CIH response to MHCLG's technical consultation: New model for shared ownership

General comments

CIH welcomes the opportunity to respond to MHCLG's consultation paper; [New model for shared ownership: technical consultation.]

CIH believes that shared ownership is a useful product and tenure for households that are unable to afford open market home ownership, but who also are not able to access affordable and social rented homes. It provides an alternative to high cost private rented housing, enabling people to have more security, stability and control over their home. Shared ownership also targets groups within the population who may not be able to access other forms of low cost home ownership for example Help to Buy, due to barriers such as saving the necessary deposit. In our response to MHCLG's previous consultation on making home ownership affordable (not on new website for link) we suggested that building in further flexibility by allowing people to staircase more gradually and without the onerous costs would be a way to make shared ownership more attractive and flexible for households and enable them to build up equity (referencing the example of SoResi Plus developed by Metropolitan Thames Valley which demonstrates that flexibility).

We therefore welcome the introduction of the provision of gradual staircasing within the new shared ownership model that is proposed. The inclusion of several other proposed changes, whilst all aiming to increase the affordability and therefore accessibility of the tenure to more households on lower incomes, introduces more factors to consider for the prospective shared owners, the providers and also the lenders. Some of this is addressed below in our responses to the specific questions. The new model is likely to be an attractive product for customers, particularly in higher value areas, where even households with median incomes struggle to access home ownership. However, it entails additional risks and burdens for providers that need to be considered in relation to the delivery of the overall increase in the supply of new homes we need.

The timing of its introduction is another factor, given what has become a period of increasing economic uncertainty, as may households face reduced income and loss of employment as a result of the pandemic; recent research by Citizen's Advice revealed that one I three households have lost income because of the coronavirus, and 36 per cent of those who have lost income have also run down their savings. The full impact this will have, and the potential issues that may follow from Brexit, are not yet clear for long term impacts on people's employment and income levels.

Providers will have to consider what the overall impact will be from the potential additional requirements (in terms of process and administration) which will involve new costs that they will not be able to recover. The traditional model sets an initial equity share of 25 percent, and in many cases across developments the first tranche sales might average 30-40 percent; developments are often costed around such assumptions. Take up of the new 10 per cent initial stake on a wide scale is likely to mean that additional grant will be required to support viability of developing the model. In addition, it will reduce capital receipts that can be recycled into the development of social and affordable rented homes, in turn increasing the requirement for higher grant levels or a reduction in the number of homes that providers can develop.

Currently sales of traditional model shared ownership are going well, aided in part by the temporary waiving of stamp duty. However, the demand for home ownership may lessen at a time when many households are struggling economically following the pandemic, due to loss of income/ loss of employment and may therefore be reluctant and unable to take on extra financial risk. There is already a huge unmet need for more affordable and social home to rent – research has identified that as 90,000 homes a year required for social housebuilding – and at a time of economic uncertainty that is likely to rise. How long term and extensive such economic shocks might be for households is also unknown, but recovery from the last economic crisis is still lagging, over ten years on; should recovery from the current crisis be similarly long term, people may have accessed a home that, whilst more affordable to enter, still involves ongoing and increasing costs in terms of service charges, and after ten years, full repairing responsibility. This needs to be clear for them to make the appropriate decisions not only to purchase but to plan for future responsibilities.

Responses to detailed questions

1. **What steps could we take to prevent shared owners from being exposed to unfair lending terms?**

   The impact and take up of the new model of shared ownership will have geographical variations. In areas of low value open market housing there may be more limited demand. However, where there is interest, a concern for providers is that the cost of the initial ten percent share will be too low for mainstream lenders. The increased lending risks and administrative costs are likely both to limit the number of lenders that will engage, and increase interest rates and deposit requirements/ reduce loan to value ratios, meaning that this may reduce the overall affordability of the model in comparison with other products in the long term.

This will increase the risk that householders will seek funds through specialist lenders at high rates or pull together funds from family and friends. Government should work with the financial industry including credit unions to look at and address risks from unfair lending. For providers, local authority partners and Homes England, the affordability test will need to be rigorous, and may require additional checks on sources of funding where possible.

