SO resi

By Metropolitan Thames Valley

Shared Ownership Market Review 2020

In conjunction with

UNIVERSITY OF CAMBRIDGE

Summary

- Shared ownership has been around as a housing tenure for more than 50 years and in its current form offers a lower barrier to entry onto the housing market with shares starting at 25%.
- Most people buying under shared ownership are in the 20-40 age bracket and single-adult households make up 50% of buyers.
- In 2018/19 the average market value of shared ownership properties was £265,000, and the average initial stake purchased was 42%.
- Demand for shared ownership properties exceeds supply in some instances by as much as 10 to 1.
- The Government is proposing several changes to shared ownership to make it accessible to more people, while generally welcomed some specific proposals raise questions about affordability for buyers and viability for providers.
- There is concern among providers about the availability of grants for shared ownership and how much stock can be delivered if First Homes are introduced.
- The viability of the asset and demand from buyers is driving interest from funders in shared ownership with a commitment to delivering on the ESG agenda adding to the appeal.

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1.0 / Introduction

Shared ownership has been a piece of the affordable housing jigsaw for more than 50 years. It offers more people a path to home ownership and with house price rises often outstripping wage growth, demand has never been higher.

1.0 / Introduction
SO Resi by Metropolitan Thames Valley

Back in 2013 research by homeless charity Shelter found that 1.8 million low to middle-income families were unable to afford the mortgage on a local three-bedroom home. The need for more affordable housing options, including shared ownership continues to grow.

Shared ownership's importance as a route into home ownership is recognised by the Government which is proposing changes to help make it easier and accessible to more people.

Metropolitan Thames Valley Housing Association has been involved with shared ownership since the 1970s. Our experience informs our decisions and strategy but there is no industry-wide data and research to give a broader picture of the trends and market performance.

It is the reason we commissioned Cambridge University to conduct quantitative and qualitative research into shared ownership. That research has helped to inform this report which takes a comprehensive look at the sector and its outlook.

You will find an overview of the Cambridge research findings together with analysis of the Government's proposed changes and the future of the sector. The report also looks at funding models and offers the views of lenders and buyers.

We see this report as a starting point to fuel confidence, open up discussions and opportunities to collaborate so that the shared ownership can continue to grow and deliver moreof the affordable homes our country desperately needs.

We welcome your thoughts and feedback, please email kush.rawal@mtvh.co.uk

2.0 / About the tenure

Shared ownership as a means of helping people buy a home which would otherwise be unaffordable has existed in some shape or form since the 1960s and 1970s. Different schemes have been aimed at different groups from key workers to first-time buyers.

“I did a lot of research on buying my first home, from talking to friends and family, and seeking mortgage advice. Buying a home on the open market was out of the question, so I was left weighing up either using shared ownership or Help to Buy. They are both great schemes, but shared ownership was the better option to go for in my current position – I liked the fact that I wouldn’t have to pay off an equity loan, so it means less stress if and when I want to sell my home further down the line.”

Helen Lambert / SO Resi Ware resident

Its different iterations including co-ownership and rent to buy are tied to the thinking and policies of the Government of the time.

Staircasing – the ability to buy more shares in your home - as a component of shared ownership was first introduced in 1980 (1).

As at 2019, some 200,000 households live in shared ownership accommodation according to Savills and housing associations are the most common provider of shared ownership.

In its current form, shared ownership gives people who are unable to afford a large enough deposit or mortgage a lower barrier to entry into home ownership. They can buy a 25%-75% share of a property, paying rent on the remainder. The total cost of mortgage and rent is often found to be a cheaper option than renting on the open market.

Properties are always leasehold and shared owners get the option to staircase in increments starting at 25% with the cost based on the current market value of the property. The shared owner has to pay valuation and legal fees each time they staircase. Through staircasing, shared owners can own their home outright.

To be eligible for shared ownership a household has to be earning £80,000 or less (£90,000 in London) and one of the following applies: first-time buyer, former homeowner but cannot afford to buy now, or an existing shared owner.

When selling the home, the housing association or provider gets the first option to buy or find a buyer from their waiting list unless the property is owned outright.

The Government has proposed some changes to the shared ownership model to make it accessible to more people and easier to staircase (see ‘The future of Shared Ownership p14).

For housing associations, shared ownership enables them to add variety to their affordable housing offer and gives them an initial release of capital which they can reinvest into building more product. For funders, it offers a stable income on a product for which there is high demand and an asset that has good ESG (Environment, Social and Corporate Governance) credentials.

References

(1) Exploring experiences of shared ownership housing: reconciling owning and renting by Dave Cowan, University of Bristol, Alison Wallace, University of York and Helen Carr, University of Kent, 2015 https://www.york.ac.uk/media/chp/documents/2015/sharedOwnershipCHPL.pdf
(2) Shared ownership eligibility https://www.gov.uk/affordable-home-ownership-schemes/shared-ownership-scheme

3.0 / Market overview

To get a comprehensive view of the health and performance of the shared ownership sector, Cambridge University has undertaken qualitative and quantitative research for Metropolitan Thames Valley Housing Association.

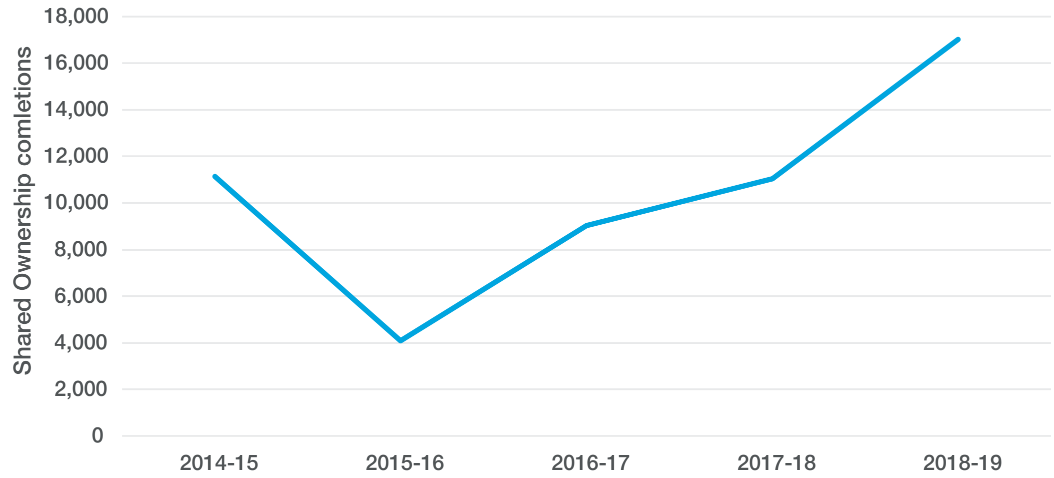
Here we set out some of the key findings including how much is being built and where who is buying and how they are buying.

The full research results are also available to read here or download

Development activity

As house prices have risen so has demand for shared ownership properties fuelling an increase in development. After a dramatic drop in 2015/16 – a legacy of the financial crash – completions have risen dramatically.

Figure 1
Shared Ownership completion 2014/15-2018/19



Much of this development activity was focused on London and the South East which accounted for 49% of the completions. This is primarily due to the high house prices in London and the South East, making affordability a bigger barrier than elsewhere in the country.

In June 2020, the average house price in London was £490,495 and £327,558 in the South East. According to Which Money, the average deposit for a first-time buyer in London in 2019 was £109,885. In some markets, shared ownership can be the only affordable option to get on the housing ladder.

Region	Total 2014/15 - 2018/19	% of total built
North East	1,495	3%
North West	4,979	10%
Yorkshire and The Humber	1,562	3%
East Midlands	3,736	7%
West Midlands	3,706	7%
East of England	5,529	11%
London	14,290	27%
South East	11,266	22%
South West	5,739	11%

Table 1
Shared Ownership completions by region 2014/15-2018/19

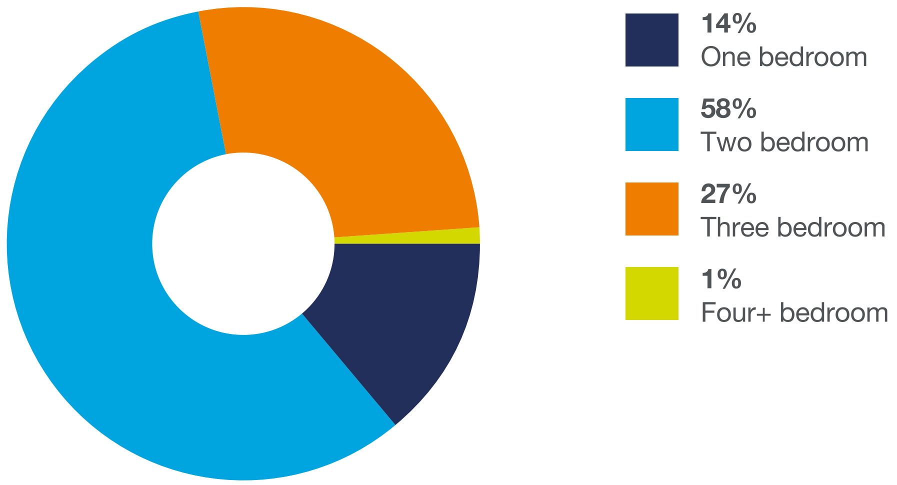
References

(Figure 1) Data on Shared Ownership, Analysis from RSM, 23 October 2020
(Table 1) Data on Shared Ownership, Analysis from RSM, 23 October 2020

3.0 / Market overview

Of the homes completed most were two-bedroom properties (58%) with three-bedroom homes making up 26.6%.

Breakdown of properties sold



The average market value of shared ownership properties purchased in 2018/19 financial year was £265,000 and the average initial share purchased was 42%.

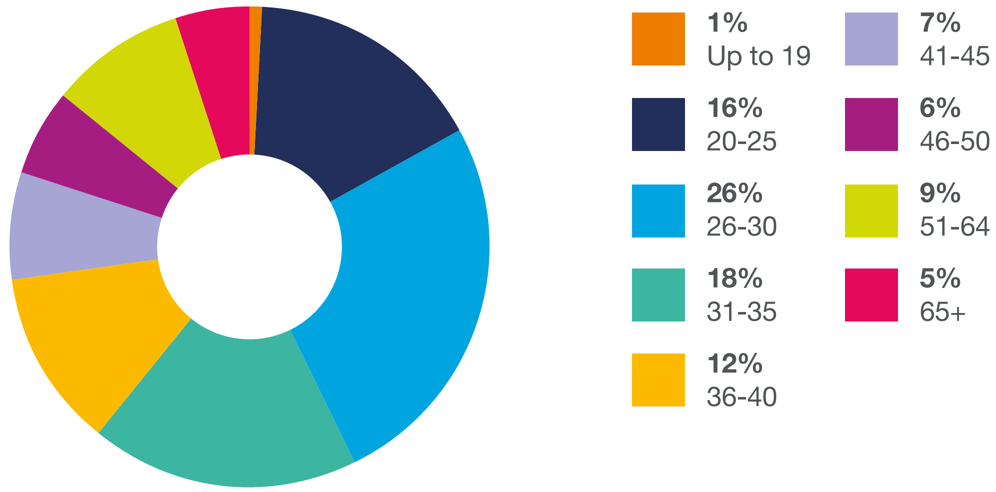
Just over half of the shared ownership properties were funded by Section 106 (nil grant) and a further 36% were developed by private registered providers funded by the HE/GLA.

Of the housing associations surveyed for the research, the number of new homes under construction for the 2020/21 financial year totalled 5,264 or 13% of their total stock and most were looking to increase their stock of shared ownership

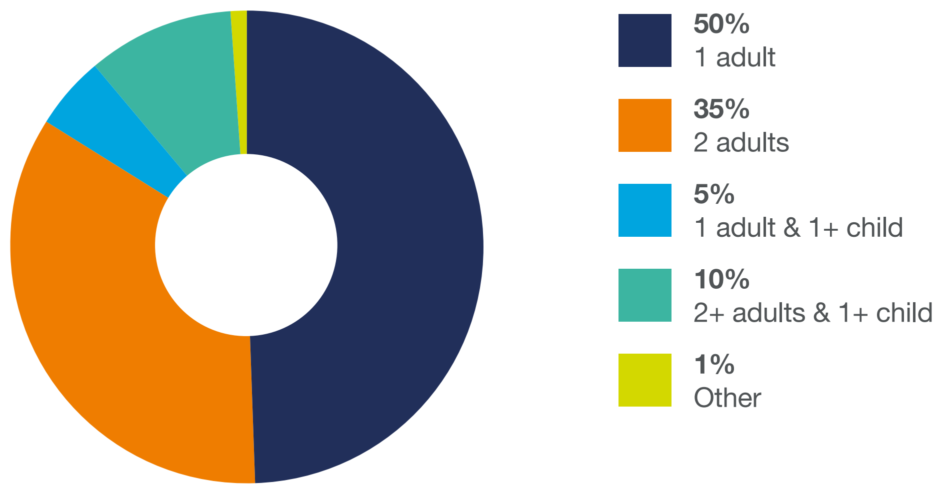
Buyer trends

Most people buying with shared ownership are in the 20-40 age bracket with 26 to 30-year-olds accounting for 26% of buyers. The proportion of buyers aged over 40 years old drops considerably. Single-adult households make up 50% of buyers and 85% are households without children. The vast majority are employed – 94%.

