

Briefing Paper 5: Intermediate Housing the Role of Home Ownership Schemes

- In most of England there is a large gap between being able to afford to buy a home and qualifying for social rented housing
- Home ownership remains popular as a goal with younger households
- Affordable shared ownership (SO) makes the best use of subsidy to provide for households on moderate incomes who can't buy and can't rent

Introduction

- The number of first-time buyers has been declining largely reflecting ever more stretched affordability.
- This is particularly true for younger households for whom home ownership remains an entrenched aspiration.
- Meeting aspirations and building a country of opportunity has been a central theme which must be delivered in the UK if housing is not become a major driver of politics.

Realistic and desirable policy objectives

- With rising wages and slowly falling interest rates, the market can deliver some improvement in First Time Buyer (FTB) numbers. However, it is quite clear that for considerable numbers of middle to lower income households and not least single person households there remain significant challenges.
- To help overcome this Labour needs to retain and enhance the shared ownership scheme. After the demise of Help to Buy and the Right to Buy, shared ownership remains the most important policy in this area alongside the useful but expensive Mortgage Guarantee scheme to be made permanent via Freedom to Buy.
- While shared ownership has been the subject of criticism (focused mainly on flats, service charges and repair bills) this scheme offers great flexibility and accommodates the widest spectrum of buyers underneath its income cap.
- It also provides a not insignificant boost to the funding available to build more social rented homes via the receipts it generates.
- Most shared ownership supply is generated via S106 agreements rather than direct capital subsidy.
- Demand continues to exceed supply by a wide margin.
- Shared ownership offers a far more efficient use of subsidy than First Homes. The home ownership share is not subsidised. The rented share is reduced from market rent levels. For example:

A £300,000 house could require a market rent of £16,000 a year (5.3% of value); for the share bought this is reduced to 3.7% to recognise the shared owner's full responsibility for repairs, service charge and building insurance premium; and further reduced by subsidy to

2.75% or £8,300 a year. (First time buyer mortgage rates are currently between 4% and 6% of property value).

How desired policy objectives can be achieved in the present circumstances

As this suggests there are many attractive features to SO but much more can be achieved by a combination of driving improvements in the management of the shared ownership market and by boosting investment in it. There are a number of strands including:

- better performance information for lenders and investors;
- building an effective second hand market for partial ownership homes so that more impact can be achieved from the investment already made and which will involve educating estate agents and conveyancers to increase their familiarity with the product;
- looking again at the rent formula now in place to ensure it is fair to both consumers and providers; and
- engaging with providers on a new settlement for SO which takes out some of the current complexities.

Local authorities need to recognise the role of shared ownership as part of their local ladders of opportunity, not least for young adults now living at home and people emerging from relationship breakdown. It should be a part of all local authorities' housing offer and they should be working with providers to maximise the use of their existing SO stock as well as adding to it.

Most local authorities will have seen the private rented sector grow. In high rent areas SO provides a real opportunity for some households to leave that sector and a lifetime of rental payments and to achieve partial or full ownership.

Regional picture:

Across England some 60% of SO homes are houses and 40% are flats. This contrasts sharply with London where 82% are flats and 18% are houses. This suggests there are significant regional variations both in the types of homes provided, the levels of satisfaction and the cost efficiency of SO compared to the PRS. All of this argues for a more flexible model of SO and one which is better targeted on local needs.

Lessons from past experience in UK and elsewhere

Around 450,000 shared ownership homes have been built in GB since 1980 when the government programme began. Of these 400,000 were in England and currently there are 269,000 shared owner households with the rest having been sold out to full ownership. Over time the rate of staircasing to full ownership has declined - although again there are distinct regional variations – and more households are choosing to or are limited to remaining as partial owners. This is where shared ownership can operate as an intermediate market product of part rent and part own in perpetuity.

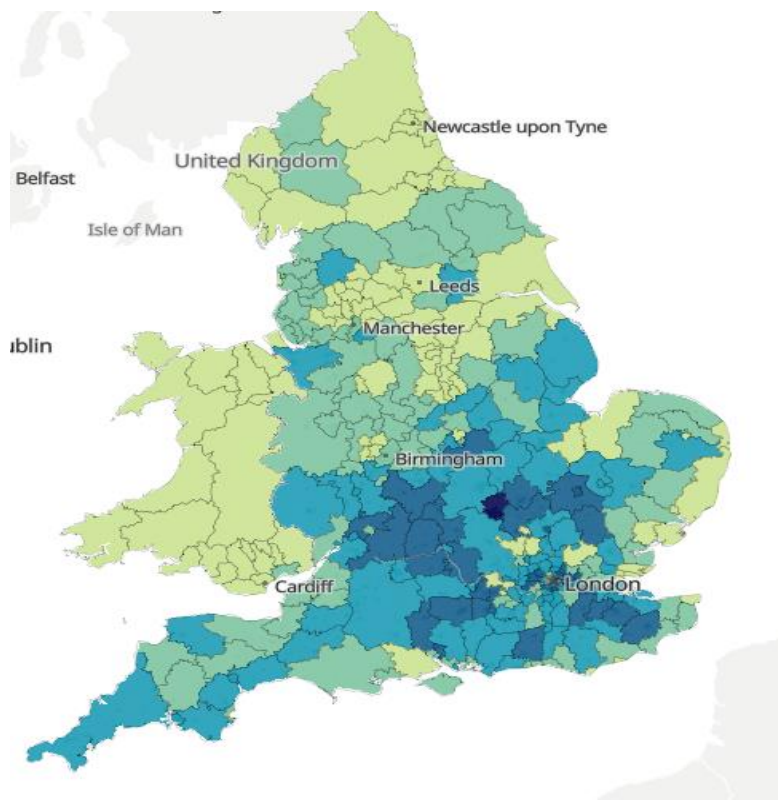
For example: the £300,000 house is affordable to a household with one full time and one part-time worker on near to minimum wage, or a single earning keyworker, buying

a 40% share, and with a much lower deposit than an open market purchase would require.

Elsewhere in the world the most common route into “assisted” home ownership is via mortgage guarantee type schemes. Making the UK scheme permanent via the Freedom to Buy is important but given the entrenched inequalities in the UK it is not enough to ensure some 65/70% of households of all backgrounds and income groups can be owners. SO is an important addition here reaching across a far wider income spectrum than other schemes offered in the past via government. Rent to Buy as it stands has little impact and has struggled to achieve any significant numbers given the escalation of rents and house prices, and First Homes, the permanent discounted market price home, has gained very little traction and may as well be scrapped. All this suggests SO is probably the best scheme we have on offer and one which can grow and develop. It is relatively well known and supported and not only delivers to meet varying aspirations but provides some cross subsidy for the provision of social rented homes. These two routes, social renting and shared ownership, are not alternatives, both are needed.

How successful delivery can help achieve the Gov’s key missions – economic growth and clean energy

SO provision is via new homes built to modern standards of energy efficiency so it boosts that objective alongside generating economic activity via both housebuilding and the very evident surge in household spending that flows from buying a new home. SO is delivered in pressured areas and elsewhere as the ONS map below shows.



Source: ONS Census 2021. Shared Ownership as % of total housing stock
Key: Light Green, 0.1%, Green 0.6%, Light Blue 1%, Blue 2.6%, Dark Blue 6.1%

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