from the margins to the mainstream:

a study of the prospects for shared home ownership in the North West

By Andrew Heywood

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Foreword

This report could not have been more timely. It coincides, for instance, with the passage of the Housing and Planning Bill and recent changes to the government's home ownership scheme, which the Prime Minister claimed will "open the door to an extra 175,000 aspiring homeowners". It also accords with the ambitions of the city-regions and the local authorities and housing associations in the North West, and most importantly, with potential homeowners across the region.

The title of the report *'from the margins to the mainstream'* neatly sums up the challenge for housing providers in the region. As the report shows, there is clearly a market for shared ownership in the North West - not least because it offers choice, affordability and security of tenure. And, it is not just for the young first time buyer seeking to get a foot on the housing ladder. The product is suited to lower income tenants from all age groups, and from both the private and social rented sectors. Indeed, potential opportunities for growth identified in the report include older people's shared ownership schemes (which are popular in the North West) and self-build.

The report offers a critical assessment of the shared ownership market in the North West and a thoughtful discussion of the prospects for growth. Its value lies not only in the data profiling and analysis, but interestingly and usefully in the way it presents the views and opinions of the major stakeholders.

Shared ownership of course does not stand alone. It competes in the housing market with other homeownership products, some of which (like the Starter Homes Initiative) offer attractive financial incentives for outright purchase. These and other constraints identified in the report suggest that shared ownership in some places is at a disadvantage. The report calls for a level playing field, but recognises the barriers to making shared ownership more of a mainstream product. In particular, greater attention in the future needs to be given to marketing and tackling the lamentably low rates of staircasing to full ownership.

Despite the progress made, shared ownership has arguably not quite lived up to the hype. The benefits (not least the lower costs of accessing home ownership) are not as widely understood as perhaps they could be. However, as the report concludes, "the picture in the North West is a positive one….and with additional funding there is a real prospect that shared ownership will expand". We hope this report goes some way to helping make this happen.

The project was commissioned by Equity Housing Group, a leading provider of shared ownership properties in the region. A special thanks goes to Equity's team for their vision and practical help with the research. Thanks are also due to the fifteen local authority and housing association representatives who agreed to be interviewed at length about the current market and prospects for shared ownership in the region; to the mortgage lenders who took part in our 'funding shared ownership' survey; and to Anna Clarke for her accurate and invaluable work on the formidable CORE database. Finally, the Institute and Equity Housing Group would like to thank Andrew Heywood, the author, whose work, as always, is rigorous, insightful and thought provoking.

Paul Hackett, Director, the Smith Institute
David Fisher, Chief Executive, Equity Housing Group

Executive summary

Executive summary

This report, based on in-depth interviews, a survey of lenders and new research, offers an analysis of shared ownership provision, development and sales in the North West region and assesses the prospects for expansion.

The North West exhibits lower house prices and slower house price growth than the country as a whole. Incomes are lower too, but the region remains relatively more affordable in terms of homeownership than London and England. This provides an opportunity to offer shared ownership to those on median incomes and below who would otherwise be unable to gain a foot on the housing ladder.

Private renting is reasonably affordable in the region and gives many of those on low to middle incomes the opportunity to save for a modest deposit. It is then no surprise that the sector is an important source of new shared ownership households.

Social renting though is much less significant as a stepping stone to shared ownership. Only 8% of new shared owners were in social housing immediately before acquiring their present home, largely because incomes are just too low.

Detailed analysis of shared ownership sales shows that shared ownership in the North West is very affordable for those on low-to-middle incomes. It works particularly well in higher and mid to high price areas (such as Cheshire and Stockport) where people can't afford to buy outright without assistance. In contrast, in other parts of the region (where there is over-supply of terraced properties) values are too low for shared ownership. Buying outright in these places (like Hyndburn and Burnley) is affordable, if not always practicable, even for those on very low incomes.

Recent government initiatives in the field of housing policy will affect efforts to scale-up the sector. For example, it is likely that the extension of the Right to Buy (RTB) will encourage more outright sales to social tenants, but also lead to an increase in development for shared ownership (although RTB is not available to people who part own their home). The compulsory reduction in social rents is also expected to precipitate a shift in the emphasis of new development away from Affordable Rent towards shared ownership; a trend that will be re-enforced by the cuts and caps to welfare benefits.

The process of devolution under the City Deals and City Growth agreements is also likely to give local authorities and the new combined authorities (with the Local Enterprise Partnerships) opportunities to prioritise and promote housing choices, including shared ownership. Indeed, increasing housing supply and choice is already viewed as an important means for boosting jobs and growth across the region.

However, many housing associations are looking to reduce the size of their overall future development programmes. So, whilst development for home ownership may increase in the short term, there is much uncertainty post 2018. Nonetheless, overall, shared ownership could form a larger proportion of smaller development programmes.

The government's Starter Homes Initiative is widely seen as a potential threat to shared ownership, especially if buyers are entitled to a Help to Buy equity loan. Competition for buyers and land and a reduction in planning gain (Section 106) provision for anything other than outright ownership could also undermine market opportunities for shared ownership. Several interviewees called for extending eligibility for a Help to Buy/equity loans to shared ownership customers as a way of levelling the playing field.

It was reported that the raising of the upper income limit for eligibility for shared ownership (to £80,000 for the new Help to Buy shared ownership scheme) is unlikely to have a significant impact in the North West. Most households with an income anywhere near that level would be able to purchase a home outright, although not all choose to do so. However, it was noted that the threshold might be an issue for older people downsizing with properties worth over the threshold.

There is a widely held belief that shared ownership is not marketed as effectively as it could be. Many interviewees called for stronger branding and simplification of the product. Housing associations did not believe that estate agents, for example, always understand shared ownership or market it effectively. There was also a view that the role of Homebuy (Help to Buy) agents could be carried out by housing associations themselves (some of whom have their own estate agency arm).

The resale shared ownership market in the North West is healthier than in the country as a whole. Nevertheless, there is room for further improvement. In particular, there is a need in the North West for larger shared ownership properties suitable for those whose households have grown. Several interviewees argued for rapid development of a second tier shared ownership offer so that first-time buyers can move to a larger home. It was also said that there may be a role for second tier shared ownership in the mainstream market.

The issue of valuing improvements undertaken by shared owners when selling the property also needs re-consideration. There is evidence of a lack of transparency, use of a formula that can cause issues for mortgage lenders and buyers, and unfairness. This needs to be examined in detail.

There was agreement among providers that improvements should be made to the shared ownership offer itself. It was said that features of the current product cause dissatisfaction amongst existing shared owners and may deter staircasing. For many the reality is that shared ownership is a permanent tenure because their incomes do not rise fast enough for them to move into outright homeownership. It was generally felt that not enough attention has been paid to those who are in shared ownership for the long-term.

The proportion of shared owners who staircase to full ownership in the North West is lower than for the country as a whole. This is largely due to the low incomes and cost barriers, although interviewees commented that staircasing is not organised and marketed as well as it could be. It was suggested that housing associations should perhaps look to develop schemes that allow shared owners to purchase additional shares incrementally without incurring the costs of doing so up front. There may also be scope for a national scheme for incremental staircasing to encourage a standardised approach.

One potential opportunity to scale up shared ownership could be among older people, possibly via beefing-up traditional shared ownership products/equity release products or through the Older Persons Shared Ownership scheme (which already has a much higher take up in the North West than in the country as a whole).

Self-build shared ownership schemes also offer possible new opportunities, although current schemes are very rarely used. The opportunity to earn "sweat equity" by helping to build one's own home would be welcomed by some lower income households. However, self-build, although popular, is time consuming and will probably never be a mass market, but is an option that could be better supported by housing associations and local authorities.

The fact that shared owners have sole responsibility for repairs and maintenance of their property was seen by many interviewees as problematic. It was generally felt that landlords should do more to improve lease and sub-lease arrangements, perhaps repairs and maintenance could be undertaken by the landlord on a fixed fee basis?

Interviewees also saw little immediate prospect of the number of lenders for shared ownership increasing unless sales increase substantially above present levels. However, there was some optimism over lenders requiring smaller deposits on shared ownership. It was also said that extending the Help to Buy/ equity loan scheme to shared ownership would allow for smaller deposits.

The picture in the North West is a positive one. In much of the region shared ownership can offer access to homeownership for low to middle income households. With additional funding and better communications and marketing shared ownership could become a more desirable and mainstream tenure in its own right.

Recommendations to support shared ownership in the North West

Recommendation 1: More detailed market research is needed to support the growth of shared ownership in the North West. In particular more analysis is needed on ways to support lower income households into shared ownership, the development of a second tier market and the market for older people.

Recommendation 2: The Government and the Homes and Communities Agency (HCA) should monitor development plans of housing associations carefully in order to assess the likely impact of recent policy initiatives on future development programmes. In particular, they should evaluate the impact on shared ownership of the 1% rent reduction and the Starter Homes Initiative.

Recommendation 3: The HCA should undertake further analysis to see whether the new upper income limits for eligibility to access shared ownership has any real relevance in low price/low income areas. If they do not, they should be abolished in order to simplify the shared ownership offer and the buying process.

Recommendation 4: The Government, the HCA and individual providers should review how shared ownership is branded and the quality of communications and marketing (locally and regionally). The aim should be to discourage successive rebranding of shared ownership, strengthen the brand and ensure that local marketing by housing associations and estate agents is effective.

Recommendation 5: The HCA should re-evaluate the role and purpose of Homebuy/Help to Buy Agents in the light of the simplification of eligibility criteria and the raising of upper income limits. The HCA should determine whether the tasks currently performed by Homebuy Agents could be carried out by housing associations themselves ensuring that the process of buying a shared ownership property can be negotiated as quickly and easily as possible.

Recommendation 6: DCLG should examine the effectiveness of the decision to allow existing shared owners to buy another shared ownership property and the case for developing a second tier shared ownership offer (comprising larger homes for existing shared owners whose households have grown but who cannot afford outright ownership).

Recommendation 7: The HCA should review shared ownership leases and the approach of housing associations to handling resales of shared ownership properties where owners have undertaken improvements to the property. The aim of the review should be to identify an approach to improvements that is transparent, can be consistently applied by different housing associations, and is fair.

Recommendation 8: In order to increase the incidence of staircasing by shared owners, the HCA should work to create a scheme to allow incremental staircasing without up-front legal and valuation costs for the shared owner. Such a scheme should be capable of being widely applied in order to promote the standardisation of the shared ownership offer as far as possible.

Recommendation 9: The HCA should re-examine the obligations on shared owners to take sole responsibility for repairs and maintenance to the property. The HCA should evaluate the case for landlords and shared owners dividing up these obligations and/or landlords offering a repairs service at a fixed fee.

Recommendation 10: In order to increase lender confidence to lend for shared ownership, the HCA should engage with the Council of Mortgage Lender to limit the ability of housing associations to terminate a shared ownership lease unilaterally on grounds of rent arrears.

Recommendation 11: Greater effort should be made to find ways of reducing deposits, including the use of local authority guarantees to enable lenders to offer higher loan to value mortgages for shared owners.

Recommendation 12: Government should give serious consideration to extending the Help to Buy/equity loan scheme to shared ownership buyers in order to allow lower income households to access the tenure and to level the playing field for shared ownership and Starter Homes.

Recommendation 13: Housing associations in the North West, in conjunction with the HCA, should examine the scope of expanding the use of the Older People's Shared Ownership scheme (and similar schemes).

Recommendation 14: Housing associations should consider whether there may be scope to initiate self-build shared ownership schemes in their areas and should liaise with local authorities who may be considering their own future action to fulfil their responsibilities under the Self-Build and Custom House Building Act 2015.

Introduction

Introduction

The first shared ownership development was launched in Notting Hill, London in 1979. Since then growth has been steady rather than meteoric. Today there are over 161,000 shared ownership properties across the country. While significant for the households who have been assisted in gaining a foothold into homeownership, it is a tiny percentage of the total dwelling stock (around 0.7% of the 23 million homes in England).

Nevertheless, the history of shared ownership demonstrates success in helping households into affordable home ownership. It suggests that there may be unexploited potential to expand the tenure, particularly at a time when affordability pressures and a range of other factors have contributed to a situation where the level of national homeownership has been falling.

Over the past decade a number of reports on shared ownership have been produced. These reports have looked at how shared ownership works in practice and made various suggestions about how it can be improved. One might reasonably ask why one more?

First, the policy environment has changed radically since the 2015 General Election. The new Conservative Government has announced a series of initiatives that together set a new direction of travel in terms of housing policy. The policy focus has unequivocally shifted away from sub-market renting to the promotion of homeownership and new development for first time buyers (FTBs). For those committed to shared ownership the news is mixed. While this package of measures is likely to push housing associations towards development of shared ownership rather than homes for social renting, many will be cutting back on total future development levels. In addition, the possible impact of the revamped Starter Homes Initiative on the market for shared ownership has yet to be fully analysed and assimilated.