Age of shared ownership purchasers 2017/18



Household type, shared ownership purchasers 2017/18



3.0 / Market overview

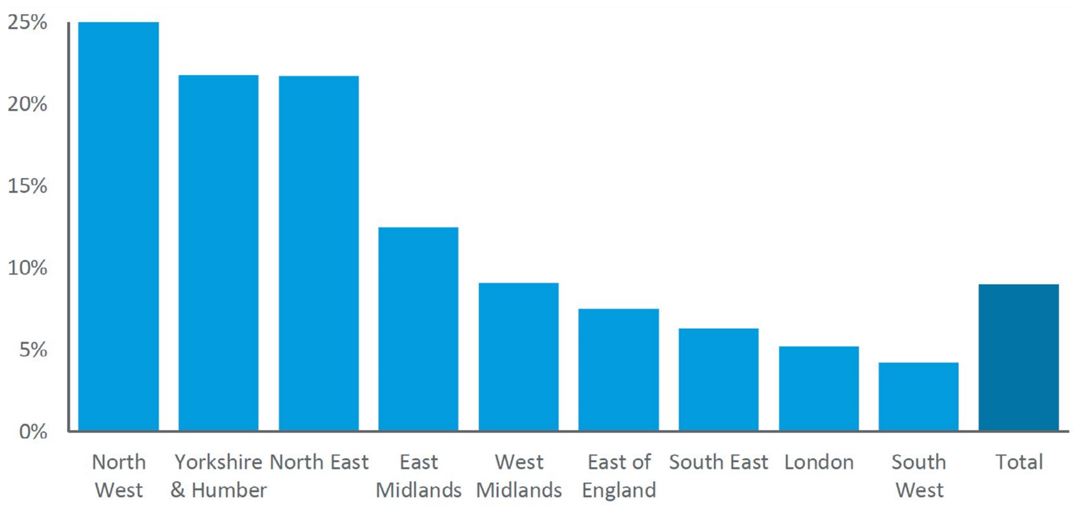
According to MHCLG data, in 2018/19 the average initial stake purchased was 42%. The size of the initial stake varies greatly depending on the region with buyers in the South tending to buy smaller initial shares as house prices are generally higher.

Table 7 Financial Data on Shared Ownership, 2014/15-2018/19

Year	Market Value per dwelling	Initial Equity Stake Purchased	Initial Equity Stake Purchased	Mortgage	Cash Deposit
2014-15	£232,000	43%	£96,200	£76,400	£20,000
2015-16	£252,800	42%	£101,600	£81,700	£21,400
2016-17	£252,500	43%	£104,900	£84,800	£20,200
2017-18	£262,500	43%	£108,200	£89,200	£19,600
2018-19	£265,000	42%	£108,100	£85,300	£24,600

Source: MHCLG Live Table 697

Figure 2 Proportion of buyers purchasing an initial share of 60%+ by region (2014-15 to 2018-19)

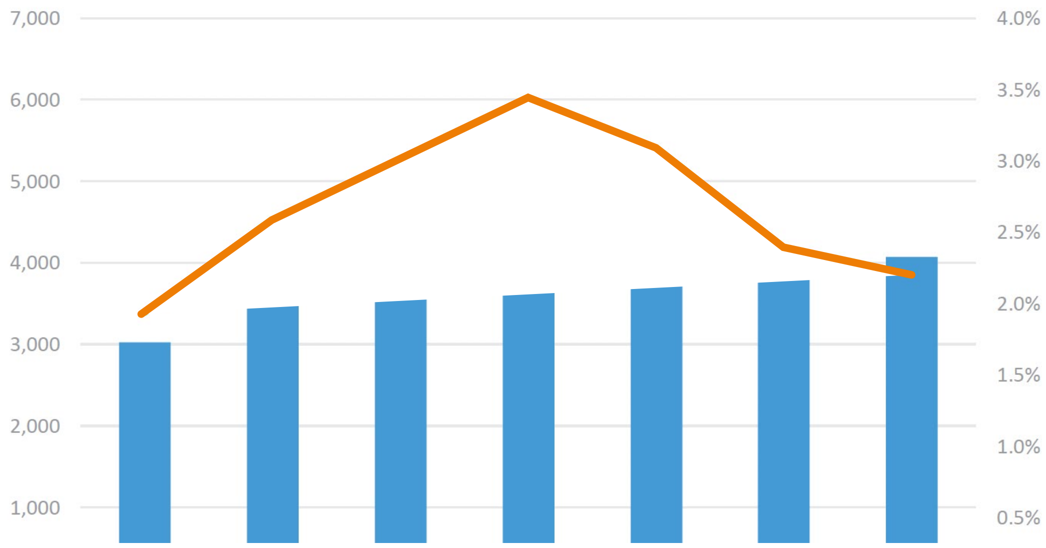


References
(Table 7) Data on Shared Ownership, Analysis from RSM, 23 October 2020
(Figure 2) Data on Shared Ownership, Analysis from RSM, 23 October 2020

Leases and charges

A 125-year lease is the most common among housing associations with an average service charge of £595 per year.

Figure 3 Staircasing rates 2012-19



Some 2-3% of owners staircase to 100% of the value of their property each year. The data suggests that the majority of shared owners who are going to sell, tend to do this within the first five years but a larger number remain in their property for the longer term.

Arrears and repossessions

At the time the research was conducted (Autumn 2020) 9.1% of shared owners were in arrears with two thirds of housing associations who responded reporting that arrears had increased compared to the previous year.

Over a five-year period, the data supplied by housing associations shows a repossession rate of 26 shared ownership properties per year. While stock levels have undoubtedly increased making it difficult to draw direct comparisons, the data supplied for the current financial year suggests repossessions are on the rise.

References
(Figure 3) Data on Shared Ownership, Analysis from RSM, 23 October 2020

3.0 / Market overview

Future demands

During the research, participants were asked about the impact of the Covid-19 pandemic and their plans.

The initial impact was a rise in enquiries about shared ownership and the sector seems to have bounced back quickly since the first lockdown. Demand exceeds supply in some instances by as much as 10 to 1. Lenders too also reported a post lockdown bounce with more enquiries than usual.

Longer-term there are economic uncertainties – the fall-out from the Covid crisis and Brexit. This may or may not impact demand. Buying a home and moving is expensive which may be off-putting with such an uncertain outlook but equally the flexibility of shared ownership and the lower entry point into the market might increase demand.

Changes to the availability of low deposit, first-time buyer mortgages are also thought to have driven an increase in demand for shared ownership for those without access to a large deposit.

There is concern among those surveyed about arrears as Government support runs out. At the time of the interviews, the furlough scheme was due to end in Autumn 2020 but has since been extended to March 2021.

While the research was being undertaken, the Government announced proposals to change the shared ownership model making it accessible to more people including the ability to buy a 10% initial stake. The majority of housing associations surveyed thought the changes would increase demand for shared ownership by making it more attractive.

However, it could decrease the number of shared ownership homes they can deliver because of viability. See the Future of Shared ownership p14 for more on the Government's proposals and the impact on the sector.

References

Government data on house prices: https://www.gov.uk/government/news/uk-house-price-index-for-june-2020
Average deposit in London: https://www.which.co.uk/news/2020/02/how-big-a-deposit-do-you-need-to-buy-property-where-you-live/
Housing completions https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/875361/House_Building_Release_December_2019.pdf

"I have lived in Ealing for over 18 years, and Diego for 5 years, and we love living here – but property prices are very expensive. By using shared ownership, we were able to purchase a 25% share in a two-bedroom apartment with a deposit of just £14,000. Our plan is to staircase and buy an additional 1% share every year for the next 15 years. Shared ownership was an opportunity for us to invest in something of our own, and without it, we wouldn't have been able to buy in Ealing."

Terry Harvey / SO Resi Ealing resident

4.0 / Future of Shared Ownership

Proposed Government changes to Shared Ownership

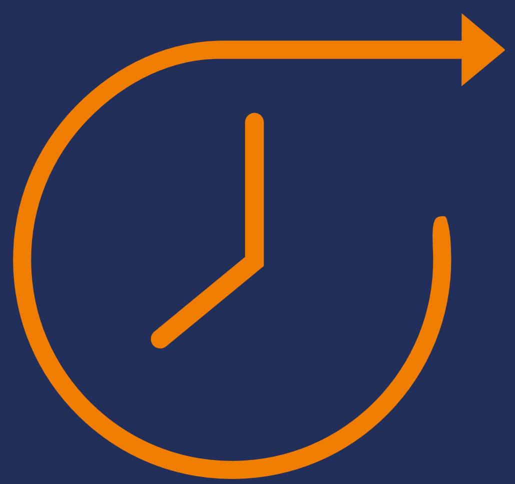
In September the Government announced a raft of proposals to make shared ownership an easier route to home ownership. It sees the value and opportunity in the tenure to help people onto the housing ladder and is looking to address some of the issues that prevent or deter people from buying this way.

Making shared ownership more accessible is important to help more people access home ownership but a balance needs to be struck so that it remains a viable product for providers and investors.

There needs to be clarity about what shared ownership is and what it isn't and consistency in the offer so that it is better understood, something which was highlighted in Shelter's Homes for forgotten people report in 2013.

"The market hasn't managed to achieve major scale because successive governments have kept launching new piecemeal schemes, changing the rules of the game, making it hard for consumers to know their options, and for mortgage lenders and the wider industry to get behind it in a meaningful way,"
states the report.

A single standardised version of the product would reduce customer confusion and help to present clear messaging around share ownership, something generally supported by providers and stakeholders.



4.0 / Future of Shared Ownership
SO Resi by Metropolitan Thames Valley

4.0 / Future of Shared Ownership

Here we set out some of the pros and cons of the rest of the Government's proposals.

10% share

The current minimum initial share you can buy is 25% but the Government wants to lower this to 10% to open shared ownership to more people. There are three potential problems with this.

- Shared owners are responsible for all the repair and maintenance costs of their homes regardless of how much they own. It can already feel unfair that those with just 25% share have to pay 100% of the maintenance costs with 10% share it may become even more inequitable.
- There are also questions of overall affordability. Most people enter shared ownership to eventually own their property outright. If only 10% is affordable then complete ownership looks more out of reach.
- Rent payments have to be factored in as it is proportionate to how much is owned and goes up each year – as do service charges. If the vast majority of what is paid is rent then the annual increases could accrue quite quickly making it more difficult to save up or extend mortgage payments for staircasing.

Cambridge University's research found that the average initial share bought was 42%, substantially more than the minimum of 25% which implies that the minimum share isn't a barrier to entering into shared ownership. Is shared ownership the right option for someone who can only afford 10% of the value of the home?

There may also be a problem securing a mortgage on a 10% share if the amount falls below the minimum amount that mortgage lenders can offer.

While the option for buying an initial 10% is likely to boost demand from buyers there was a feeling among those surveyed in Cambridge's research that it would make it more difficult to develop as the repayment on the capital expenditure is much smaller initially.

4.0 / Future of Shared Ownership

Maintenance costs

Shared owners will remain responsible for repairs inside of the home but will be eligible to reclaim costs from the landlord for the essential repair or replacement of (if faulty and not covered by warranty): installations in the flat or house for the supply of water, gas and electricity and for sanitation (including basins, sinks, baths and sanitary conveniences, but not other fixtures, fittings and appliances for making use of the supply of water, gas or electricity), pipes and drainage installations in the flat or house for space heating and heating water shared owners will be able to claim up to a maximum of £500 in repair costs per year. Repair and maintenance costs in excess of this will be the responsibility of the shared owner. We have included a cap to prevent misuse of the scheme and to limit the landlord's exposure.

Re-selling

If a customer wants to sell their property, the housing association has 8 weeks to find a buyer from their waiting lists before the property can go onto the open market. The length of time this could add to the sale process is off-putting to some thinking about shared ownership.

The Government is proposing to change the rules to speed up the process giving the provider 4 weeks to sell. However, this doesn't factor in the time it takes to get a property ready to market. On the open market, an estate agent would normally tie in a seller for 12 weeks.

While this makes it easier for the owner, being able to offer properties to people waiting for shared ownership is an important part of what housing associations do. It means more shared ownership product is available and allows people to upgrade to bigger properties. Such a change could reduce stock overall at a time when demand for shared ownership is increasing.

1% share

Currently, the minimum additional share a customer can buy is 10% but each purchase carries with it valuation and legal costs on top. To make it easier for customers to staircase the Government is proposing 1% shares with reduced fees.

MTVH's SO Resi (see comment p22) already offers the ability to buy an additional 1% share each year for 15 years without the valuation or legal costs and based on value increase of 3% per year. If the value of the property was to drop, the customer doesn't benefit but what they do get is cost certainty each year so they can make an informed decision.

In the Government's proposal, the value will be index-linked which removes the certainty of costs of each share year on year and potentially makes it more complicated for the buyer.

Leasehold reform

Leasehold reform is seen by many as a priority including the Government. The current system is antiquated and open to unfair practices. Leases are often set at 99 years and it can impact the value of the property when there are less than 80 years left.

Extending the lease is costly involving valuation and legal fees. In extending the lease the home-owner is, in essence, paying for the privilege of continuing to live in the home they've already substantially invested in.

Reform would give customers more control and influence and the right to scrutinise and question future expenses which they can't do with the current leasehold system.

The law commission has made a raft of recommendations for leasehold reform to bring it closer to freehold and looked at alternatives such as commonhold and trusts. Some changes are becoming law in April – a ban on leasehold house sales and restrictions on ground rents. The Government is also reviewing the system for evaluating the cost of lease extensions.

It is hoped that further recommendations will become law but given it is a complex system untangling it to make it fairer isn't easy. Many investors – including institutional investors – are invested in leasehold products.

And there are question marks over what happens to the homes in existing leasehold structures once changes are made. What impact could it have on values and ability to sell on?

Challenges and opportunities for delivery

While the Government's proposals show a commitment to shared ownership, it is also pursuing First Homes in which homes are offered to first-time buyers at a 30% discount to the market value. And while there will always be demand for shared ownership because of rising housing prices, the focus on First Homes could reduce the amount shared ownership homes that are delivered.

Gemma Burgess, Acting Director Cambridge Centre for Housing and Planning Research, University of Cambridge explains: **"The consensus among providers is that they are planning to build more [shared ownership] but if planning reforms go through and First Homes become the preferred form of 'affordable' housing then I suspect that will have an impact on the number of shared ownership homes that providers can deliver."**

5.0 / Lender case study

Phillipa Cardno
Operations & Sales Director
Newbury Building Society

Newbury Building Society has been lending to buyers of shared ownership homes for 17 years.

It started small, testing the waters to better understand the tenure. Newbury's interest wasn't necessarily about high returns as profits are ploughed back into the business rather than paid out to shareholders.

