



## BRIEFING PAPER

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# Shared ownership (England): the fourth tenure?

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### Contents:

1. What is shared ownership?
2. How does shared ownership work?
3. Government policies to extend shared ownership
4. Barriers to extending shared ownership



# Contents

<b>Summary</b>	<b>3</b>
<b>1. What is shared ownership?</b>	<b>6</b>
1.1 Data on shared ownership	6
Supply of shared ownership homes	6
Who buys shared ownership homes?	7
<b>2. How does shared ownership work?</b>	<b>9</b>
2.1 Buying	9
2.2 Eligibility	9
2.3 Rent and other costs	10
2.4 Staircasing	11
2.5 Lease agreement restrictions and breaches	12
2.6 Selling	13
2.7 Designated Protected Areas (DPAs)	13
2.8 Wales, Scotland and Northern Ireland	14
<b>3. Government policies to extend shared ownership</b>	<b>15</b>
3.1 Coalition Government 2010-15	15
3.2 Conservative Governments 2015-2019	16
3.3 New national model for shared ownership	19
3.4 New right to shared ownership	21
3.5 The Queen's Speech 2019	22
3.6 Commentary	22
<b>4. Barriers to extending shared ownership</b>	<b>25</b>
4.1 Complexity	25
4.2 Affordability	26
Data on shared ownership affordability	27
4.3 Mortgage availability	28
4.4 Limited demand in some areas	30
4.5 Reselling	31

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## Summary

Housing policy is devolved and there are different rules around shared ownership in Wales, Scotland and Northern Ireland. This briefing paper focuses on shared ownership in England and provides links to information on other parts of the UK.

Shared ownership (sometimes known as 'part buy, part rent') enables people to buy a share of a property (usually between 25% and 75%) and pay a subsidised rent on the remaining share. Purchasing a share in a property requires a smaller deposit and mortgage, thereby making it a more affordable route into home ownership than buying at the full market price.

Shared ownership properties are developed using a mix of private finance and grant funding through the Government's Shared Ownership and Affordable Homes Programme (SOAHP) 2016-21 or developer contributions via planning obligations (section 106 agreements). It is this subsidy that enables housing providers to build new properties for shared ownership and charge a reduced rent on their share of the equity. Most shared ownership homes are delivered and managed by housing associations. Although, some local authorities and private developers also offer shared ownership schemes.

Shared ownership properties are always leasehold. The precise terms and conditions of shared ownership schemes can vary by housing provider. However, lease agreements normally include: the ability to buy further shares in the property over time (a process known as 'staircasing') until eventually attaining full ownership; the shared owner taking on full responsibility for repairs and maintenance of the property; and restrictions on the way in which the property can be used and resold. Several issues identified by shared owners appear to arise from the fact that they are long leaseholders – many of their concerns are shared with other long leaseholders who do not own on a shared ownership basis.

Shared ownership is not a widespread tenure. There are approximately 157,000 households living in shared ownership homes in England. This represents less than 1% of all households. Demand for shared ownership varies across the regions, with demand highest in areas where affordability is most stretched – largely in the south of England.

Despite its relatively small market share, the supply of shared ownership homes has increased substantially in recent years, rising from around 4,080 units completed in 2015/16 to around 17,020 in 2018/19. Shared ownership also represents an increasing proportion of the overall supply of affordable housing, accounting for 34% of new affordable housing supply in 2018/19, up from 23% in 2015/16.

Shared ownership homes bought in 2018/19 had a median value of £240,000. The median initial stake purchased was £100,000. Buyers had a median initial deposit of £12,800, with the remainder of the initial stake covered by a mortgage.

## Government policies to extend shared ownership

The 2015 Conservative Government **committed to deliver 135,000 shared ownership properties by 2020/21** and subsequently implemented a number of measures intended to take shared ownership provision "to the next level", including:

- making up to £4.1 billion of capital grant funding available through SOAHP 2016-21 and opening the programme up to the commercial housing sector;
- broadening the eligibility criteria for shared ownership, including raising the maximum household annual income limit to £80,000 (£90,000 in London); and

#### 4 Shared ownership (England): the fourth tenure?

- allowing households to move from one shared ownership property to another.

Whilst delivering shared ownership was the primary focus of SOAP 2016-21, the Housing White Paper (February 2017) marked a shift in policy to delivering a wider range of affordable housing, including for social and affordable rent. Following the Autumn Budget 2017, the total budget for the programme was £9.1 billion to 2020/21.

In the 2018 Budget the Chancellor announced that Stamp Duty Land Tax relief for first-time buyers would be extended to all first-time buyers of shared ownership properties valued up to £500,000. Alongside the 2018 Budget the Government published a call for proposals to lever private sector funding and capacity to deliver into the shared ownership sector.

#### **New national model for shared ownership**

In August 2019 the Government launched a consultation on proposals for a new national model for shared ownership with the objective of making it “fairer, more affordable, and more consumer-friendly as well as a better model for the market to deliver”. The key elements of the new model are:

- **Making it easier for people to increase their share of the property** – by allowing shared owners to increase their share of the property in smaller increments (for example, 1%) rather than 10% at a time. The Government also intends to reduce the initial minimum share purchase required from 25% to 10%.
- **Giving shared owners more control over the resale process** – by removing the ‘pre-emption’ clause in the current shared ownership model lease which gives the housing provider the exclusive right to market the property for the first eight weeks of the sale.
- **Introducing a standard shared ownership model for all providers to adopt** - to reduce complexity and make it easier for consumers to understand; encourage new providers to enter and grow the market; and encourage lenders to provide more competitive mortgage finance.

The Government’s consultation closed on 29 September 2019 and it is currently analysing feedback.

#### **New right to shared ownership**

On 17 October 2019 the Government confirmed an intention to introduce a new right to shared ownership. Tenants in new housing association properties delivered with Government grant will have an automatic right to buy a minimum 10% share of their home, with the ability to increase that share over time, up to full ownership. The Government also committed to work with housing associations on a voluntary basis to determine what offer could be made to tenants in existing housing association properties. Confirmation that this proposal will be taken forward was provided in response to a Parliamentary Question on 13 January 2020.

#### **Commentary**

In general, the Government’s proposals to simplify and standardise the shared ownership model have been well received by stakeholders. Although, some commentators have criticised the Government for not focusing on higher priority housing issues. The Opposition criticised the proposals as “meaningless”:

Shadow housing minister Sarah Jones said: “Tinkering with the details of shared ownership is meaningless when lack of investment from government means low-cost homes for ownership simply aren’t getting built...”



The Government's proposal to introduce a right to shared ownership for tenants in new housing association properties has been met with scepticism by the social housing sector, with concern that it could impact on housing associations' financial strategies. It has also been suggested that take-up by social housing tenants could be low because of the increased financial liabilities and potential difficulties in securing a mortgage.

## Barriers to extending shared ownership

Despite the growing popularity of shared ownership, it is still far from being a mainstream tenure. A number of barriers to extending shared ownership have been identified:

**Complexity** - shared ownership is a complicated hybrid tenure, which can be difficult for potential buyers, providers and lenders to understand. This complexity is compounded by variations in product names used by different providers and the range of additional eligibility requirements across different localities.

**Affordability** - in a rising housing market it becomes more expensive to buy further shares in the property and staircasing itself involves additional costs for the shared owner, including valuation, legal and mortgage fees. The increasing costs of shared ownership have made it more challenging for households to progress to full ownership. Around 4,000 households staircased to 100% ownership in 2018/19, equivalent to 2.3% of all shared-equity homes owned by housing associations.

**Mortgage availability** – limited mortgage availability and less favourable interest rates on shared ownership mortgages are regarded as a factor limiting the uptake of shared ownership.

**Limited demand in some areas** – demand for shared ownership varies around the country, as does the financial viability of development. Demand is greatest where affordability is most stretched – largely in the south of England. In some areas the Government's Help to Buy: Equity Loan scheme is financially more attractive to first-time buyers.

**Reselling** – the process for selling a shared ownership property is not straightforward. Furthermore, the secondary market is small which can make it difficult to match buyers and sellers or move within the tenure.

# 1. What is shared ownership?

Shared ownership (sometimes known as ‘part buy, part rent’) enables people to buy a share of a property (usually between 25% and 75%) and pay a subsidised rent on the remaining share. Purchasing a share in a property requires a smaller deposit and mortgage, thereby making it a more affordable route into home ownership. Shared owners normally have the ability to buy further shares in the property over time (a process known as ‘staircasing’) until eventually attaining full ownership.<sup>1</sup>

Shared ownership has been described as a hybrid tenure between social renting and private ownership.<sup>2</sup> The vast majority of shared ownership homes are delivered and managed by housing associations. Although, some local authorities and private developers also offer shared ownership schemes.

