Introduction

CIH welcomes the opportunity to respond to the discussion paper on making home ownership more affordable. It has an important focus on shared ownership as a route to do that, as it is a model which is well established for 40 years. It has proved to be effective in supporting more people on lower and middle incomes to enter home ownership by enabling greater flexibility in the size of the share of the home purchased and reducing the size of deposit required. This is significant when median house prices are still about 8 times median incomes (ONS March 2019) and the median deposit for first time buyers is £25,000 (English Housing Survey headline report 2017-18). CIH and Orbit’s previous research demonstrated the affordability of shared ownership compared to private renting, and it provides householders with more security and control than possible in the private rented sector.

However, the scale and nature of our housing crisis means that shared ownership, although an affordable housing option, cannot address the most pressing need for households that are struggling to access an affordable home. We need more government investment in new homes and most of those to be of the most affordable tenure; social rented homes. Research by Heriot Watt University in 2018 for NHF and Crisis evidenced a need for 340,000 new homes a year in England, of which 90,000 needs to be for social rent and 25,000 for low cost home ownership. Shared ownership is a valuable part of what must be a wider and greater investment in the new homes overall that we desperately need.
Shared ownership as a fourth mainstream tenure

CIH and Orbit developed two reports looking at how shared ownership could develop into a fourth mainstream tenure (Shared ownership 2.0: Towards a fourth mainstream tenure and Shared ownership 2.1: Taking stock). One of its great advantages is the flexibility it provides for households to have an affordable and secure home even where they are not able to staircase to full ownership. Whilst we support government and the sector in seeking to make it easier for people to staircase, it is important that this advantage of shared ownership is also valued and promoted. People need to be provided with clear, accessible information and advice to help them to make choices most suitable for their own situation in respect of purchasing a shared ownership home as well as the options to staircase if/when they choose to do so. Many providers in the sector are already committed to providing this service, as evidenced in the development with CIH of a shared ownership charter and in the work led by the National Housing Federation on shared ownership branding and promotion.

Below we provide comment in response to some of the specific questions in the discussion paper.

Q2. What do you think the minimum staircasing increment should be?

CIH’s first report on shared ownership featured the Metropolitan Thames Valley model, SO Resi Plus, which enables householders to purchase an extra 1 per cent share every year over 15 years, at a fixed rate based on a percentage of the initial value of the property, so removing the issue of valuation and other fees. This is an attractive option in areas of high housing costs where staircasing in larger increments may be unaffordable (where the grant or section 106 arrangements permit).

However, in lower value areas it may not be so attractive and staircasing in larger shares as currently possible may remain a preferred and affordable option. The level of additional costs and fees is something to be considered and how this might be mitigated to help people to afford to staircase. Clear information on the process, the valuation/legal requirements and attendant fees at the earliest possible stage is required to enable people to plan for the process and how they will be able to meet the additional costs, as well as the benefit in terms of reduced rental payments. An online tool that can help people to model the potential costs and benefits according to their circumstances would be helpful and something that government and the sector could potentially look to develop.
Q3 What products could be developed to support a flexible approach to staircasing that enables people seamlessly to invest in their homes from as little as £250?

The So Resi Plus example entails additional payments to the housing association. There may also be an argument for developing savings options along the lines of the Help to buy ISA that incentivise saving to staircase, with any bonus being available to help to offset the costs and fees required when staircasing. Whatever products may be developed need to be simple, clear and flexible, given that household circumstances might change and necessitate access to the funds for other purposes, and to support the level of flexibility and affordability that underpins the shared ownership model.

Q4 How should an estimated HPI-based valuation be implemented to ensure that people can staircase at a fair price?

An important factor for people when staircasing is to have a clear idea of what the costs will be so that they can plan to meet these; for example the So Resi plus model set the value for the first year and 1 per cent of the original price and 3 per cent thereafter. That allows for certainty for the householder in the costs to pay so they can plan how to meet these. However, there needs to be a level of flexibility in any process applied in relation to regional house price differences. Transparency on how the price is set is also crucial to ensure shared owners and potential owners understand and trust the process and sustains appetite for the shared ownership model. That also applies to what administrative costs are involved and how these are set, including potentially benchmarking and publishing costs across the sector.

Q6 What else is preventing people from staircasing?

Recent research by Dr Alison Wallace explored shared ownership markets outside London and the South East and found that it demonstrated how the model addresses different housing needs across different housing markets. In the study areas, shared owners included more older people, those with limited or no family support, and some in more precarious employment; this will have implications for the potential to staircase.

CIH’s research highlighted that staircasing was not always affordable and achievable for all shared owners due to the level of increases to house prices which have not been matched by real increases in wages and incomes. For many households the benefit of a shared ownership home is the level of control, security and stability it provides that cannot be found in the private rented sector, and where they are not able to access a social rented home. It also provides the benefit of owning some equity. This flexibility is a great advantage of shared ownership. Householders will also vary in the level of risk they perceive and are willing to take in increasing their share in the home. The key is
to provide householders with clear and accessible information to understand the options available to enable them to make the choices appropriate for them.

**Q8 Minimum length of time for landlords to repurchase homes/ right of first refusal?**

The proposal to allow housing providers a time frame for a right of first refusal to buy back a shared ownership home does not explore what the impacts of this on the resources of a provider. In many cases they may not have the resources to do so, or it may be at the expense of other priorities in their business plans, including the development of more new homes. Any expectation from government that providers will do this would require additional resources. Where a provider can do so, it would be appropriate that the timescale has a degree of flexibility reflecting the level of demand for shared ownership in different localities.

**Q9 How can we ensure that a standardised product works for all providers of shared ownership homes?**

Developing a standardised model needs to be done in partnership with the sector and set robust expectations of customer service. It would have many advantages. The model lease; the collection of an agreed set of data by the National Sales Group; and the development of agreed protocols around matters such as rent arrears, have all provided a degree of certainty that has encouraged more lenders to enter the shared ownership market and existing lenders to increase their involvement. That in turn has supported the sector to grow; with a 65 per cent increase in new starts from 10,221 in 2015/16 to 16,844 in 2018/19. Increasing the overall scale of shared ownership is an important element of addressing previous concerns with the sector, such as the ability to move on within the tenure as householders’ needs change for example. Developing a standard model and consistent approach will benefit all providers by increasing the confidence and appetite of potential customers.

**Q11. Views on the effectiveness of shared ownership restricted leases in rural areas**

The issue of affordability is even more marked in many rural areas than urban; for example the lower quartile house price to lower quartile income was 8.8 in predominantly rural areas (Rural housing availability and affordability). Restricted leases in rural areas mean that shared ownership homes cannot be purchased at 100 per cent, to ensure that re-sales are also at affordable levels for local households. This does tend to mean a limited number of mortgage lenders will be available. Government and lenders should work together to improve availability for rural schemes. Any alternative to restricted leases would need to provide the same legal certainty about
ongoing affordability, as development within rural communities is often dependent on a reassurance that homes will remain affordable in perpetuity for local families.