Phillippa Cardno, Operations & Sales Director at Newbury Building Society says shared ownership is a good model: **"Building societies' purpose in life can be slightly different to non-mutuals, the purpose is to help someone find a home to live and housing associations have a similar purpose, therefore, the two fit very well."**

Newbury's involvement with shared ownership has evolved from those early tentative years. It could see that it was a good product and a great route into home ownership for first-time buyers particularly in the south where prices are high. But there was room for improvement.

Lending on shared ownership is more complex because there are three parties involved – the lender, the housing association and the buyer. Data that Newbury gathered was used to help change the leasing model in 2010 to give lenders better protection and provide clarity.

"My view is that if you want this product to work, you need to standardise it," says Cardno. **"Lenders don't want housing associations doing different things because you have to put too many controls and different processes to make it work - it becomes commercially unviable."**

Newbury also did some work around SLA agreements which are voluntary but are important to strengthen the relationship between lender and housing association and ultimately better serve the customer.

Since 2010 Newbury has, to use Cardno's words **"put its money where its mouth is"** and shared ownership now represents 26% of Newbury's more than £1 billion mortgage book. It's still a niche product but has seen the customer profile change.

As house prices have risen more and more young professionals are buying via shared ownership and while first-time buyers still dominate, more recently there has been an increasing number of second-time buyers.

"We're a cautious lender but first-time buyers of shared ownership aren't any different from any other first-time buyer. The risks are the same," says Cardno. **"And we see shared ownership as a low-risk transaction."**

So what about the future for shared ownership, does Newbury still see it as an attractive product?

"Yes, definitely," says Cardno.

"We were aware of shared ownership, and viewed it as a great way to get onto the property ladder thanks to the lower deposit requirement. Shared ownership was also appealing due to its flexibility – there are no set times for us to staircase, so we can purchase more shares when we are in a position to be able to. At the moment we are taking things as they come, but long term our plan is to staircase to 100% ownership."

Olly and Jess / SO Resi Alford residents

6.0 / Funding Shared Ownership

Is it an attractive proposition for lenders and investors?

The rate at which the shared ownership sector has grown, particularly in the past few years is a testament to demand and the financial backing registered housing providers have secured to deliver product. Low interest rates have of course helped.

The most common route to developing is for housing associations to borrow against their existing assets. This isn't without its challenges. The thinking around how shared ownership assets are valued is changing. Currently, the assumption is based on the existing use of shared ownership into perpetuity, but a portion of the shared ownership product is HPI inflation linked.

For those financing shared ownership development, it is a product which almost operates like a fixed, Full Repair and Insure lease (FRI), so there aren't hidden extra costs. It's a relatively secure income stream with HPI indexed-linked increases, which differs from a lot of other products that are available.

There is an initial capital receipt and longer-term rental income plus additional capital receipts when owners staircase - linked to the current market value. What funders don't have is control over the access to those future capital receipts.

One of the issues of the past has been the lack of data on the performance of the asset which Cambridge University research is looking to address.

There are risks. Unlike an affordable rental product, shared ownership is market-driven; the asset could get securitized at a certain value if the market changes and there isn't any control over the number of buyers who staircase which can reduce the level of security. Naturally, lenders want the surety of knowing the asset they funded fundamentally remains the same type of asset.

Nonetheless, a combination of the viability of the asset and demand from buyers outstripping supply means more funders are looking at shared ownership. An increasing desire to commit to products which deliver on the ESG agenda (Environment, Social and Corporate Governance) is adding to the interest.

In recent years more for-profit registered providers have entered the market. They undergo broadly the same level of scrutiny and regulations as a not-for-profit providers.

Long-term social impact funds are looking to target equity in existing assets and will partner with a housing association taking a sale and leaseback approach. The housing association manages the properties with both partners sharing the risk on income. Regulations on this kind of financing have been tightened up in recent years to better protect customers.

A more recent trend in the market is investment firms setting up as registered providers. One option, potentially the easier one, is to buy up an existing registered providers' stock. This frees up capital for the registered provider to build more homes.

But some are also setting up so they can develop. There is an opportunity to collaborate with housing associations who can provide wrap-around support and the infrastructure to help investors using their long-term experience in the sector.

While shared ownership is unlikely to become a mainstream investment asset, the increasing interest and development of new partnership models will undoubtedly help in delivering more product.

7.0 / Comment

Kush Rawal
Director of Residential Investment
Metropolitan Thames Valley

The evolution of shared ownership and where we go next

MTVH has had a shared ownership offering since 1973 but there has never been a time when there has been more interest or greater opportunity for the sector.

Rising house prices, particularly in London and the South East, has fuelled demand from buyers looking for an affordable way onto the housing ladder. At the same time, the Government is looking at ways to make home ownership simpler and easier for more people (see 'The future of shared ownership' p14),

The value and viability of shared ownership for Housing Associations means there is an increasing appetite to deliver more product – and satisfy demand. There is also increasing interest from for-profit housing providers and institutional investors who want to help grow the market.

It is a pivotal time for shared ownership, a chance to look at how we can grow the sector while improving it for customers.

Our first job is to make it easier to understand as a tenure. We've got nearly 50 years of experience and yet when you compare the messaging around shared ownership with Help to Buy and the success that has had, it is obvious that we need to do better.

Progress is being made, the National Housing Federation's has run a great campaign to raise awareness, for example. But we have a real opportunity now to come together as an industry and create clear and simple messaging around shared ownership so it can deliver on its potential.

SO Resi was, in part, born out of this idea. We'd always taken a general approach to shared ownership but customer research showed us where we could improve. In response, the So Resi brand is an evolution of what we were delivering, it is about clarity and simplicity, helping people to understand the tenure and what they are buying.

We got rid of the jargon, we don't talk about staircasing we talk about buying more shares, we don't talk about rent we talk about the So Resi payment.

It also heralded the birth of a new product, SO Resi plus. People come to shared ownership wanting to own 100% of their home but however good the customer feedback there was still a sense of dissatisfaction with the systems for buying further shares.

What we couldn't do is magic up the financial viability to make that happen overnight but what we could do is provide little springboards that might help. The costs associated with buying up additional shares paying for valuations and legal fees each time, for example, could be prohibitive.

SO Resi plus allows customers to buy an additional 1% a year for 15 years without fees and with the certainty of knowing how much it is going to cost each year.

Our next steps are looking at long-term tenure. Shared ownership, since its inception, was designed as a stepping-stone to 100% ownership but the rise in house prices at a much faster rate than wages means that isn't always going to be possible, particularly in London.

So we are looking at our product to see if it is suitable for long-term tenure and how we can improve that experience for those customers.

Shared ownership is a great product and it works and it needs to continue to work for the changing landscape.

It's a pivotal time for shared ownership, a chance to look at how we can grow the sector while improving it for customers.

8.0 / Appendices

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Data on Shared Ownership
Analysis from RSM

Appendices 2
The Shared Ownership Sector in 2020: Interview Findings
Cambridge University

DATA ON SHARED OWNERSHIP

Analysis from RSM

23 October 2020

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

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INTRODUCTION

This data analysis has been prepared by RSM Economic Consulting to support the research being undertaken by the Cambridge Centre for Housing and Planning Research into shared ownership.

The research draws on government data on shared ownership collected via CORE and the Statistical Data Returns (SDR). This was supplemented by a survey of shared ownership providers. The survey was distributed to shared ownership providers in England by the National Housing Federation. A total of 24 housing associations completed the survey. Between them these respondents owned 41,073 shared ownership properties in England, just under a quarter of all shared ownership homes in England. The data from the survey has been used to fill gaps in the secondary data that is available for the entire sector from other sources.

THE SHARED OWNERSHIP SECTOR IN ENGLAND

The size of the sector

This data is taken from the 2018/19 SDR, which records data about housing association stock. In total, the SDR recorded **180,688** shared ownership properties in 2018/19.

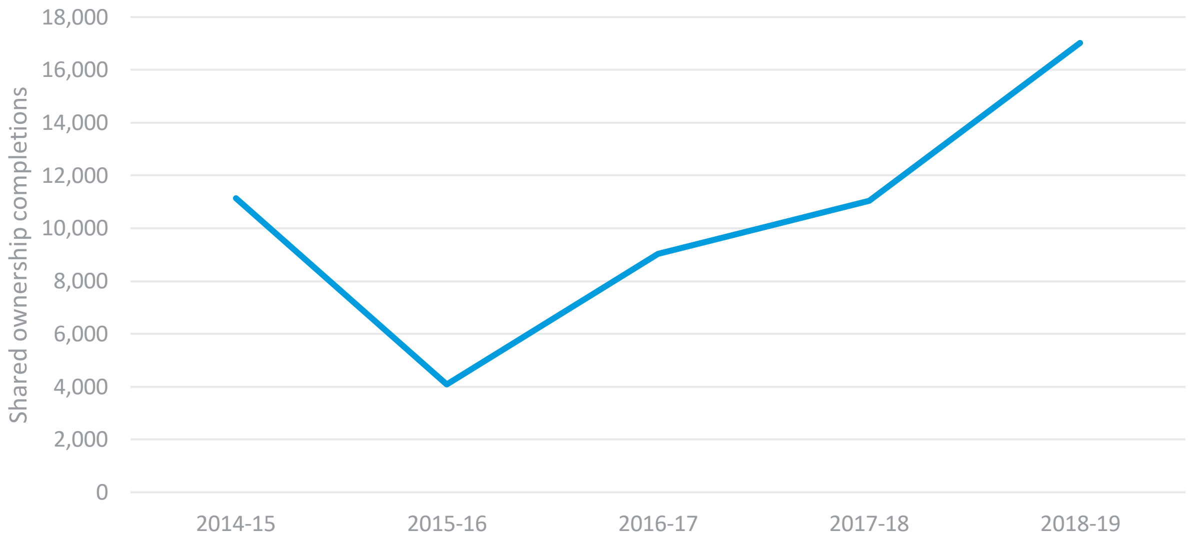
It records 246 associations as having shared ownership stock. This includes four organisations whose main focus is home ownership and whose stock is entirely this type of tenure. The large majority of the housing associations (234 of the 246) report between 1% and 19% of their stock as being shared ownership, with a further eight reporting that shared ownership makes up between 20% and 35% of their stock.

Shared ownership units built and under construction

The size and location shared ownership being built

The number of shared ownership homes built has increased in recent years:

Figure 1: Shared ownership completions, 2014/15-2018/19



Source: MHCLG Live Table 1000C

The graph above shows trends in the number of homes built in the last five years for which data is available. There were 52,302 units completed between April 2014 and March 2019. Since 2015/16, the number of shared ownership completions per year has increased from 4,084 to 17,021.

The table below shows the regional distribution of where shared ownership has been built in recent years:

Table 1: Shared ownership completions by region, 2014/15-2018/19

Region	2014-15	2015-16	2016-17	2017-18	2018-19	Total 2014/15 - 2018/19	% of total built
North East	278	107	200	277	633	**1,495**	3%
North West	622	343	899	1,142	1,973	**4,979**	10%
Yorkshire and The Humber	163	74	266	269	790	**1,562**	3%
East Midlands	412	301	851	826	1,346	**3,736**	7%
West Midlands	615	107	646	984	1,354	**3,706**	7%
East of England	974	395	1,071	1,178	1,911	**5,529**	11%
London	4,934	1,414	2,086	2,541	3,315	**14,290**	27%
South East	2,278	975	1,838	2,529	3,646	**11,266**	22%
South West	852	368	1,164	1,302	2,053	**5,739**	11%

Total	**11,128**	**4,084**	**9,021**	**11,048**	**17,021**	**52,302**	**100%**

Source: RSM analysis based on MHCLG Table 1007bC

Nearly half of the shared ownership homes completed in the last five years were built in London and the South East.

Funding sources for shared ownership

The type of funding for these is shown below:

Table 2: Source of shared ownership units

	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Total 2014-19**	**% of total built**
Private Registered Providers HE/GLA funded	6,839	1,162	2,151	3,097	5,398	**18,647**	36%
Private Registered Providers other funding	0	0	266	495	880	**1,641**	3%
Affordable Housing Guarantees	208	870	773	16	46	**1,913**	4%
Local Authorities HE/GLA grant funded	40	95	48	186	192	**561**	1%
Local Authorities other funding	0	0	50	34	117	**201**	<1%
Non-Registered Providers HE funded	0	0	0	0	1,291	**1,291**	2%
Section 106 (partial grant)	580	129	51	195	92	**1,047**	2%
Section 106 (nil grant)	3,461	1,828	5,606	7,010	8,982	**26,887**	51%
Other	0	0	76	15	23	**114**	<1%
Total	**11,128**	**4,084**	**9,021**	**11,048**	**17,021**	**52,302**	100%

Source: RSM analysis based on MHCLG Live Table 1000C

Shared ownership homes under construction

Survey respondents were asked how many shared ownership homes they had under construction and how many they expected to complete in the current year (FY 2020-21).

All 24 respondents answered this question. The number of homes under construction ranged from zero to 1,100, averaging at 219 per housing association. In total, the 24 respondents had 5,264 shared ownership homes currently in construction which, when complete would add on average 13% on to the size of their existing shared ownership portfolios (minus any loss of stock via staircasing during this period).

The respondents were also asked how many shared ownership homes they expected to complete during the current financial year (2020-21). All 24 respondents answered this question and expected to complete between zero and 538 homes each, averaging at 141 per housing association. In total, the 24 respondents expected to complete 3,386 shared ownership homes in the current financial year which, when will add on average 8% to the size of their existing shared ownership portfolios (minus any loss of stock via staircasing during this period).

Sizes and type of new shared ownership homes

Information on the size and type of shared ownership homes built in recent years is available from CORE.

Table 3: Homes purchased by size and type, 2017/18

Number of Bedrooms	House or bungalow	Flat/ maisonette, or other	Total
One bedroom	60	1,480	1,540
Two bedrooms	3,400	2,890	6,290
Three bedrooms	2,740	160	2,890
Four or more bedrooms	130	10	130
Total	6,320	4,530	10,850

Source: CORE 2017/18. Rows do not sum as rounding has been used to suppress small numbers)

Two bedroom homes were the most common size of home sold (58%).

In total, there were 10,847 shared ownership sales recorded in CORE in 2017/18 (including shared ownership, social HomeBuy shared ownership, older persons shared ownership and Rent to Buy shared ownership) and 42% were flats.