Shared ownership properties are developed using a mix of private finance and grant funding through the Government’s Shared Ownership and Affordable Homes Programme (SOAHP) 2016-21 or developer contributions via planning obligations (section 106 agreements).<sup>3</sup> It is this subsidy that enables housing providers to build new properties for shared ownership and charge a reduced rent on their share of the equity.

## 1.1 Data on shared ownership

Shared ownership is not a widespread tenure and there is limited data available.

According to estimates from the English Housing Survey, there are approximately 157,000 households living in shared ownership homes in England. This represents around 1% of all homeowners and less than 1% of all households.<sup>4</sup>

### Supply of shared ownership homes

The Government committed in 2015 to deliver an additional 135,000 shared ownership homes by 2020/21 (see section 3.2 for more on this).

New supply of shared ownership homes has increased year-on-year since this announcement, rising from around 4,080 units completed in 2015/16 to around 17,020 in 2018/19 (although the former figure may be an undercount – see notes to the chart overleaf).

Shared ownership also represents an increasing proportion of the overall supply of affordable housing. Affordable housing is defined by the Government as including affordable home ownership products as well

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<sup>1</sup> There are some exceptions – see section 2.4.

<sup>2</sup> See Leverhulme Trust, [Exploring experiences of shared ownership housing: reconciling owning and renting](#), Dave Cowan (University of Bristol), Alison Wallace (University of York) and Helen Carr (University of Kent), July 2015

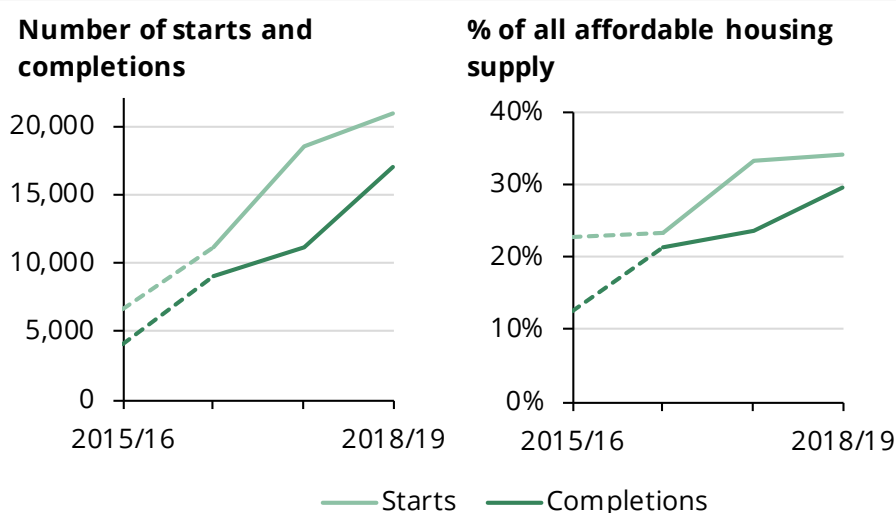
<sup>3</sup> The Commons Library briefing paper CBP07200: [Planning Obligations \(Section 106 Agreements\)](#) explains how section 106 agreements operate.

<sup>4</sup> MHCLG, [English Housing Survey 2017 to 2018: home ownership](#), 17 July 2019

as homes for sub-market rents. Shared ownership made up 34% of new supply in 2018/19, up from 23% in 2015/16.

A total of 57,170 shared ownership homes were started between 2015/16 and 2018/19, while 42,210 were completed. In order to deliver 135,000 new shared ownership homes by 2020/21, there would need to be around 47,000 completions in each of 2019/20 and 2020/21: considerably higher than the rate of completions to date.

### New supply of shared ownership homes is increasing



Source: MHCLG, [Live table 1000](#), 3 December 2019

Notes: Figures for 2015-16 are likely to be an underestimate, as only homes recorded by Homes England and the GLA are counted as shared ownership by MHCLG in this year.

### Who buys shared ownership homes?

The Ministry of Housing, Communities and Local Government (MHCLG) collects some data from housing associations on sales of shared ownership homes. Data from local authorities and other providers is not routinely collected, so the figures below are a partial picture.

Shared ownership homes bought in 2018/19 had a median value of £240,000.<sup>5</sup> The median initial stake purchased was £100,000. Buyers had a median initial deposit of £12,800, with the remainder of the initial stake covered by a mortgage.<sup>6</sup> Section 4.2 has more detail on trends in the cost and affordability of shared ownership homes.













Some data is also collected on the demographics of shared ownership buyers (see table below). The most common age group for buyers was 30-39, representing 35% of the total. Around half of buyers were single adults, while a minority (13%) were families with children. Data also

<sup>5</sup> The median is the point at which half of prices are higher and half are lower.

<sup>6</sup> MHCLG, [Live table 697](#), 19 December 2019

## 8 Shared ownership (England): the fourth tenure?

suggests that buyers were most likely to have been living in the private rented sector (45%) or with family or friends (39%).<sup>7</sup>

Age and household type of shared ownership buyers, 2018/19			
Age group		Household type	
Under 25	12% 	Families with children	13% 
25-29	26% 	<i>Single adult</i>	4% 
30-39	35% 	<i>Multi adult</i>	8% 
40-49	15% 	Single adult only	50% 
50-59	8% 	Multi adults only	32% 
60 and over	5% 	Older people	5% 

Source: MHCLG, [Live tables 695 and 696](#), 19 December 2019

Notes: Figures are based on a statistical return which has missing data in around one-fifth of cases. The proportions shown are of cases where there is data.

'Older people' refers to any household where the main occupier or their partner is aged 60 years or over.

Demand for shared ownership varies around the country (see section 4.4). Research by the Centre for Housing Policy on [Exploring shared ownership markets outside London and the South East](#) concluded that shared ownership serves different socio-demographic groups in different housing markets across the country:

Shared ownership serves different socio-demographic groups across the regions with the South East, South West and West Midlands having younger profiles compared to older applicants in the North East, Yorkshire and Humber and the West Midlands. New entrants to shared ownership in the Northern regions were also more often in the lower income quintiles than those in the Southern regions. While 72 percent of new shared owners in London in 2016/17 were in the top two income quintiles, less than 10 percent of new entrants in the Northern regions were in these higher income groups. Moreover, around a quarter of new shared owners in the North West and North East had been previous homeowners compared to less than one percent in London.<sup>8</sup>

<sup>7</sup> MHCLG, [Live table 694](#), 19 December 2019. These figures are based on a statistical return for which data is missing in around one-fifth of cases. These percentages are of cases where there is data.

<sup>8</sup> Centre for Housing Policy, [Exploring shared ownership markets outside London and the South East](#), Dr Alison Wallace, January 2019, p8



## 2. How does shared ownership work?

**The precise terms and conditions of shared ownership schemes can vary by housing provider.** However, a brief overview of how such schemes generally work is provided below.

### 2.1 Buying

Applicants buy a share of a flat or house (usually between 25% and 75%) from a housing provider and pay subsidised rent<sup>9</sup> on the remaining share which is retained by the provider. The size of the share is determined by the purchaser's ability to afford and sustain the purchase.

Eligible applicants can buy a newly built home on a shared ownership basis (where the scheme is offered) or can buy an existing home through a resale programme. Buyers must be able to raise a sufficient deposit (usually between 5 and 10%) and raise a mortgage to buy a share of the property.<sup>10</sup>

**Shared ownership properties are always [leasehold](#).** The shared ownership lease agreement sets out the legal obligations of the two parties - the leaseholder (the shared ownership purchaser) and the landlord (the shared ownership provider).

[Standardised model leases](#) are used for most shared ownership homes funded with support from Government grant and developer contributions via planning obligations (section 106 agreements).<sup>11</sup>

### 2.2 Eligibility

Eligibility criteria can differ between shared ownership schemes. In England, people can currently buy a home through the [Government's Help to Buy: Shared Ownership scheme](#) if:

- the household earns £80,000 a year or less (or £90,000 a year or less in London).

The Government is taking forward a comprehensive reform of leasehold tenure. The Commons Library briefing paper CBP08047: [Leasehold and Commonhold Reform](#) provides further information.

