Chartered Institute of Housing

CIH submission to Levelling Up Committee inquiry on Shared Ownership

Summary

Shared ownership can provide a successful housing solution for many people - it is an affordable route into home ownership for those who cannot afford a deposit to buy outright and has a greater security of tenure than the private rented sector.

However, the need for it should be seen in the context of a chronic housing shortage, particularly of truly affordable housing. Analysis by Heriot Watt (2018) highlights the need to build 340,000 homes each year in England to 2031, including 90,000 for social rent, 30,000 for intermediate rent and 25,000 for shared ownership. In the year 2021/22 a total of 233,000 homes were delivered, leaving a widening shortfall across all tenures.

With a cost-of-living crisis the need for affordable homeownership opportunities has never been greater. As we set out in our joint report with Orbit in 2016 *Shared Ownership 2.0: Towards a fourth mainstream tenure*, shared ownership has the potential to provide more households with a positive alternative to full ownership or private renting and attract investment at scale.

Consumer experience of shared ownership has been mixed and some reforms are needed. But, as set out in a recent discussion paper by Social Finance, a new industry-led framework could drive many of the improvements and help to re-launch shared ownership so it meets its full potential.

A much broader package of support is needed alongside this, with a long-term government plan for housing that supports a tenure mix that meets people's needs.

Detail

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

There is clear demand for an affordable ownership product as an alternative to traditional home ownership. In our 2017 report, Shared Ownership 2.1, we found that demand for shared ownership was high with 85,000 approvals annually – since then demand has increased with the housing sector reporting that it is exceeding their ability to supply new properties. The UK Housing Review 2022-2023 shows that completions have increased year on year since 2014, apart from a pandemic related reduction in 2021 (prior to 2014 this specific data was not available as all shared ownership completions were classed as affordable ownership).

In the context of a worsening housing crisis, where costs are rising significantly across all tenures, shared ownership is generally a good value option. Importantly it supports households who are unable to save large deposits (challenging when living in high-cost private rented housing) by enabling them to purchase smaller equity shares at the outset. It allows people to find value at a range of price points, which means that it can be accessed by people on a wide range of incomes due to the variable percentage of share being bought.

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?

Issues with affordability in relation to shared ownership cannot be viewed in isolation from affordability of the housing market overall. The UK is experiencing an acute housing crisis in which housing is become increasingly unaffordable across all tenures.

The most effective way to ensure all tenures, including shared ownership, remain affordable is through a long-term plan for housing which provides the subsidy required to maintain sufficient levels of truly affordable housing. The recent adjustments in the new shared ownership model (enabling purchase of smaller equity stakes, ten-year structural repairs responsibilities etc.), whilst providing welcome measures to increase affordability for customers, add to costs for housing associations. Consideration of grant levels to maintain or increase delivery of more affordable homes for rent and ownership is necessary for the sector to achieve the step up in development to meet the government's aim of one million homes over this parliament.

Housing associations are also acutely aware of the impact inflationary rates may have on the rent portion of shared owners' monthly costs. Rent increases for shared owners are set out in their leases and linked to the higher RPI rate of inflation plus up to as much as two per cent. This could be unsustainable for those facing rising mortgage costs and/or potential bills for building safety.

In April 2022, the sector implemented a voluntary cap on shared ownership rent increases at seven per cent alongside the government mandated cap on social rent. The government should explore how any future decisions made on social rents impact shared owners.

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

The problems of cladding and remediation have thrown a stark focus on costs for many leaseholders including shared owners. CIH welcomes the recent cladding safety scheme, which address many of the gaps we identified in the previous action on cladding. This will help housing associations and their residents with cladding remediation but will not cover costs arising from non-cladding safety measures. Where housing associations seek to support leaseholders and shared owners in meeting costs, this will have an impact on their resources and capacity to undertake other work and new development, so the government should look at how it can work with the sector to mitigate these costs (for example, removing VAT on remediation work).

The difficulties that households are experiencing with the cost-of-living crisis mean people are vulnerable to unexpected and increased costs. Shared ownership is a very flexible tenure, particularly at the outset where people can purchase the level of equity they can then afford. If there was a potential for households to staircase down in exceptional circumstances (acquiring a long-term illness or injury for example, or for older people with increased care needs and costs) that would provide additional security. This would entail costs for the housing providers, so would require work between the sector and government to model how this might be supported and under what circumstances it could be considered.