Shared ownership buyers

Demographics of shared ownership purchasers

The tables below show the age, household type and employment status of shared ownership purchasers in 2017/18.

Table 4: Age of shared ownership purchasers 2017/18

Age group of lead purchaser	Number	Percentage
Up to 19	34	<1%
20-25	1,575	16%
26-30	2,554	26%
31-35	1,781	18%
36-40	1,122	12%
41-45	723	7%

46-50	555	6%
51-64	864	9%
65 and over	491	5%
Total where age is known	**9,699**	**100%**

Source: CORE Sales 2017/18. In addition, there were a further 1,148 sales where the age of the lead purchaser was not known.

As shown above, the majority of shared ownership purchasers are aged between 20 and 40, with the late 20s being the most common time to purchase. Only 5% are aged over 65.

The table below shows the household type:

Table 5: Household type, shared ownership purchasers 2017/18

Household type	Number	Percentage
1 adult	4,872	50%
2 adults	3,367	35%
1 adult & 1+ children	447	5%
2+ adults & 1+ children	945	10%
Other	75	1%
Total	**9,706***	**100%**

Source: CORE Sales 2017/18. In addition, there were a further 1,141 sales where the age of the lead purchaser was not known.

This shows that the large majority of shared ownership purchasers were childless households, with single adult households outnumbering couples. Only 15% were families, a third of which were single parent households.

The table below shows the economic status of purchasers:

Table 6 Economic Status of Household Reference Person, shared ownership purchasers 2017/18

Economic status	Number	Percentage
Employed	9,040	94%
Unemployed	10	<1%
Student	10	<1%
Retired	460	5%
Other	130	1%
Total	**9,650**	**100%**

Source: CORE Sales 2017/18. This information was not recorded for a further 1,202 purchasers. Rows do not sum as rounding has been used to suppress small numbers.

The vast majority of shared ownership purchasers were employed.

Market values and initial shares purchased

The table below shows the average market value of shared ownership properties purchased, along with the initial share purchased, amount paid in mortgage and cash deposit. It should be noted that a minority of shared ownership purchasers are cash buyers, or have significant deposits, and the majority have much lower deposits.

Table 7: Financial Data on Shared Ownership, 2014/15-2018/19

Year	Market Value per dwelling	Initial Equity Stake Purchased	Initial Equity Stake Purchased	Mortgage	Cash Deposit
2014-15	£232,000	43%	£96,200	£76,400	£20,000
2015-16	£252,800	42%	£101,600	£81,700	£21,400
2016-17	£252,500	43%	£104,900	£84,800	£20,200
2017-18	£262,500	43%	£108,200	£89,200	£19,600
2018-19	£265,000	42%	£108,100	£85,300	£24,600

Source: MHCLG Live Table 697

The survey asked about the average size of deposits during the current year financial year (2019-20). Fifteen housing associations answered this question giving answers ranging from 5% to 15%. The average figure given was 9%.

The size of the initial stake purchased varies substantially by region. The chart below shows the proportion of sales where the buyers purchased 60% or more of the market value as their initial stake, over the four year period 2014-2019.

Figure 2: Proportion of buyers purchasing an initial share of 60%+ by region (2014-15 to 2018-19)

Source: CORE sales 2014-2019

Length of lease, rents and service charges

Length of lease

The survey asked about the average length of lease at the point of initial sale. The large majority (15 of the 19 associations which answer this question) used a lease of 125, with two using 99 years, one using 250 years, and one using 999 years.

Ground rents

The survey asked the average ground rent on shared ownership properties. Sixteen housing associations answered this question of whom **13 indicated that their ground rents were zero**. The other three had average annual ground rents of £59, £200 and £2,340 respectively.[1]

Service charges

The survey asked about the average annual service charge on shared ownership properties.

Fourteen housing associations answered this question, one of which said their average service charge was zero. The other answers ranged from £35 to £1,500 per year, with an average of £595 per year (average of averages).

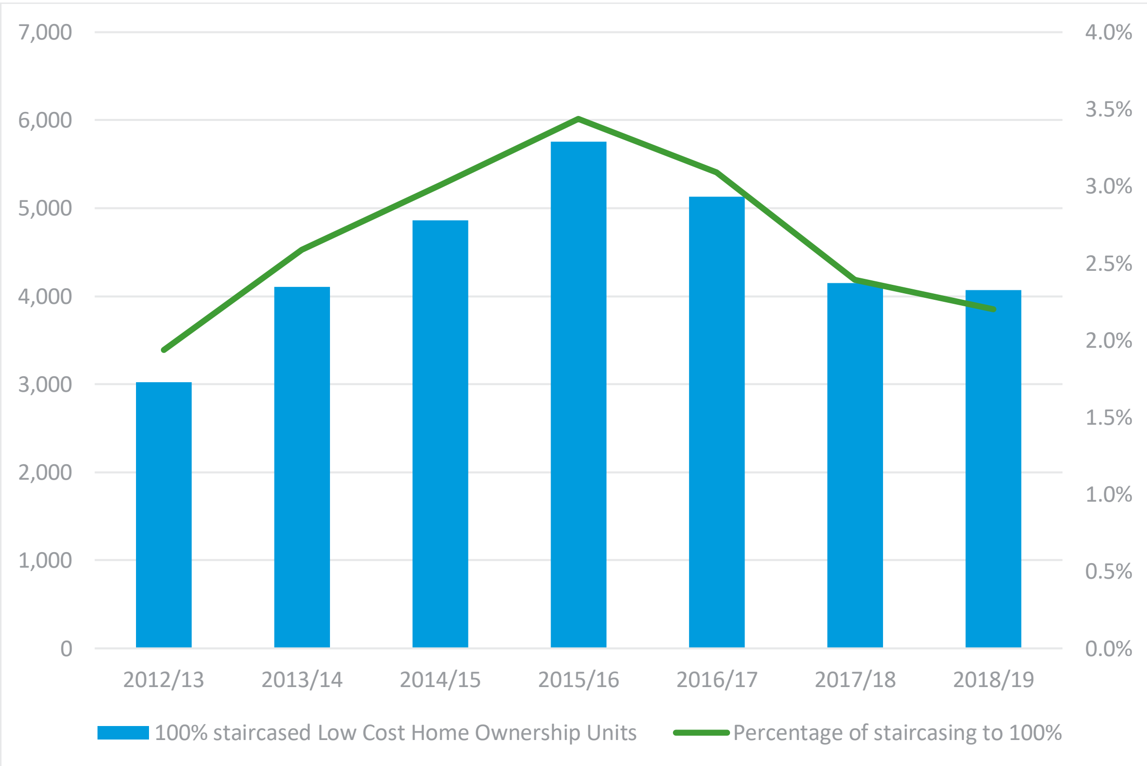
[1] This ground rent was from a small and unusual housing association, and is believed to be atypical.

Staircasing and resales

Staircasing

Data on staircasing to 100% is recorded in the SDR. The figure below shows (in blue) the number staircasing to 100%, and (in green) the proportion of the sector that staircased to 100% each year.

Figure 3: Staircasing rates 2012-2019

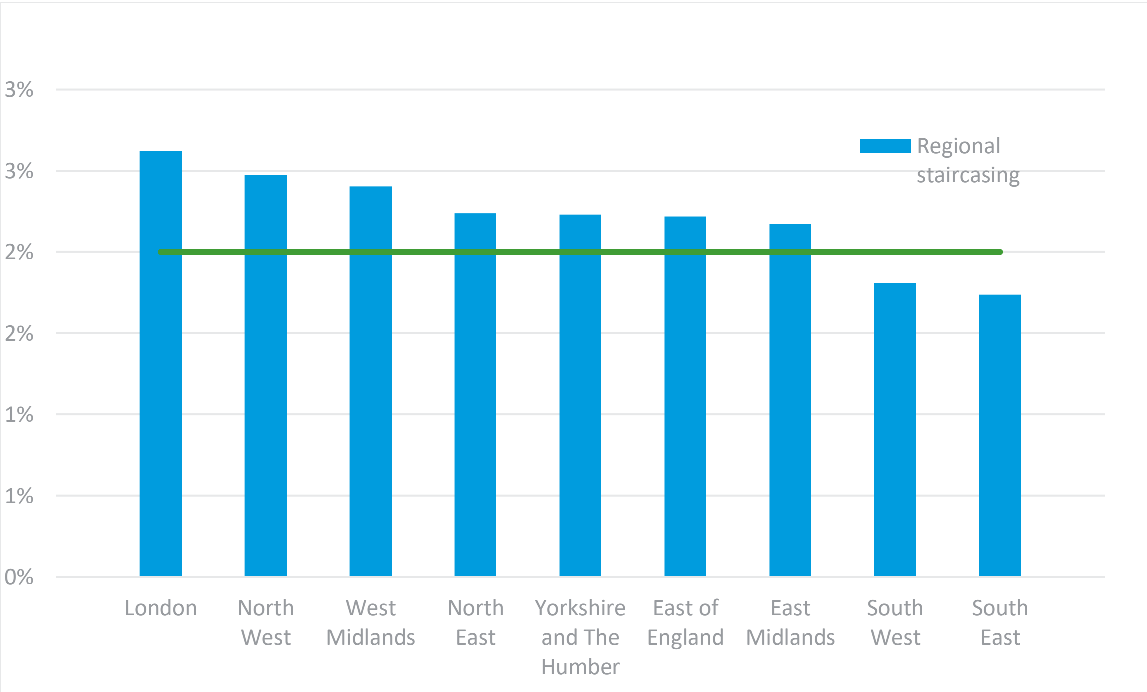


Source: RSM analysis based on SDR

As can be seen, around 2-3% of shared owners staircase to 100% each year.

The figure below shows how this varies by region. The green line shows the average rate for England:

Figure 4: Staircasing rates by region 2018-19



Source: RSM analysis based on SDR and CORE

Partial staircasing (to less than 100%) are not recorded in CORE. The housing associations answering the survey were asked about both full and partial staircasing:

Table 8: How many of your customers staircased in FY2019-20?

	Total number recorded in survey	**Total number of shared ownership properties owned by housing associations answering this question**	**Proportion of shared owners staircasing in the last year**
How many were to 100% ownership?	1,621	39,788	4.1%
How many were partial staircasing?	359		0.9%
Total			

Source: RSM Survey September to October 2020. Number of respondents to this question = 21

This data suggests that partial staircasings form around one in five of all staircasings. The overall rate of staircasing was somewhat higher for survey respondents than for the housing association sector as a whole (as shown in Figure 4).

Increase in share owned on staircasing

Respondents were asked for the average increase in the share owned on staircasing, as a proportion of the total property value. Sixteen housing associations answered this question giving answers ranging from 18% to 60%. The average figure given was 47% (average of averages).

Reselling shared ownership homes

CORE data reveals that of the shared ownership properties sold in 2017/18, 37% (4,028) were resales – just over 2% of the shared ownership stock.

Time to resale

Survey respondents were asked "Of resales that took place within the last 5 years, what was the average length of time since initial purchase?". Ten housing associations answered this question giving answers ranging from 2 years six months to eight years five months. The average figure given was five years four months.

Taken together with the proportion of shared owners who sell each year (2%), and a further 2-4% exiting the sector via staircasing to full ownership this suggests that the majority of shared owners who are going to resell do so relatively early on, with a larger number remaining for the long term.

Arrears and repossessions

Arrears

The survey asked how many shared owners were currently in arrears. Sixteen housing associations answered this question giving answers ranging from 0% to 28.5%. The total number of shared owners in arrears was reported as 3,394, representing 9.1% of all shared owners in the 37,218 properties owned by the housing associations answering this question.

The survey also asked the number who owed more than 13 weeks' rent. The same 16 housing associations answered this question giving answers ranging from 0% to 2.7%. The total number of shared owners in arrears of more than 13 weeks was reported as 530, representing 1.4% of the 37,218 shared owners in properties owned by the housing associations answering this question.

Survey respondents were also asked whether the level of shared owners' arrears had increased, decreased, or stayed the same in the last year:

Table 9: Change in shared owners' arrears in the last year

Change in arrears	Respondents
Decreased	1
Stayed the same	5
Increased	11

Source: RSM Survey September to October 2020. Number of respondents to this question = 17

Two thirds of housing associations reported that arrears had increased over the last year.

Repossessions

Survey respondents were asked the number of repossessions of shared ownership properties in the current financial year (2019-20) and also the number of repossessions of shared ownership properties in total over the last 5 years (FY 2015-16 to FY 2019-20 inclusive).

Sixteen housing associations were able to provide both these figures.[2] These sixteen associations reported between zero and six repossessions each in the current financial year, with a total of 26 repossessions reported this year (a 6 month period, as the survey was undertaken between 2nd and 16th October 2020) – representing a rate of 7 per 10,000 shared owners.

They reported a total of 131 repossessions over the last five years, a rate of 26 per year. It is likely that the stock base of these housing associations has increased somewhat over the last five years so a precise comparison is not possible, though the data would suggest that the rate of repossessions this year will be up to double the average over the last five years.

The survey also asked about reverse staircasing – when buyers are allowed to reduce the share they own – for instance to deal with financial difficulties or avoid repossession.

Seventeen associations answered this question. Thirteen of these reported no reverse staircasing thus far this year, and the other four reported 2, 5, 15 and 67 reverse staircasings respectively, a total of 89 between them, representing 23 per 10,000 shared owners. Respondents were also asked about reverse staircasings over the last five years – Again 17 associations answered this question with 12 reporting no reverse staircasings, and five reporting figures of 3, 5, 5, 38 and 42 respectively – a total of 93 over a five year period. This suggests that reverse staircasing has been more common this year than in the previous five years, though the numbers are very much skewed by the one association reporting 67 reverse staircasings this year (and only three for the previous five years).

Buyers' satisfaction

The housing associations responding to the survey were asked whether they collected annual information on the satisfaction of shared owners. Eighteen housing associations answered this question, with 14 reporting that they did collect this information and 12 able to provide data on it. These 12 associations reported that between 50% and 98% of their shared owners were overall satisfied in their most recent survey. **The average figure given was 79% (average of averages).**

[2] One additional housing association reported two repossessions this year, but was unable to provide a figure for the last five years so has been excluded from this analysis, so that the rates can be compared using the same stock base.