Second, the on-going devolution process is starting to shape housing policy in the North West. Although the responsibility for strategic housing and planning is not as devolved as in London,[1] the recent Growth Deals in the North West do offer the opportunity to give a higher priority to shared ownership in their spatial plans and programmes.[2]

Third, much of the existing research on shared ownership has been explicitly focused on London and southern England.[3] In fact, there is a dearth of material on shared ownership in areas with lower than average house prices, rents and incomes.[4] That information imbalance is unhelpful, especially given the regional divide in house prices and affordability. Indeed, it can be argued that the lack of analysis in markets outside of London partly explains the bias in national policy making towards the high demand areas.

The report takes on board these factors and seeks to:

- Analyse the current trends in shared ownership provision in the North West region;
- Assess the prospects for scaling up that provision; and
- Makes recommendations as to how this may be done.

Research methodology
This research, carried out between November 2015 and January 2016, covered the following:

- A review of existing research on shared ownership and intermediate housing tenures.
- Analysis of key data on housing markets in England and the North West. Analysis of data on shared ownership development, provision and performance in the North West and elsewhere in England (data sources consulted include among many others the Land Registry, the Valuation Office Agency, the Statistical Data Return, CORE,[5] and the English Housing Survey).
- A series of 15 semi structured interviews with senior local authority and housing association representatives.
- Written questionnaires were sent to mortgage lenders with an interest in shared ownership. Between them these lenders account for over 60% of all lending for shared ownership.

Section 1: Shared ownership

Section 1: Shared Ownership

Shared ownership is a hybrid tenure involving both renting and purchase. The purchaser is a leaseholder with a lease that is typically of 125 years term, which sets out their rights and obligations. The purchaser buys a share in the property, usually from a housing association. That share may vary between 25% and 75% of the value of the property at purchase (the average share purchased is around 41%[6]). The vendor/landlord retains the remaining share in the property and charges a rent which will not normally exceed 3% of the capital value of the share retained by the landlord.[7]

Unlike a social tenant, a shared owner has full responsibility for repairs and maintenance of their property, although they only own a share of it. The shared owner has the right to purchase additional equity in their property and thus increase their share – i.e. 'staircasing'. In rural areas and in certain other locations to preserve the affordability of the property as shared ownership, staircasing may be limited to acquiring a maximum of 80% of the value of the property. Elsewhere a shared owner can staircase to 100% ownership and acquire the freehold.[8] In practice, staircasing has only been used by a minority of tenants.

What is shared ownership?
The DCLG describes shared ownership schemes provided through housing associations as follows:

You buy a share of your home (25% to 75% of the home's value) and pay rent on the remaining share. You'll need to take out a mortgage to pay for your share of the home's purchase price. Shared ownership properties are always leasehold.

As from April 2016, eligibility for Help to Buy Shared Ownership will be at limited to £80,000 outside London, and £90,000 inside London. Only military personnel will be given be priority over other groups. The scheme will apply across England.

The Housing Minister Brandon Lewis MP is a strong advocate of shared ownership:

We believe that anybody who works hard and aspires to own their own home should have the opportunity to realise their dream. Shared ownership is a great way for people to achieve that with just a fraction of the deposit they would normally need. Now thanks to our vision thousands more people will be able to benefit from this scheme.[9]

Because public funds in the form of grant have usually been used to build and subsidise the shared ownership property there are normally restrictions on who is eligible to buy into shared ownership. Until recently these were quite complex and could include a range of criteria such as living and working locally and income requirements. However, the Government has simplified these criteria and raised the maximum upper household income limits.

There are also restrictions on resale. Unless the shared owner has 100% equity in the property the housing association has the right nominate a purchaser during the first three months the property is on the market. Thereafter that right lapses.[10]

Falling Homeownership
The main reason for the fall in homeownership is declining affordability. House prices nationally have outstripped earnings almost every year since 1970 and the temporary improvement in loan to income ratios noted during the banking crisis has now been largely eroded. Other reasons include:

- A conservative mortgage market with high loan to value lending curtailed and with lenders demanding larger deposits. The average first-time buyer deposit is currently 19% (Council of Mortgage Lenders).
- Household formation is fastest amongst single adult households; a cohort less likely to access home ownership than "conventional" families.
- Inward migration has increased and new migrants tend not to access homeownership.
- Work patterns are changing with more labour mobility and less job security. These conditions favour private renting over homeownership.
- Personal indebtedness (notably unsecured debt) is high. This can make it difficult for some households to access sufficient mortgage finance and can inhibit households from entering or remaining in homeownership (student debt is also a factor).
- With the abolition of mortgage interest tax relief in the 1990s there was a shift in the burden of direct personal taxation away from landlords and onto owner occupiers, although the July 2015 budget has partially reversed this.
- Inadequate savings, poor pension provision and increased longevity all tend to promote disinvestment from housing amongst some older age groups. Care costs can be a related factor.[11]

There are variants on the "standard" shared ownership model. For instance, there is the Older People's Shared Ownership (OPSO) 'extra care' scheme tailored for the over 55's, and Home Ownership for People with Long-term Disabilities (HOLD), which allows those with as disability to buy a suitable home on the open market on a shared ownership basis. In addition, there are several bespoke shared ownership schemes in London, such as the GLA's 'First Steps Challenge Fund' which aims to deliver 4,000 extra shared ownership homes between 2015-20.

An important general feature of shared ownership for marketing purposes is that shared owners have the right to purchase an additional share in their property. When staircasing occurs, it is usually to 100% ownership. However, partial staircasing is rare and staircasing to 100% is by no means as common as some might believe.[12]

There is some evidence that staircasing has increased over the past five years in England but it remains at a very low level. The reasons are complicated, in part due to disposable incomes not rising fast enough to match the growth in property prices.[13] Partial staircasing can also be expensive owing to valuation and legal fees. These can seem disproportionate when compared to the additional share purchased. It has also been suggested that shared owners are concerned that owning a larger share of the equity in their home may make it more difficult to sell to other shared owners.[14]

The low rate of staircasing is relevant in the context of scaling up shared ownership and raises some important questions: Is it, for example, seen as a permanent tenure rather than a stepping stone to outright ownership? If so, is it marketed as such? Does it offer enough to long-term shared owners?

Section 2: The North West region

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The North West covers 14,100 square kilometres and stretches from Chester to Carlisle in one direction and from the Pennines to the Irish Sea in the other. It encompasses Greater Manchester, the prosperous rural hinterland of Cheshire, the tourist centres of the Lake District, Liverpool, seaside towns such as Blackpool, and towns such as Barnsley which still bear the scars caused by the decline of traditional industries.

The North West is the third most populated English region with a population of 7.1 million, with Greater Manchester accounting for 2.7 million and Liverpool City region around 1.7 million.

In terms of overall population density the North West has the second highest density at 502 persons per square metre, although cities in the region are dwarfed by London at over 5,000 persons per square metre.[15]

The North West has net inward international migration but is losing population to other English regions. The ethnic breakdown for the region shows a lower percentage of ethnic minorities than for England as a whole although with wide local variations.[16]

In terms of the age distribution of the population the North West is close to the national average with 18.8% of its population under 16 and 17.2% at 65 or over. It has a slightly younger population than the North East. The North West also has the lowest life expectancy at birth of any English region.[17]

The region has a lower disposable income per head (£14,476 pa) than the English average although it is by no means the poorest region. According to the latest ONS data (for 2013) the North West ranks third from last out of the ten English regions in respect of gross disposable income per head (GDIH). On current prices GDIH in the North West was £15,401 a year compared with London at £22,500 and the England average of in £17,842. Disposable income growth has been fairly sluggish since 1997 and unevenly distributed within the region, with the highest incomes in Cheshire and the lowest in Blackburn.

Table 1: Comparative median earnings, 2015

	North West	England
Full time median earnings (£)	21,051	22,487
Full time lower quartile earnings (£)	13,241	13,613

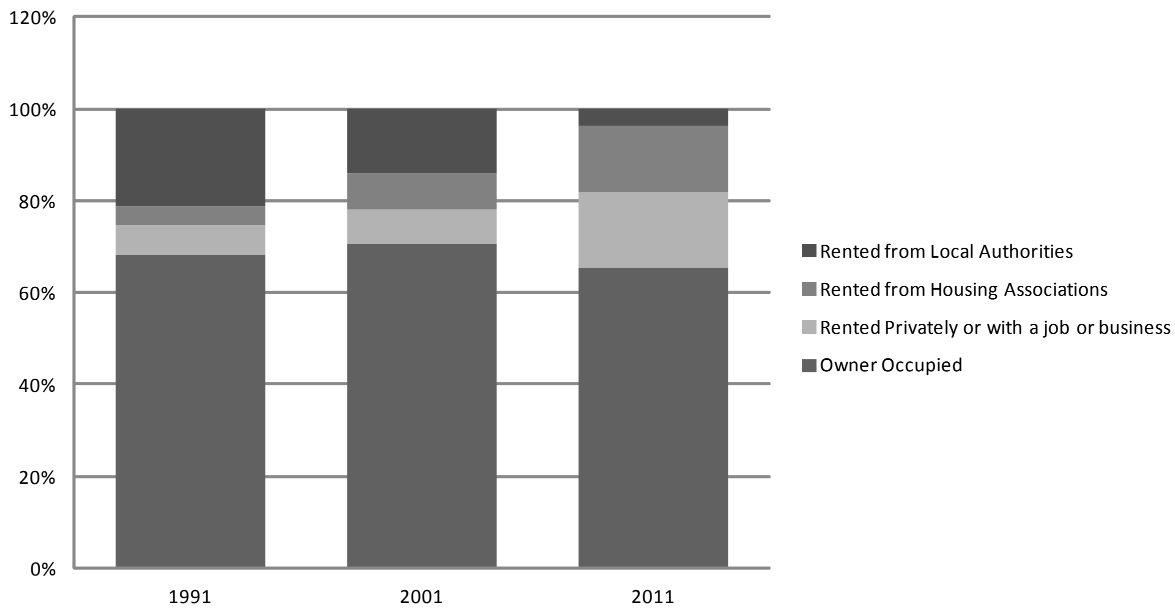
For the period August-October 2015 unemployment in the North West ran at the same rate as for England as a whole at 5.2%. However, the North West has the highest percentage of children living in workless households of any region.[18 19 20]

North West housing markets

The North West has a slightly higher homeownership level (65.4%) than England as a whole and slightly lower levels of private renting (16.4%). The region has a slightly higher level of social renting (17.9%).[21]

In the North West the amount of stock rented from local authorities has declined sharply as has the overall proportion of social renting. The private rented sector has meanwhile expanded sharply and homeownership has declined slightly.

Figure 1: Dwelling stock by tenure - North West



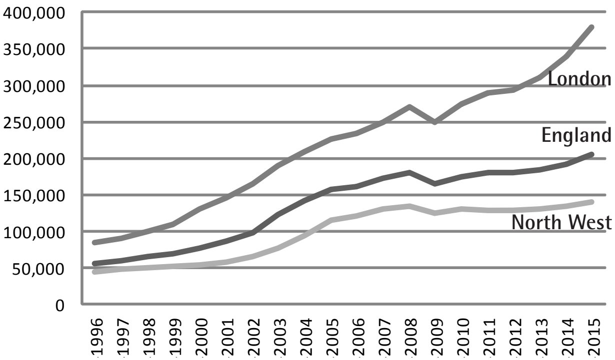
Source: DCLG

The Government has committed itself to reversing the fall in homeownership and is hoping for strong growth in regions like the North West. However the longer-term outcome of pro-homeownership measures such as the extension of the Right to Buy and the Starter Homes initiative is by no means certain. At present the established trend is for homeownership to stagnate or fall, especially in areas with high house prices. Furthermore, falling homeownership inevitably hits those on lower incomes harder as they find it ever more difficult to step onto the housing ladder unaided. This, of course, is where shared ownership with its lower monthly payments and smaller deposit than full ownership becomes relevant.

House prices and affordability

The North West stands in sharp contrast to the country as a whole both in terms of the level of house prices and their long-term trajectory.

Figure 2: Median house prices (£), England, North West and London, 1996-2015

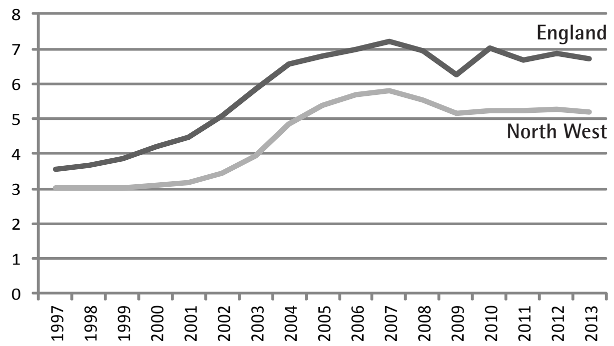


Source: ONS/Land Registry

The median house price in the North West for Q2 2015 was £140,000. This compares with £204,995 for England and £380,000 for London. However, it is not just the level of house prices which is different but the trend. Since 1996 house prices in England have risen by 263%. In London they have soared by 351%. In contrast, the North West saw a rise of 211%.[22]

Prices on their own of course do not tell the whole story. Comparing median house prices and median incomes gives a more accurate picture, not least in regard to affordability.