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

The changing regulations on shared ownership properties means that there is already a two-tier system with standard and new model shared ownership.

The lower entrance costs for the new model shared ownership increases risks for resale of existing shared ownership, where homes developed under both models are available due to its higher costs. This is exacerbated where there are also issues around cladding and remediation.

Any reform should be mindful of adverse impacts on existing shared owners and look to assist on issues experienced by them. Any reform will also need the full support of lenders to ensure mortgageability, as well as local government to ensure shared ownership homes provided through S106 agreements are also covered.

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

CIH and Orbit's first report identified a lack of understanding and appetite amongst lenders, due in part to the lack of data to inform their decision making. Since then, work has been done across the sector to collate data on equity levels at purchase, staircasing and arrears levels, all of which have led to an increase of lenders and more choice for potential borrowers. Similarly, data following the shared ownership journey of households purchasing smaller equity stakes under the new model scheme will influence the level of lender appetite for mortgages for smaller shares.

There is still a more limited number of lenders for some rural shared ownership schemes where staircasing is limited to 80 per cent in order to maintain homes in affordability for perpetuity, and more could be done by government, lenders and the sector to consider how this could be expanded without risking the long-term affordability of the homes.

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

Households which have low levels of savings may find they face ongoing challenges to cover repair costs. Exposure to high repair costs (especially alongside a period of exceptionally high inflation) can have serious implications or put off prospective shared owners.

Whilst CIH welcomed the new model of shared ownership and changes to repair regulations in the 2021-26 Affordable Homes Programme this did not resolve problems retrospectively, leaving around 200,000 owners without this level of protection.

Ensuring that shared owners understand the full implication of their repairs responsibilities at purchase is critical. Social Finance reported that some purchasers felt uninformed of their responsibilities at the point of sale which can compound a sense of unfairness.

However, challenges with repairs are not exclusive to shared ownership. In 2022 the National Housing Federation (NHF) and CIH commissioned the Better Social Housing Review (BSHR), an independent review into social housing which found that housing associations are operating in a challenging environment. The cost of repairs and maintenance has risen well above inflation in recent years, with additional issues linked to supply chains and labour shortages.

CIH is working with the sector to improve repair services and supports Social Finance's calls to protect shared owners from unaffordable repair costs in their proposed framework. This would include:

- That lenders adjust their current affordability assessments to include consideration of potential shared owners' ability to bear unplanned repair costs
- Better management or smoothing of unplanned costs. For example, options to add major repairs to shared owners' mortgages exist but could be offered more widely
- Best practice mechanisms that can drive better value for money or quality of workmanship on repairs such as devolving power to a tenant or residents committee who can take responsibility for lower value repairs or setting out minimum service levels for repairs.

CIH also recommend that Homes England amends its guidance in the Capital Funding Guide for purchasers to buy the maximum share they can afford at the outset. More emphasis should be placed on ensuring shared owners have savings in case of major repairs.

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

DLUHC's [social housing sales and demolitions statistics] show that 6,051 sales of social housing through low-cost ownership equity reached 100 per cent in 2021-22 (as shared ownership was not recorded as its own separate category before 2014, we cannot give an exact figure to how many of these were shared ownership as opposed to other affordable home ownership products). This was an increase of 39 per cent on the previous year and was the highest recorded number since data was first recorded in 2001-02.

This is a small percentage of the approximate 202,000 shared ownership households in 2021. The data does not show under what conditions full ownership became viable for those shared owners. For instance, we do not know how long each household was a shared owner before they were able to staircase to 100 per cent.

The relatively low numbers of people reaching full ownership reflects an economy where house prices have risen faster than wages. With shared ownership aimed at those on low or average incomes, households may struggle to afford subsequent shares of a property as its value rises.

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

No, we do not believe this policy reduces homeownership risks. The product is intended to support more people from low-income backgrounds into homeownership but is not intended to minimise risks of homeownership.

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

Whilst full homeownership is an aspiration for many, CIH believe that shared ownership's success should not be judged solely on whether people become full homeowners through it. As we have set out in our report Shared Ownership 2.0, shared ownership has value as a tenure in its own right.

There are two different cohorts of shared owners: one entering shared ownership with aspirations to staircase to full ownership, and the other comprising households unlikely ever to be in a position to staircase, but who value shared ownership for the increased choice, control and security it offers, as well as the opportunity to build up some assets.