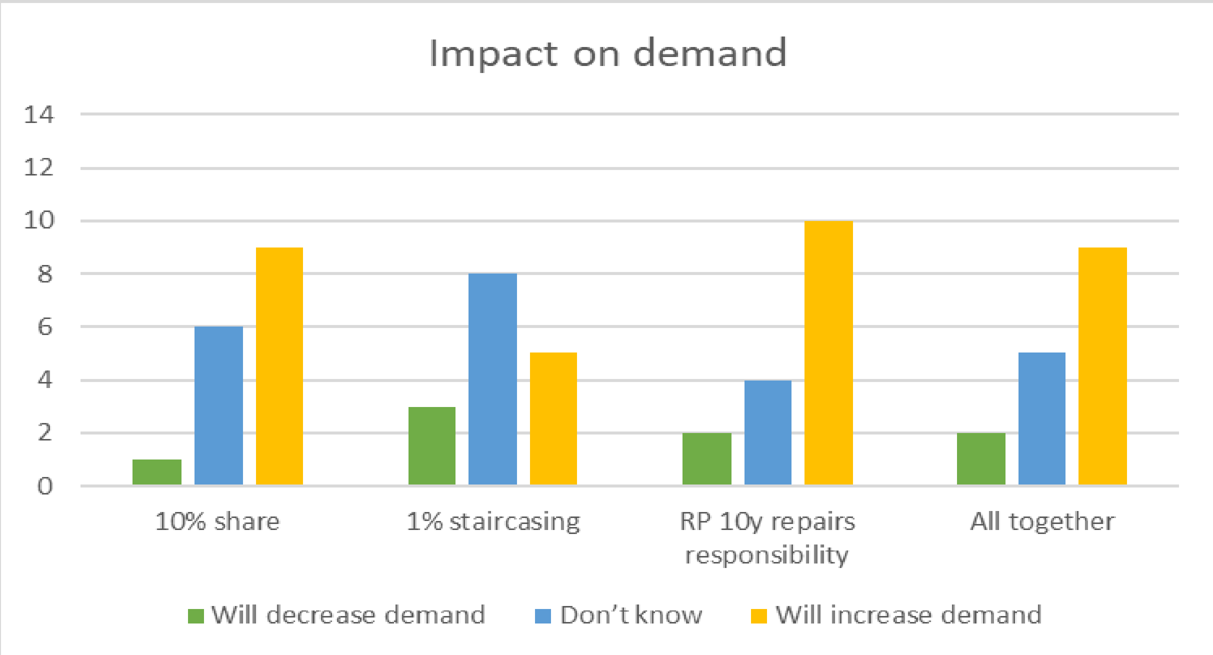
VIEWS ON THE NEW PROPOSED SHARED OWNERSHIP MODEL

Expected impact of the new model on demand

There have been some very recent changes to the shared ownership model announced for the new Affordable Homes Programme with the introduction of 10% shares, 1% staircasing and housing association responsibility for repairs in the first 10 years. The survey asked respondents what impact they thought these would have on demand and on the development of newbuild.

The table below shows the responses to the question about demand:

Figure 5: What impact do you think the new model will have on customer demand for shared ownership?



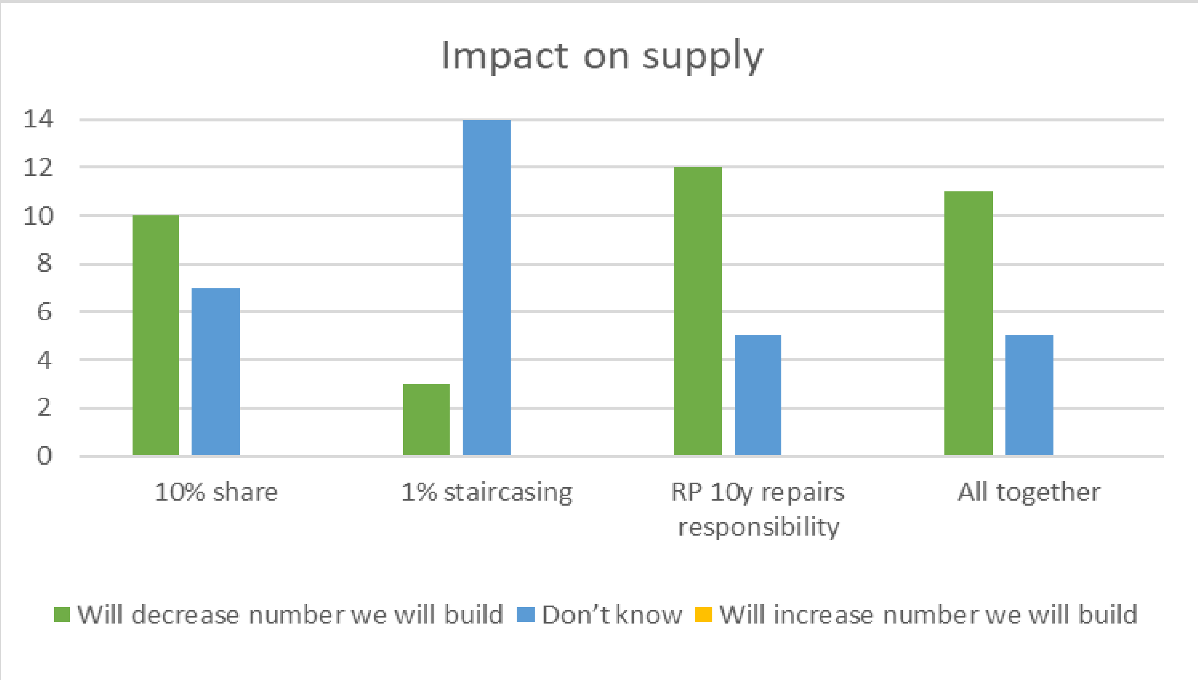
Source: RSM Survey September to October 2020

This suggests that most respondents think that option of a 10% share and lack of responsibility for repairs and maintenance for the first ten years in particular will make the new model more attractive to buyers and increase demand.

Expected impact of the new model on delivery

The table below shows the responses to the question about delivery

Figure 6: Do you think these features will increase or decrease the number of shared ownership homes you are able to deliver over the period?



Source: RSM Survey September to October 2020

In contrast to the views on demand, this suggests that housing associations believe that the proposed changes will reduce the supply of shared ownership properties that they are able to build.

How the shared ownership model can be best improved

The survey asked whether respondents thought the proposed changes to the shared ownership model were the right areas to be focussing on. Two said yes, 13 said no and two said they did not know.

Respondents were asked why/why not and whether they had any other comments on the new shared ownership model. If they thought the proposed changes were not the right areas to focus on, they were asked for their top three suggestions on how the product could be improved for the customer.

Views around the 10% shares

Overall, respondents were negative about the prospect of selling shares as low as 10%. Several highlighted that 10% shares would make the sector more attractive to lower income households – though respondents were unsure whether this was a good thing. Some felt that people who could only afford 10% of a house, could not really afford to be homeowners and should not be encouraged. Some raised the issue of whether mortgage lenders would lend on such a small share, and expressed concerns that some prospective buyers may turn to personal loans instead, which could be expensive for them. Some felt there would need to be strict affordability criteria imposed by housing associations to avoid people over-extending themselves, and also raised concerns about the high rent that would have to be charged at 2.75% of the property value on a 90% unsold share of a property in a high value area.

Respondents were also concerned that selling 10% shares would require more grant, which was unlikely to be forthcoming, and may also necessitate a rethink of business models because people who could only afford a 10% stake were unlikely ever to staircase to full ownership – causing an increased rental income stream but reduced income from staircasing.

Views on the new proposed repairs model

There was a lot of concern and uncertainty expressed about the new proposed model for responsibility for repairs lying with the housing association for ten years in terms of the financial exposure this could entail. There was a diversity of opinion over whether the current shared ownership model works well and is fair in placing sole responsibility for repairs onto the shared owners. Two respondents felt that shared owners should consider themselves homeowners and accept the responsibility that comes with this status. Several felt that the problem lied mainly with a lack of clear communication by some housing associations meaning that buyers were not fully aware of their responsibilities, though some noted that buyers were disinclined to focus on future repairs at the point of purchase. One suggested a compulsory two year warranty for newbuilds, which would help avoid the bad publicity that accompanies unexpected repair costs in the early stages of homeownership. One respondent felt that the current model was inherently unfair and that splitting the cost of repairs in proportion to the share owned was the only fair solution.

Some respondents suggested that a better model would be where the housing association takes responsibility for providing repairs and maintenance, under a contract that the buyer pays towards.

Views on the proposed 1% staircasing

Respondents had little to say about this aspect of the new model in the free text comments in the survey. A couple said that housing associations should be allowed to charge a small administration fee to cover the costs of processing staircasing applications, even for small shares.

Overall views on the proposed new model

Several respondents pointed out that the new proposed model was very new, and there was still a lot of uncertainty over how it would work. Overall, the views expressed were negative about the proposed changes, and many respondents emphasised the value in having a single standardised shared ownership model that was clear and well understood, and the risks to this of introducing a new model. Some felt that the current model worked very well in the north of England and that 10% shares and 1% staircasing opportunities were unnecessary in lower priced housing markets. Two respondents did say that they thought the proposed model had the potential to improve the reputation of the shared ownership sector.

Other suggestions for how to improve shared ownership

The survey asked respondents for other suggestions for how shared ownership could be improved. The issue most commonly highlighted was reform needed to service charges. Some felt that high service charges caused reputational damage and there should be caps in place.

There were a few other suggestions raised by one respondent each:

- One suggested more governmental help with deposits, as lenders were requiring higher amounts than many prospective buyers could afford currently.
- One raised the issue of a lack of shared ownership opportunities for families, because grant levels encourage housing associations to build smaller properties.
- One felt that the resales process could be improved.
- One suggested a government logo for shared ownership, to help establish the identity of the product.

ANNEX 1: PROFILE OF SURVEY RESPONDENTS

The table below shows the profile of the housing associations who responded to the survey:

Table 10: Profile of survey respondents

		Respondents
Size of portfolio	1-99	4
	100-999	12
	1,000 or more	8
Region where largest number of shared ownership properties are located	East Midlands	2
	East of England	1
	London	4
	North West	9
	South East	2
	South West	4
	West Midlands	2
	East Midlands	2
	East of England	1

ANNEX 2: SURVEY QUESTIONS

Shared ownership survey

The University of Cambridge Centre for Housing and Planning Research (CCHPR) has been commissioned by Metropolitan Thames Valley (MTVH) to conduct research on shared ownership. The study will provide an overview of the sector in 2020 and will identify opportunities and constraints on the development of shared ownership. The aim of the research is to raise awareness of shared ownership and to promote it as an important part of the UK housing market. We are also interested in your views on the recent announcements of changes to the shared ownership model and introduction of 10% shares.

As part of this study CCHPR are working with RSM Economic Consulting to undertake a survey of housing associations. As a provider of shared ownership, the survey asks questions about your current shared ownership portfolio. Your responses will be shared with the National Housing Federation (NHF), however, they will remain anonymous and no provider will be named in the report. For any queries about the survey please contact [RSM contact]. For any wider queries about the research please [CCHPR contact]. We are very grateful for your input into the research.

1. How many shared ownership homes do you currently have within your portfolio? (Numeric answer)

2. In which region do you own the largest number of shared ownership properties?

- [ ] South East
- [ ] London
- [ ] North West
- [ ] East of England
- [ ] West Midlands
- [ ] South West
- [ ] Yorkshire and the Humber
- [ ] East Midlands
- [ ] North East

3. How many shared ownership homes do you currently have that are in construction? (Numeric answer)

4. How many shared ownership homes do you expect to complete this year (FY2020-21)? (Numeric answer)

5. How many of your customers staircased in FY2019-20? (Numeric answer)

a. How many of these were to 100% ownership?

b. How many of these were partial staircasing?

6. What was the average increase in the share owned on staircasing (as a % of total property value)? (Numeric answer)

7. Of resales that took place within the last 5 years, what was the average length of time since initial purchase? (Numeric answer)

Years

Months

8. What was the average deposit provided by purchasers of shared ownership during FY2019-20? (Numeric answer as % of market value)

9. What is the average length of lease at point of initial sale? (Numeric answer)

Years

10. What is the average annual ground rent on your shared ownership properties?

£

11. What is the average annual service charge on your shared ownership properties?

£

12. How many shared owners are in arrears currently? (Numeric answer)

13. How many shared owners owe more than 13 weeks' rent? (Numeric answer)

14. Has the level of shared owners' arrears in the last year:

- [ ] a) decreased
- [ ] b) stayed the same
- [ ] c) increased

15. Number of repossessions of shared ownership properties this year (FY 2020-21)? (Numeric answer)

16. Number of repossessions of shared ownership properties in total over the last 5 years (FY 2015-16 to FY 2019-20 inclusive)? (Numeric answer)

17. Number of customers that have reverse staircased this year? (Numeric answer)

18. Number of customers that have reverse staircased in the past 5 years? (Numeric answer)

19. There have been some very recent changes to the shared ownership model announced for the new Affordable Homes Programme with the introduction of 10% shares, 1% staircasing and housing association responsibility for repairs in the first 10 years. Do you think these features will increase or decrease the number of shared ownership homes you are able to deliver over the period?

	Will increase number we will build	Don't know	Will decrease number we will build
10% share	☐	☐	☐
1% staircasing	☐	☐	☐
Responsibility for maintenance for 10y	☐	☐	☐
All of these features together in the new model	☐	☐	☐

20. What impact do you think the new model will have on customer demand for shared ownership?

	Will increase demand	Don't know	Will decrease demand
10% share	☐	☐	☐
1% staircasing	☐	☐	☐
Responsibility for maintenance for 10y	☐	☐	☐
All of these features together in the new model	☐	☐	☐

21. Do you think these changes reflect the right areas to be focusing on?

- ☐ Yes
- ☐ No
- ☐ Don't know

22. Why/why not? Do you have any other comments on the new shared ownership model?

23. If no, what are your three top suggestions on how the product could be improved for the customer?

24. Do you collect annual information on satisfaction of shared owners?

- ☐ Yes
- ☐ No

25. What proportion of shared owners indicated that they were overall satisfied in your most recent survey? (Numeric answer, in %)

26. Do you have any other comments you'd like to make about shared ownership?

27. (Optional) What is the name of your housing association?