Figure 3: Median prices to median earnings England and North West 1997-2013

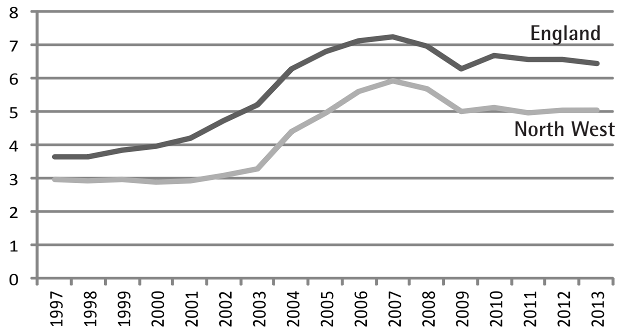


Source: DCLG/author's calculations

Affordability has deteriorated in England as a whole, but the North West has consistently remained more affordable by an increasing margin. Nevertheless, the price to income ratio in the region even in 2013 was 5.22. This would be unaffordable for many, particularly given that in Q3 2015 [Financial Conduct Authority] only 2.01% of mortgage loans were granted with a combination of over 90% Loan to Value [LTV] and a high income multiple.[23]

The position for those on lower quartile earnings would clearly be more challenging, although that challenge is slightly mitigated if buying a lower quartile priced home (see Figure 4).

Figure 4: Lower quartile prices to lower quartile earnings 1997-2013



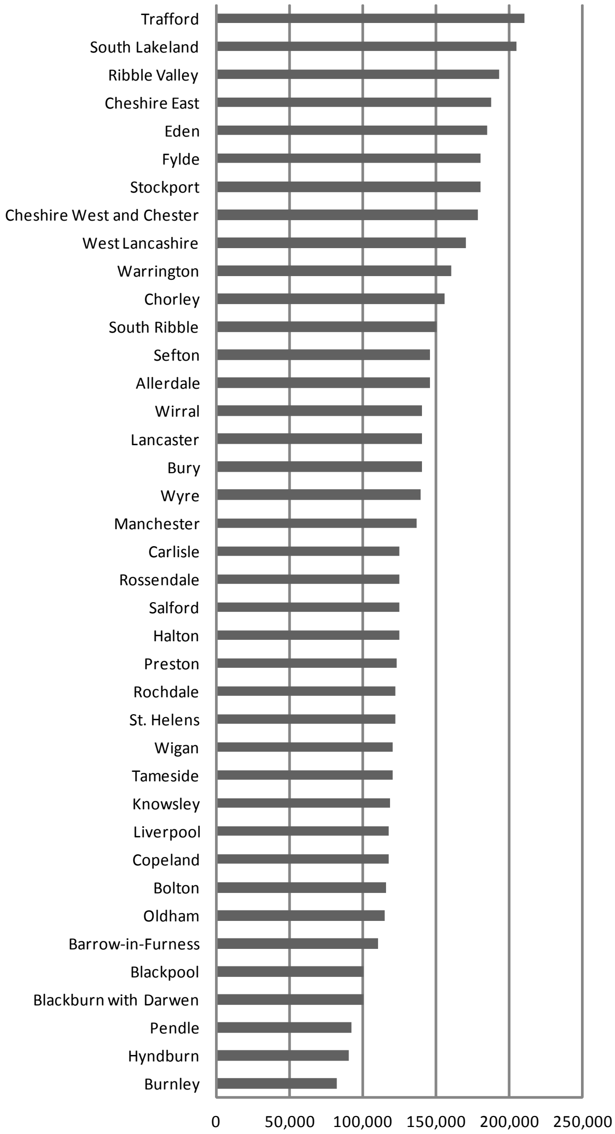
Source: DCLG

The lower quartile price to earnings ratio was 4.96. While this is a slightly lower ratio than for median earners buying median priced properties it is nevertheless very challenging for someone on lower quartile earnings of £13,241 a year (2015). As interviewees for this project repeatedly pointed out, potential buyers on incomes as low as this would find difficulty in obtaining a mortgage, particularly as the relatively high level of employment insecurity associated with low incomes would be a deterrent to borrower and lender alike.

The picture is complicated by the variation in house prices across the region. As illustrated in the chart over the page, above some areas are very affordable and others are unaffordable, even for those households on the equivalent of median earnings or even above. For instance a household with one full-time earner on median earnings for the region (the majority of shared owners buy using one income only) would have a total income of £21,051 pa. Putting down a typical FTB deposit, say on a £210,000 median priced home in the Trafford area would require an initial outlay of £39,900. The monthly repayments on a 25 year mortgage[24] would be £897. This represents 51% of the gross monthly income - well over the 35% threshold of affordability. On this basis the same household would be unable to afford a median priced property in eight of the most expensive 39 local authorities listed in Figure 6.

However, raising a deposit is an issue for all FTBs. A survey commissioned for the HCA indicated that the biggest reason households gave for not accessing homeownership was the inability to raise a deposit.[25] For a £140,000 priced home the deposit on a 25% shared ownership home would be around

Figure 5: Median house price by local authority area Q2 2015: North West



Source: ONS

£3,500; for 50% shared ownership around £7,000; for a Starter Home or Help to Buy property between £6,000 to £12,000; and for buying outright around £14,000. All these options, with the exception of the 25% shared ownership, are demanding for single income households. Indeed, a typical FTB deposit on the average priced home would be equal to more than half median annual earnings and equal to a quarter for 50% shared ownership. This can be a formidable obstacle for those paying above average private rents.

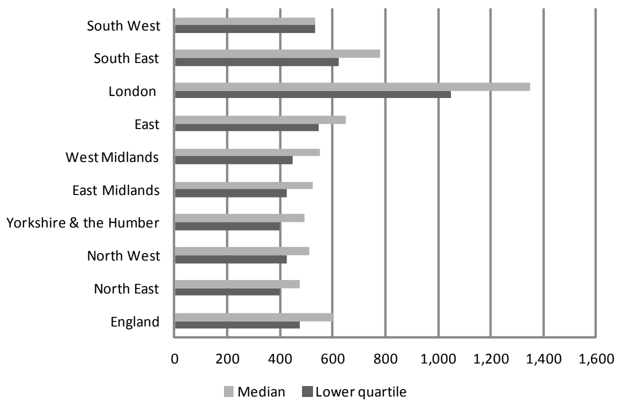
In spite of comparatively low house prices, there is still significant unmet demand for homeownership among lower income households. This is partly explained by low rents and partly by the difficulties low income earners experience in raising a deposit and getting a mortgage (especially if they are in insecure employment). However, it also suggests that there is some space for an intermediate housing tenure aimed at those who aspire to homeownership but cannot access it without support. Indeed, according to research by Shelter[26] significant numbers of median and lower quartile income households in the North West would be unable to purchase a two or three bedroom home even on a 90% mortgage.

Private rents

According to 2014-15 CORE sales data 42% of new shared owners have previously lived in the private rented sector, a higher percentage than have previously lived in any other tenure. Analysis of the data helps in understanding the degree to which more private tenants might be encouraged to access shared ownership.

As might be expected, the North West region has lower than average rents compared to other regions and England as a whole (see Figure 6).

Figure 6: Median and lower quartile monthly rents (£), 2014-15 by region



Souce: VOA

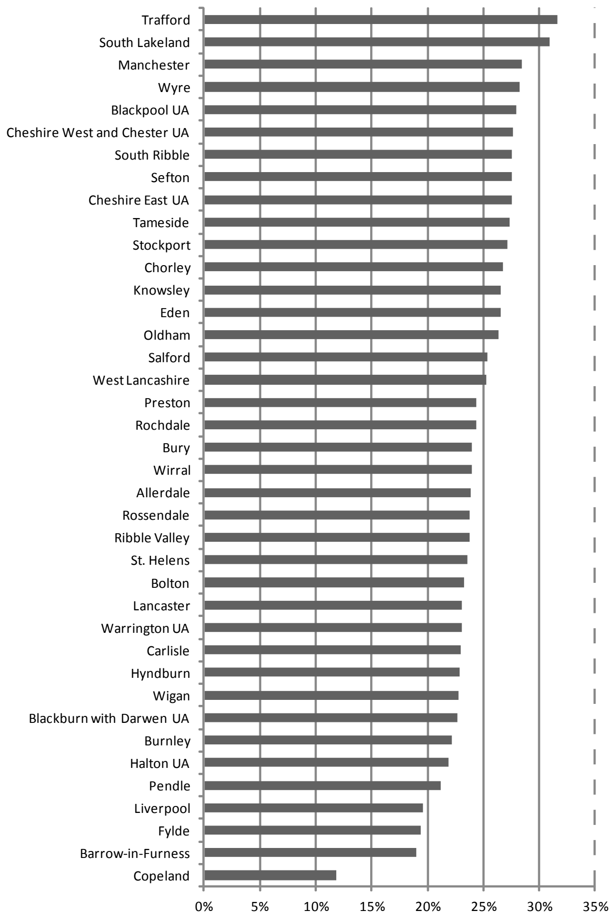
Private rents though vary significantly within the region, reflecting the variations in house prices. For example, the lowest median/lower quartile monthly rents in the region are for Burnley at £395/368 and the highest for Trafford at £700/595. The median monthly rent for the region as a whole is £510 pm.

For a household with one full-time earner on an income of £21,051 renting a property with the median rent for the region would cost around £510 per month (equivalent to 29% of gross earnings). Using the 35% affordability threshold this is clearly affordable and leaves some modest margin for saving (e.g. for a deposit). In theory renting for this income group in many parts of the North West is currently cheaper than buying, although in practice there is no direct correlation of house types between the two sectors.

The position for those on lower quartile incomes seeking a lower quartile rent is more challenging. A household with lower quartile earnings would pay a rent of £425 for a lower quartile rental property. This equates to 39% of gross earnings and illustrates the position of a mobile household willing to rent across the region. In reality the position of households is rather different. Most households, for example, are constrained in their mobility by the need to travel to work and by a range of other family and community ties. Earnings also vary in different locations.

To calculate affordability across the region local rents must be compared to local earnings. As the tables below show, this highlights the stark wealth differences between places.

Figure 7: Median rent as a percent of median full-time earnings by local authority, 2014/15



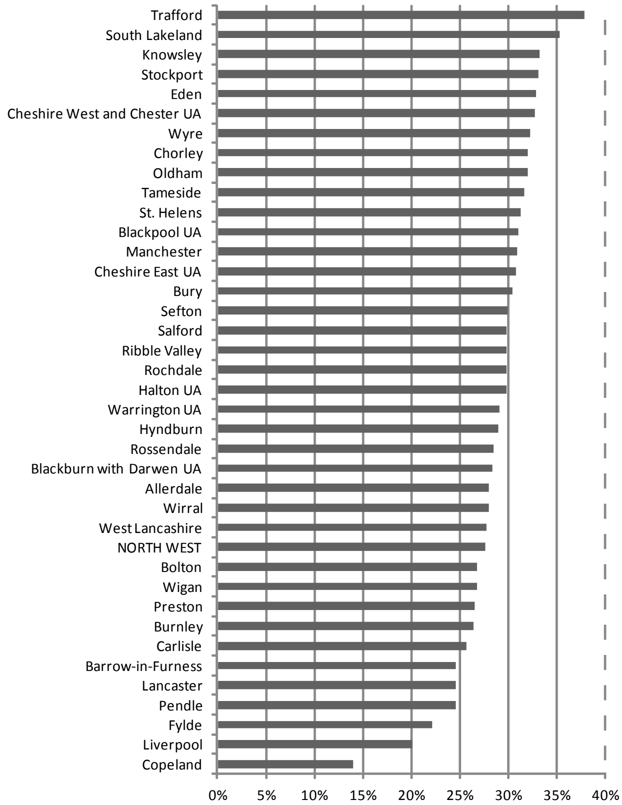
Source: VOA/ASHE

The two tables show that median rents are below the 35% of median income affordability threshold in all 39 local authorities, with the least affordable rents in Trafford (32% of median earnings). Lower quartile rents are below 35% of lower quartile monthly earnings in all but two local authorities; Trafford and South Lakeland, although affordability is tighter across the spectrum of local authorities.

Overall for both median and lower quartile earners, rents are below 30% of earnings in the majority of local authorities with many local authority areas being much more affordable. The cheapest area is Copeland where median rents average 12% of median earnings and lower quartile rents are 14% of lower quartile earnings.

It is clear that private renting offers an affordable option for those on median earnings, providing the opportunity to save for a deposit. Inevitably, though, affordability is more stretched for those on lower quartile incomes and their opportunities to save for homeownership will be more limited.

Figure 8: Lower quartile rent as a percentage of lower quartile full-time earnings by local authority, 2014/15



Source: VOA/ASHE

Section 3: Shared ownership in the North West

Section 3: Shared ownership in the North West

The data for both the North West and England show a dip in first sales in the wake of the banking crisis followed by some upturn. It is likely that the high figures for 2014-15 are a consequence of a final push to complete development under the 2011-15 Affordable Homes Programme. However, neither in the North West nor in England as a whole have first sales regained their pre-banking crisis levels.

An important divergence between the North West and England is over resales. Both the North West and England as a whole show a rise in the absolute numbers of resales as a proportion of all sales from 2010-11. The level of resales in the North West relative to all sales has been consistently higher over the whole period covered. Indeed, resales have averaged over 50% of all sales in the region for the past four years (albeit that resales have fallen back slightly recently).