<sup>9</sup> Shared ownership properties are developed using a mix of private finance and grant funding through the Government's Shared Ownership and Affordable Homes Programme (SOAHP) 2016-21 or developer contributions via planning obligations (section 106 agreements).<sup>9</sup> It is this subsidy that enables housing providers to build new properties for shared ownership and charge a reduced rent on their share of the equity.

<sup>10</sup> Nb. the deposit and mortgage are based on the value of the share rather than on the value of the property as a whole.

<sup>11</sup> MHCLG, [Making home ownership affordable: Discussion paper](#), 28 August 2019, para 16. Nb. providers developing grant-funded homes on shared ownership terms must ensure that their shared ownership leases are mortgageable and contain certain fundamental clauses. They are strongly advised to use the model leases but are not obliged to use them. The Commons Library briefing paper CBP07200: [Planning Obligations \(Section 106 Agreements\)](#) explains how section 106 agreements operate.

## 10 Shared ownership (England): the fourth tenure?

- the buyer is a first-time buyer, used to own a home but can't afford to buy one now or is an existing shared owner looking to move.<sup>12</sup>

The Government has removed all priority groups for assistance, with the exception of military personnel.<sup>13</sup>

Where shared ownership properties are being delivered on a 'rural exception site'<sup>14</sup> the priority for allocations will be set out in the section 106 agreement agreed between the local planning authority and the developer. This will often stipulate that priority be given to applicants with a connection to the local area.

The Government offers two variants of the standard shared ownership product which have their own eligibility criteria: [Home Ownership for People with Long-Term Disabilities \(HOLD\)](#) and [Older People's Shared Ownership \(OPSO\)](#).

In addition to verifying a potential buyer's eligibility, housing providers that offer Help to Buy: Shared Ownership must carry out a rigorous financial assessment taking into account savings, access to capital or any other assets, and outgoings, to assess the affordability of the purchase.

### 2.3 Rent and other costs

Shared ownership leases are normally assured tenancies governed by the *Housing Act 1988*.<sup>15</sup> Shared owners will be advised of the rent payable on the share of the property that they do not own at the outset – provisions for future rent increases will be set out in the lease agreement.

For grant-funded schemes, the provider must comply with relevant requirements set out in Homes England's [Capital Funding Guide](#) which sets a maximum rent level and maximum rate of rent increase. The initial rent must not exceed 3% of the capital value of the unsold equity at the point of initial sale (see example in box below). Annual rent increases are limited to the Retail Price Index (RPI) plus 0.5%.<sup>16</sup>

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<sup>12</sup> <https://www.helptobuy.gov.uk/shared-ownership/> [Accessed 23 February 2020]

<sup>13</sup> Priority is given to serving members of the British Armed Forces, those honourably discharged and bereaved partners both of whom are entitled to assistance up to two years from the date of discharge or bereavement, where there is a shortage of supply [Homes and Communities Agency, [Shared ownership: joint guidance for England](#), October 2016, para 4]

<sup>14</sup> The Government's [National Planning Policy Framework](#) (2019) defines 'rural exception sites' as "Small sites used for affordable housing in perpetuity where sites would not normally be used for housing. Rural exception sites seek to address the needs of the local community by accommodating households who are either current residents or have an existing family or employment connection".

<sup>15</sup> This was established in *Richardson v Midland Heart Ltd* 2008. Commentary on the case can be found on the Nearly Legal Housing Law webpage, [Shared Ownership – Midland Heart with benefit of transcript](#), Giles Peaker, 24 September 2008.

<sup>16</sup> For a more detailed explanation of the provisions see section 4: Rents and service charges of Homes England's [Capital Funding Guide, Help to Buy Shared Ownership](#), last updated 11 June 2019

**For example:**

Property value at Initial Sale	£200,000
Equity share purchased at Initial Sale	30%
Payment to provider at Initial Sale	£60,000 (£200,000 x 30%)
Equity share retained by provider	70%
Value of share retained by provider	£140,000 (£200,000 x 70%)
Max annual rent	£4,200 (£140,000 x 3%)
Max rental payment	£350 pcm /£81 per week

Source: Homes England, [Capital Funding Guide, Help to Buy Shared Ownership](#), last updated 11 June 2019

In addition to rent, shared owners will normally pay an annual ground rent to the freeholder and will contribute to the provision of services, such as cleaning of communal areas, via a service charge. The lease agreement will set out any service charge requirements. A common complaint amongst shared owners is that they may only own a share of the property (and pay rent on the the share of the property that they do not own) but are liable to pay 100% of the service charge.

The shared owner also takes on full responsibility for all repairs and maintenance of the property, regardless of the size of their share of the property.

## 2.4 Staircasing

In most cases shared owners can buy additional shares in the property as and when they can afford to do so (a process known as 'staircasing'). Staircasing is usually possible in minimum 10% tranches up to 100%, at which point they become the outright owner. As the shared owner purchases greater shares in the property, their rent falls according to the proportion of unsold equity.

The Government's webpage on [shared ownership schemes](#) provides the following information on buying more shares:

### **Buying more shares**

You can buy more of your home after you become the owner. This is known as 'staircasing'.

The cost of your new share will depend on how much your home is worth when you want to buy the share.

It will cost:

- more than your first share if property prices in your area have gone up
- less than your first share if property prices in your area have gone down

## 12 Shared ownership (England): the fourth tenure?

The housing association will get your property valued and let you know the cost of your new share. You'll have to pay the valuer's fee.<sup>17</sup>

In some local areas, for example where a shared ownership scheme is in a rural exception site<sup>18</sup> or a Designated Protected Area (see section 2.7), shared owners may be prevented from staircasing to 100% ownership. Some shared ownership schemes for older persons also limit the maximum equity share.

As well as the ability to staircase, in exceptional circumstances (for example, as a result of mortgage difficulties, and where other alternatives to repossession have been explored), and at the discretion of the housing provider, shared owners may be able to staircase down, thereby reducing the share they own.<sup>19</sup>

Whilst many shared owners aspire to staircase to full ownership, some households may never be in a position to purchase 100% of the equity in their property, but nevertheless value shared ownership for the increased security it provides (compared to private renting) and as an opportunity to build up some capital assets.

### 2.5 Lease agreement restrictions and breaches

The shared ownership lease agreement sets out the legal obligations of the two parties - the leaseholder (the shared ownership purchaser) and the landlord (the shared ownership provider). The lease terms and conditions will cover factors such as the shared owner's obligation to pay a ground rent and service charge. It is also common for lease agreements to place restrictions on the way in which the shared owner can use the property, for example by prohibiting pets, subletting or any alterations to the property. In some cases the lease may impose additional obligations on the shared owner, for example to repaint the property every five years.

Where a shared owner of a house staircases to 100% ownership they will normally acquire the freehold of the property (there are exceptions to this, particularly in some rural areas – see section 2.7). For leasehold flats, some restrictive clauses may fall away when the shared owner reaches 100% and the lease comes to resemble a standard long lease.

A shared ownership lease is an assured tenancy under the *Housing Act 1988*.<sup>20</sup> As such, if the shared owner fails to pay the rent required by the lease and/or fails to adhere to their obligations under the lease, then

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<sup>17</sup> <https://www.gov.uk/affordable-home-ownership-schemes/shared-ownership-scheme> [Accessed 23 February 2020]

<sup>18</sup> The Government's [National Planning Policy Framework](#) (2019) defines 'rural exception sites' as "Small sites used for affordable housing in perpetuity where sites would not normally be used for housing. Rural exception sites seek to address the needs of the local community by accommodating households who are either current residents or have an existing family or employment connection".

<sup>19</sup> Homes and Communities Agency, [Joint shared ownership guidance](#), 30 September 2016, para 7

<sup>20</sup> There are some exceptions as explained in the Nearly Legal blog, [Lack of ownership in shared ownership](#), Giles Peaker, 12 September 2008

the housing provider may be entitled to terminate the lease and evict the shared owner (subject to obtaining any necessary court order). If the lease is terminated the shared owner will lose, and will not be entitled to any compensation for, their equity share in the property.

The Leasehold Advisory Service (LEASE) explains in more detail the differences between a shared ownership lease and an ordinary long residential lease: <https://www.lease-advice.org/advice-guide/shared-ownership-leases/>. LEASE can also provide free, independent advice to leaseholders on their specific circumstances: <https://clients.lease-advice.org/Appointment/Appointment?isFireSafety=False>.

