional investors, exerts additional financial strain on long term shared owners. The lease and key information documents tell shared owners the formula for how rents will rise but they are not provided with long term illustrations of the cumulative impact over time.

Neither do associations provide purchasers with illustrations of how variable service charges may change over time. Payment shocks here may arise from initial under-estimations, repair recharges, limited incentives to control costs as the consumer pays, or from third party management companies' failure to provide accounts. Providers may wish to cap service charge costs and absorb some of the costs themselves to offer an equitable service to shared owners with only partial ownership of the homes. The Ombudsman has also called on providers to lobby for regulation of management companies which we would support.

Across the studies, shared owners complain about the 100% repairing responsibilities when owning a fraction of their home. The new model lease offers some limits on repair costs after purchase but did not remedy the balance of repairing responsibilities when they age or tackle existing leases. Third party managing agents pushing up charges and conducting inferior quality works without a sense of the shared owner being in control is also of concern.

In addition to the above costs that for some are high and problematic, shared owners also report inconsistent and arbitrary charges (such as to have a shed, to make alterations, to remortgage, or to market the property etc.). At each juncture, there is a regular imbalance between the providers and themselves in respect of costs incurred.

The building safety crisis has laid bare the weakness of shared owners in respect of these additional costs, where Government guidance was changed to acknowledge the unfairness of shared owners assuming 100% of the remediation costs. Associations and management agents have subsequently held shared owners responsible for expensive 'waking watch' and higher insurance premiums all permitted under their current leases. The imbalance of responsibilities undermines many shared owners' confidence in leasehold and shared ownership arrangements.

Where costs are unsustainable, Homes England should require providers to operate buy-back schemes, sometimes known as "downward staircasing," so that shared owners can sell part of their share and increase the rental element. This would help providers reflect the fact that they are offering “social housing” (as statutorily defined) and that buyers have been encouraged to extend their borrowing often with marginal incomes.

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

Some frustration with shared ownership arrangements may arise from the leasehold nature of shared ownership, but we cannot separate the two issues. Approximately 16% of the wider housing market is based on leasehold tenure compared to 100% of shared ownership purchases[4]. Only 59% of respondents to the English Housing Survey who describe themselves as shared owners identify as leaseholders, suggesting significant misunderstanding of their legal status.

Our researchers have regularly found shared owners with short leases with little knowledge of the problems of a diminishing asset. Lease extensions can be costly, but it is within the control of housing associations to bring existing leases in line with new 999-year ones as some housing associations are doing. This removes conflict for future purchasers of that lease. At the very least providers should be identifying short leases, periodically notifying shared owners of their options and waiving some costs.

Cl 21 of the Renters Reform Bill excludes tenancies for more than seven years from the assured tenancies provisions. This will mean that the prospect of a shared owner having their long lease being effectively forfeited because of low rent arrears, and potentially losing their entire capital investment, is reduced. If this provision is enacted, it would be a considerable benefit and ameliorate the current, unfortunate outcome of shared owners being subject to possession proceedings for assured tenants. If this clause is not enacted, those unfortunate consequences remain. However, even under the Bill, those consequences remain where the housing association has already commenced possession proceedings at the date of commencement (cl 21(3)). There are also concerns about whether the existing ways in which leases can be forfeited by providers are suitable for shared owners with marginal incomes, especially as there are significant cost implications.

Mortgage lenders and providers often have relationships which enable them to meet arrears owed to the other to avoid the needs for possession proceedings, but these relationships are opaque and appear dependent on relationships. There are further costs associated with these payments. There needs to be much greater information provided to buyers about these relationships and what can/cannot be done by virtue of them.

The decision of the Court of Appeal in *Avon Ground Rents Limited v Canary Gateway (Block A) RTM Company Ltd* [2023] EWCA Civ 616 now enables shared owners to have a voice in applications for the right to manage their leasehold properties. This was a problem area, but the resolution of this issue also raises questions about the right to leasehold extensions and enfranchisement – the Committee is respectfully referred to the Nearly Legal blog of Giles Peaker on this issue: https://nearlylegal.co.uk/2023/05/shared-ownership-and-right-to-manage/.

Finally, there is a question about whether, in the future, commonhold tenure will provide a suitable legal envelope for shared ownership. We have no data on this aspect but would be prepared to discuss it further.

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

The Greater London Authority has a Charter scheme for service charge management and signatories to the scheme commit to operate within certain parameters.[5] This is a positive initiative but the effectiveness of the scheme on delivering enhanced consumer outcomes is unclear.

An industry-led charter on better sales and management of shared ownership housing is being supported by Lloyds Banking Group and Social Finance, led by Peter Williams.[6] As a new initiative, the appetite for such a scheme is uncertain yet, but it seeks to sidestep or avoid government enforcement or the development of new regulatory standards. It is looking to establish an industry wide Shared Ownership Council charged with setting universal good practice to avoid consumer complaints about a range of issues.

The Government and Regulator should consider evaluating these initiatives.

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

Our understanding is that there is a wider range of mortgage offers for shared ownership than in the past, after much work by the sector. Nonetheless the market is narrow, and some lenders dominate. The upshot is that shared owners now pay the highest mortgage rates due to a combination of low deposits, banks' capital retention rules and administrative burdens. This is illogical, given the effective reduction in risk to That slenders offered by the Mortgage Protection Clause.

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

Shared owners (existing and new ones after first 10 years) are 100% responsible for repair costs. This is a major source of confusion and conflict. Shared owners do not always understand or appreciate the impact of these arrangements at the point of sale. Some describe conveyancing processes that fail to highlight key terms of the lease, others came to disagree actively as repair costs accrue over time and the imbalance in responsibilities becomes apparent. Confusion also arises between what work the association undertakes during defects periods, warranty periods and afterwards leading some to assume the provider should pay for repairs.