The following two tables show the number of shared ownership sales in the North East and in England from 2007-08 to 2014-15. They include both mainstream shared ownership and sales under the Older People's Shared Ownership scheme.

Who can afford to buy shared ownership and how?
According to the CORE database, in 2014-15 the median market value of a shared ownership property in the North West was £129,018. This compared with a median market value of £183,991 for England as a whole and more than £270,000 in London.[27] From 2007-08 to 2014-15 values of shared ownership properties in the North West rose only 2%. This compares with a 12% rise in values for England as a whole. This is perhaps to be expected given the comparative trajectory of house prices for England and the North West.

Table 2: North West - number of shared ownership sales 2007-8 to 2014-5

	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1st sales	409	222	167	95	204	348	236	267
Resales	148	98	41	146	218	312	291	282
Total	557	320	208	241	422	660	527	549
% resales	27%	31%	20%	61%	52%	47%	55%	51%

Source: CORE

Table 3: England - number of shared ownership sales 2007-8 to 2014-5

	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1st sales	6,905	4,929	2,773	3,001	3,662	6,443	5,162	6,130
Resales	1,676	1,029	657	2,210	2,802	3,254	3,411	3,900
Total	8,581	5,958	3,430	5,211	6,464	9,697	8,573	10,030
% resales	20%	17%	19%	42%	43%	34%	40%	39%

Source: CORE

Table 4: Shared ownership sales- key sales data, North West and England 2014-15

	North West	England
Median market value (£)	129,018	183,991
Equity stake as percentage of market value (%)	46-50%	63-40%
Median deposit paid (£)	32,273	15,718
Deposit as percentage of market value (%)	25%	8.5%
Median household income: single income delared (£)	16,122	24,289
Median household income: dual income declared (£)	31,577	39,253
Percentage of sales where dual income declared (%)	11%	23%

Source: CORE 2014-15

The higher equity stake purchased in the North West probably reflects lower market values when compared to earnings, enabling a higher percentage to be purchased. Since the shared ownership providers interviewed for this study preferred higher initial equity stakes this is clearly an advantage.

The relatively high percentage deposit put down in the North West is actually misleading (although accurate) figure since it is distorted by the exceptionally high numbers of buyers accessing the Older People's Shared Ownership Scheme. Older people typically put down much higher deposits and the proportion of shared owners using this scheme in the North West is much higher at 23% than for England as a whole where it is only 4%.[28] Since there is no reason to believe that mortgage lenders' criteria for deposits are significantly different in the North West to the rest of the country, the England percentage of 8.5% of market value will be used as a basis when calculating deposits for the purpose of analysing affordability in this study, making allowance for the higher equity stakes typically purchased in the North West. This equates to a deposit of approximately 11% of market value for shared ownership properties in the North West.

It is often remarked that the reason why a higher proportion of older people access shared ownership in the North West is that there are large numbers of older people owning low value (terraced) houses whose location and amenities may not be ideal. As they become older and wish to seek improved amenities and perhaps a better location, and they cannot move to a more desirable home via outright ownership, shared ownership becomes the most practical option. Although there is little hard evidence to back this up, older people are an important market for shared ownership in the North West and the prospects for increasing this market are examined later.

The percentage of households with a single earner is higher in the North West than in England as a whole.[29] As a consequence the majority of shared owners buy with one income, which has obvious implications for raising a deposit and securing a mortgage.

Table 5: One adult households buying shared ownership and median shared ownership ownership

	North West	England
One adult household buying shared ownership	57%	55%
Median shared owner income (single income purchasers) 2015	£16,122	£24,289

Source: ASHE/CORE 2014-15

The median income of shared owner purchasers in England as whole is significantly higher than median incomes. However, the median income of shared owner purchasers in the North West is nearer to lower quartile earnings.

The table below sets out an analysis of the comparative costs of buying outright and buying the same property on a 50% shared ownership basis:

Table 6: Comparitive costs of outright ownership and shared ownership on median priced shared ownership propoerty

	Outright ownership with mortgage	Shared ownership on typical terms for North West
Value of property	£129,018	£129,018
Share purchased (%)	100%	46%
Deposit	£24,513 (19%)	£14,191 (11%)
Amount borrowed as mortgage	£104,505	£45,157
Mortgage interest payments (25 year repayment 4% APR)	£551	£239
Rent on retained share @ 3%	N/A	£174
Total monthly repayments	£551	£413
Monthly repayment as percentage of median earnings	31%	24%
Monthly repayment as a percentage of lower quartile earnings	50%	37%

Source: CORE 2014-15/ASHE 2014-15/Author's calucation

There is clearly a major saving in monthly repayments and the deposit to be paid is much more modest under 50% shared ownership than with outright purchase of a like-for-like property.

Shared ownership is also very affordable for median earners in relatively more expensive areas, but is just over the 35% affordability threshold for those on lower quartile earnings. It also offers an opportunity to many households on lower incomes to access a stake in homeownership, which would not be affordable if they were to attempt to buy the same property outright.

Shared ownership in the North West can be a cheaper option than private renting, depending again on the location, as well as the mortgage terms, level of shared ownership and other costs and charges. It is also important to include the added benefits that shared ownership offers over private renting, notably the security of tenure and rights to improve and alter their homes.

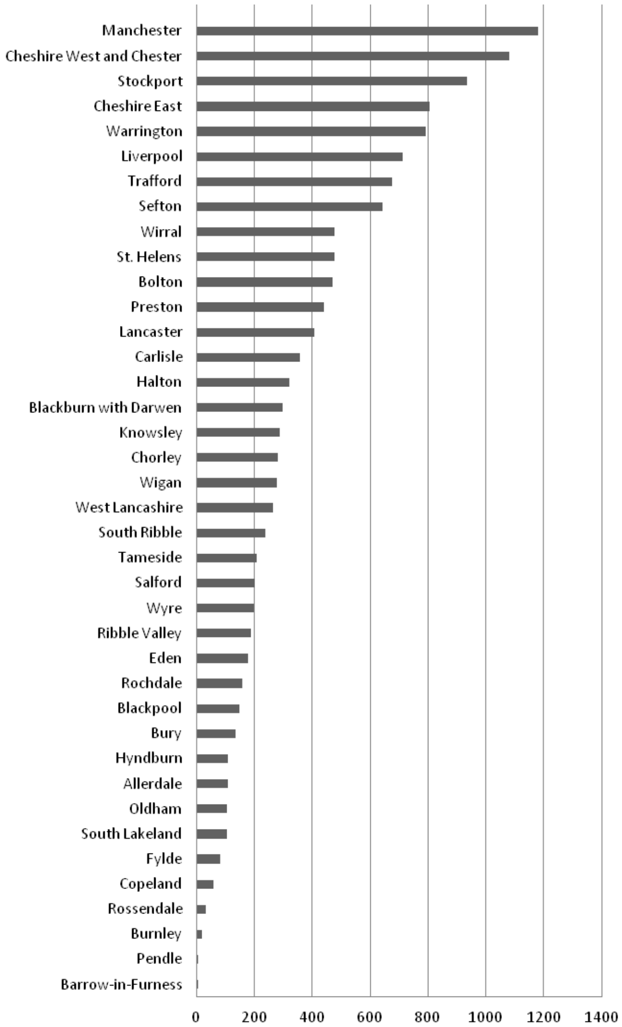
Obviously income is a major determinant. The chart below, for example, shows the level of income required to access different forms of homeownership for a median priced property in the North West. For those with a household income of £15-20k per year, shared ownership offers the best chance of stepping onto the housing ladder and requires a relatively low deposit. For those with a household income of over £20,000 Right to Buy would be affordable whilst higher incomes again would be required to access homeownership via a Starter Home, a Help to Buy equity loan or conventional homeownership.

Number and distribution of shared ownership homes

According to the SDR return for 2014-15 there were 13,489 shared ownership homes in the North West. This represents 0.42% of the dwelling stock for the region, lower than the 0.7% nationally. These homes are owned by a total of 70 housing associations of which the top twenty control 86% of existing stock in the region (see appendix 1 for a full list of providers ranked by the number of homes they own/manage).

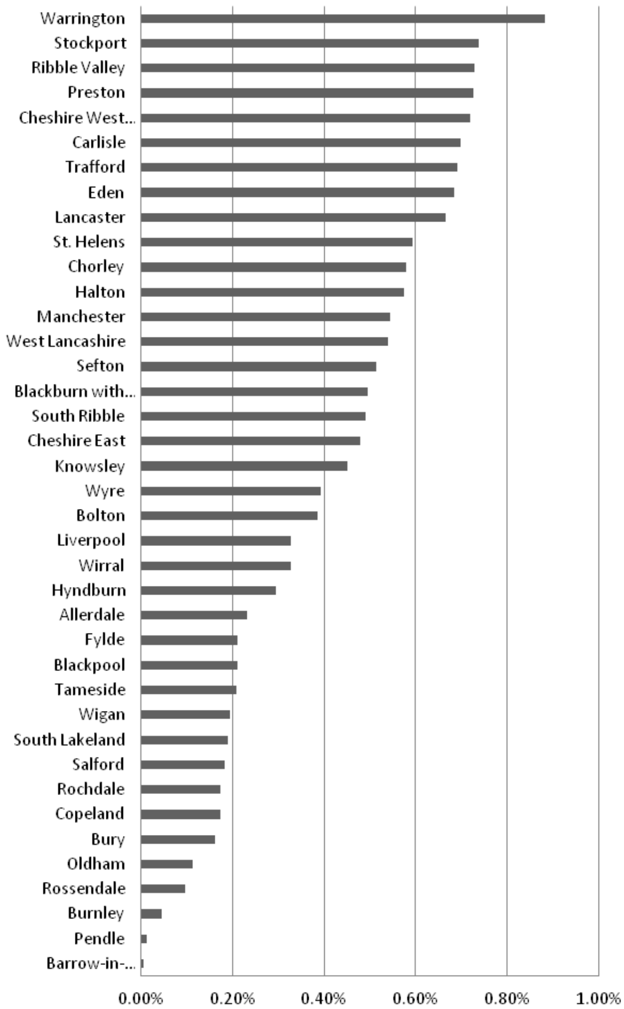
Shared ownership is very unevenly distributed across the region, in part reflecting the relationship between house prices and incomes. As the following chart shows, Warrington, Stockport, Ribble Valley, Preston and the other top ten authorities account for more than half of the total dwelling stock. Levels remain very low in places like Barrow-in-Furness, Pendle and Burnley.

Figure 9: Number of shared ownership homes by local authority, 2014–15



Source: SDR return

Figure 10: Shared ownership homes as a percentage of total dwelling stock by local authority, 2014–15



Source: SDR returns

Interviewees generally saw lower prevailing prices in the North West as an opportunity for shared ownership to be purchased by a spectrum of lower income households. However, in many of the lower priced areas, outright home ownership was an option for those on low incomes.

But people can access home ownership on lower incomes.

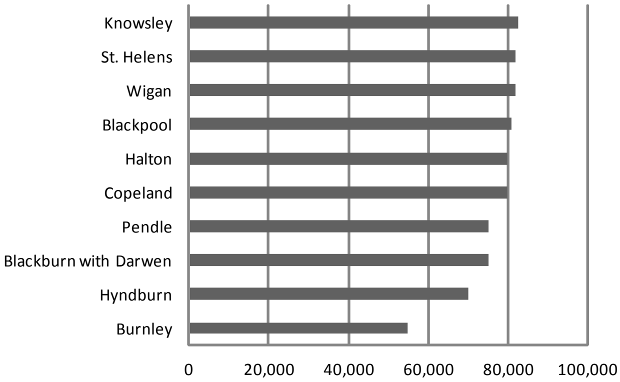
Shared ownership is only applicable in the more expensive areas.

- Housing association interviewees

A number of interviewees pointed to the problem of selling shared ownership properties in places where there are significant numbers of low priced terraced houses. Indeed, even a cursory look at prices in low demand areas shows that buying outright is a cheaper option. For example, on a house price of £102,000 (with a deposit of 19%) monthly mortgage repayments would be £436 pcm – equal to only 25% of median earnings.[30]

Although the deposit on a shared ownership property in lower priced areas would obviously be higher, it is questionable if this is sufficient to tip the balance in favour of shared ownership. However if shared ownership deposits could be reduced as a percentage of market value then the ability to buy a shared ownership home with a still smaller deposit might be attractive to some households with limited saving capacity.

Figure 11: Median terraced house proce for 10 cheapest local authroity areas in NW region 2015 (£)



Source: : ONS/Land Registry

Average house prices makes full homeownership affordable in some areas – less so in affluent areas of Cheshire.

- Housing association interviewee

Nevertheless, housing association interviewees believed that in lower price areas it would be difficult to develop a new shared ownership property at prevailing price levels and that there was even a risk that prices could fall in very depressed markets:

In shared ownership areas there is a cost/value issue. For example in Burnley a three bed house costs £125k to build and is worth £90k.

- Housing association interviewee

Interviewees also believed that there were problems in selling to households on low incomes, and that this presented a major challenge to housing associations:

In lower value areas people can only afford 25% stakes because of low incomes.