## 2.6 Selling

The process for selling a shared ownership property is not straightforward. Under a shared ownership lease the housing provider will normally have 'pre-emption' rights if the shared owner has not staircased up to 100% ownership.<sup>21</sup> This means that if the shared owner wishes to sell they must first give the provider the opportunity to buy back the property at the prevailing market value or to nominate a suitable purchaser. If the provider is unable to find a buyer within a specified period (normally eight weeks) then the shared owner can sell the property on the open market, subject to conditions.<sup>22</sup> The pre-emption clause is intended to ensure that access to shared ownership properties is retained in perpetuity for people who are unable to buy outright.

## 2.7 Designated Protected Areas (DPAs)

In 2009, two Orders were enacted, under powers introduced by the *Housing and Regeneration Act 2008*, with the objective of ensuring the retention of shared ownership housing stock in areas where affordable homes are difficult to replace.

[\*The Housing \(Right to Enfranchisement\) \(Designated Protected Areas\) \(England\) Order 2009 \(SI 2009/2098\)\*](#) specifies the areas currently designated as protected areas. The Explanatory Memorandum to the Order explains:

The effect of the Order is to designate rural areas in England as protected areas. These are locations where shared ownership homes would be difficult to replace, either through new-build schemes, because of justifiable planning controls or the severely limited supply of land, or through buying a suitable existing property because of the small size of the housing market. They are the same rural parishes, parts of parishes and unparished areas which are already exempt from the Right to Acquire scheme (i.e. those areas where housing association tenants are not eligible

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<sup>21</sup> From April 2015 the Homes and Communities Agency's (now Homes England) model leases were amended to remove the pre-emption right following 100% staircasing. Providers were likewise encouraged to amend the leases of existing shared owners.<sup>21</sup>

<sup>22</sup> The property can be sold on the open market either as a shared ownership home or in some cases outright through a process called 'back-to-back staircasing', whereby the provider's share in the property is sold at the same time and the new purchaser acquires both shares.



## 14 Shared ownership (England): the fourth tenure?

to buy their social rented home at a discount) in order to retain social rented accommodation in perpetuity and the same areas covered under the Rural Exception Site policy (Planning Policy Statement No 3: Housing). By applying protected area status to these areas, the Government ensures consistency in the rural housing retention policy; gives greater assurance to those land owners who are considering bringing land forward for affordable housing in these rural areas that the properties will be retained and simplifies delivery of the rural affordable housing programme.<sup>23</sup>

In order to achieve the retention of shared ownership housing in DPAs, [\*The Housing \(Shared Ownership Leases\) \(Exclusion from Leasehold Reform Act 1967\) \(England\) Regulations 2009 \(SI 2009/2097\)\*](#) provide that the maximum share that can be acquired through staircasing is 80% or, where the lease allows the shared owner to purchase more than 80% of the property and they wish to sell, the lease obliges the provider to repurchase the property and sell it on a shared ownership basis to another eligible applicant.<sup>24</sup>

Although the regulations as written only apply to houses, the Homes and Communities Agency (now Homes England) has, as a matter of policy, extended the same requirements to grant-funded flats in DPAs.<sup>25</sup>

## 2.8 Wales, Scotland and Northern Ireland

Housing policy is devolved and there are different rules around shared ownership in each country, see the links below for further information.

- [Shared ownership in Wales](https://gov.wales/shared-ownership-wales) (https://gov.wales/shared-ownership-wales)
- [Shared ownership in Scotland](https://scotland.shelter.org.uk/get_advice/advice_topics/finding_a_place_to_live/shared_ownership/about_shared_ownership) (https://scotland.shelter.org.uk/get\_advice/advice\_topics/finding\_a\_place\_to\_live/shared\_ownership/about\_shared\_ownership)
- [Co-ownership in Northern Ireland](https://www.nidirect.gov.uk/articles/co-ownership-housing) (https://www.nidirect.gov.uk/articles/co-ownership-housing)

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<sup>23</sup> [\*Explanatory Memorandum to The Housing \(Shared Ownership Leases\) \(Exclusion from Leasehold Reform Act 1967\) \(England\) Regulations 2009 \(SI 2009/2097\) and the The Housing \(Right to Enfranchisement\) \(Designated Protected Areas\) \(England\) Order 2009 \(SI 2009/2098\)\*](#), para 7.6

<sup>24</sup> For further information on Designated Protected Areas see Chapter 9 of the Homes and Communities Agency's [Joint shared ownership guidance](#) (30 September 2016)

<sup>25</sup> Homes and Communities Agency, [Joint shared ownership guidance](#), 30 September 2016, para 59

### 3. Government policies to extend shared ownership

Shared ownership emerged from a disparate range of local schemes in the 1960s and 1970s. In the 1980s it was introduced in the form that we know it today via the *Housing Act 1980*, which incorporated the right to staircase to help people who were in housing need and could not afford to buy a home outright.<sup>26</sup> Nevertheless, shared ownership has existed largely outside the mainstream, equating to a small percentage of all housing stock.

In recent years home ownership has become increasingly difficult to access, particularly for first-time buyers, as house price growth has outstripped growth in wages.<sup>27</sup> The proportion of households in owner occupation increased steadily from the 1980s to 2003 when it reached its peak of 71%. Since then, owner occupation has gradually declined to its current level of 64%,<sup>28</sup> despite the fact that it remains the tenure of choice for the majority of people. The two main barriers are deposit and income requirements.

Since 2010, the Coalition and Conservative Governments have implemented a range of initiatives to assist first-time buyers into home ownership.<sup>29</sup> These have included policies and grant funding intended to extend shared ownership.

#### 3.1 Coalition Government 2010-15

The Coalition Government's programme for government committed it to "promote shared ownership schemes and help social tenants and others to own or part-own their home".<sup>30</sup>

As part of the Autumn Statement 2014, the Government committed to "consult on options for streamlining the process for selling on shared ownership properties" and "work with housing associations, lenders and the regulator to identify and lift barriers to extending shared ownership".<sup>31</sup>

Between 31 January and 28 February 2015, the Government consulted on proposals aimed at reducing bureaucracy and removing barriers to shared ownership, namely:

A research paper funded by the Leverhulme Trust, [Exploring experiences of shared ownership housing: reconciling owning and renting](#) (July 2015) provides a detailed chronology of shared ownership.

<sup>26</sup> Homes and Communities Agency, [Joint shared ownership guidance](#), 30 September 2016, para 4

<sup>27</sup> See House of Commons Library briefing paper CBP07747: [What is affordable housing?](#)

<sup>28</sup> MHCLG, [English Housing Survey: Headline Report 2018-19](#), 23 January 2020, p1

<sup>29</sup> See House of Commons Library briefing paper SN03668: [Extending home ownership: Government initiatives](#)

<sup>30</sup> HM Government, [The Coalition: Our Programme for Government](#), 20 May 2010, p12

<sup>31</sup> HM Treasury, [Autumn Statement 2014](#), CM 8961, 3 December 2014, para 1.140

## 16 Shared ownership (England): the fourth tenure?

- options to change the operation of the pre-emption right in shared ownership standard leases;<sup>32</sup> and
- other proposals to streamline the resale of shared ownership properties.<sup>33</sup>

The consultation outcome was announced in March 2015:

...the Homes and Communities Agency will amend the model leases and guidance for future shared ownership properties to remove the Pre-emption right following 100% staircasing and amend guidance to recommend providers remove the Pre-emption right following 100% staircasing, for existing shared ownership leases.<sup>34</sup>

In addition, the Government committed to a review of shared ownership focusing on possible longer-term options for change to report to Ministers in Summer 2015.<sup>35</sup>

### 3.2 Conservative Governments 2015-2019

The 2015 Government made low cost home ownership the centrepiece of its housing delivery programme, shifting the majority of grant funding to shared ownership.

In the [Spending Review and Autumn Statement 2015](#) the Government committed to deliver 135,000 shared ownership properties by 2020/21:

**This Spending Review sets out a Five Point Plan for housing to:**

**1. Deliver 400,000 affordable housing starts by 2020-21, focussed on low cost home ownership. This will include:**

[...]

- **135,000 Help to Buy: Shared Ownership homes**, which will allow more people to buy a share in their home and buy more shares over time, as they can afford to. The scheme will be open to all households earning less than £80,000 outside London and £90,000 in London, and will relax and remove previous restrictions such as local authorities' rights to set additional eligibility criteria.<sup>36</sup>

A DCLG press notice gave further details of the changes to shared ownership, including an increase in the income limit, which came into effect in April 2016:

Currently, these [shared ownership homes] are allocated in several different ways including criteria set by local councils, for example

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<sup>32</sup> Shared ownership leases, funded through the Affordable Homes Programme, included a Pre-emption clause where the housing provider could nominate a subsequent purchaser and repurchase the property. This applied to both current and former shared ownership homes which had been 100% staircased.