This is for cross-checking purposes only and will not be included in the dataset that is shared with the NHF.

Cambridge Centre
for Housing &
Planning Research

The Shared Ownership Sector in 2020: Interview Findings

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October 2020

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1. Introduction to the interviews

The aim of this research was to provide an analysis of the shared ownership sector in 2020.

The project collected quantitative data through a web based survey of shared ownership providers and through analysis of secondary data sources (reported on separately).

The next section of this report presents findings from 14 qualitative interviews with shared ownership providers, lenders/mortgage brokers, and wider industry stakeholders. The aim of the interviews was to discuss in more depth the supply side of the market, and management issues such as arrears and responses to the pandemic. The interviewees have been anonymised, with the exception of the Law Commission who provided a detailed and specific input which is included as an appendix, with their consent.

2. Interview findings

2.1 What shared ownership offers to customers

Providers, lenders and wider industry stakeholders were asked for their views on whether they felt shared ownership is a good product for a customer, and they were all very positive about what the product offers. In some housing market areas, shared ownership is the only route into home ownership for some households:

> "We know it's really, really popular. It's become mainstream. For many average income people in London, it is realistically the only way they can afford to buy." (Interviewee 1)

Interviewees highlighted how shared ownership is a good product for first time buyers in particular:

> "I think it's fantastic for first time buyers. If you look at where we provide it, and the cost of shared ownership at a 40% share. People can buy a 40% share in a good quality property on a reasonably small wage, a key worker, for instance, and they can

> expect to be able to staircase out of it if they wanted to. I think it's really important and makes a massive difference to our communities." (Interviewee 6)

In many parts of the country, interviewees felt that shared ownership is the only realistic route into home ownership for households with relatively low deposits:

> "And it's helping people on moderate deposits. Although we've seen deposits rise, the average deposit for shared ownership is around 20-25k. The average deposit in the market in London is around 100k." (1)

For many households, saving a large enough deposit to enter home ownership is very challenging, particularly where house prices are high, but also where households are paying substantial rent. Shared ownership requires a lower average deposit and is therefore an important route of access into home ownership for such households:

> "Historically a lot of our lending has been concentrated in London and the South East. That's always accounted for around 50% of the cases that we do. There's been an increasing move further north with some of the shared ownership. Our view has always been that shared ownership is great because it gets people over the deposit hurdle, which is more of a blocker down south." (Interviewee 9)

There were mixed views on the importance of staircasing for shared owners. Some felt that shared ownership was a useful step on the way to outright ownership and highlighted the importance of being able to staircase out to 100%:

> "We're pulling it right back to where it's the only sensible option in the market, or where it's to help people get on the housing ladder. We don't want people to be at 50/50 for the rest of their lives. It is about getting them staircasing, moving them on. It's for people who can afford a bit more than renting but can't afford to buy. That's our market." (Interviewee 4)

Others felt that shared ownership was a valuable tenure option even without staircasing for owners who stayed long term with a partial share, as it gave people a stake in their local community and investment in an asset:

> "I don't think people should view this as a stepping stone to full ownership. I think that's wrong. It should be considered a tenure for life. Even if they just have 50%, it's 50% more than they own if they're just renting. So they've got an investment in it." (Interviewee 9)

The investment aspect of shared ownership was highlighted by other interviewees who said that it allows buyers to benefit from capital increases because of house price growth:

> "There are other benefits too, like the advantage of the equity increase. A young person getting into shared ownership in the central city sees higher growth on their equity over the years than they would in the suburbs, and that allows them to buy somewhere else. It is not only about staircasing to 100%." (Interviewee 7)

Whilst views on the importance to buyers of staircasing vary, it is clear that what the product offers is flexibility. It opens home ownership at a range of possible price points to households with modest deposits. Shared ownership was also seen as a positive offer for customers because of the security and support provided by Registered Providers:

> "The Housing Association is a positive thing for the ethics, there is some security. It's about quality." (Interviewee 4)

Most interviewees described shared ownership as a positive product for customers that offered a lot of benefits, but did note that it was a product of necessity in the face of significant gaps between house prices and incomes and a strong continued preference for home ownership:

> "People don't understand it. They see shared ownership and say nah, why would I want to own 50%? It's a thing of necessity, not something they actively want. They'll only do it if they can't afford the alternative." (Interviewee 4)

There were still concerns that some prospective buyers did not fully understand shared ownership, although this was felt to reflect an overall problem with leasehold, as much as buyers not understanding shared ownership specifically. Some providers felt that there were sometimes poor standards in advice across the country:

> "I think the elephant in the room here is that across the country there are pretty poor standards when it comes to conveyancing and legal advice for people who are buying these products." (Interviewee 3)

In the interviews with providers, the issue of declining satisfaction rates over time amongst some shared ownership buyers was discussed. Some providers felt that people can sometimes become disappointed because they do not fully understand what they have bought, or are not able to staircase in the way they had envisaged. Some providers have made efforts to tackle this by improving the information provided to prospective buyers, but said that there is a trade-off between explaining the product in simple, accessible terms, and trying to ensure buyers understand the detail of the product without putting them off:

> "We tried tackling it at our sales team level. We've worked really hard on our FAQs over the last 18 months. What is it that people don't understand? Where are the pinch points? Where do we get complaints? Let's address it right at the beginning with potential customers. But people often don't care and want to buy it anyway. There are problems with the complexities of the lease. A lot of our shared ownership customers are younger and tend to be very independent from their families, and don't have a relationship where they can ask their mum and dad what they think, so they're wholly reliant on our sales team to articulate what their responsibility is. If we simplify it any more, we'll have three bullet points." (Interviewee 6)

Lenders said that the support given to prospective buyers by providers through the sales process varied a lot between providers. However, most interviewees felt that continued aspirations for home ownership created strong demand for the product and whilst information may be provided to buyers about the nature of the product, most were very keen to proceed and may not pay attention to the detail in a lease for example, meaning that over time there could be a mismatch between buyer expectations and reality:

> "Purchasers hear what they want to hear. They don't understand the conditions completely, they don't read the details of the offer and then they get dissatisfied later on, as the bills come through, as rent increases over years and not being able to staircase. Conveyancing solicitors who are operating on a low budget probably don't explain much to the clients either." (Interviewee 7)

2.2 What shared ownership brings to providers and the housing sector

Interviewees were asked more broadly about what shared ownership brings to the housing sector and how it fits in as part of their overall offer. Whilst it is apparent that shared ownership brings benefits for customers, it also brings benefits to provider business models:

> "Shared ownership gives people a chance to own their own home, and to have a stake in their community. The benefits for us include a steady, index-linked income, for rented properties, and a good return on capital invested, for sold properties." (Interviewee 5)

The combination of a long term rental income plus an initial capital receipt was seen as a strength and a factor that made the product both flexible from a business model perspective and low risk:

> "You get an initial capital receipt, long-term guaranteed rental income, and you don't have to spend that much as a landlord. From a landlord perspective, it works really well." (Interviewee 3)

For providers, shared ownership is one way to manage market risk and some providers described changing properties that had been intended for market sale to shared ownership because there was stronger demand:

> "In the long term you get a profit, and a good turnover from people staircasing. If you want mixed tenure, shared ownership works alongside other rental options….And it has the advantage that it de-risks some of the vagaries of the market." (Interviewee 1)

It was described as a very flexible product which also makes it low risk to develop, as a property can be sold to households with a range of incomes:

> "To me, it's the king of affordable homeownership, because it's the only product that has total flexibility. By that I mean that you can take one property of £300,000 and because you've got that movable share, it can satisfy so many different income levels." (Interviewee 12)

The product is not just an important part of provider business models, but shared ownership has become a significant part of lenders' portfolios:

> "Since 2010, our shared ownership book has grown, so it's now just less than 27% of our whole mortgage book. And as we're about a billion pound organisation in mortgage assets, that's a staggering amount of what we do as a lender. We see shared ownership as a regular tenure, a way for people to buy their homes, and they shouldn't be treated any differently than people buying 100% of their homes." (Interviewee 10)

All interviewees described continued strong demand for the product:

> "With shared ownership, there is demand, we know if we build it, someone will buy it….In the market we're in at the moment, if you've got enough grant to put into

> shared ownership, there's low risk, and there's always someone to buy it, so there's no limit to shared ownership, and we'd love to do more of it." (1)

Most interviewees highlighted the important role that shared ownership plays in creating mixed communities:

> "Shared ownership has a key part to play in increasing home ownership. It's important to build homes for everyone. Place making is about having a balanced community of different kinds of home ownership, with a diversity of income and ages." (Interviewee 5)

This ability to develop mixed tenure housing and have diversity amongst the community in a new development was seen as an important role for shared ownership:

> "I think diversity in its broadest sense is a good thing, it's what makes places interesting. You don't want somewhere that's only got some very poor people who've been nominated due to their kind of acute housing need. And then some very rich people who are able to afford incredibly expensive flats, it gives you a mix in between....What shared ownership gives you is owner occupiers who are invested in a place who are likely to be committed to it, wanting the community to work, and that gives you a mix as well." (Interviewee 2)

Offering home ownership to a diversity of household income groups was seen as a value of shared ownership, although some questioned whether providing shared ownership in very high value areas was appropriate:

> "There was a point where we had a meeting where we were going to build shared ownership in a leafy suburb of London for a million pounds each. And we were thinking what are we doing? We're a housing association supposed to provide for the poor and vulnerable, who is poor and vulnerable that is going to buy a million pound house in central London?" (Interviewee 4)

2.3 Views on the changes announced to shared ownership

Changes were announced to the shared ownership product as the research began, so interviewees were asked about their views of the changes, covering 10% minimum shares, 1% staircasing, providers to cover all costs of any repairs and maintenance for 10 years, and the Right to Shared Ownership on rented homes.

Many were critical of the changes, but some interviewees did suggest that there was dissatisfaction amongst some shared owners and it was this dissatisfaction to which Government were trying to respond.

> "As our number of shared owners have grown, it's inevitable that you are going to come across a greater number of people for whom it just didn't work out for whatever reason and their criticism now needs to be listened to." (Interviewee 3)

3.3.1 10% shares

None of the participants in this research were very positive about, or supportive of, the introduction of 10% minimum shares. However, interviewees did think that there would be interest in and demand for 10% shares:

> "I think there will be a lot of interest in the product....You've got a huge chunk of people out there who are really limited in options. And quite often the only option is private sector renting and any option to get into home ownership will be pounced upon. There will be demand for it, whether or not they get through qualification checks and so on, there will be demand." (Interviewee 3)

There was a suggestion that 10% shares may be useful in the London shared ownership market as a way to expand access to a very expensive housing market:

> "We support anything that improves affordability and enables people to get there....The key challenge that people have in London is that before you get to the point of putting down a deposit for shared ownership, you probably had been living in the private rental sector which is extremely expensive, and had no opportunity to save, so anything that enables us to do that in principle is good." (Interviewee 13)

Interviewees did highlight that affordability checks would need to be very robust to ensure that buyers could sustain ownership at 10% with rent charged on 90%:

> "From a customer's perspective, it is an exciting opportunity. It allows you onto the shared ownership ladder. But it needs thorough and robust affordability checks to ensure people could afford the rent on the 90% that they didn't own." (Interviewee 3)

The concern that 10% shares would create a form of marginal home ownership, with a high rent burden, that was not sustainable long term was a concern expressed by most interviewees:

> "Home ownership is all about being sustainable. If you think someone can't afford to buy 25% of a house, rather than saying well buy 10% of it, in my view they should say well you can't afford to buy a house at this time, it's not the right tenure." (Interviewee 1)

Most research participants were of the view that households purchasing only 10% shares would never staircase up, leading to potential dissatisfaction as households faced long term rent increases and long term responsibility for repairs and maintenance:

> "In a 90% rented product where you've got 10% share, you have no hope of ever doing anything significant unless you get some sort of windfall like an inheritance. And meanwhile your rent goes up." (Interviewee 7)

Whilst lenders were aware that government would expect lending to be made available to prospective purchasers of a 10% share, none interviewed felt that this was a good option for customers. As one lender said:

> "No one wants 10%. It increases potential credit risk for the customer. If that's the only way you can get onto the housing market, you probably shouldn't be getting onto it. It's a very conservative way of doing things, suggesting home ownership is a great thing for everyone. And the truth is, it's not. I think it's a very old-fashioned way of looking at things….. Customers might think they want it, but they're wrong. They might like the look of it based on what it looks like on paper, not what it actually means to them. You don't want to be paying 3% rent on 90% of a property." (Interviewee 9)

A number of interviewees pointed out that with a 10% share in low value areas the equity stake invested by a buyer would be very small. This was seen as a deterrent for lenders:

> "Most lenders I would imagine will see this as higher risk lending, because there isn't as much 'skin in the game' from buyers i.e. very low deposits and very low ownership. It could very easily go into arrears on both sides, thus having the potential to tarnish shared ownership as a whole and hence will likely be avoided." (Interviewee 12)

This view was echoed by lenders and brokers. Lenders have a minimum amount they will provide a mortgage for, and in many areas a 10% share was likely to fall below this threshold:

> "We have a minimum £40k loan....There is a tipping point between the cost of the loan and the reward. In [city in South East] 10% may be enough to meet the £40k lender minimum but this will not be the case across the nation." (Interviewee 11)

> "It's highly unlikely mortgage lenders will chase after very low loan sizes, the economy of scale will not add up. I suspect those that do will carry large fees and/or higher interest rates. However, I question the real need here, as currently the average share size is closer to circa 40% nationally because shares are maximised, and the volume of sales at 25% is extremely low." (Interviewee 12)

Providers noted that the sale of 10% shares changes the overall business model for shared ownership and would reduce capital receipts currently used to cross subsidise rented homes:

> "From a provider's perspective, it's more challenging. It changes the way that shared ownership performs as a product. You get a very small initial capital receipt, and shared ownership is a product that we use to cross subsidise rented homes." (Interviewee 3)

However, despite the reservations expressed about the option of purchasing a 10% share, both lenders and providers were not convinced that many buyers would purchase a 10% share in reality. Because of the requirement to purchase the maximum share affordable, they thought that most potential buyers would be found to be able to afford more than 10%. The average share purchased is just over 40% and that has changed little over time:

> "The amounts of people taking up 10% ownership will be very small. The rules are they have to maximise their share, it can't be a lifestyle choice where they can afford more but just don't want to spend as much. We have to sell them the maximum share they can afford." (Interviewee 1)

3.3.2 1% staircasing

It was acknowledged that shared owners can find cost and complexity as barriers to staircasing, and so the ability to staircase in 1% increments may reduce these challenges. Providers were a little concerned about the administration costs of managing 1% staircasing and how these costs would be covered. However, most providers and lenders did not see this is a problem as they did not feel that there would be a large uptake in the desire to staircase in 1% increments. Most found that in their experience partial staircasing was limited and most shared owners tended to staircase to 100%, or not at all:

> "Not very many people staircase partially. Almost all the staircasing is in lump sums to 100%." (Interviewee 2)

> "People participating in shared ownership either aggressively staircase in order to fully own or don't staircase at all. There's not much in between, and it is dependent on the financial situation of tenants." (Interviewee 5)

They felt that shared owners would prioritise other types of spending if they had spare cash:

> "My argument here has always been one of choice i.e. do you buy an extra 1% or that new dining table or holiday." (Interviewee 12)

3.3.3 Repairs and maintenance

Most providers were quite concerned about the announcement that providers will be expected to cover all costs of any repairs and maintenance for 10 years.