Selling small tranches to low income people in low price areas is risky.

- Housing association interviewees

Housing association interviewees were concerned that those on low and insecure incomes were more likely to default and some had experience of this. Some housing association interviewees preferred to offer larger initial equity stakes than the minimum of 25% because the shared owner with only 25% equity had less "skin in the game" and was more likely to default and less likely to be a responsible leaseholder over issues such as repairs and maintenance. One housing association interviewee stated that they would not offer a stake of less than 35%.

Interviewees saw areas of low house prices and low incomes as the key challenges for scaling up shared ownership in the North West. The distribution of current shared ownership properties gives some confirmation to this. The spread of properties between high and low price/income areas is, however, not definitive and may be due in part to the existence of previous higher grant rates which might have allowed for the development of shared ownership in lower price/income locations. Some development of shared ownership in low price/income locations may also be as a result of S.106 agreements.

Table 7: Leading providers of shared ownership in the North West, 2015

Places for People Homes Limited	1,076
The Riverside Group Limited	1,063
Equity Housing Group	1,038
Contour Homes Limited	994
Arena Housing Group Limited	955
Beech Housing Association Limited	903
Great Places Housing Association	898
Frontis Homes Limited	688
Manchester and District Housing Association Ltd	646
Two Castles Housing Association Limited	522
Liverpool Housing Trust Limited	506
Redwing Living Limited	428
Plus Dane (Cheshire) Housing Association Limited	386
'Johnnie' Johnson Housing Trust Limited	377
Muir Group Housing Association Limited	371
Helena Partnerships Limited	292
The Guinness Partnership Limited	282
Adactus Housing Association Limited	265
Irwell Valley Housing Association Limited	255
Anchor Trust	227

NB: Some of the above refer to specific shared ownership organisations or subsidiaries that are part of larger housing association groups. A full list of shared ownership providers is shown in the appendix 2

Section 4: Scaling up shared ownership – policy drivers and impacts

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The housing policy environment has shifted dramatically over the past few years. The focus has shifted from promoting mixed tenure and supporting sub-market housing to promoting home ownership, with the thrust of new development carried by volume housebuilders via the revamped Starter Homes Initiative and Help to Buy. There has also been rapid growth in buy to let and the private rented sector, although this could be tempered by recent higher tax charges. The other major driver has been the continued tightening of welfare support, not least cuts in the Local Housing Allowance.

This renewed push for greater home ownership also embraces shared ownership, albeit to a lesser extent than government support in the secondary housing market through Right to Buy.

As previously mentioned, the on-going process of devolution is also likely to impact more and more on housing policy and the prospects for shared ownership. Both Greater Manchester Combined Authority and Liverpool City Region have put forward ambitious housing investment plans, which seek to use national and local funds to boost housing development and promote home ownership. The new City Deals and Growth Deals also provide opportunities to do things differently. However, the extent to which the new city-regions will prioritise shared ownership and provide dedicated funding for shared ownership schemes (as in London) is still unclear. What is evident from the devolution packages agreed so far is that local leaders have the opportunity to give more policy emphasis and support to shared ownership if they wish.

A list of the recent major changes to housing policy is included in appendix 2.

Development plans

Following the announcement of the government housing reforms, housing associations set about reviewing their development plans for the 2015-18 period. Several housing associations said they were adjusting the level of shared ownership upwards with corresponding reductions in the number of Affordable Rent units; in one case shared ownership provision would increase by as much as 60%.

We have moved 120 rented properties to shared ownership in response to the announcements.

In principle we would do shared ownership only [after 2018].

- Housing association interviewees

However, it appears that overall levels of development to 2018 are staying fairly stable in the North West, at least for now!

It's a bit early to say – so much is going on…it's tougher for shared ownership up here.

We're still weighing up the risks on shared ownership.

- Housing association interviewees

The general perception was that after 2018 there could be greater development of shared ownership, rather than Affordable Rent. Although detailed plans were still evolving, some associations are clearly planning a major shift in the balance of development programmes away from Affordable Rent towards shared ownership so that the overall size of cuts would be mitigated because of the cross-subsidy from shared ownership development.

In other cases market rent and open market sale were seen as alternatives, but the main drive was still towards an increased proportion of shared ownership. Whether that would result in the overall level of shared ownership development in the North West increasing after 2018 is less certain. Programmes were likely to be reduced overall, principally because of the 1% rent reduction and general uncertainty.

Housing associations reported that they are aware of the increased market risk shared ownership development involved and are anxious to ensure that this risk is managed in a more difficult operating environment. One housing association, for example, commented that they are concerned that the HCA as regulator might be unhappy if they increased their exposure to shared ownership.

We will strive to develop affordable rent without grant [but increase shared ownership to cross-subsidise].

Over the next five years we want only 50% of turnover to be from social renting.

- Housing association interviewees

Right to Buy

The majority of housing associations are confident that they can achieve one for one replacement of Right to Buy properties, although one commented that market values in their area are too low to make replacement viable. Some housing associations are considering replacing some Right to Buy properties with shared ownership. No interviewee suggested that increased Right to Buy sales would compete in the market with shared ownership. This is probably because few social tenants move directly into shared ownership.[31]

In the North West shared ownership only really works where there is a need for affordable home ownership. Otherwise people can buy outright, especially with help from RTB.

- Housing association interviewee

Eligibility and raising the upper income limits

Interviewed housing associations did not believe that raising the limits for eligibility for shared owner would make a significant difference to their businesses in the North West. There was a general perception that anyone with an income over £60,000 a year would buy outright if they decided to buy. No association mentioned abolishing other restrictions as a factor in their development plans.

We have never had anybody coming to us who earned too much – they buy outright.

Anyone with £25k here can buy a house outright.

- Housing association interviewees

However, it was said that upper income limits could impact on older people with homes over the threshold who wished to downsize to a shared ownership property.

The Starter Homes Initiative

Interviews with housing associations and local authorities left a strong impression that strategic thinking about the implications of the Starter Homes Initiative for shared ownership is still at a very early stage. This is partly because full details of how the initiative will work in practice are still not available.

It is not something we have focused on.

A lot of the devil will be in the detail.

- Local authority interviewees

However, it also seems likely that the Initiative will impact on the long term planning for shared ownership. Local authorities, for example, are concerned that Starter Homes would fulfil affordable homes provisions within S.106 agreements and lessen the supply of affordable housing to meet the more acute housing needs:

Developers look as though they will have carte blanche.

Local authority interviewee

Several housing associations saw Starter Homes as competition in terms of acquiring development land:

It will be hard for any housing association to compete for land.

Our target market will shrink further.

On the land, housing associations will miss out because S.106 would be Starter Homes not shared ownership.

- Housing association interviewees

Some housing associations believe that Starter Homes will push up land prices because of increased competition between housing associations and developers and between developers themselves. Others believe that there will be fewer S.106 sites with affordable homes to purchase because of the ability of developers to satisfy affordable housing requirements through Starter Homes, or to build on non-housing land without S.106 agreements. In either case housing associations are alarmed at the implications for their development programmes.

There were also fears about the competition effects of Starter Homes on the demand for shared ownership:

It will be competition.

Yes it is competition, especially as you get 20% uplift in five years' time.

It would make the position of shared ownership in the North even more difficult.

- Housing association interviewees

This view is re-enforced by one of the respondents to the lender questionnaire:

...we fully expect the number of new shared ownership properties to fall as they are substituted for starter homes on future new build sites.

- Lender respondent

Interviewees are particularly concerned that the Help to Buy equity loan scheme would apply to Starter Homes. This would not only bring the initial share to be paid for down to 60% from 80% but would also offer the prospect of a 5% deposit on the 20% discounted home. This could in practice mean that in many cases the deposit required to purchase a Starter Home outright would be less than that required to access shared ownership of a similar property.

In addition, Starter Home owners would be free to sell their home at full market price after five years, benefiting on the whole property from any uplift in property values. In contrast, shared owners would not benefit from the discount and would only receive the benefit from any increase in values on their purchased share. The fact that monthly mortgage repayments for buying 60% of a Starter Home would still be higher than for (say) 45% of a shared ownership home would be a deterrent to some, but many would take-up the Starter Homes offer.

Nevertheless, there is some scepticism that the 20% discount on Starter Homes would be straight forward.

Is the 20% discount real?

Developers are not completely wedded to Starter Homes.

- Housing association interviewees

One housing association suggested that developers might inflate prices, with buyers being less willing to bargain because of competition for these discounted properties. Another opined that Starter Homes could also make market renting less viable because the deposit requirement (with Help to Buy) would be so low.

The Government's aim of extending homeownership could ultimately be compromised if the Starter Homes Initiative negatively impacts on shared ownership demand and new supply. One obvious way of levelling the playing field would be to extend the Help to Buy equity loan scheme to shared ownership. This would particularly assist those with very limited savings and might position shared ownership more strongly as an attractive product for those who could not afford a Starter Home but had the income to support shared ownership if the deposit required was less onerous.

Section 5: Improving the market

Section 5: Improving the market

Further discussions with interviewees identified several aspects of the shared ownership market in the region which need improving to facilitate scaling up. These include: the resale market; staircasing; repairs; marketing; mortgage finance; older persons shared ownership and self-build.

The resale market

For a high proportion of shared owners, shared ownership is a permanent tenure. Indeed, only 8% of new shared owners were previously social tenants. Their incomes simply do not rise fast enough to access outright ownership in the face of rising house prices whether via staircasing or buying another property outright. Other commentators claim that existing shared owners often feel trapped in their homes.[32]

It was also mentioned that shared owners are not considered eligible to purchase another shared ownership property because they are deemed to already be homeowners.[33 34]

Interviewees were almost all agreed that the second-hand market does not work as well as it should:

No one takes ownership; it is an add-on.

I have no idea, it is not something we get involved with.

- Housing association interviewees

There is a strong sense amongst interviewees that resales are not given the same priority in marketing terms as the sale of new homes. One interviewee believes that this was largely down to the fact that no fees are payable to the housing association for assisting in selling a second-hand property.

The HCA has recently moved to liberalise eligibility criteria so that existing shared owners can buy another shared ownership home.[35] At the time of writing it is not clear how much effect this will have in practice. Although the proportion of resales compared to first sales is higher in the North West than in the country as a whole, interviewees still believe that improvements are needed in respect of the resale market.

Interviewees claimed that resales are less well marketed. In part this may be because shared owners will often move because their circumstances change. In fact, the commonest age to access shared ownership is 25-31 according to CORE so a likely change of circumstances could well be sharing a home or having children.

People move because their families change.

- Housing association interviewee

The proportion of larger shared ownership properties is acknowledged to be low; the norms offered by housing associations is a two bedroom flat:

There is a shortage of large second hand shared ownership homes... we are trying to build some large homes.

- Housing association interviewee

There is clearly a need to assess in more detail the extent of the mismatch between existing shared owners and the supply of new and second-hand larger shared ownership properties. There is little point in giving shared owners the right to move to another shared ownership property if the properties are not available for them to move to.[36]

Another study on the affordability of low-cost homeownership noted that although most shared owners were managing without difficulty they could not cope with a substantial increase in costs.[37] This suggests that what is needed is the ability to move to a larger property on a shared ownership basis rather than make the immediate jump to outright ownership of a larger property. How far the government and HCA are willing to reform the secondary market to facilitate such scaling up is debatable.

Shared ownership for home movers could have a wider application, not least because those on lower incomes tend to see those incomes increase more slowly than those whose earnings are higher.[38] This was noted by interviewees:

People go for the biggest mortgage they can afford because they tend to stay where they are and their wages are unlikely to double.

- Local authority interviewee

There may be a case for developing second tier shared ownership homes for those who may have bought outright as first-time buyers, whose households have subsequently grown but who cannot afford to buy a larger home outright. Those in low-value terraced housing in the North West could be particularly vulnerable in this respect, although further analysis is needed. Similarly those who struggle to access homeownership via the Starter Homes Initiative and the Help to Buy scheme could find themselves trapped in terms of moving up the ladder. Again, more analysis and information about regional price points for Starter Homes is needed. In such situations not only is there a risk of overcrowding for the household concerned but a house more suitable for first-time buyers will not be freed up. It may be that second tier shared ownership could help the mainstream housing market function more effectively and assist households with limited resources and growing families.

There would need to be a further change to the eligibility criteria to allow shared ownership homes designated as second tier to be purchased by existing homeowners. This could be justified where they cannot climb the housing ladder unaided. There is also a strong case for a re-evaluation of the balance of types of shared ownership home that should be developed, and of the way grant is distributed over different sizes of home.

Previous research by housing associations identified a lack of consistency in how the added value to a property (resulting from improvements undertaken by a shared owner) are treated when the property is resold. It was reported, for example, that two main approaches are used in considering the uplift in value caused by improvements on resale:

Approach A: Some housing associations seek to allow the shared owner to gain the full benefit from any uplift in value as a result of improvements the owner has carried out. They therefore value the property with and without the improvements. The housing association and the seller then each receive their share of the value without improvements, and the extra sum (which is the whole of the uplift in value that the improvements have created) is paid direct to the seller.