<sup>33</sup> DCLG, [Proposals to streamline the resale of shared ownership properties](#), 31 January 2015

<sup>34</sup> DCLG, [Proposals to streamline the resale of shared ownership properties: summary of responses](#), 27 March 2015, para 4.2

<sup>35</sup> Ibid., para 4.3

<sup>36</sup> HM Treasury, [Spending Review and Autumn Statement 2015](#), Cm 9162, 25 November 2015, para 1.146

whether potential buyers work in the local area or if they are already in council housing.

Help to Buy Shared Ownership will lift the limits so that anyone who has a household income of less than £80,000 outside London, and £90,000 inside London, can buy a home through shared ownership. Only military personnel will be given priority over other groups. The scheme will apply across England.<sup>37</sup>

According to the Government, as a result of these measures over 170,000 new households became eligible for shared ownership.<sup>38</sup>

On 7 December 2015 the Prime Minister announced a further lifting of restrictions:

In a major expansion to the scheme – which allows people to part buy, part rent properties, increasing their ownership over time – the government will be putting an end to restrictions that stop people using the scheme more than once.

This means that for the first time, those already in a shared ownership property will be able to move to another – allowing them to use the capital they have gained to move to a bigger property, as their families grow or circumstances change.<sup>39</sup>

The Government also rebranded grant-funded shared ownership assistance as ‘Help to Buy: Shared Ownership’.

Budget 2016 announced that funding to develop 13,000 shared ownership homes would be brought forward:

...the delivery of 13,000 affordable homes two years early by bringing forward £250 million of capital spending to 2017-18 and 2018-19.<sup>40</sup>

In April 2016 bidding was opened for up to £4.7 billion of capital grant funding through the [Shared Ownership and Affordable Homes Programme \(SOAHP\) 2016 to 2021](#). The programme aimed to increase the supply of new shared ownership and other affordable homes in England by March 2021.

In the foreword to the prospectus the Secretary of State for Communities and Local Government said that he wanted to take shared ownership provision “to the next level”.<sup>41</sup> £4.1bn out of the available £4.7bn was intended for shared ownership.

The prospectus also made it clear that the Government wanted to encourage greater involvement by the commercial housing sector (private developers and institutional investment) in the delivery of shared ownership. To this end the Government introduced a number of measures to open up the programme for new entrants, including:

- removing restrictions on the type of organisation which can hold an interest in shared ownership properties in the long term;

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<sup>37</sup> DCLG, [Help to Buy new announcements explained](#), 25 November 2015

<sup>38</sup> MHCLG, [A new deal for social housing](#), 14 August 2018, para 191

<sup>39</sup> [Prime Minister’s Office Press Release](#), 7 December 2015

<sup>40</sup> HM Treasury, [Budget 2016](#), HC901, 16 March 2016, para 1.118

<sup>41</sup> HCA, [Shared ownership and Affordable Homes Programme 2016 to 2021: Prospectus](#), 13 April 2016, Ministerial Foreword, p3

## 18 Shared ownership (England): the fourth tenure?

- promoting the agreed transfer model that makes it administratively easy to bid for grant for those that do not want to hold the investment for the long-term;
- offering extra support for those unaccustomed to bidding for grant;
- removing restrictions on accepting indicative bids (i.e. where full scheme details have yet to be worked up by the bidder) which will make it easier for new entrants to bid and receive feedback and support.<sup>42</sup>

Whilst the SOAP 2016-21 was originally intended to focus on delivering shared ownership, the Housing White Paper (February 2017) marked a shift in policy to delivering a wider range of affordable housing, including for social and affordable rent.<sup>43</sup> Following the Autumn Budget 2017, the total budget for the programme was £9.1 billion to 2020/21.<sup>44</sup>

The Government's Social Housing Green Paper – [A new deal for social housing \(August 2018\)](#) – sought views on how to improve the existing shared ownership offer and enable households to buy more equity in their shared ownership homes:

However we know that some people can struggle to buy more equity in their homes. We have heard from both providers and shared owners and identified three main barriers:

a) The minimum 10 per cent staircasing requirement – raising the money to buy a 10 per cent share can be difficult while trying to manage all other monthly outgoings. For some this may take many years, which can be a deterrent.

b) The increasing value of the home – house price inflation creates uncertainty and this can make it difficult for shared owners to plan for the future. House prices rising faster than incomes in recent years has also made it more difficult.

c) The additional fees – shared owners potentially need to pay mortgage and legal fees each time they purchase additional shares.

We are determined to remove the barriers that many shared owners face. We want everyone who enters shared ownership to have the opportunity to increase equity in their home. **How can we best support providers to develop new shared ownership products that enable people to build up more equity in their homes?**<sup>45</sup>

The consultation on the Green Paper closed on 6 November 2018. The Government is currently analysing consultation responses.

In the 2018 Budget the Chancellor announced that Stamp Duty Land Tax relief for first-time buyers would be extended “to all first-time buyers of shared ownership properties valued up to £500,000”, and that the relief would be retrospective “so that any first-time buyer who

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<sup>42</sup> HCA, [Shared ownership and Affordable Homes Programme 2016 to 2021: Prospectus](#), 13 April 2016, para 4

<sup>43</sup> DCLG, [Fixing Our Broken Housing Market](#), 7 February 2017, para 4.27

<sup>44</sup> HM Treasury, [Autumn Budget 2017](#), HC 587, 22 November 2017, para 5.23

<sup>45</sup> MHCLG, [A new deal for social housing](#), 14 August 2018, paras 192 and 193



has made such a purchase since the previous Budget will benefit”.<sup>46</sup> The House of Commons Library briefing paper SN07050 [Stamp duty land tax on residential property](#) provides further information on this measure.

Alongside the 2018 Budget the Government published [a call for proposals](#) from private investors, delivery organisations or partnerships between them, to provide for shared ownership models which could lever private sector funding and capacity to deliver into the sector. The Government said it would either act as a co-funder or help facilitate the removal of regulatory barriers. Proposals were required to “match or exceed the terms of the standard shared ownership lease, particularly in terms of consumer protection”.<sup>47</sup> The call for proposals closed on 1 February 2019. The Government is currently analysing feedback.

### 3.3 New national model for shared ownership

In August 2019, the Government [announced](#) its proposals for a new national model for shared ownership with the objective of making it “fairer, more affordable, and more consumer-friendly as well as a better model for the market to deliver”.<sup>48</sup> The key elements of the new model were as follows:

#### i) Making it easier for people to increase their share of the property.

The Government proposed to make staircasing simpler and more flexible by enabling shared owners to buy further shares at smaller increments (for example, of 1% or more):

We want to make buying smaller chunks a simple, quick process that bypasses the current costly and sometimes lengthy valuations system. We want these changes to be an incentive for consumers to save and buy further equity in the home, helping more people progress towards full ownership. We will explore the best way to achieve this, for example through a fair HPI [House Price Inflation]-based valuation.<sup>49</sup>

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<sup>46</sup> [HC Deb 29 October 2018 cc663-4](#)

<sup>47</sup> MHCLG and HM Treasury, [Innovation in affordable home ownership: a call for proposals for private shared ownership](#), 29 October 2018, p2

<sup>48</sup> MHCLG, [Making home ownership affordable: Discussion paper](#), 28 August 2019, para 19

<sup>49</sup> *Ibid.*, para 29

### **Box 1: Case study – new approaches to Shared Ownership: SO Resi Plus**

The Government's Social Housing Green Paper refers to "SO Resi plus" – a shared ownership model introduced by Thames Valley Housing Association (now Metropolitan Thames Valley) that allows shared owners to staircase in increments of 1%.

The National Housing Federation suggest it could be used as a starting point to design a national model. Its key features are:

- The shared owner opts into the scheme as an addition to their standard shared ownership lease, which remains unchanged.
- The owner can then choose each year whether or not to staircase with a cash purchase of an additional 1% share. They can do this each year for up to 15 years. There is no obligation to staircase, and no administration costs upon staircasing.
- The price of the 1% share is set at year 1 and then increases by 3% compounded each year, giving certainty over future pricing and avoiding the need for a new valuation upon each equity purchase.
- The additional equity share is recorded in the Memorandum of Staircasing, and Metropolitan Thames Valley writes to the lender informing them of the transaction, but there are no additional legal costs. The shared owner is able to register their additional share with the land registry at their own cost but there is no obligation to do so. The lease and land registry are updated when the shared owner exits the scheme (which they can do at any point up to 15 years).
- At any point the shared owner can exit the scheme and staircase by 10% or more via the normal shared ownership staircasing route, with the associated valuation and legal costs.