There were mixed views on the general principle of sharing the costs of any repairs and maintenance. Some felt that it was only fair that the burden of repairs and maintenance costs did not fall solely on shared owners:

> "I think announcement of repair responsibility is good. One of the common complaints of shared ownership is that you're paying 90% rent and not seeing any benefit from it." (Interviewee 9)

It was noted that dissatisfaction amongst long term shared owners was caused in part by having sole responsibility for repairs and maintenance:

> "I do think that some maintenance responsibility does need to be shared to make it work going forward….when you compare it to other things, it's hard to say that rent is significantly discounted…. Lots of people say shared ownership is a great product, but people become increasingly dissatisfied with it over time." (Interviewee 2)

However, views on this were mixed and others felt that responsibility for repairs and maintenance was a key part of home ownership, that shared owners received a subsidised rent already, and so it was inequitable to offer further subsidy in the form of providers taking the cost burden of any repairs and maintenance, particularly in areas where shared owners had high household incomes:

> "Shared owners are getting a subsidised rent on the basis that they're taking on repairs. If they get a subsidised rent and then are not taking on the repairs, we're looking at fairly well paid individuals accessing home ownership, who in some cases might have a household income of up to £90,000, who are getting a better deal than some of the lowest paid." (Interviewee 1)

A number of providers were concerned about the costs of this additional responsibility, particularly if these higher costs were not reflected in higher grant levels. There was consensus that this change would increase costs for providers, but not agreement about the scale of these costs, or how they would be absorbed into provider business models. Some felt that costs in the first ten years would be significant, others that they would be minimal:

> "There are not many significant components of a building to repair in the first 10 years. Issues like the roof, lift, etc. come in about 15 years....I was a shared owner for six years and in the six years the amount of money that we actually had to spend on repairs of the flat was minimal, probably about £600 spent over six years in total." (Interviewee 3)

There was a suggestion from providers and lenders that rents or service charges would be increased to cover the additional costs:

> "If RPs have got to pay for the repairs, does that simply get priced into the rent? If you are charging a 2% rent at the moment, then you've kind of got the ability to say – alright, I'll charge 2.2% and that 2.2% then endures for the life of the lease. So you've made it significantly more expensive for the customer. Or the government has made it significantly more expensive for the customer, in order to mitigate the risk on the RPs of the first 10 years." (Interviewee 7)

Most providers highlighted the need for clarity about the announcement as there were very mixed views about what might be considered legitimate repairs and maintenance, and concerns about how far providers would be responsible:

> "The key for us is whether the maintenance stops at the front door, or is it beyond that? If it's structural within the first 10 years you shouldn't be liable for that, because it should be covered by the warranty. Components such as windows should be covered well past 10 years. So there is that element of it. Flatted accommodation is a different kettle of fish, so we need to consider how that works. We need more clarity from government." (Interviewee 8)

There was some concern that the change to the product created inequity between new and existing shared owners, and potentially more buyer confusion as there would be a time when shared ownership properties were on the market, some with responsibility for repairs and maintenance lying with the provider, and some with the owner:

> "There is obviously an increased cost. So it would need more grant to make it work as a product going forward. And it also creates that two tier product for existing shared owners and new ones." (Interviewee 2)

A few interviewees felt that poor build quality of new homes was one of the issues underlying the announcement, but that the transfer of responsibility for repairs and maintenance from owners to providers did little to address this problem:

> "There's a genuine issue there about leaseholders who feel they have had to pay for homes that are not properly built, so the repair costs have hit affordability. But the solution isn't treating the symptom…. They're effectively saying they're not confident in the quality of the buildings for the first 10 years. That's the problem we should be fixing." (Interviewee 1)

3.3.4 Right to Shared Ownership on rented homes

The comments about the Right to Shared Ownership on rented homes largely echo the views about the offer of 10% shares. There is a recognition that home ownership is still the tenure of choice, but also a concern about the challenges of sustaining marginal home ownership:

> "Who are we to say that people shouldn't be able to access home ownership? It is absolutely and undeniably the tenure that people want to have….I find myself actually in kind of a moral dilemma on this. Because, as a home owner myself, I don't want to ever say to someone 'you shouldn't have access to that'…. But then there's the other side of the coin, is it responsible to encourage marginal home ownership? And is it better, in fact, to provide an option that enables people to rent?" (Interviewee 3)

Several providers commented that many of their rental tenants would not be able to afford shared ownership:

> "We looked at all our rental customers, made some assumptions about income, and concluded that across our entire rental base, 2% could afford to do it. Because if it's more than a 40% increase on their current social rent, we ruled them out straight

> away, because unless they had a windfall, they couldn't afford it. That's not 2% per annum, it's 2% in total. 2% of 60,000 people could afford that." (Interviewee 1)

The general consensus was that whilst there would be interest in taking up the offer of shared ownership, and 10% shares, most social rented tenants would not find shared ownership an affordable option:

> "The analysis we've done says that almost everywhere, social rented properties are cheaper than even buying a 10% share.... Why would you want to pay more to live in the same house?" (Interviewee 6)

2.4 Plans over the next five years

Most providers interviewed had steadily increased their shared ownership portfolio over time. Over the next five years, most intended to build/take on more shared ownership homes, or about the same. However, there were uncertainties that made it difficult to say how accurate these plans would be, even if demand was currently strong:

> "The economic conditions are pretty challenging. And there's a lot of commentators saying the market is very buoyant at the moment, and there certainly is lots of interest, but you only have to look outside to realise that the world isn't normal and there isn't going to be a continued massive volume of people wanting to spend hundreds of thousands of pounds on moving home." (Interviewee 2)

There was a general feeling that the market over the next year or two was uncertain and that demand, sales and prices going forward would be hard to predict, as recession as a consequence of the pandemic looks likely, combined with the impact of Brexit:

> "We have concerns about the wider economy, the huge unknown is the economic impact of Covid....Another issue is the post-Brexit economic operating environment which seems to have disappeared from the discussion but it is still a concern." (Interviewee 3)

There was consensus that the economic and market outlook was very uncertain, but the impact on the demand for, and sales of, shared ownership was not considered to necessarily be negative. Some interviewees felt that demand for shared ownership would actually increase because of economic uncertainty:

> "There is general uncertainty about what is going to happen with the economy. That's really good for shared ownership. Most of our for sale projects we're almost inevitably going to turn into shared ownership. We're thinking that if the market completely bombs, people who want to own a house will still want to own one, they'll just have to find a different route, and I think shared ownership will be the way. In the south, not necessarily in the north. That's because of house pricing." (Interviewee 4)

The changes announced to the shared ownership product also made planning ahead less certain in terms of the numbers of shared ownership properties in the pipeline:

> "Before the announcement, we were planning to do about the same amount of shared ownership as what we've been doing. It accounts for about a third of our pipeline….We might have wanted to do a bit more before the announcement….But now, we might prefer to take the risk on market sale, and sell it and not have any involvement in its management going forward." (Interviewee 1)

A particular concern was the uncertainty around how the costs of the requirement to cover all costs of any repairs and maintenance for 10 years would be met, and whether this would be supported by higher levels of grant funding:

> "We are committed to deliver thousands of shared ownership homes over the next five years. At the moment, we are probing the new parameters. Beyond 2024 we would still bid and build, but probably not to the same extent as now. Considering the new parameters, we will probably build fewer shared ownership homes….There are two options. Build fewer shared ownership homes or double the grant funding per home to build the same number." (Interviewee 3)

> "It is dependent on amount of grant available in the next round of funding." (Interviewee 5)

Beyond the economic uncertainty and changes to the product, some more general challenges in delivering more shared ownership homes were identified, including grant funding levels, finance and land availability:

> "We don't have unlimited capacity. I guess one of the limiting factors overall is grant but also our borrowing capacity….And certainly land availability is part of it in some places as well. There's a lot of demand for housing overall, there's a much bigger demand for social rented homes and we haven't been able to build enough of those either." (Interviewee 2)

2.5 Impact of proposed changes to planning

Interviewees were asked about their views on the proposed changes to planning, particularly the plan to remove Section 106, and the likely impact on the supply of shared ownership. Several welcomed some form of planning reform:

> "It is potentially disruptive, but the current planning system doesn't do its job very effectively. There's lots of uncertainty. And a lot of that uncertainty is relation to affordable housing." (Interviewee 2)

A number of interviewees highlighted that changes to planning would take years to bed in and that there would be disruption to the system in the meantime:

> "It is not a terrible idea in itself if done correctly and if the right assurances were in place about the location and the sites. But it needs time to be managed effectively....and local authorities need more capacity. In ten years it should work out, but we are expecting disruptions in the meantime." (Interviewee 3)

There was predominantly a view across interviewees that the proposed changes to planning, particularly the replacement of Section 106 with an Infrastructure Levy, would make the delivery of affordable housing harder and would have a negative impact on the supply of shared ownership homes:

> "106 provides most of the affordable housing we see. I don't think you can look at it in any other way than taking away 106 means there's going to be a significant drop. If developers are released from those obligations they'll not provide affordable housing." (Interviewee 1)

> "Section 106 is absolutely critical to how affordable housing works". (Interviewee 13)

Most also felt that First Homes would crowd out shared ownership and reduce the number of new shared ownership homes:

> "First Homes could be a direct competitor and take away some of the shared ownership that's delivered." (Interviewee 2)

Few felt that First Homes was comparable to shared ownership as an affordable housing product:

> "Our analysis of the impact of First Homes is that if it's about democratising home ownership, it doesn't work. You need a salary of at least double what you'd need for shared ownership to buy even a discounted first home at 60, 65, 70% of value." (Interviewee 6)

One provider commented on the role that shared ownership plays in supporting the speed of development on large sites because it adds market diversity to a scheme, but felt that First Homes was aimed at a similar group of buyers to the open market homes and that the pace of build on a development would slow as a result:

> "There's also the impact on how other homes are sold. The Letwin review, looking at the reasons development is slow on large sites is because of the sales rates, identified that affordable housing helps in that because it all gets pre-sold and the affordable housing, because it's discounted, goes quickly. And the risk is that First Homes are being sold to similar people that are buying the market homes. So it actually slows down the market homes. And then if there's lots of them, can you actually sell market homes because do people just go around buying the First Homes?" (Interviewee 2)

2.6 Impact of the pandemic

All interviewees were asked about the impact of the pandemic on the shared ownership sector. The most immediate impact had been an increase in demand for shared ownership lending and in enquiries about buying a shared ownership home. Some interviewees noted that demand was strong across all sales:

> "We've had our strongest reservations and sales period since March across both sales and shared ownership." (Interviewee 4)

A lender noted that shared ownership had been particularly resilient after the lockdown, with a lot of pent up demand in the system:

> "Of all the sectors that we operate in, shared ownership has been really resilient. It bounced back quicker than some of the others that we operate. And it still remains strong." (Interviewee 9)

For shared ownership, there were reported to be far more enquiries than there were properties available:

> "At the moment, the market is still very buoyant. And the typical thing talked about is 10 people for every home." (Interviewee 2)

Lenders had seen a considerable increase in interest in shared ownership mortgages:

> "Shared ownership accounts for approximately 3% of our total lending book. We were getting one or two cases per week, but were inundated during pandemic. It rose to about 40 cases per week. It has settled to 14 or 15 cases per week." (Interviewee 11)

Some providers felt that demand remained strong in part because prospective shared owners were employed in sectors that were relatively protected from the economic uncertainty:

> "What we've seen is a massive spike in interest since the pandemic…. Our experience has been that a lot of our buyers have been reasonably well protected. We've had a lot of public sector workers buy with us, people with relatively secure employment who aren't facing mass redundancies." (Interviewee 1)

The reduction in stamp duty was also noted as a factor driving demand:

> "Covid has had a positive impact in terms of sales; the cut in stamp duty has made a house purchase more attractive, especially to those who were sitting on the fence." (Interviewee 5)

A further factor identified as driving the surge in demand was the removal from the lending market of first time buyer mortgages with low deposits. The meant that shared ownership had become the only option for prospective buyers with small deposits. As one lender noted:

> "A lot of lenders are withdrawing from the high LTV lending space which has driven traffic to other areas. We expect the demand to continue. It's difficult for intermediaries to find 90% LTV mortgages other than through shared ownership at present." (Interviewee 11)

Another lender thought that the lockdown had enabled some prospective first time buyers to save money towards a deposit for a shared ownership property:

> "There are other factors at play this year. Most people who buy shared ownership are younger. They're typically single, living with their parents. With lockdown, they're not

> going out. Three months of savings on going out can easily be a deposit on a shared ownership property. We've had shared ownership mortgages on properties that are only £130,000, so our loans have been quite small, we've been doing £30,000 loans. It's not a horrific hurdle to get over, generally speaking." (Interviewee 9)

There was uncertainty as to how long this increase in demand for shared ownership would last, as it was hard to distinguish between the pent up demand caused by the national lockdown, and the wider factors that might be driving interest in shared ownership:

> "The biggest impact so far is changes in the mortgage markets with withdrawal of first time buyer mortgages. That's forcing more people to consider shared ownership. We are seeing a real peak in business. It's difficult to separate how much of that is a snapback demand from the lockdown and how much is a genuine organic growth that is going to be sustainable." (Interviewee 3)

Interviewees were asked if they had seen any recent increases in arrears, reverse staircasing or repossessions. Most respondents said that so far they had seen little change and that it was too early to really determine what impact the pandemic would have on existing shared owners.

