Levelling Up, Housing and Communities Committee

Shared Ownership Inquiry

Response from the Northern Housing Consortium

About us

The Northern Housing Consortium (NHC) is a membership organisation based in the North of England. We are the 'Voice of the North' working with councils, housing associations and ALMOs to develop insight, influence and solutions to create better homes and places.

Question 1: Do the schemes Shared Ownership and Right to Shared Ownership provide good value for money for the potential users of the scheme?

Our members who have Shared Ownership properties report there is sustained high demand for these homes. This may be seen to demonstrate that they offer a good value for money proposition for customers.

While Shared Ownership properties are technically classed as leasehold, housing associations in the north of England do not usually charge ground rent on shared ownership properties. Information related to service charges and how they are calculated can be requested by residents, and residents have means to review and challenge charges if the need arises. This means that Shared Owners are for the most part protected against some of the very high charges associated with other leasehold properties.

The fact that the rent component of Shared Ownership is usually calculated as approximately 2.75% of the unpurchased equity value means that affordability pressures in the Shared Ownership tenure will have significant regional variations, with affordability being worse in areas of high property values. This means that the issue of ensuring that Shared Ownership remains an affordable programme, or whether they provide value for money, cannot be viewed in isolation from wider issues of housing market affordability.

Question 2: 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?

While the rent component of Shared Ownership homes is set at around 2.75% of the unpurchased equity value for the first year, the annual rent review is not regulated in the same way as in other affordable tenures and the Regulator of Social Housing's *Rent Standard* does not apply to Shared Ownership agreements. As an example, in 2022 the Department for Levelling Up, Housing and Communities suspended the pre-existing rent settlement that would have allowed for affordable rents to increase by the rate of CPI + 1%, instead capping any rent rises at 7%. This rent cap did not apply to Shared Ownership rents, however many housing providers voluntarily capped their shared ownership rent rises to 7% in line with the wider cap, though there was no legal obligation for them to do so.

Any changes to rent arrangements for shared ownership, would require careful consultation with the sector to understand the potential impacts on housing provider finances and wider business plans.

A number of housing providers have begun to explore the option of 'reverse staircasing' where the housing provider offers shared owners sell a portion of their stake back to the housing provider, to access extra financial resources when required. This arrangement, which would be at the providers' discretion, may provide an additional level of flexibility for shared owners and reduce the risk of a period of financial hardship resulting in them being forced to sell their entire stake in the property (which is often associated with a financial penalty if done in the first five years following the initiation of the lease).

Shared owners can also only access Universal Credit for the rent component of their agreement, meaning that there is no financial support other than the 'Support for Mortgage Interest' loan for the other major element of their housing costs if they were to enter a period of hardship. As there is support available through Universal Credit for the rent component of Shared Ownership and not for the mortgage component, this could act as a disincentive for staircasing towards full ownership (the fundamental goal of Shared Ownership), as this means taking on significant additional risk.

Government should consider the specific needs of shared owners in any wider review of support for low-income homeowners who are struggling with their mortgage payments and are at risk of losing their home, as there is currently little available to support these households with housing costs.

Question 4: What impact, if any, are changing sector regulations having on the Shared Ownership and Right to Shared Ownership Scheme?

Registered Providers are working hard to continually improve the service provided to all customers. While conversations on consumer regulation often focus on the needs of tenants, we expect that services to shared owners will also benefit from the continued focus on customer experience.

It would be helpful for all involved if there were greater focus and clarity on customer experience in the shared ownership tenure. This would reduce the risk of an inconsistent experience across the country and between different providers. In the North, Shared Ownership is a somewhat minority tenure and as there is little, published best practice or guidance from government, there is a lack of clarity around required service standards and expectations within the Shared Ownership tenure. As a result, different housing providers are taking varied approaches in areas such as repairs e.g. repairs where the housing provider is responsible rather than the shared owner. This will mean that the Shared Ownership experience will differ between providers which the government may wish to influence if the ambition is to provide a high quality, consistent experience across the country. Some leadership from government in this area would mean demonstrating clearer service standards and requirements of both parties in the agreement, to provide a clear image and more standardised service.

The Right to Shared Ownership is still in its infancy, and we are yet to hear reports of any significant changes from our members.