Source: National Housing Federation, [National Housing Federation response to consultation on New National Model for Shared Ownership](#), September 2019

## **ii) Making it easier for people to sell their shared ownership home**

The Government proposed to remove the 'pre-emption' clause in the current shared ownership model lease which gives the landlord the exclusive right to market the property for the first eight weeks of sale. Instead it proposed to give landlords a time-limited 'right of first refusal' to enable them to repurchase the home to resell as shared ownership if there is local demand. This was intended to "lead to a simpler, more streamlined process that will improve mobility for everyone who enters the tenure".<sup>50</sup>

## **iii) Introducing a standard model for all providers**

The Government proposed introducing a standard shared ownership model that all providers, including for-profit providers, can adopt. This was intended to: reduce complexity and make it easier for consumers to understand; encourage new providers to enter and grow the shared

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<sup>50</sup> MHCLG, [Making home ownership affordable: Discussion paper](#), 28 August 2019, para 31

ownership market; and encourage lenders to provide more competitive mortgage finance.<sup>51</sup>

The Government consulted on its proposals from 28 August 2019 to 29 September 2019 and is currently analysing feedback. See section 3.5 for post-2019 General Election plans to take these proposals forward.

### 3.4 New right to shared ownership

On 17 October 2019 the Government confirmed via a [written statement](#) to Parliament<sup>52</sup> and a [press release](#)<sup>53</sup> that it intended to introduce a new right to shared ownership. Tenants in **new** housing association properties delivered with Government grant would have an automatic right to buy a minimum 10% share of their home, with the ability to increase that share over time, up to full ownership.

In addition, the Government committed to work with housing associations on a voluntary basis to determine what offer could be made to those in **existing** housing association properties, so that the new right to shared ownership could be extended as widely as possible.

Alongside the right to shared ownership announcement the Government confirmed that:

- The initial minimum share ownership required would be reduced from 25% to 10% for all shared ownership homes; and
- Shared owners would be allowed to increase their share of the home in 1% increments - rather than 10% at a time.<sup>54</sup>

The Ministry of Housing, Communities and Local Government (MHCLG) press release gave the following example of how the right to shared ownership would work:

#### **Right To Shared Ownership**

Currently a Housing Association tenant renting a £200,000 property cannot buy a share of that property.

Under Right To Shared Ownership, the tenant could buy an initial 10% stake worth £20,000, while paying subsidised rent on the remaining 90% of the property.

The tenant could make up this 10% stake through a £2,000 deposit and a £18,000 mortgage.<sup>55</sup>

See section 3.5 for post-2019 General Election plans to take these proposals forward.

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<sup>51</sup> MHCLG, [Making home ownership affordable: Discussion paper](#), 28 August 2019, para 36

<sup>52</sup> [HCWS21 \[Right to Shared Ownership\] 17 October 2019](#)

<sup>53</sup> [‘Thousands more people to be given step up onto the housing ladder’](#), MHCLG Press Release, 17 October 2019

<sup>54</sup> Ibid.

<sup>55</sup> Ibid.

### 3.5 The Queen's Speech 2019

The [Conservative Party Manifesto 2019](#) set out the Party's ambition to increase home ownership - "one of the most fundamental Conservative values". Enabling shared ownership is regarded as one means to achieve this.<sup>56</sup>

The Queen's Speech 2019 set out the newly elected Conservative Government's intention to reform shared ownership:

We will introduce a new, reformed Shared Ownership model, making buying a share of a home fairer and more transparent. This new model will be simpler to understand and better able shared owners to buy more of their property and eventually reach full ownership.<sup>57</sup>

The Government also committed to renew the Affordable Homes Programme through which grant funding for shared ownership development is made available.<sup>58</sup>

The Queen's Speech did not refer to introducing a new right to shared ownership for housing association tenants. However, the Government confirmed in response to a written parliamentary question in January 2020 that it intends to proceed with this policy:

**Asked by Sir Gary Streeter on 20 December 2019:** To ask the Secretary of State for Housing, Communities and Local Government, what plans the Government has to introduce a right to shared ownership for housing association tenants; and what assessment he has made of the potential effect of such proposals on the provision of affordable housing in perpetuity.

**Answered by Esther McVey on 13 January 2020:** The Government is committed to delivering home ownership to more people including those who currently cannot access it. That's why on 17 October, the government announced a new Right to Shared Ownership for Housing Association tenants.

The Right to Shared Ownership will apply to all new rental homes delivered through Government grant funding where perpetuity provisions do not apply. A Right to Shared Ownership sale will result in Government subsidy being recycled to support the delivery of future affordable homes to help meet the need of future generations.<sup>59</sup>

### 3.6 Commentary

In general, the Government's proposals to improve shared ownership by making it easier for shared owners to staircase and sell their home and introducing a standard shared ownership model for all providers have been well received by stakeholders.

The National Housing Federation (NHF), which represents housing associations, has cautioned that it is important to ensure that staircasing in low value tranches (e.g. 1%) does not lead to disproportionately high

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<sup>56</sup> The Conservative Party, [The Conservative and Unionist Party Manifesto 2019](#), p29

<sup>57</sup> Prime Minister's Office, [The Queen's Speech 2019](#), 19 December 2019, p48

<sup>58</sup> Ibid.

<sup>59</sup> [PQ 257 \[Shared Ownership: Housing Associations\], 13 January 2020](#)

transaction costs for shared owners and housing associations. The NHF is also in favour of retaining a nomination period during which housing associations have the opportunity to match the property with another potential shared owner, before the property is sold on the open market.<sup>60</sup>

Some commentators have criticised the Government for not focusing on higher priority housing issues, in particular the provision of social rented housing for people in greater housing need. The Chief Executive of the charity Shelter, Polly Neate, responded:

The government must realise that unworkable schemes, laden down with admin costs, are the wrong priority at any time – and are woefully inadequate when this country is facing the current housing emergency.<sup>61</sup>

The Opposition criticised the proposals as “meaningless”:

Shadow housing minister Sarah Jones said: “Tinkering with the details of shared ownership is meaningless when lack of investment from government means low-cost homes for ownership simply aren’t getting built...”<sup>62</sup>

The Government’s proposal to introduce a new right to shared ownership for tenants in new housing association properties has been met with scepticism by the social housing sector, with concern that it could impact on housing associations’ financial strategies. Housing associations are able to borrow money at competitive rates on the basis of having a dependable stream of income through social housing rents. There is a concern that the prospect of their rental housing being converted to shared ownership could compromise that certainty and lead to an increase in borrowing costs. Some lenders place limits on the proportion of shared ownership units they will offer security against. Converting rental assets to shared ownership could therefore potentially impact on housing associations’ ability to raise long-term finance against their assets in order to fund further development.<sup>63</sup>

Some commentators predict that take-up by social housing tenants would be low due to the increased financial liabilities that moving from being a social housing tenant to a leaseholder would entail. According to the English Housing Survey 2017/18, a higher proportion of social renters were in the lowest income quintile (46%) compared to private renters (19%) and owner occupiers (13%).<sup>64</sup> 60% of social renters received Housing Benefit to help with the payment of their rent<sup>65</sup> and

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<sup>60</sup> National Housing Federation, [Response to government consultation on new shared ownership model](#), 3 October 2019

<sup>61</sup> ‘[Shared ownership: NHF welcomes changes as industry reacts](#)’, Inside Housing, 28 August 2019 [subscription required]

<sup>62</sup> Ibid.

<sup>63</sup> ‘[Peabody to halt purchase of ‘large site’ following shared ownership announcement](#)’, Inside Housing, 2 October 2019 [subscription required]

<sup>64</sup> MHCLG, [English Housing Survey 2017 to 2018: social rented sector](#), 17 July 2019, para 1.27

<sup>65</sup> Ibid., para 2.14



## 24 Shared ownership (England): the fourth tenure?

the majority of social renters (83%) did not have any savings or investments.<sup>66</sup>

Unlike with other Right to Buy schemes, a social tenant wishing to become a shared owner would not be offered a discount on the property's market value. Attracting mortgage lenders to lend to social housing tenants is another potential obstacle.<sup>67</sup>

Commentators have also pointed out that the proposed right to shared ownership is not a new concept. The Rent to Mortgage scheme was introduced in 1993 to give council tenants who could not afford the Right to Buy their home the opportunity to purchase it on a shared ownership basis. By 1999 there had been just 40 completed sales.<sup>68</sup> The scheme was terminated by section 190 of the *Housing Act 2004*.