Approach B: Some housing associations simply share any uplift in property value with the owner, in accordance with the respective percentage shares owned.[39]

While approach A may be considered more equitable, it is complicated and can result in the property being offered for sale at a price in excess of the valuation. This can result in problems in obtaining a mortgage, and is seen as a negative feature of shared ownership by lenders. There is also evidence of a lack of transparency and lack of awareness of their own practice amongst some housing associations.[40]

Interviewees either did not raise the issue of improvements or were vague about their own practice:

We don't get many sold with improvements – if we did we would be pragmatic.

- Housing association interviewee

There is a case for the HCA to review current practice and to promote a standard approach which is properly explained to shared owners, and which can be easily understood by both shared owners and housing associations. This could improve branding and create a more positive perception amongst potential and existing shared owners.

Staircasing

Only 1.56% of shared owners in the North West staircase to full ownership each year (just 201 properties in 2014/15). This is low relative to the 2.84% for England as a whole. As mentioned, the reason is in part because the incomes of shared owners do not rise fast enough to staircase to outright ownership.[41] Other factors include: relatively high valuation costs and legal fees. There may also be a perception that owning a larger share may ultimately make the property harder to sell.

It is down to wages; they hoped they would be earning more.

Housing association interview

Interviewees confirmed that shared ownership was not always affordable and that low income do not increase fast enough. They also added:

We work in one area where the rent element is kept low so it doesn't make sense to staircase.

People move because their families change.

Customers don't understand staircasing.

We sell to people who are more marginal.

- Housing association interviewees

There are clearly inherent limits to staircasing. Households are encouraged to purchase the maximum affordable initial share when buying and incomes rise more slowly than house prices. There was a perception amongst interviewees that customers do not always understand how staircasing works and/or that it is not always explained clearly enough. It was also suggested that housing associations in general do not contact existing shared owners often enough to remind them of the opportunity to staircase.

In relation to partial staircasing, interviewees have little confidence that there is substantial scope for improvement, although there is again a perception that the opportunities are not always well communicated:

We have tried making a contribution to legal fees and mailed everyone – got just one staircase.

We have done the odd ones.

All providers could do more to encourage it; we don't write every year.

It is a very expensive process and not worth it for small increments.

- Housing association interviewees

It is arguable that the rate of partial staircasing could be improved if housing associations were to fully absorb the costs of valuation and legal fees. In this connection the Thames Valley Housing Association's voluntary *Shared Ownership Plus* scheme may be worth considering as a possible approach. This is an add-on scheme whereby shared owners buy an extra 1% each year at a pre-determined price (based on the market price in the first year and increasing by 3% each year). The shared owner can increase their share each year for a maximum of 15 years so long as their share does not exceed 79%. Shared owners can choose to buy less than 1% a year. The scheme absorbs all fees so that these do not have to be paid separately.[42] Its proponents claim it successfully promotes partial staircasing.

According to Thames Valley, the take up by new shared owners has so far been very encouraging. What emerges from the Thames Valley experience is that clear branding of a reasonably standardised product that attracts support from potential and existing shared owners is important to achieve positive public perception and hence for scaling up shared ownership. The HCA should consider whether a common scheme to circumvent obstacles to partial staircasing could be developed in this context.

There is work to be done in communicating effectively the opportunities to staircase. Nevertheless, in order to avoid frustration at the inability to staircase, it is also important to communicate to potential shared owners that shared ownership is not simply a stepping stone to outright ownership but that it can be a valid tenure in its own right. Unfortunately, there still appears to be a tension between the two objectives - viewing (and marketing) shared ownership as a stepping stone to outright ownership and viewing and promoting it as a desirable tenure in its own right.

Responsibility for repairs

The obligation to meet the full cost of repairs and maintenance while only owning a share of the property is a long-running source of dissatisfaction amongst shared owners.[43 44] In a situation where owners rapidly move to outright ownership this may be less of a problem. However, shared ownership is a permanent tenure for many and the perceived inequity rankles.

There needs to be an overhaul of repair obligations.

- Housing association interviewee

Interviewees agreed that there is a case for looking again at the situation relating to repairs and maintenance obligations of shared owners. The HCA, for example, could re-evaluate current practice in this area.

It is not really shared ownership because the client does all the maintenance and repairs.

-Housing association interviewee

One solution would be for housing associations and shared owners to share the repairing obligations in proportion to their respective shares in the property. This has generally not found favour with housing associations and it might ultimately have an impact on the rent for the retained share. Nevertheless, a slightly higher rent but shared repairing obligations or full repairing obligations resting with the landlord might be seen as more equitable by prospective and existing shared owners. An alternative solution has been suggested in the form of a repairs service offered by the housing association for a fixed fee.[45] This provides certainty to the shared owner and makes personal financial management easier.

Marketing shared ownership

Shared ownership as a product has exhibited much continuity over the years. Eligibility criteria have been simplified, the product has been periodically rebranded and there have been concerted efforts to enforce the use of common fundamental clauses of a model lease. The HCA lease, for example, has been translated into plain English. Nevertheless, in many essential features shared ownership has changed only to a limited degree.

Several interviewees identified the need to improve on how the shared ownership "message" is communicated and how the product is marketed. The Chartered Institute for Housing's research report for Orbit housing association in 2015, for example, called for increased public awareness of shared ownership and a common approach to describing the product, with emphasis on using an identifiable brand at a national level.[46 47]

A lot of the public do not know what shared ownership is; maybe the Government could do more.

It's not mainstream enough in the North West.

- Housing association interviewees

Neither housing associations nor local authorities think that shared ownership is currently marketed as well as it could be.

It is marketed better than it has been but it is complicated to explain.

I do not really think it is – we have recently re-launched our marketing. The HCA website is dreadful.

- Housing association interviewees

The associations are lazy at marketing but they do not need to try in the higher value areas…we have tried to push shared ownership in lower value areas but it is a challenge.

- Local authority interviewee

A lender echoed these concerns.

Shared ownership is generally well promoted by housing associations but has been somewhat overtaken by the "Help to Buy" brand that the Government has increasingly developed. There is an increasing concern for lenders that customers do not always fully understand the complexities of the different schemes.

- Lender respondent

Part of the problem is seen as the failure to market shared ownership generically as a product. Government is perceived as guilty for changing the branding (e.g. Homebuy to Help to Buy) and not putting enough effort into communications on behalf of the product, a point noted by earlier commentators.[48] The HCA as an agency of government is often included in this criticism. It is felt that shared ownership needed a strong brand which would identify it as a desirable product in its own right and not just as a temporary substitute for outright ownership:

People do not look to buy shared ownership; it is a route to homeownership.

- Housing association interviewee

In general, interviewees see shared ownership as standing outside the mainstream in public perception. It is not seen as equal in status to the option of homeownership.

In terms of marketing on the ground, the requirements in relation to eligibility are not seen as helpful in a marketing context:

There is still the eligibility criteria – Government needs reassurance that they are applied and its data collected.

- Housing association interviewee

Homebuy agents came in for some criticism in terms of their role in ensuring that eligibility requirements are adhered to and in collecting data.

Homebuy agents are a waste of time – proving you are poor enough to buy.

- Housing association interviewee

It is claimed that the role of the Homebuy agents[49] slows down the marketing process and complicates the marketing offer. More than one respondent believed that housing associations can undertake this themselves more speedily and less obtrusively. With most eligibility criteria now abolished it is questionable whether a separate tier of Homebuy agents is still needed.

It is also said that estate agents do not always understand shared ownership properly and that this could be a brake on effective marketing. Housing associations, such as Equity Housing Group, which have their own estate agency arm (Equity Living) are arguably in a potentially stronger position here.

Mortgage finance

Mortgage lenders have become more conservative because of the need to repair their balance sheets and improve risk management in the wake of the banking crisis and tighter regulation by the Prudential Regulation Authority [PRA] and Financial Conduct Authority [FCA]. The result has been a reduction in the overall volume of lending and in particular the incidence of high loan to value (LTV) and high income-multiple lending, although there have been modest improvements over the past two to three years.[50]

The position of those on low and insecure incomes and potential borrowers with poor credit histories is more difficult than in the pre-banking crisis era.[51] While shared ownership lending has not been singled out in these respects, it has been affected.

Housing associations identified where they thought that access to mortgage finance could be improved to provide better terms for borrowers or to increase the availability of finance, particularly on larger developments. Three key areas were identified:

- Lack of mortgage finance overall and/or lack of choice of lender.
- Lenders wishing to restrict their exposure on larger developments for prudential reasons. leading to an overall lack of retail lending capacity.
- The high deposits required compared to the pre-banking crisis era.

Currently, 19 lenders provide retail lending services to the shared ownership market.[52] This is only a small proportion of the lenders. Nevertheless, there is some choice of product. Discounted initial rates are available on mortgages for shared ownership as they are in the mainstream market and fixed rate mortgages are also available. Some lenders offer higher than normal LTV at interest rates significantly above what is typical in the market. However several interviewees believe that there is not enough mortgage finance available in total, others that the key issue is lack of choice:

Just about [enough finance], but not a great choice.

- Housing association interviewee

Respondents to the lender questionnaire were not optimistic that more lenders would enter the market as it stands.

Overall we would say that this is not an attractive market but we support it because as a mutual we exist to help individuals into a home of their own.

- Lender respondent

Another lender commented that the number of lenders currently serving the shared ownership market was sufficient to meet current demand. Lenders believed that shared ownership is too small a market to justify the complexity of the product as exhibited by the shared ownership lease. One lender did comment that if the scale of shared ownership provision increased more lenders might consider it worthwhile to enter the market. However another lender is less optimistic that expansion of shared ownership would increase the level of lender commitment:

For the larger lenders I think this is unlikely without government pressure. As competition increases some lenders may be forced into this market as an underserved niche - but their motives would be opportunistic and their involvement may not be long lived and (as in the past) could result in longer term poorer customer outcomes.

- Lender respondent

There are concerns amongst lenders about risk when a borrower defaults on their rent, which is considered a factor in deterring lenders from becoming involved with shared ownership.

The key change that would benefit lenders would be to eliminate the risk that the lease could be voided in cases of rent arrears. Whilst we do not believe this option would ever be exercised by a housing association it remains a potential exposure that worries legal and risk teams.

- Lender respondent

A housing association can, legally, terminate the lease on grounds of rent arrears leaving the lender with an unsecured debt. Although such situations are normally avoided, two lenders mentioned that this remains a concern and one claimed that some housing associations still threatened to terminate the lease and leave the lender without security for the mortgage. It may be that the 2008 protocol between the Council of Mortgage Lenders and the National Housing Federation to cover such eventualities needs strengthening. The National Housing Federation could also consider raising awareness of the need to work with lenders when there are rent arrears in order to increase lender confidence.

One lender cited the recent package of government housing policy announcements as one reason for caution about expanding their activity.

Whilst it has not changed our attitude or strategy, it has made us more wary in view of the uncertainty that is perceived to have been created.

- Lender respondent

Overall, there is little prospect of any immediate increase in the number of lenders willing to serve the shared ownership market or of existing lenders expanding their commitment unless the market grows significantly.

Individual lender exposure

A number of housing association interviewees identified individual lenders limiting their exposure on larger developments as a problem, which could lead to some potential buyers finding it difficult to obtain a mortgage:

Individual lender exposure on individual developments can be an issue, although it's not currently.

We do small sites so individual lender exposure is not a problem.

- Housing association interviewees

For their part lenders drew attention to problems that they thought could occur when high concentrations of shared ownership were found on one site.

Decreases values of nearby market prices causing a general downward pressure.

Shared ownership can have a negative impact on values and marketability which may not be the case on a mixed use site.

- Lender respondents

Lenders see their response in limiting their exposure as prudence rather than a problem, and one lender commented that their approach is consistent with their general approach to risk exposure. There is a feeling that housing associations need to gain a better understanding of the parameters within which they should work if the proportion of shared ownership on a site is not to cause problems in terms of individual lender exposure.

Deposits

The typical deposit on the purchased share of a shared ownership home required by mortgage lenders is just over the 19% required of mainstream first-time buyers in the North West region (excluding shared ownership for the elderly). As already mentioned, raising this size of deposit is a major barrier to shared ownership.

Housing association interviewees would like to see more modest levels of deposit given the relatively low incomes of shared ownership purchasers and the potential deterrent effect this can have on prospective purchasers.

Research for the HCA suggested that the size of the deposit was a bigger deterrent for would-be homeowners than their ability to manage monthly payments.[53]

Deposit is a deterrent in low income areas.

- Housing association interviewee

As mentioned, the typical 50% shared ownership deposit is around £14,200 (excluding Older People's Shared Ownership), which represents 88% of the annual income of a typical single income shared ownership purchaser. Interviewees agree that this represents a very significant amount to save for many households.

The call is for finding ways of allowing for smaller deposits, perhaps equivalent to the lower 5% deposit under the Starter Homes Initiative/Help to Buy equity loan?

A longstanding complaint of housing associations has been prudential requirements imposed on lenders by the regulator relating to the capital weightings for shared ownership lending. These requirements do not recognise the protection offered to lenders by the specific clause in the shared ownership lease. This allows a lender to claim losses arising from borrower default against the housing associations retained share in the property if the borrower has insufficient equity.[54] This means that loan to value is assessed only in relation to the borrower's share in the property. One lender echoed the dissatisfaction of housing associations:

Regulators should change the way capital weighting is calculated bearing in mind the benefit of the mortgage protection clause – this should be based on the market value of the whole property rather than the share purchased by the borrower.