Question 5: Is there a lack of mortgage providers for Shared Ownership properties?

We have no evidence to suggest that this is the case. Most mainstream banks and building societies offer products for shared ownership properties and none of our members have raised this as an issue for prospective shared ownership customers.

Question 6: What challenges are associated with repair costs being covered by those utilising the Shared Ownership schemes?

As has been mentioned, different housing providers are currently taking different approaches when it comes to who is responsible for certain repairs between the housing provider and the shared owner, or how much financial support the provider will give the shared owner towards repairs. This risks the shared ownership experience differing between areas and between different housing providers. Clear service standards, expectations of both parties in the agreement and associated best practice being provided by government would go some distance to alleviating this issue.

The New Model Lease has gone some way to support shared owners with the affordability of repairs, primarily through the introduction of the ‘initial repair period’ and an annual £500 contribution towards repairs by housing providers.

Repairs costs should be relatively low in the early years of the agreement, due to Shared Ownership homes being mostly new builds, which are under warranty by the builders. Our membership has shared good practice on this, with housing associations informing us that they ensure that they have the builders' warranties before allowing tenants to move into the properties.

However, repairs will increasingly become an issue in the long term as warranties expire. One specific issue that still exists is the question as to what happens when the 'initial repair period' ends and the shared owner becomes fully responsible for all repairs. This is the case in the owner-occupied sector but those in Shared Ownership properties are more likely have tenants on lower incomes. It may be the case that in some cases, occupiers cannot afford to undertake a major home repair, or to fully maintain the property to the highest standard. This is not the responsibility of government but demonstrates the need for potential owners to have a comprehensive understanding of the full costs of ownership and how they would meet these if their circumstances change. Clearly, there is a risk that if owners cannot afford to meet the costs of ongoing maintenance, these properties become of a sub-par quality due to poor upkeep, reducing the overall quality of the country's housing stock. These issues will only be exacerbated in periods of high construction material price inflation and shrinking discretionary spending, such as faces Shared Owners currently.

Question 7: How viable is full ownership through the Shared Ownership scheme and/or the Right to Shared Ownership Scheme?

The transition to full ownership is primarily dictated by how viable it is for shared owners to take the subsequent steps in staircasing. In 2021/22, social housing sales from full staircasing of shared ownership agreements accounted for 32% of all sales (c.6,051 of 18,881). This demonstrates the viability of full staircasing was growing. Since then, however, it is likely that staircasing is now less viable, especially for those on lower incomes. Cost of living pressures have squeezed household budgets, making it more difficult for shared owners to save to purchase subsequent shares in their homes, and the mortgage market has deteriorated significantly with rising interest rates impacting affordability. There is not yet much publicly available data to evidence what impact the current economic situation has had on staircasing rates.

Unfortunately, there is no publicly available data on shared ownership sales broken down to either regional or local authority level, unlike with Right to Buy sales. Further data collection, by either the Department for Levelling Up, Housing and Communities or the Regulator of Social Housing, on what proportion of shared owners successfully staircase to full ownership, what proportion of those eligible who exercise their Right to Shared Ownership broken down by geography would be useful.

Question 9: What more can be done to secure the Shared Ownership scheme as an affordable route into home ownership?

It is important that the rent component of shared owners' housing bills remains affordable. The rent component of shared ownership agreements is not currently regulated in the same way as other affordable housing rents, though many in the sector voluntarily held down rents for shared ownership when a 'cap' was introduced for social housing rent increases. Consultation with the sector on future rent arrangements for shared ownership would allow for providers to thoroughly examine impacts on housing provider finances whilst also offering an affordable deal for tenants.

The development of homes for shared ownership has, in large part, grown over time because Homes England funding supports this form of housebuilding. If government wishes to further secure the development of more shared ownership properties, then it should continue to provide funds for these developments. Registered Providers can then utilise this funding in locations where they and the relevant local authority have identified local housing need for these products.

Question 11: 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?

It would be helpful if the Department collected data on what proportion of those eligible exercise the right to shared ownership; what proportion of shared owners complete full staircasing; and if there are any regional or local variations within this data. This would allow the Department to make more informed policy and funding decisions, which are tailored to regional housing markets and shared ownership demand. This would be of significant value if Homes England is to work more closely with Mayoral Combined Authorities, as in the Greater Manchester trailblazer devolution agreement, so local areas could inform to what extent their Homes England funds go towards Shared Ownership properties versus other tenures.