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<sup>66</sup> MHCLG, [English Housing Survey 2017 to 2018: social rented sector](#), 17 July 2019, para 2.5

<sup>67</sup> Inside Housing, 'Unpicking the Jenrick plan', 11 October 2019 [subscription required]

<sup>68</sup> Inside Housing, 'Shared ownership Right to Buy: a gimmick that will not help tenants or landlords', 1 October 2019 [subscription required]

## 4. Barriers to extending shared ownership

Despite the growing popularity of shared ownership in recent years, concerns remain about some aspects of the current model.

A consultation conducted in autumn 2019 by the London Assembly Housing Committee found that shared owners in London were concerned about lack of affordability, high service charges, low levels of staircasing, and insufficient information being provided prior to purchase.<sup>69</sup>

Some of the perceived barriers to extending shared ownership are discussed below.

### 4.1 Complexity

Shared ownership is a complicated hybrid tenure, which can be difficult for potential buyers (the majority of whom are first-time buyers), providers and lenders to understand. This complexity is compounded by variations in product names used by different providers and the range of additional eligibility requirements across different localities. A lack of awareness and understanding is regarded as a key barrier to extending shared ownership.

According to YouGov research, commissioned by developer and landlord Aster Group in 2017, 60% of people surveyed did not understand the main benefits of shared ownership and only half of those surveyed (52%) knew that banks and building societies offer mortgages on shared ownership homes.<sup>70</sup>

A YouGov survey of 200 shared owners in 2018, commissioned by Aster Group, found that many were unaware of the options available to them. While 73% had heard of and understood staircasing, 52% didn't know that they could move from their existing home into another shared ownership property. Just over a quarter (27%) were aware but didn't know how to.<sup>71</sup>

From January 2016, the Government rebranded grant-funded shared ownership assistance as 'Help to Buy: Shared Ownership'. The [Help to Buy website](https://www.helptobuy.gov.uk/shared-ownership/) (<https://www.helptobuy.gov.uk/shared-ownership/>) provides some limited information for the public on shared ownership.

The National Housing Federation (NHF) has launched a [national advertising campaign](#) designed to increase the public's awareness and understanding of shared ownership.<sup>72</sup> The NHF has also developed a

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<sup>69</sup> London Assembly Housing Committee, [Report on Affordable Home Ownership](#), 21 January 2020

<sup>70</sup> '[Shared ownership is the key to answering the nation's housing crisis](#)', Aster Group, 13 September 2017

<sup>71</sup> '[New report suggests shared ownership is the poor relation of Help to Buy](#)', Aster Group, 19 September 2018

<sup>72</sup> National Housing Federation, [Shared ownership](#) [Accessed 23 February 2020]

website - [sharedownership.net](https://sharedownership.net) – which lists shared ownership homes for sale and provides information about shared ownership.

## 4.2 Affordability

Despite only owning a share of the property, shared owners are liable for 100% of the costs associated with the property. These might include monthly service charges for maintenance of communal areas, an annual ground rent and one-off maintenance and repair costs for more significant works. For example, shared owners in blocks of flats affected by fire safety issues may find themselves facing bills for associated works and ‘waking watch’ schemes depending on provisions in their lease agreements.

Shared ownership leases normally provide for an annual rent review. For grant-funded schemes, Homes England currently limits annual rent increases to the Retail Price Index (RPI) plus 0.5%.<sup>73</sup> While rental growth at a national level is roughly in line with RPI, this masks regional variations. Applying a premium on top of an inflationary element may result in rental growth in excess of the market in some areas.<sup>74</sup>

In a rising housing market it is more challenging to access and progress into full ownership as 10% increments become more expensive. Furthermore, staircasing itself involves additional costs for the shared owner, as summarised by the Homeowners Alliance:

### **Buying up increased shares in your property can be expensive**

When it comes to increasing the stake in your property - or “staircasing” - it’s not just buying the share you need to worry about. There are other costs involved:

**Valuation fee** - your housing provider will instruct a surveyor to confirm the current market value of the property.

**Legal expenses** - staircasing will involve changes to your existing lease which will require a solicitor

**Stamp duty** - if you’re not eligible for first-time buyers relief, there are two ways to pay. The first involves one-off payment in advance based on market value of the property and the second is by paying in stages. You will need to calculate the best option for you.

**Mortgage fees** - If you are applying to change lenders to buy your additional share or to access better interest rates you will need to pay the lenders valuation fee and a mortgage arrangement fee, plus any penalty your existing lender may charge for terminating your mortgage with them.<sup>75</sup>

Increases in the costs associated with shared ownership may make it unsustainable for some households or limit their ability to staircase to

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<sup>73</sup> For a more detailed explanation of the provisions see section 4: Rents and service charges of Homes England’s [Capital Funding Guide. Help to Buy Shared Ownership](#), last updated 11 June 2019

<sup>74</sup> Savills, [Spotlight: shared ownership](#), 12 June 2019, p2

<sup>75</sup> Homeowners Alliance, [Shared Ownership: What to watch out for](#) [Accessed 23 February 2020]

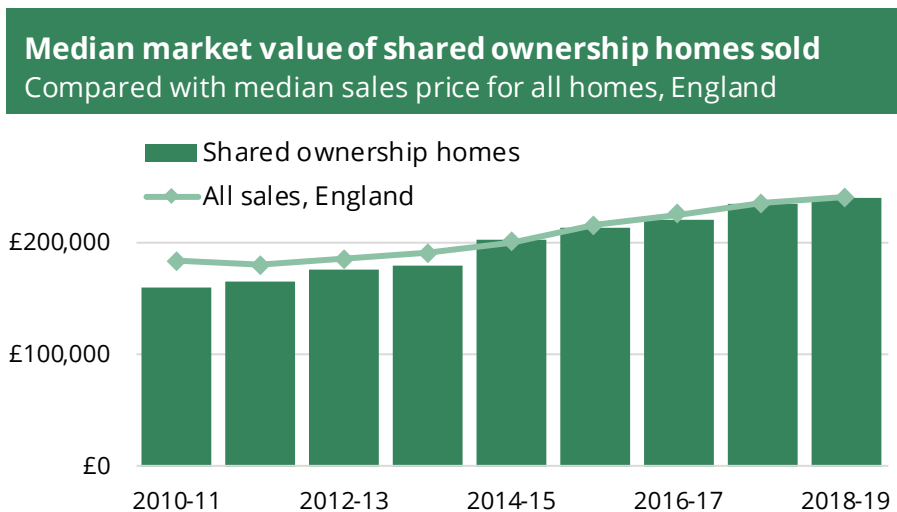
full ownership. The 2018 YouGov survey of 200 shared owners found that only 10% had increased their equity stake, with 63% of respondents identifying affordability as the main barrier.<sup>76</sup>

It is very difficult to compare the ongoing costs of shared ownership with other tenures, such as private sector renting and full home ownership, due to regional differences in costs and the complexity of accurately modelling future rent and interest rate increases/decreases, together with assumptions that would need to be made about the initial equity share purchased and further staircasing.

### Data on shared ownership affordability

The Ministry of Housing, Communities and Local Government (MHCLG) collects some data from housing associations on initial sales of shared ownership homes, although data from local authorities and other providers is not routinely collected.

In 2018/19, the median market price for a shared ownership home sold by a housing association was £240,000 – the same as the median price for all houses sold in England in this period.<sup>77</sup> The median market price for shared ownership homes has risen in recent years (up from £160,000 in 2010/11) and has in recent years been closer to the England average. The chart below shows the trend.



Source: MHCLG, [Live table 697](#), 19 December 2019

Notes: This data covers homes sold by housing associations, but not all local authorities and other providers. It therefore provides only partial information about the shared ownership market.

**On average, buyers purchased a 40% share of the equity in their home in 2018/19.** This proportion has been constant since 2010/11, but the rising market value of shared ownership homes means that the average value of the equity stake purchased has increased. **The median**

<sup>76</sup> 'New report suggests shared ownership is the poor relation of Help to Buy', Aster Group, 19 September 2018

<sup>77</sup> The median is the point at which half of all house sales are at a higher price, and half are lower.