For those currently in shared ownership, and many who would like to access it, there is a real desire to see not only increasing numbers of homes provided, but also an expanded range of house sizes, types and locations, so people can move more easily as they experience significant life changes, such as job moves, having children, or downsizing and moving in retirement.

With fewer people able to afford home ownership in a traditional way, shared ownership provides an alternative approach, not just as a stepping stone but as permanent option in its own right.

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

There is evidence that new buyers often underestimate the costs of buying and a large minority have experienced financial difficulties as a result. Moreover, research shows that lower-income households often pay more for credit and, when it comes to mortgage arrears, home equity or property conditions, have worse outcomes.

A system of home ownership education has been set up in the United States to address these issues. These courses are open to all but mandatory for low-income households in return for help with deposits, transaction costs, discounted mortgages or entry to shared equity schemes.

Through homeownership education, new buyers gain greater confidence in the market, achieve improved credit scores, lower mortgage arrears and fewer possessions. Even after tighter mortgage regulation, one study reported 16 per cent lower arrears rates, and the lending sector that extensively uses these courses had far lower rates of subprime lending than the wider market.

This system could be useful in the shared ownership market where inconsistent information and a lack of awareness are a particular problem. A government-led education programme for shared ownership would be a simple and effective way to support first time buyers, alongside financial support.

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?

Unexpected fees or large costs is one of the areas which can affect shared owners' satisfaction with their homes. For flats or where there are shared facilities, service charge levels can be variable across different providers and according to the facilities of the different schemes. However, it is important to state that issues with service charge or leasehold do not impact all shared owners and can impact people in other tenures. They are not intrinsic to shared ownership.

Although the capital funding guide (2020) stipulates that service charges must be affordable at the beginning of the tenancy, there is no standardised method in setting the rate, which can also rise over time without being subject to a cap. Capped or fixed service charges are unrealistic as service charge levels will change because they are meant to reflect the actual costs incurred in providing the services. A cap or fixed service charge may lead to a shortfall in funds available to provide services.

The trend towards roads and parks not being adopted and maintained by the local authority and subsequent estate charges is also becoming a wider issue. The Competition and Markets Authority has recently widened its enquiry into new build to look into estate charges. As with cladding, this is not an issue unique to shared ownership. Estate charges are not covered by the repair contributions of the new model of shared ownership.

In some cases, where housing associations are not the freeholder, there are limits to how much they can control service charge costs and increases, although most do aim to limit service charge elements. Ensuring that potential shared owners are aware of how service charges can alter and increase, and where there are layers of management and ownership is vital to help them to understand the implications for and control on associated costs.

Shared ownership can be a complex tenure; CIH supports the call for there to be guidance to ensure clear and consistent messaging across the sector in respect of service charges, management fees and any other fees applicable, including those occurring at staircasing and sales. This guidance should also be explicit about the occasions where permission and any fees are required for example for any structural or other alterations.

Such guidance could steer landlords on providing information to enable shared owners to weigh up and make decisions appropriate for their own household circumstances. For instance, consumers could be provided with data about the level of service charges, and rental increases compared to mortgage costs to assess whether or when to staircase. This may take the form of historical data for similar properties, or a formula which projects costs into the future with related assumptions. This would be the responsibility of the provider, and where the provider was not the freeholder, they would need to obtain this information and inform the consumer before the point of sale.

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?

The sector, working with the regulator and government, has already widened the collection of data available on shared ownership, particularly on equity stakes purchased, staircasing to 100 percent and level of arrears.

This was an important measure taken in response to CIH and Orbit's original report in 2016 and has encouraged many more lenders to include shared ownership mortgages in their portfolio, increasing options for potential buyers. It would be useful for public data to capture levels of staircasing under 100 per cent, when these occur and what equity is usually taken up to assess the ongoing impact of affordability in the long term.

Over time, data should also capture the impact and journey of shared owners under the new model shared ownership and the Right to Shared ownership, including whether these have long term impacts on staircasing and arrears levels. The data for these schemes should be captured alongside but separately from the previous model to understand how these are meeting the aims of increasing the affordability for lower incomes households.

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

It is valuable to have a range of low-cost home ownership models to support people wanting to enter home ownership but unable to access it in the open market.

Whilst Rent to Buy has advantages for households who are unable to save even a modest deposit, they may not be able to do so within the required timeframe of the tenancy either. Rent to Buy does not offer greater certainty and security of tenure in the long term. Also, historically sales have been low (in 2017, Inside Housing reported only around one in ten had purchased their home through the scheme).

About CIH

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