A strategic and comprehensive approach to supporting households understand and resolve the challenges to access home ownership may be worth developing; investigation into the system of home ownership education in the United States has demonstrated increased awareness of the issues, preparedness, confidence and ability to manage and satisfaction with the process amongst new buyers, including those on lower incomes.

2. **How will a smaller initial stake impact the relationship between lenders and providers and are there any steps we need to take to address this?**

This remains untested currently and will require more detail of the lease and rules about how the model will operate. If it reduces the appetite of lenders for the product or increases the costs of lending that in turn will reduce capacity for providers to deliver both this product and their wider development goals, particularly at a time when demands on providers income and resources are being stretched to address other immediate and critical issues such as measures to increase the fire safety of existing homes and retrofitting to achieve net zero carbon targets.

3. **Do you agree that HPI valuations should be valid for 3 months? If no, then how long should they be valid?**
   a. **Yes, 3 months**
   b. **No, 1 month**
   c. **No, 6 months**
   d. **No 12 months**
   e. **No, other**
      a. 3 months

4. Please give your reasons.

It is reasonable for the valuation for this model to be valid for the same period as other valuations. Providers are expected in the consultation to provide an updated estimate annually to shared owners, which will provide them with a reasonable indication of the value of the home and cost of staircasing. Arguably any further request for a valuation in the same year should only be when there is reasonable certain that the staircasing option will be actioned, given the number of homes and new administrative burden for providers. It is appropriate that a higher percentage staircasing should follow the existing procedure and requirement for a RICS valuation.

5. Are there any specific circumstances where local authority HPI data may not be appropriate and regional HPI or other data would be preferable?

There should be flexibility for providers to work with local authorities including across boundaries to agree appropriate data to apply, for example to reflect local housing market areas and across travel to work areas where applicable. When using an alternative data set, what this is and why it is used should be made clear to shared owners.

6. Is there a risk that 1 per cent gradual staircasing will conflict with housing associations' charitable obligations to sell assets at best value?

a. Yes

b. No

Potentially this would be possible but is unlikely.

7. If yes, then please provide evidence.

The methodology to assess the price of the share will not be as accurate as a full survey, and if there is a gap between the initial purchase and exercising the staircasing, there is the potential for a discrepancy. As with the traditional shared ownership model, the circumstances of the shared owner might also have changed and not necessarily still meet the criteria. However, previous exploration of this matter (re traditional shared ownership) determined that it was still within scope of the charitable aims of housing associations given the use of eligibility criteria for applicants and use of receipts to support social housebuilding.

8. **Do you have any further views on how best to implement the 1 percent gradual staircasing model?**

Shared ownership is still a model that many people in general are unaware of, and that requires very clear information and explanation in its marketing; this will be even more the case with the new model, to ensure that people understand the benefits, risks and costs in the long term. That includes the opportunity for gradual staircasing and the repairs measure. Providers will in effect have to run two different systems during and after sales to ensure that there is clarity in all communications, on websites and in all interactions with shared owners. Whilst the sector has worked to ensure greater clarity and understanding of shared ownership, recent concerns raised in relation to the wider problems of safety and cost in relation to leasehold homes also apply to many shared ownership homes, and have affected the reputation of the model and levels of satisfaction for some owners. Care will be needed to ensure that introducing another model does not add to that.

9. **Should any of the specified repairs within the home not be within the scope of this policy?**
   a. **Installations for the supply of water**
   b. **Installations for the supply of gas and electricity**
   c. **Installations for sanitation (including baths, sinks, basins and sanitary conveniences, but not other fixtures, fittings and appliances for making use of the supply of gas or electricity) pipes and drainage**
   d. **Installations for space heating and heating water**
   e. **The suggested scope is fine.**

e.This scope seems fine

10. **Please give your reasons.**

The elements for repair covered in the proposal are essential for the safe operation and occupation of the home, and fundamental to maintaining the asset, which is a concern for provider and shared owner.

11. **Are there any further repairs, inside the home, that should be within the scope of this policy?**

No.

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12. Do you agree with the maximum costs (£500) that can be claimed by a shared owner for essential repairs inside the home? If no, then what should the maximum be?

  a. **Yes, should be capped at £500**
  b. **No, should be capped at £250**
  c. **No, should be capped at £750**
  d. **No, should be uncapped**
  e. **No, another amount.**
     a. cap at £500.