**equity stake was £100,000 in 2018/19, up from £63,000 in 2010/11.**

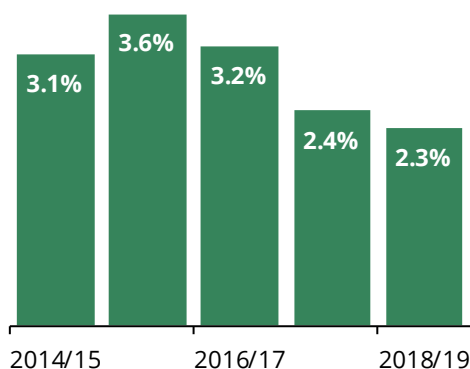
This rise has in turn led to an increase in the size of cash deposits and of mortgages taken out. The median cash deposit has risen from £9,700 in 2010/11 to £12,800 in 2018/19. The median mortgage value has risen from £51,600 to £81,900.<sup>78</sup>

There is limited data on the affordability of shared ownership. Research by the Council of Mortgage Lenders in 2016 put the average income of first-time buyers making a shared ownership purchase at £45,000 in London and £24-34,000 in the rest of the country. They estimated that 36% of buyers were dual-income households.<sup>79</sup>

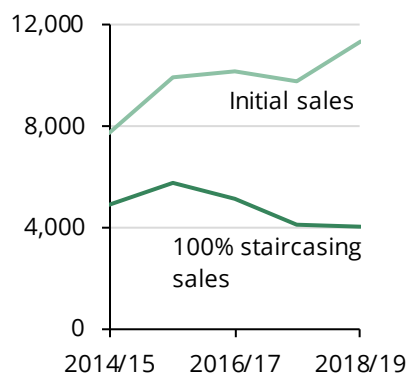
**Existing data also suggests that it is currently fairly rare for shared owners to staircase to owning 100% of the equity in a property.** The chart below shows data from housing associations about equity-sharing schemes including shared ownership and others. Around 4,000 households staircased to 100% ownership in 2018/19, less than half of the number of households buying their initial stake in a home. The number staircasing was equivalent to 2.3% of all shared-equity homes owned by housing associations.

### Staircasing to 100% of equity...

**...as a proportion of total low-cost home ownership stock**



**...versus initial sales of low-cost home ownership**



Source: Homes England, [Statistical data return](#), various years

Notes: Data is submitted by private registered providers of social housing to Homes England. The figures include other shared-equity low cost home ownership schemes, as well as shared ownership.

## 4.3 Mortgage availability

Mortgage availability for prospective buyers is often regarded as a factor limiting the uptake of shared ownership.

Shared ownership is seen as complex and potentially higher risk by mortgage lenders. A 2016 briefing by the Council of Mortgage Lenders

<sup>78</sup> MHCLG, [Live Table 697](#), 19 December 2019

<sup>79</sup> Council of Mortgage Lenders, [Shared ownership: ugly sister or Cinderella?](#), October 2016



outlined the key factors said to “limit lenders’ appetite for and perceptions of this tenure choice” as follows:

- Tougher affordability checks under new mortgage rules and the need to ensure customers have the advice they need.
- In the standard lease, operation of the Mortgagee Protection Clause (intended to protect lenders) can be problematic with some landlords, particularly regarding the treatment of rent arrears on the un-owned share.
- The potential for a more commercially aggressive approach to arrears and possessions by new private providers in the sector is a concern to lenders if it could lead to loss of their mortgage security.
- For many existing shared ownership homes, restrictive conditions on re-sale, often imposed by Section 106 planning agreements, can make shared ownership properties less mortgageable.<sup>80</sup>

Research by the Council of Mortgage Lenders (now UK Finance) in 2016 concluded that rates of mortgage arrears and repossessions amongst shared owners were comparable to other first-time buyers purchasing through the open market.<sup>81</sup>

UK Finance considers that a simpler, standard shared ownership lease and an increase in the supply of shared ownership properties could encourage new lenders to enter the market:

UK Finance would suggest that the market for shared ownership mortgages is a reasonable size for the size of the shared ownership market. Improving the lease arrangements and guidance for housing providers and standardising these could help encourage more lenders to enter the market. The biggest driver for more lenders to do so would probably be a significant increase in the number of properties being offered on a shared ownership basis (and the number of consumers seeking mortgages).<sup>82</sup>

The G15 group of London’s largest housing associations has urged the Government to challenge mortgage providers to support shared owners:

The work of G15 members in promoting shared ownership as a route to home ownership is hampered by the approach taken by mortgage lenders. Our residents encounter two challenges caused by lenders:

- Despite shared ownership being a proven, mature, successful product, only a minority of major mortgage lenders will provide a mortgage for shared ownership properties. This restricts the choice of lender available to potential shared owners.

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<sup>80</sup> Council of Mortgage Lenders, [Shared ownership fact sheet](#), September 2016

<sup>81</sup> Council of Mortgage Lenders, [Shared ownership: Ugly sister or Cinderella?](#), October 2016, p8

<sup>82</sup> UK Finance, [Making home ownership affordable Discussion Paper Date, 18 September 2019](#), p4

- Many lenders that do offer mortgages to shared owners offer less favourable interest rates than on comparable mortgages offered for open market properties.

We ask Government to challenge mortgage lenders to better support shared ownership and treat shared owners more equitably. Reform of lending practices to make shared ownership mortgages more accessible and cheaper would encourage greater take-up and may encourage more rapid staircasing.<sup>83</sup>

The Government's proposal to introduce a standard shared ownership model that all providers, including for-profit providers, can adopt (see section 3.3) is intended to encourage lenders to provide more competitive mortgage finance.

## 4.4 Limited demand in some areas

As the chart on the right shows, shared ownership supply varies by region. In 2018/19 there were around 3,640 shared ownership homes completed in the South East and 3,320 completed in London. This works out to around nine shared ownership homes per 10,000 existing homes in the region. By contrast, there were 846 shared ownership completions in the Yorkshire and the Humber region – around three per 10,000 existing homes.

Demand for shared ownership varies around the country, as does the financial viability of development. Demand is greatest where affordability is most stretched – largely in the south of England.

In some areas the Government's [Help to Buy: Equity Loan](#) scheme is financially more attractive to first-time buyers. The scheme provides up to 20% of the cost of a newly built home, with buyers providing a 5% cash deposit and a 75% mortgage to make up the rest. Buyers are not charged loan fees on the 20% loan for the first five years after purchasing the home.

According to analysis by the property agent Savills, demand for shared ownership homes is likely to increase once the Help to Buy: Equity Loan scheme closes in 2023:

As it stands now, Shared Ownership occupies a similar but much smaller place in the market to the Help to Buy equity loan (HtB). Our analysis shows that, given the same deposit, monthly costs for the two schemes are similar. Shared Ownership offers lower barriers to potential homeowners, however, as the initial deposit can be as low as 1.25% of the total property value.

Due to these similarities, there is significant overlap in the target markets for Shared Ownership and Help to Buy. This has helped suppress take-up of Shared Ownership over the last five years.

**Shared ownership completions per 10,000 existing homes, 2018/19**



Source: MHCLG, Live tables [1007bC](#) and [100](#)

<sup>83</sup> [G15 Response to the Social Housing Green Paper: 'A new deal for social housing'](#), 6 November 2018, p23

Once Help to Buy ends, as Government states it will in 2023, Shared Ownership will become the main route to home ownership for those unable to access the market. This could increase demand for Shared Ownership homes by over 15,000 homes per year.<sup>84</sup>

## 4.5 Reselling

The current shared ownership model lease includes a 'pre-emption' clause whereby the housing provider has the exclusive right to market the property to potential buyers, before it is placed on the open market. This process can delay the sale. A qualitative research project, conducted by academics at the Universities of Bristol, York and Kent, identified shared owners' dissatisfaction with housing association resales services and concerns about the level of fee housing associations charged for marketing their property.<sup>85</sup>

Furthermore, the secondary market for shared ownership homes is small and it can be difficult to match buyers and sellers. A shortage of shared ownership properties – including homes of different sizes and types – can make it difficult to move within the tenure.

As previously noted, the Government has consulted on a proposal to give shared owners more control over the sale of their homes by removing the pre-emption clause, whilst giving landlords a time-limited right of first refusal to enable them to repurchase the home to resell as shared ownership if there is local demand. (see section 3.3)

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<sup>84</sup> Savills Research, [Shared Ownership](#), 12 June 2019, p2

<sup>85</sup> See Leverhulme Trust, [Exploring experiences of shared ownership housing: reconciling owning and renting](#), Dave Cowan (University of Bristol), Alison Wallace (University of York) and Helen Carr (University of Kent), July 2015

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