I do not think anyone has got to the bottom of what the PRA / prudential regulators have against shared ownership.

- Lender respondents

Previous efforts to resolve this issue have failed. However with new government policy priorities favouring homeownership and first-time buyers it may be that there is now a more favourable climate for allowing lenders to take smaller deposits without having to set aside excessive regulatory capital.

One possible solution to the problem of high deposits could perhaps draw on the example of the Local Authority Partnership Purchase (LAPP) scheme developed by Capita, which builds on the Local Authority Mortgage Scheme. This relies on a guarantee from local authorities to enable mortgages to be offered on shared ownership at higher loan to value - up to 95%.[55] A number of local authorities in the North West are considering this scheme.

It was suggested by one HA interviewee that a rent to buy scheme could make a contribution by allowing social tenants to raise a deposit to buy their own or another shared ownership home. Another had established such a scheme but it had failed because social tenants could not save sufficient funds out of their very low incomes.

Older person's shared ownership

Several interviewees mentioned the market growth in shared ownership among older people, some of it through new equity release products. The HCA's new model leases (removing capital limits to support downsizing) are also considered helpful, although it is perhaps too early to judge the impact of recent changes in the HCA regulations.

Currently around 23% of shared ownership sales in the North West are under the Older People's Shared Ownership Scheme (OPSO), whereas only 4% of sales fall within that scheme nationally. Anecdotally, it is suggested that this is elderly households selling low value (terraced) property and accessing shared ownership to gain better amenities (see earlier section).[56]

The scheme is attractive to housing associations and/or older owner occupiers because:

- There is the option to retain a higher level of savings rather than use it to maximise the share purchased. The scheme can therefore function to some extent as an equity release scheme enabling older households to improve their lifestyle.
- No rent is payable on the retained share when the household holds the maximum permitted share of 75%, which encourages large shares and tends to maximise receipts.
- The scheme is open to anyone over 55, allowing for a larger market than would be the case when relying on those over retirement age.
- There can be a buy-back option for the housing association.[57]

Older households place much higher deposits; the median deposit for these households was over £50,000 in the North West. This will inevitably tend to ease the problems of obtaining a mortgage so long as the income is sufficient.

A further advantage of the older household market is that they are ineligible for the Starter Homes Initiative, which housing associations set at an upper age limit of 40. This eliminates competition from that quarter.

Both housing association and local authority interviewees think that older households are a potential growth market for shared ownership. In one case a housing association has focused on older households as a specific market:

We had a sheltered development in affluent Cheshire – we re-modelled it and sold it to older people and shared ownership could be done without a grant.

- Housing association interviewee

However, apart from the exception above most housing associations do not appear to have specifically marketed to older households.

Further research is needed to identify the likely target market for OPSO, is it older households in low value households or is it wider than that? What is the demographic, social and financial profile of these households? How many households are there who might be eligible for OPSO? What are their motivations in relation to housing choices? How many of these could potentially benefit from OPSO? Is offering a care element within a scheme an advantage? One interviewee feels that this could be the case. The guidance for this product does require that some provision be made for "person centred services to support individuals."[58]

Specific schemes would, of course, be promoted at housing association level. However, there is a case for marketing of OPSO as a generic product. This might be undertaken at HCA level or perhaps by Help to Buy agents. While more work needs to be done to delineate and understand this market it does appear that there could be real potential for expansion in this area.

Self-build shared ownership

In the context of the need to save a significant deposit to access shared ownership, the concept of working on one's home in order to acquire "sweat equity" has some appeal (whereby a member of a housing group gives a set number of hours of their labour in exchange for a specified saving on the market value of the completed home).

The HCA's Capital Funding Guide (CFG), for example, offers Self Build Shared Ownership (SBSO) as an option. Under the scheme a purchaser contributes labour on the property in order to acquire a minimum of 25% equity, which can stand in lieu of a deposit. However, although the SBSO scheme has been in existence for over a decade the HCA were not aware of any significant take up amongst providers.

There appear to be at least two schemes that have been started in the past four years. One was initiated by Orwell housing association in 2012 in partnership with Ipswich Building Society.[59] The other is run by Cherwell District Council. Branded as *Build!* it allows individuals or groups to access the scheme and put in different amounts of work in order to build up different levels of "sweat equity".[60]

SBSO could be of interest to others. One local authority interviewee indicated that he and a number of colleagues in other local authorities are considering piloting a scheme based on the LAPP scheme initiated by Capita. The local authority is realistic about scale but believes that the scheme will provide a valuable additional option for those seeking to access homeownership.

A housing association commented that they had considered SBSO in the past but that administering such a scheme would be very time consuming relative to the likely numbers of homes developed. They would, however, be prepared to administer a scheme if local authorities came to them with interested potential shared owners.

The Self-Build and Custom Housebuilding Act (2015) places responsibilities on local authorities in relation to demand for custom and self-build. Those responsibilities are augmented in the housing and Planning Bill 2015-16, which requires local authorities to grant "sufficient suitable development permission" of serviced plots to meet the demand identified on a register of interest.[61] It is likely that there will be growing interest in the area of self and community build, which, combined with the new responsibilities, may create opportunities to develop SBSO.

Around 9,000 homes a year are developed nationally as individual self-build, and community-led development creates a further 300-400 units. This is not an option that is likely to produce new homes on a very large scale given the need to attract potential owners with the necessary skills and commitment. Indeed, a recent Smith Institute study on community-led development suggests that the sector is more suited to scaling out, rather than scaling up.[62]

Nevertheless what both individual self-build and community-led development offer is a commitment to innovation, ecological sustainability and in the case of community-led development a commitment to community control and involvement. These values may in themselves make SBSO an avenue worth exploring as a creative option for those prepared to exercise it.

Self-build and shared ownership

The Housing People, Building Communities award winning self-build/shared ownership development in Granby-Toxteth is an example of what is possible. The scheme, supported by the Sanctuary Group (and the HCA and Liverpool City Council), comprises 32 homes and relies on volunteer labour and donations to keep building costs low. According to a profiling of the scheme in 2013 by the Centre for Housing Policy: "the homes cost £55,000 to build including all construction and overheads. The houses have a market value of £120,000. 500 hours of sweat equity results in £10,000 off price (acts as deposit). Working with a housing association to provide shared equity model: the equity loan is held by the housing association (3% equity charge per annum)."[63]

Conclusion

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Shared ownership sales (and resales) in the North West have now recovered from their three year dip following the banking crisis. Although the market is still small compared with outright sales, the revival since 2012 is encouraging. The North West in fact has a fairly vibrant shared ownership market compared with other English regions. Indeed, as the interviews for this report show, there is potentially a large shared ownership market for households on middle and middle to lower incomes. That market could be even bigger with stronger government support.

Private rents are relatively affordable for those on median and lower quartile incomes across much of the region, which means households (at least outside high demand areas) are able to save for a deposit. Shared ownership is also viable for many in the social rented sector, although still unaffordable for those on low incomes.

Interestingly, shared ownership works well in higher priced areas such as Cheshire and Stockport, where it provides access to a home for many of those on lower and middle incomes who could not buy outright without assistance. In many low demand areas (such Copeland, Hyndburn and Burnley) values are so low that outright ownership is affordable even for many on lower quartile earnings. However, in some of these areas new housing is uneconomic (the cost of new build is higher than the sale price). Scaling up shared ownership in these places will be very difficult, except perhaps in the case of provision for older people.

Recent government initiatives in the field of housing policy could help scale up shared ownership in the North West. It is likely that the extension of the Right to Buy to housing associations, for example, may lead to an increase in development for shared ownership. Housing associations in the region seem confident of replacing Right to Buy stock if adequate compensation is provided. A significant proportion of that replacement stock is likely to be for shared ownership rather than Affordable Rent.

The 1% reduction in social rents and the phasing out of grant subsidies may also precipitate a shift in the emphasis of new development away from Affordable Rent towards shared ownership; a trend that will be re-enforced by the cuts and caps to welfare benefits. However housing associations are in general uncertain about the future post 2018. The likelihood is that the new development programmes will be cut back in the short term, but that shared ownership may form a larger proportion of a smaller development programme.

Much will depend on whether the Government restores the RPI plus 0.5% rent formula in full after 2020. Privately, many associations are predicting that the Government will make a less generous settlement for the long-term and this has added to the pessimism about future financial capacity to develop new homes. There is thus a real question as to whether a changed financial and operating environment arising from recent political announcements may constitute an overall limiting factor on scaling up shared ownership development after 2018, irrespective of improvements to the tenure.

The Starter Homes Initiative was widely seen as a potential threat to shared ownership, especially if buyers are entitled to a Help to Buy equity loan. Competition for buyers, land and a reduction in Section 106 provision of shared ownership are all a cause of concern. There is therefore a strong case for extending eligibility for a Help to Buy equity loan to shared ownership customers as a way of levelling the playing field.

The simplification of shared ownership eligibility criteria will be welcomed in the North West region, not least as contributing to effective marketing and communications. However, the raising of the upper income limit for eligibility for shared ownership is unlikely to have a significant impact in a region where typical shared owner incomes and house prices are low compared with London. Interviewees are generally of the opinion that any household with an income over £60,000 would be certainly able to purchase a home outright, although not all choose to do so.

There is a belief amongst housing associations and local authorities that shared ownership is not marketed as effectively as it could be. Many interviewees called for stronger branding, assisted by simplification of the product. It was said that estate agents don't always understand shared ownership or communicate it effectively. There is also scepticism about the role of Homebuy (Help to Buy) agents.

There was a consensus that improvements should be made to the shared ownership offer itself. Longstanding features of the current product cause dissatisfaction amongst existing shared owners and may deter entry into the product. However, there is a balance to be struck in marketing shared ownership as a stepping stone to homeownership or as a permanent tenure in itself. It was often commented that not enough attention is paid to those who are in shared ownership for the long-term.

The resale market in the North West runs at a higher proportion of total sales than in the country as a whole. This could imply a healthier second-hand market. Nevertheless, there is room for further improvement. The HCA now allows shared owners to move to another shared ownership property. This will help the situation. However, a major long-term problem nationally and regionally is the lack of larger shared ownership properties suitable for those whose households have grown and who wish to move for that reason.

Interviewees often remarked that there is a need to develop a second tier shared ownership offer so that first-time buyer shared owners can move to a larger home. There may also be a role for second tier shared ownership in the mainstream market, where it might assist first-time buyers to move on to a larger home. Starter home owners who have strained to buy a Starter Home with an equity loan may be prime candidates in the future.

Nevertheless, the widespread development of second tier shared ownership would require a fundamental re-thinking of priorities by government, which currently favours maximising the numbers of first-time buyers at the expense of building a fully functional market at all levels.

The issue of valuing improvements undertaken by shared owners when selling their property also needs re-consideration. There is evidence of a lack of transparency, use of a formula that can cause issues for mortgage lenders and buyers, and unfairness.

Perhaps most disappointing is the low level of staircasing. This is not unique to the North West, but the reality is that partial staircasing is a rarity due to the costs (not least valuation and legal fees). The ability to staircase to outright ownership is also poorly organised and marketed. It was suggested that housing associations should develop schemes that allow shared owners to purchase additional shares incrementally without incurring the costs of doing so up front. There may also be scope for a national scheme for incremental staircasing to encourage a standardised approach.

The sole responsibility for repairs and maintenance of their property rests with the shared owner and this is identified as a source of dissatisfaction. It is arguably time that the HCA re-examine the shared ownership lease with a view to finding a more equitable solution, or perhaps issue new guidance on how repairs and maintenance could be undertaken by the landlord on a fixed fee basis?

Some housing associations are concerned at what they see as limited capacity and choice of lender in the mortgage market for shared ownership. However, there is no immediate prospect of the number of lenders increasing unless shared ownership sales increase substantially above present levels. It is said that the complexity of the product and risks to lenders if a borrower acquires rent arrears and has their lease terminated are both deterrents to entry. There is a case for discussions between the CML and NHF to seek a solution to the latter problem.

Housing associations raised concerns that lenders limit their individual exposure to shared ownership on larger development sites, causing a localised shortage of mortgage finance. Lenders see little likelihood that the position will change in the short term.

It would help if lenders required smaller deposits on lending for shared ownership. Perhaps the government could take the lead and extend the Help to Buy equity loan scheme to shared ownership? This would allow for smaller deposits and lending to those on lower incomes than at present.

One potential opportunity to scale up shared ownership might be via the Older People's Shared Ownership scheme. There is already a much higher take up of this scheme in the North West than in the country as a whole, and modification of the rules could make a big difference.

Self-build as a concept is highly popular, but 'Self-build Shared Ownership' languishes in the Capital Funding Guide as an almost unused scheme. In a climate where households have low incomes and limited ability to save, the opportunity to earn "sweat equity" by helping to build your own home would be welcomed by some.