There was a strong consensus that the job protection schemes put in place by government had so far protected the shared ownership sector from a significant rise in arrears:

> "I think the end of furlough and mortgage holidays will have an impact on shared owners, but traditionally, arrears on shared ownership have only been 3 or 4% of the total rent roll. Our modelling suggests that might double with the end of furlough and mortgage holidays." (Interviewee 1)

There was also a consensus that if and when job protection schemes came to an end, and when mortgage holidays ended, there would be an impact on existing shared owners and a possible increase in owners falling into financial difficulty:

> "I think we'd expect the impacts to get worse as a number of people are being protected by being on furlough. But we are expecting now that lots of those people will be made redundant rather than brought back to work….So far, our position has been impacted less than we thought it would. But we're not expecting that's necessarily going to be the case going forward." (Interviewee 2)

> "If there's going to be a big impact, and I suspect there will be, it will be in November, December, when all the furloughed people leave their jobs. And the one-person businesses who will be hit really badly. And that's our target market for shared ownership as well. I think they're going to be hit really badly." (Interviewee 4)

None of the interviewees were aware of any reverse staircasing. Few were keen to encourage it, but said that support would be tailored to the circumstances of particular households if they started to struggle:

> "We get requests for it reasonably regularly, but we've got quite a tight line on it. It takes up quite a lot of our resources.... It either gives people the ability to treat us like a bank, or involves really complex bureaucracy working out whether somebody deserves it or not." (Interviewee 2)

Providers were asked what measures they would put in place to support their shared owners impacted by the pandemic. Communication between struggling shared owners and providers was seen as important:

> "I think we can only really do our normal processes of being very clear that people need to contact us and talk through their situation. But if they're in contact, then we can look at ways to agree different payment plans, we can understand their circumstances, help link them up to welfare advice." (Interviewee 2)

One provider was keen to stress the effort that they would make to support shared owners who began to struggle financially:

> "To support shared ownership customers who are struggling, we'll flip tenures back to rented if they are having problems. We'll buy their share back, or work out a plan with them. Maybe build debt against the equity. It's a blip. We want to get people through the blip, rather than punishing them through the blip. We're a housing association, we don't want to evict people. The support will be bespoke to each household, what's best for them. We won't advertise the option, but if we see people struggling, we will go to them. And they will know it's not about harassing them, it's not about evicting them, it's about how to get it fixed." (Interviewee 4)

However, one lender suggested that some providers were keener to provide bespoke help and support to struggling households than others:

> "We've had reports through our debt management working group that certain housing associations have been more quick to just seek the rental capitalisation as opposed to coming up with a practical way of managing it." (Interviewee 9)

2.7 Impact of EWS1 forms

Following the Grenfell tragedy, UK Finance, the Building Societies Association and the Royal Institute of Chartered Surveyors collaborated to create the External Wall Survey (EWS1) in December 2019. Almost all of the interviewees said that this was the issue that was most concerning for the sector:

> "It's the issue of the external walls that is actually keeping me awake at night. Because that's the one that is really going to cause most problems." (Interviewee 3)

The impacts varied between providers depending on the nature of their housing stock and whether their portfolio includes many flatted properties:

> "We're probably in a fairly fortunate position because not many of our buildings are over 18m in height. The challenge we've had is in resales and in remortgages, where lenders demand these forms. That's slowed the process." (Interviewee 6)

The impact on existing shared owners in flats was described as being very negative and was holding up sales:

> "It's held up sales and remortgaging and moves for lots of our shared owners and other leaseholders." (Interviewee 2)

The delays in being to sell a shared ownership property were very frustrating for owners:

> "We are getting a lot of frustrated and upset customers at the end of the phone that we are dealing with on a daily basis. Customers are just not able to see the end of the line, and that's causing a lot of frustration." (Interviewee 7)

Providers described how shared owners in relevant flatted properties were unable to sell their home, they were stuck, with little prospect of being able to sell in the near future, perhaps for a number of years. In some cases this had been quite devastating:

> "We've had suicides among shared owners who are trapped. They can't sell, they can't see any future when they will be able to sell. We haven't passed on a lot of

costs, but they are worried they might get a bill for £40k....Particularly in the pandemic, we've had a couple of leaseholders take their own lives, because they were isolated and everything had got too much for them." (Interviewee 1)

"What a disaster....It has in effect stopped the market in its tracks. You cannot get an EWS1 done. It's about £7000 per home, the number of people who can get the insurance to do properly it are limited....We've got people calling up on a daily basis in tears because they can't sell their home." (Interviewee 4)

Interviewees said that there were not enough qualified surveyors to meet the demand for inspections:

"There are less than 300 inspectors in the entire country that can issue the certificates, and the number is reducing because their insurers are saying they don't want to insure one person that's doing 10% of the sector's stuff, so they're putting restrictions on it. So the pool is getting smaller." (Interviewee 1)

Insurers had removed insurance from surveyors, limiting how many inspections they can undertake. Providers expressed frustration, stating that lenders were requesting EWS1 forms for properties where they were technically not required. Although no lenders interviewed reported this being the case, they expressed equal frustration with the current situation. A lack of testing capacity in the country was also deemed to be slowing the inspection process down:

"I think they only have two or three test facilities. Unless the wall system has been tested before, they then have to do a fire regulations test. So if you have a combination of a wall system that hasn't been tested, and there are thousands of combinations of wall systems you could have, you'd have to get it done and you're in a queue." (Interviewee 1)

Both providers and lenders commented that the checks had become more in depth and more intrusive:

"You're not going to find a fire safety engineer with a valid liability insurance prepared to sign off on those forms without opening up the building and carrying out investigations." (Interviewee 3)

Beyond the investigative inspections, there were concerns about the nature and scale of required remediation works and how these would be paid for, and the impact on existing shared owners, particularly if they face large one off service charge bills for remediation works:

> “What we’re finding is that every building you go into, you have to do some remediation. If it was checking alone, we’d have done it by now.” (Interviewee 1)

There were also concerns about changes and updates to the safety regulations leading to additional remediation works:

> “The advice changes, there are more being added all the time. And this has happened to us, we’ve remediated a building with a new cladding system, and then had to take it all off.” (Interviewee 1)

There was some tension between providers who had relaxed rules around sub-letting to help shared owners who needed to move home and were not able to sell because of the delays in the system, allowing them to rent their flat instead, and the views of lenders who were opposed to subletting:

> “We’ve had some people coming to us looking to let out their shared ownership property while their cladding gets removed. They’ve been given permission from the housing association to do that. They don’t feel safe, yet they’re willing to let it out to someone who doesn’t know the issues. We’re not comfortable with that.” (Interviewee 9)

Most interviewees felt that unless something changed, it would take many years for the sector to work through these issues:

> “The impact of external wall surveys is massive. It’s our major problem with leaseholders at the moment and probably will be for the next 10 years unless the government does something.” (Interviewee 1)

All interviewees felt that further government intervention was required, such as underwriting insurance risk:

> “There’s a model they have in Australia apparently, where the government is effectively underwriting some of the insurance risk to free up the market. That feels like the only way.” (Interviewee 1)

> "There will have to be something different done. And some of that might be refining the process. But I think the government's going to have to step in and do something to remove some of the uncertainty. There's been a systemic failure in building regulations and allowing lots of things to be built not as they should be. The market is seizing up so the government will have to offer some kind of way out for existing owners and future owners that means they're not entirely on the hook for those costs....Probably it comes down to some kind of insurance product." (Interviewee 2)

2.8 Increase in private equity in the sector

Interviewees were asked about their views on the increase in private equity in the shared ownership sector. There were no strong negative views amongst providers, although some raised concerns about the long term management arrangements for such properties:

> "A bit of competition, we shouldn't be afraid of it....We don't have the right of monopoly on shared ownership." (Interviewee 3)

> "I think it was always going to be a challenge to try and do it without access to grant funding, because subsidised housing is subsidised for a reason." (Interviewee 8)

Lenders were more cautious and were keen to ensure that lease clauses, charges, or management arrangements long term did not put customers at a disadvantage:

> "We don't lend on for profit providers. We did with one, but it's on pause. We've debated this over the years. It's ok, but their drivers can be different, because they're profit making. Especially in the private sector. It's much more commercial, rather than wanting someone in the community to have a home. We want them to behave in the same way as housing associations, and follow the same rules. But they quite like to deviate from the rules and write another set of clauses, which puts us off. So I haven't seen too many. There's always talk about them coming along, but then I don't see many....Who's behind it is really important to us. With housing associations, if something's going wrong, they tend to put their arms around them and help pick them up." (Interviewee 10)

In terms of institutional investment with private equity investment into provider shared ownership portfolios, few providers were actively pursuing this and views were somewhat ambivalent. One provider felt that this funding would be used only in circumstances where there was no choice:

> "We've looked at institutional investment with pension funds. There's a fundamental misunderstanding with them, they want all of the profit and none of the risk…. I think housing associations that have taken this investment have done it because they have no choice." (Interviewee 1)

Most did not object to the principle of institutional investment, but felt that finding a partner with similar values to a housing association was difficult:

> "It's dead capital, with shared ownership. Because that 50% of the value is stuck, and you can't do anything with it. Finding an investor that is willing to purchase that 50% in an efficient way, that also is ethical and moral in what they do, and isn't going to bang up their charges the minute we turn our backs, is difficult. There's a lot that say that can do it, but I'm not finding many that actually can. They're trying to squeeze a margin out of it as well." (Interviewee 4)

In addition to concerns about the alignment of values, some providers noted longer term issues as the financial returns from property changed over time:

> "The thing that worries me is shareholders are always going to come first. And in terms of the longevity. The difference with housing associations is we're doing this forever. This is our primary purpose and not an additional way of making money. That's why we do it. You have investment funds that think of it as a good investment, but they might not think that in 10 years' time." (Interviewee 6)

One provider was more positive about private equity investment and thought that this was a useful way to boost the supply of shared ownership homes:

> "We are probably slightly different from some associations in terms of the ways we're thinking about funding our future program and thinking about providing subsidy for 10 years. We've made an explicit commitment in our corporate strategy to seek to work with third party capital partners to deliver more. What that really is about, it's about saying – on our own, on our account balance sheet, we will deliver roughly 1000 homes a year. And our development team and our operational team are able to provide and deliver and then manage far more homes that that. But we have a commitment to deleveraging. In the long term, we don't believe that public subsidies are going to increase. So if we want to drive additionality above that…..We've got to find different ways of financing that." (Interviewee 7)

2.9 Suggestions to improve the product

Research participants were asked if they had any suggestions to improve the product. Most felt that the product was already well established and simply expressed the wish that government had not made the recently announced changes to shared ownership, which they did not feel reflected sector responses to the consultation. Interviewees said it was preferable if government did not make changes to the product as it causes confusion, particularly for prospective buyers.

Most felt that there still needed to be greater awareness about shared ownership and that a consistent message about the product was needed across the sector:

> "A recognition from government that it is a specific thing would be helpful. The government doesn't really talk about shared ownership in a coherent way. From developers to housing associations, purchasers to government, nobody really sees it as a product, and it's not branded as a product. Shared ownership is not a brand. It's an awareness issue." (Interviewee 4)

> "A more national campaign that will help to understand the product better....Keeping the program simple and consistent." (Interviewee 7)

> "It's been changed around so much already and it doesn't need to be changed any more. The way that it works is good, people just don't know about it." (Interviewee 9)

2.10 Points raised by the Law Commission

The nature of leasehold was not an issue that many interviewees raised or had a strong view on. However, one wider industry stakeholder contacted as part of the research was the Law Commission. Their comments are quite particular in focus and so are included in full as an appendix, with their consent.

The Law Commission has made recommendations about reform to enfranchisement and to the right to manage. The Law Commission believes that these recommendations will benefit shared ownership leaseholders in exactly the same way as any other leaseholder. The detail as to how these reforms would apply to shared ownership are detailed in the appendix.

A point of note from the work conducted by the Law Commission was their conclusion that:

> "Members of the public do not always understand exactly how shared ownership schemes operate, or the precise nature of the legal arrangement which the purchaser of a shared ownership property is entering into." (Law Commission)

They also raised concerns about the way in which shared owners legally have more limited security of tenure than most ordinary leaseholders:

> "The fact that a shared ownership lease is an assured or assured shorthold tenancy means that until the shared ownership leaseholder has fully staircased, he or she has much more limited security of tenure than most ordinary leaseholders. In particular, the shared ownership leaseholder runs the risk of eviction under the Housing Act 1988 on the basis of one of the grounds for possession listed in schedule 2. This includes "Ground 8", which provides that the court must make a possession order when the tenant is in two months' rent arrears. In effect, the shared ownership leaseholder is at risk of losing his or her lease, and the entire purchase price paid for it, for non-payment of rent. There is no relief available from this outcome, such as there is where an ordinary long leaseholder loses their lease through forfeiture". (Law Commission)

The Law Commission outlined a number of ways in which shared ownership could be incorporated into a commonhold system, to replace leasehold. They urged housing associations to engage in discussions about leasehold reform and hope that they will support the recommendations:

> "The recommendations we make in our reports will give shared ownership leaseholders greater security of tenure, and the ability to participate in the management of their building, making shared ownership leases more attractive products". (Law Commission)

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