13. **Please give your reasons**.

As these homes will be new build, technically the lower cap of £250 should be appropriate, but there are regional variations in costs to deliver responsive repairs in social housing for example. Introducing flexibility into the level of the cap to reflect these variations would, however, further increase the complexity for both shared owner and provider, so to cap this at £500 is a reasonable compromise.

14. Do you agree with the maximum roll-over period (1 year) for unused repairs expenditure? If no, what should the roll-over period be?

  a. **Yes, you should be able to roll over 1 years' worth of expenditure (i.e. £500)**
  b. **No, repair expenditure should be used within the given 12-month period**
  c. **No, you should be able to roll over 2 years' worth of expenditure (i.e. £1,000)**
  d. **No, you should be able to roll over for 3 years or more (i.e. £1,500 or more).**
     b. Use within the year.

15. What process should be put in place to enable shared owners to be able to reclaim eligible repair expenditure from their landlord and resolve disputes?

The repairs element introduces the potential for significant complexity in how the model operates and for dissatisfaction for the shared owners. Even from the initial marketing of the homes, it will need to be explicitly set out that the repairs responsibility is tightly defined, and this information repeated at every opportunity in communication with the applicants/ owners, so that there is no confusion or expectation for a broader application of what repair costs can be recovered.

Potentially the process to check the eligibility and quality of the repair could be very onerous for providers; adding the provision to roll over any unclaimed (part of the) annual allowed expenditure would increase that. It might be simpler and beneficial for both provider and shared owner if that unused amount is simply credited to rent/ service charge accounts at the year end, should the lease and rules allow it.

Otherwise, the process to reclaim eligible expenditure will need to be straightforward, and the expectations to be set out clearly from the outset, including the requirement for receipts and any quotations where applicable to be eligible for reimbursement. Similarly, the timescale for response and repayment should be set out in the lease/ handbook, and how disputes will be resolved, whether through a streamlined complaints process or a different mechanism specifically for shared owners. The Housing Ombudsman has issued its complaints handling code which many providers will use to assess and improve how they handle complaints in the light of the increased focus by the Ombudsman on how the sector is performing and lessons to share across the sector.

16. What steps should be taken to ensure that claims are genuine?

Where providers have a direct labour organisation, it might be appropriate for the shared owner to be able to opt in to use that to undertake these and other repairs should they wish to do so. Providers might also share their list of preferred contractors, so that using one of these will enable a streamlined/ fast track process to refund costs. These approaches would also remove some of risk and address some of the procedural requirements for providers, which potentially are extensive, including: assessing validity of the work (is it an eligible repair, not damage or an improvement); ensuring the quality; value for money and safety of the work.

17. Do you agree that we should apply the same transitional arrangements to shared ownership as the one proposed for First Homes?

a. Yes
b. No

Yes

18. Please give your reasons.

May housing associations are already committed to long term and large scale programmes of housebuilding so a transition period is necessary to prevent/ minimise changes that impact on the viability and progress of that delivery.

19. Are there any further delivery issues that we should consider ahead of implementing this approach?

The new model entails new requirements of providers that will involve extra administration and costs. It also adds further complexity for applicants in understanding what the shared ownership model is and what it means for them practically in the short and medium term, in weighing up whether home ownership generally and the model in particular is right for them. These factors have the potential to increase lack of awareness and understanding of the model.

From marketing of the product generally, as well as specific marketing for new developments, and throughout the management of the homes, providers will have to have clear and accessible information on the different models on their website and in marketing material, and all communications relating to the management of the home/ estate, to ensure that customers are clear as to which applies in their case. There is the potential for increased disappointment with both models, given differential treatment for shared owners. The model does not address some of the current criticism of shared ownership that overlaps with problematic leasehold issues and matters of safety where those homes are flats.

It is difficult to assess what the impact of the new model might be for existing shared owners when they attempt to sell their homes; in some cases it may mean prospective buyers choose to purchase a new model shared ownership home if these are available locally and therefore possibly add to the difficulties that can be experienced with resale. As this can be a major concern with traditional shared ownership, this could compound the problem and cause further reputational problems for shared ownership overall.

About CIH

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Further information is available at: www.cih.org

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