Overall, the picture in the North West for shared ownership is positive. Many households across the region are eligible and in some areas shared ownership is the cheapest option for potential homeowners. The challenge is making it the easiest option and finding ways to help people staircase up and down. With additional funding and reforms (perhaps bespoke at local and city-region level) there is a real prospect that development of new shared ownership homes will expand and that overtime it might become a mainstream tenure in its own right.

Appendix 1: List of shared ownership providers

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In the North West there are around 70 Housing associations with shared ownership homes in 2015. However the top fifty housing associations between them own over 99% of all shared ownership properties in the region. Those housing associations owning or managing shared ownership ranked by the number of properties they own/manage are identified in the table below:

	Housing Association	Number of homes (2015)
1	Places for People Homes Limited	1076
2	The Riverside Group Limited	1063
3	Equity Housing Group	1038
4	Arena Housing Group Limited	995
5	Contour Homes Limited	994
6	Beech Housing Association Limited	903
7	Great Places Housing Association	898
8	Frontis Homes Limited	688
9	Manchester and District Housing Association Ltd	646
10	Two Castles Housing Association Limited	522
11	Liverpool Housing Trust Limited	506
12	Redwing Living Limited	428
13	Plus Dane (Cheshire) Housing Association Limited	386
14	'Johnnie' Johnson Housing Trust Limited	377
15	Muir Group Housing Association Limited	371
16	Helena Partnerships Limited	292
17	The Guinness Partnership Limited	282
18	Adactus Housing Association Limited	265
19	Irwell Valley Housing Association Limited	255
20	Anchor Trust	227
21	Plus Dane (Merseyside) Housing Association Limited	193
22	Sanctuary Housing Association	160
23	Mosscare Housing Limited	131
24	Sanctuary (North West) Housing Association Limited	121
25	Twin Valley Homes Limited	114
26	Eden Housing Association Limited	109
27	Home Group Limited	109
28	Trafford Housing Trust Limited	98
29	St Vincent's Housing Association Limited	82
30	Warrington Housing Association Limited	73
31	Housing & Care 21	65
32	New Progress Housing Association Limited	65
33	Wulvern Housing Ltd	57
34	Golden Gates Housing Trust	55
35	Willow Park Housing Trust Limited	54
36	Accent Foundation Limited	44
37	Impact Housing Association Limited	37
38	Arcon Housing Association Limited	35
39	The Villages Housing Association Limited	35
40	Weaver Vale Housing Trust Limited	33
41	Knowsley Housing Trust	31
42	Mossbank Homes Limited	26
43	Pierhead Housing Association Limited	24
44	Places for People Individual Support Limited	20
45	Rochford Housing Association Limited	18
46	Cobalt Housing Limited	17
47	South Liverpool Homes Limited	16
48	Chorley Community Housing Limited	12
49	Halton Housing Trust Limited	12
50	Hanover Housing Association	10
51	Rochdale Boroughwide Housing Limited	10
52	Progress Care Housing Association Limited	9
53	Calico Homes Limited	8
54	Derwent and Solway Housing Association Limited	8
55	Moorlands Housing	7
56	Aspire Housing Limited	6
57	Cheshire Peaks & Plains Housing Trust	6
58	Affinity Sutton Homes Limited	5
59	South Lakes Housing	5
60	Sanctuary Affordable Housing Limited	4
61	Wirral Partnership Homes Limited	3
62	Advance Housing and Support Limited	1
63	Hyndburn Homes Limited	1
64	Leeds Federated Housing Association Limited	1
65	Leicester Housing Association Limited	1
66	Moat Homes Limited	1
67	New Fylde Housing Limited	1
68	Notting Hill Home Ownership Limited	1
69	Thames Valley Charitable Housing Association Ltd	1
70	Thames Valley Housing Association Limited	1
	Total	**13,439**

Source: SDR Return

NB: Some of the above refer to specific shared ownership organisations or subsidiaries that are part of larger housing association groups

Appendix 2: Recent housing policy reforms

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- Extension of the Right to Buy to housing associations and a consequent requirement on local authorities to sell off their most valuable stock in order to compensate housing associations for the discounts given on sale. The new scheme is already being piloted following a voluntary agreement with the National Housing Federation. The compensation arrangements are contained in the housing and Planning Bill, currently going through Parliament.[64]
- A 1% reduction in social rents a year for four years announced in the Summer 2015 Budget. This is seen by many as the most radical of all the proposals, departing as it does from a previous agreement to raise rents using an inflation based formula.[65]
- New 'pay to stay' arrangements for social tenants on higher incomes of over £30,000 a year and £40,000 in London. This is widely expected to increase take up of the Right to Buy amongst higher earning social tenants particularly in more affordable areas such as the North West.[66] The scheme is voluntary for housing associations.
- The freezing of Local Housing Allowance (LHA) for four years.[67]
- A new 3% surcharge of Stamp Duty Land Tax for private landlords and restrictions of tax allowances in respect of repairs/maintenance and mortgage interest.[68]
- The reduction in the benefit cap from £26,000 to £23,000 in London and £20,000 outside London.
- Freezing of working-age welfare benefits for four years.[69]
- Shift in grant provision from sub-market renting to shared ownership, which will also benefit from additional grant being made available.[70]
- Re-classification of housing associations as public bodies so that their borrowing appears on the government balance sheet following an ONS decision on re-classification in October 2015.[71]
- Removal of housing association pre-emption rights to find a buyer for an existing shared ownership property on resale, where the shared owner has acquired 100% equity in the property.[72]
- Higher income thresholds for shared ownership eligibility and a sweeping away of additional restrictions.[73]
- Expansion of the target for the Starter Homes Initiative to 200,000 homes. With further planning concessions and additional funds to acquire the necessary land.[74] [75] [76]
- City Deals and Growth Deals and LEP funding to include funding to support new housing development
- New designated Housing Zones in the North West (and elsewhere) to bring forward major housing developments.

End notes

End notes

1 The Mayor's 'London Housing Strategy' (2014) states that the "Mayor will encourage more participants and competition in the intermediate mortgage market, particularly for shared ownership and will work with lenders to create specific products".
2 For example, Greater Manchester's 10-year Housing Investment Fund seeks to rebalance the social housing market to encourage and facilitate access to greater home ownership, including more shared ownership.
3 During the past year three reports focusing heavily on shared ownership in London and the South East have been published London Assembly *First Steps on the Ladder?* (2015); Hanna, K *Fair to Middling: Report of the Commission on Intermediate Housing* (Centre for London, 2015); Cowan, D, Wallace, A and Carr, H *Exploring Experiences of Shared Ownership Housing: Reconciling Owning and Renting* (University of York Centre for Housing Policy, 2015). Two more await publication.
4 Only one published research report in the last decade specifically devotes part of its analysis to the North West (de Santos, 2013).
5 CORE: Continuous Recording of Lettings and Sales in Social Housing in England.
6 According to estimates based on the CORE database of lettings and sales by social landlords held by DCLG.
7 HCA *Model Leases for Use by Registered Providers from April 2015* (2015)
8 Ibid
9 DCLG "Shared Ownership Boost for Budding Homeowners" (7 Jan 2016)
10 HCA *Model Leases for Use by Registered Providers from April 2015* (2015)
11 Heywood, A *The End of the Affair: Implications of Declining Homeownership* (Smith Institute, 2011)
12 Cowan, D, Wallace, A and Carr, H *Exploring Experiences of Shared Ownership Housing: Reconciling Owning and Renting* (University of York Centre for Housing Policy, 2015)
13 Clarke, A and Heywood, A *Understanding the Second-hand Market for Shared Ownership Properties* (Cambridge Centre for Housing Planning Research, 2012)
14 In 2014-15, according to the SDR return, only 2.84% of shared owners in England staircased to full ownership during that year
15 ONS *Region and Country Profiles, Population and Migration, December 2013* (2014)
16 ONS *2011 Census, Key Statistics for Local Authorities in England and Wales* (2012)
17 ONS *Region and Country Profiles, Population and Migration, December 2013* (2014)
18 ONS *Labour Market* (2015)
19 ONS *Local Authorities Classification Announcement: "Private Registered Providers" of Social Housing in England* (2015)
20 ONS *Region and Country Profiles, Population and Migration, December 2013* (2014)
21 DCLG no longer publishes regional statistics. The most recent data is 2011.
22 ONS *House Price Statistics for Small Areas* (2015)
23 3.5 times single income or 2.75 times joint income.
24 I.e. a £170,100 25 year mortgage at 4% interest
25 HCA *Intermediate Market Review 2011-12* (2010)
26 de Santos, R *Forgotten Families: Towards a Mainstream Shared Ownership Market* (Shelter , 2013)
27 A reliable unbanded median figure for London could not be calculated for 2014-15
28 CORE data for 2014-15
29 This may in part be a function of much lower shared ownership property values enabling a higher proportion of single income households to purchase
30 25 year repayment mortgage at 4% interest
31 In 2014-15, for example, the CORE data showed that in only 8% of sales had the previous tenure of purchasers been social renting
32 Wallace, A *Achieving Mobility in the Intermediate Market: Moving Up and Moving On?* (2008)
33 The London Assembly noted that nationally just over 2% of shared ownership homes change hands annually and suggested that shared ownership homes are only half as likely to come up for sale as owner occupied homes. London Assembly *First Steps on the Ladder?* (2015)
34 Clarke, A and Heywood, A *Understanding the Second-hand Market for Shared Ownership Properties* (Cambridge Centre for Housing Planning Research, 2012)
35 The change came in from January 2016. HCA *New Announcements 2015-16* (12 January 2016)
36 A report for the London borough of Hackney drew attention to a mismatch between the type of property available and potential shared owner movers. HQN *Developing Intermediate Housing Products in Hackney* (London Borough of Hackney, 2005)
37 Clarke, A, Monk, S and Luanaigh, A *Low Cost Homeownership Affordability Study* (Cambridge Centre for Housing Planning Research, 2007)
38 Whittaker, M *The Essential Guide to Squeezed Britain* (Resolution Foundation, 2012)
39 Clarke, A and Heywood, A, *Reselling Shared Ownership Properties After Improvements* (Cambridge Centre for Housing Planning Research, 2013)
40 Ibid
41 Wallace, A *Achieving Mobility in the Intermediate Market: Moving Up and Moving On?* (2008)
42 Thames Valley Housing Association *Shared Ownership Plus* (2013)
43 Clarke, A and Heywood, A *Understanding the Second-hand Market for Shared Ownership Properties* (Cambridge Centre for Housing Planning Research, 2012)
44 Orbit *Shared Ownership 2.0: Towards a Fourth Mainstream Tenure* (2015)
45 Ibid
46 Cowan, D, Wallace, A and Carr, H *Exploring Experiences of Shared Ownership Housing: Reconciling Owning and Renting* (University of York Centre for Housing Policy, 2015)
47 Hanna, K *Fair to Middling: Report of the Commission on Intermediate Housing* (Centre for London, 2015)

48 de Santos, R *Forgotten Families; Towards a Mainstream Shared Ownership Market* (Shelter , 2013)
49 Now known as Help to Buy agents, although the new name had not caught on amongst interviewees
50 FCA *Mortgage Lending Statistics* (2015)
51 Heywood, A *The End of the Affair; Implications of Declining Homeownership* (Smith Institute, 2011)
52 Moneyfacts Compare the Best Mortgage Deals (2016)
53 HCA *Intermediate Market Review 2011-12* (2010)
54 HCA *Model Leases for Use by Registered Providers from April 2015* (2015)
55 Capita, 2015
56 Persons of 65 and over make up over 17% of the population of the North West. ONS *Region and Country Profiles, Population and Migration, December 2013* (2014)
57 HCA *Model Leases for Use by Registered Providers from April 2015* (2015)
58 Ibid
59 Orwell Housing Association *Self Build/Finish Units at Philip Avenue, Felixstowe* (2014)
60 Cherwell District Council *Build! Project* (2015)
61 Wilson, W & Smith, L *Housing and Planning Bill 2015-16* (House of Commons Library, 2015)
62 Heywood, A *Local Housing, Community Living: Prospects for Scaling up and Scaling out Community-led Housing* (Smith Institute, 2016)
63 Wallace et al *Build it Yourself* (Centre for Housing Policy, 2013)
64 Heywood, A *Local Housing, Community Living: Prospects for Scaling up and Scaling out Community-led Housing* (Smith Institute, 2016)
65 HM Treasury *Summer Budget 2015* (2015)
66 Wilson, W *Social Housing: 'Pay to Stay' at Market Rents* (House of Commons Library, 2015b)
67 HM *Treasury Summer Budget 2015* (2015
68 Ibid
69 Ibid
70 HM Treasury *Spending Review and Autumn Statement 2015* (2015)
71 ONS *Local Authorities Classification Announcement: "Private Registered Providers" of Social Housing in England* (2015)
72 DCLG *Proposals to Streamline the Resale of Shared Ownership Properties* (2015)
73 DCLG *Shared Ownership Boost for Budding Homeowners* (7 Jan 2016)
74 DCLG *Stepping on the Ladder: High Quality Starter Homes for First Time Buyers* (2015)
75 Edgar, L "200,000 Starter Homes Promised by Cameron" *The Planner* (2015)
76 HM Treasury *Spending Review and Autumn Statement 2015* (2015)

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