Centralised data returns from government specifically focused on Shared Ownership and related issues (in a similar way to the annual Statistical Data Return), would provide a useful bank of data that providers could access and use to inform their services.

Our members with significant interests in Shared Ownership may be interested in speaking with the Committee to further understanding of the tenure, their experiences of administering Shared Ownership agreements and any areas where further data collection would be of use to them.

Question 12: Are alternative schemes such as 'Rent to Buy' viable and do they offer more value for money?

Rent to Buy can offer increased flexibility for customers than shared ownership. Primarily due to not needing to save for an upfront deposit in the same way. This removes one of the key barriers to obtaining homeownership in the North, where lower wages often make saving for a deposit difficult, and for some people makes it a preferable and more realistic option. Members have recently reported significant demand for new Rent to Buy homes in the North of England.

Rent to Buy is also a simpler to understand and accessible mode of affordable home ownership, with less complexity than areas of Shared Ownership such as buying a share in a property, the process of staircasing and repeatedly getting a property re-valued.

As there is no requirement for Rent to Buy customers to purchase the property at the end of the agreed initial term, many agreements do not result in property purchase despite the reduced rental costs – while the tenure is relatively small scale, Inside Housing reported in 2017 that only 1 in 10 Rent to Buy agreements result in a purchase.

An alternative method would be for customers and housing providers to enter an agreement where the money saved from reduced rental costs is placed in a separate pot until it reaches a sufficient level for a deposit, with an obligation to purchase if eligibility criteria are still met. This would be similar, but on a larger scale, to ‘credit repair loans’ issued by many credit unions to assist customers to improve their credit rating and demonstrate positive payment records, where funds are siphoned off into a separate account to be used to repay a small loan.

Question 13: What more should be done to support first time buyers and those from lower hold incomes onto the property ladder?

The two major obstacles to those with lower incomes becoming homeowners are prohibitively high house prices and the inability to save for a deposit. This must also be viewed in a context of rising private sector rents, making saving for a deposit even more difficult. Private rents in the North East, North West and Yorkshire & Humber have risen by 10%, 12% and 15% respectively between 2021/22 and 2022/23. Recent analysis from Hamptons suggests these issues have got disproportionately worse for those in more deprived areas, where rents have risen by 52% since 2019, compared to 29% in the least deprived areas over the same period.

The primary way to make a significant impact on house prices for first time buyers, is to increase the supply of new-build homes across the country.

Schemes such as the Help-to-Buy ISA, that encouraged saving and provided a bonus for purchasing a home, have previously supported first time buyers with saving for a deposit. There was also the Help to Buy equity loan scheme where 51% of beneficiaries were on incomes between £20,000 and £50,000. 20% of purchasers who used the Help to Buy equity loan scheme would not have been able to purchase without this support. Only 2% of beneficiaries, however, were on incomes below £20,000 a year, meaning that even through the Help to Buy equity loan scheme, those on the lowest incomes (who make up the majority of those living in social housing) were for the most part locked out of homeownership.

The current mortgage market, with higher interest rates and more risk averse lenders, also risks locking those with lower incomes out of homeownership as lenders either seek higher deposits or become more likely to refuse those on lower incomes. One way in which this could be mitigated is if renters could use their rent-paying history as evidence of their likelihood to pay, and therefore make them more attractive potential customer to mortgage providers. This is currently a very rare option in the mortgage market, but it is likely that a government-backed mortgage guarantee would be required to make this more common.

Beyond this, a consistent and stable macroeconomic environment with reduced need for interest rate hikes would benefit potential first-time buyers by reducing possible mortgage payments. The impact of recent interest rate hikes on low-income mortgage holders has been highlighted by Joseph Rowntree Foundation research, which found that 42% of this group are now paying more than 40% of their income on their mortgage payments.

Submitted on behalf of the Northern Housing Consortium by: Joanne Wilson, Head of Policy, Northern Housing Consortium, Hope Street Xchange, 1-3 Hind St, Sunderland SR1 3QD, 0191 566 1000, joanne.wilson@northern-consortium.org.uk