Repairs of houses is less contentious as owners can time the work themselves and exercise greater control, but DIYSO purchasers with older homes with major repairs may be portentous for future frustrations as the association (now more likely to have majority stake) takes no part in funding repairs. Repairs for apartment blocks are more uncertain. Websites and staff have described the distribution of responsibilities as being the purchaser repairs the inside the flat and the association repairs the outside the flat. This reflects how repairs are organised but is misleading because the purchasers pay for repairs in both scenarios.

Associations have considered low-cost repairs subscription service, for example, but have not found the correct mechanism. The compromise of the new model lease does little to rebalance the repairing responsibilities long term. Development models were based on no repairs and for HAs to assume the responsibilities would eat into development funding but would produce a fair product with a better reputation. The only resolution is for repair costs to be proportional to the equity stake.

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

We cannot comment on development viability but note that shared owners should not be responsible for the cross subsidy of social housing, as exists under current funding mechanisms. The product could be reformed to satisfy the needs and ambitions of purchasers, and gaps in social housing funding considered separately.

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

Shared ownership increases the risk for purchasers using the Right to Shared Ownership as eventually the shared owner assumes all repair costs, regardless of equity held. The tenant would shift from renting an affordable home, with landlords covering repairs and be wholly eligible for housing benefit, to one where they hold a minimal equity stake but are required to pay 100% of insurances, service charges and repair costs, as well as a mortgage, subject ot varying interest rate shocks and over inflation rent rises. Some housing benefit is payable to shared owners but there is now limited support for help to pay the mortgage element. The equity returns from low shares in some locations or market contexts need to be set against other (possibly better) savings products. We also know lower income homeowners bear greater burden of mortgage arrears, poorer quality homes and larger sums of negative equity in falling markets. Shared ownership is also a complex product as it requires the continuous weighing of household finances, circumstances and market conditions to establish if staircasing, overpaying the mortgage or existing the sector would be appropriate. A change of tenure therefore brings considerable risk for low-income households.

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

Better data, better consumer understanding, better legal understanding, better information resources. At a broader level, there needs to be action to rebalance the inequitable costs of the product between providers and consumers.

- **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?**

Cannot comment.

- **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?**

Administrative data is limited, and the knowledge base built on qualitative interviews and small parts of larger statistical datasets (English Housing Survey, Family Resources Survey etc.). All providers would be asked to provide a range of information about purchases via a digital version of CORE or similar return, that includes the buyers' household and financial circumstances, former tenure/housing circumstances, deposit, source of deposit, property location, initial affordability, initial equity stake, all service charge, mortgage and rent costs, type of management arrangements (direct or third party), type of mortgage and renewal date, and whether a resale or new home.

In addition, providers should make annual returns on their portfolio that includes first tranche sale numbers, types and location of these sales, proportion of resales, number of existing homes sold, reasons for sales, whether sold as partial or 100% and the tenure destination of the seller (to full ownership elsewhere, PRS or SRS etc.). Data should differentiate between 100% sales undertaken to facilitate the sale of the property on the open market and those that genuinely reflect the sellers move to full ownership elsewhere. Data returns should also indicate the extent of buy backs or downward staircasing (full or partial) undertaken annually and indications of the type of reasons that sit behind these transactions. Periodic recording of satisfaction rates, post-sale affordability.

A boost to the shared ownership sample in the English Housing Survey would also be beneficial given its centrality to housing policy.

Compared to the rigid evaluation required of Housing First or other housing interventions that attract funding, there is an absence of shared or agreed outcomes that the significant investment in shared ownership is supposed to achieve. To date greater emphasis has been on sales alone rather than longer term achievements of the sector. Are we aiming for full ownership, or offering an equity stake in affordable, secure and decent accommodation over the long term? Despite forming a small part of the overall housing stock, shared ownership, especially in some locations, comprises an important part of the first-time buyer market and attracted half of the affordable housing programme. Agreeing the ambitions for the sector and measuring providers against these outcomes, will support decision-makers in making the best use of funds and identify spaces for improvement.

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

We note the absence of an evaluation on the processes and outcomes of the Rent to Buy product funding. Anecdotally few purchases arise, and some providers use it to meet intermediate renting needs with little expectation of purchase, creating a two tier social renting scenario. Data on funding outcomes over time are required to appraise the success, value for money or otherwise of this scheme.

First Homes is an unambiguously less complex product than shared ownership and analysis of estimated costs see the product maintain the lower entry costs over time. The entry point is however higher than shared ownership but may be preferable in some lower value locations. Evaluation of this initiative is required.

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

Neutral sources of advice and guidance on buying a home, independent from organisations or firms selling services or products. '*How to Buy Affordable Homeownership?'* type guides may be beneficial to complement the Department's 'How to Rent' and 'How to Buy' guides. There is an appetite for such support as advice and guidance is partisan and fragmented across the market.

The US required mandatory homeownership education is mandatory for assisted purchase schemes and similar technology supported programmes could be developed here. These would consider the decision to buy, managing credit and banking histories, options to buy pros and cons and what best suits them, shopping for a mortgage, and appointing intermediaries (surveyors, solicitors etc), managing the purchase, managing the repairs and responsibilities of ownership, protecting your asset and income, and what to do if difficulties arise, social security entitlements, and who to go to for advice.[7] This may slow purchases but as it acts as a screening tool makes for stronger purchases. Incentives to participate could be offered by providers or lenders and the outcomes evaluated.

September 2023