National Housing Federation response to consultation on New National Model for Shared Ownership

September 2019

Summary

Housing associations are committed to helping people into home ownership via shared ownership, and making the experience for the shared owner as simple and accessible as possible. We therefore support the aims of these proposals.

We are keen to work with the Government to ensure any changes improve the experience for shared owners without reducing housing associations' ability to build new homes or provide services to existing tenants and residents.

Staircasing in low value tranches (e.g. 1%) could lead to disproportionately high transaction costs for the shared owner and housing association. But Metropolitan Thames Valley's successful SO Resi PLUS scheme provides a good starting point for developing a simple low cost approach to low-value staircasing. The process for staircasing in increments above 10% should remain unchanged.

Many housing associations successfully use the eight-week nomination period to keep shared ownership homes available for a new shared owner. Therefore we recommend the housing association should have two weeks in which to decide whether to i) buy back the property directly; ii) allow the shared owner to sell directly on the open market, or iii) invoke the remainder of the nomination period to match up the property with a new shared ownership buyer.

We support the extension of the model lease in its current form and would expect to be consulted on any changes that are proposed. We support retaining local connection criteria for designated protected areas.

Through our national shared ownership campaign, housing associations will improve public awareness and understanding of shared ownership. We will also collect and analyse data from across the sector to demonstrate our commitment to transparency and accountability over areas including fees, staircasing and sales.

Introduction

The National Housing Federation is the voice of housing associations in England. We welcome the chance to respond to this consultation on improving the customer experience of shared ownership.

Housing associations are committed to helping people into home ownership. Shared ownership is a tried and tested product, allowing someone to buy a home with an initial deposit as low as 1.25% of its total value. More than 200,000 people live in shared ownership homes.[1]

In 2018/19 housing associations built more than 14,000 new shared ownership homes – a 28% increase on the previous year.[2] This represented over 6% of total housebuilding. Our research shows

[1] https://pdf.euro.savills.co.uk/uk/spotlight-on/shared-ownership.pdf

[2] https://www.housing.org.uk/resource-library/browse/how-many-homes-did-housing-associations-build-in-2018-19/

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we need to build 25,000 shared ownership homes each year to meet housing need in this part of the market.

Importantly, investment in shared ownership must be alongside investment in homes for social and affordable rent. We also need an additional 90,000 homes for social rent and 30,000 intermediate rented homes per year, at a total cost of £12.8bn per year for ten years.[3]

Housing associations are already demonstrating their commitment to improving the experience of shared ownership for customers. Led by a steering group of housing associations, we are planning the launch of a national advertising and awareness campaign to increase public understanding of shared ownership. It will launch alongside England's first national shared ownership website and property portal.

As not-for-profit organisations, housing associations reinvest all the money they receive in new and existing homes. Therefore it is important that any changes don't impose significant additional costs or burdens on housing associations which would reduce their ability to build new homes – including for shared ownership – and provide services to existing tenants and shared owners.

The shared ownership market

For many people, shared ownership is a route to full home ownership, and shared owners have aspirations to staircase and move into the private market. The proposals are primarily aimed at this audience. However, in our members' experience, staircasing is not the primary goal of some shared owners, who value the tenure for other reasons including the security it affords compared to private renting.

Demand for shared ownership varies around the country, as does the financial viability of the model. It will be important to ensure that any changes are able to be implemented across the country and do not impose additional burdens on providers or customers in certain regions.

Older People's Shared Ownership (OPSO) is a variant on the shared ownership model, restricted to older people, which serves a very different market purpose. Older people usually buy large initial tranches, and are seeking security and in some cases equity release, rather than to staircase. We think Older People's Shared Ownership should be retained as it currently operates and not included within the scope of any of the proposals outlined below. We suggest that the Government considers a wider review of home ownership for older people, including OPSO but also leasehold schemes for the elderly and other products. We are happy to work with our members including those who specialise in providing homes for older people, to input to such a review.

Responses to proposals

Making it easier for people to increase their share of the property

We agree with the Government's vision that it should be as easy as possible for existing shared owners to increase their share of their property via staircasing.

[3] https://www.housing.org.uk/resource-library/browse/capital-grant-required-to-meet-social-housing-need-in-england-2021-2031/

Staircasing can represent a significant transfer of equity and therefore it is appropriate that it is undertaken with an accurate valuation and underpinned by a robust legal process. However, these processes come at a cost, which would become disproportionate if staircasing took place in increments smaller than the current 10% minimum.

Therefore, we suggest consideration of a different approach for small-value cash staircasing. It should ensure that:

- the scheme is as simple and flexible as possible for customers to use, and standardised across all providers of shared ownership as far as possible
- there is no impact on housing associations' ability to build new homes (including for shared ownership), for example by tying up capital, significantly increasing costs or reducing revenue, or affecting security
- there is the minimum possible variation to the current well-tested and proven shared ownership model.

Metropolitan Thames Valley Housing Association has successfully implemented a scheme called SO RESI Plus, which substantially meets the criteria above. We therefore suggest it is used as a starting point to design a scheme that could be rolled out more widely. Its key features are that:

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

This approach provides a simple and low-cost model of staircasing for low value cash transactions, while retaining the more robust approach based around an up-to-date valuation and legal recognitions for larger transactions (above 10%), including those which involve re-mortgaging. There is no adjustment to the standard shared ownership lease which is now very widely used across the sector.

It provides a high level of flexibility for customers, who are under no obligation to take up their 1% share each year (for example if the value of the home is increasing by less than 3%) and can opt out of the scheme entirely at any point.

The fixed 3% annual increase means the housing association could lose out on any asset price appreciation above 3%, but this needs to be balanced against affordability concerns for shared owners, and the administrative costs of a system which relies on market valuations. Metropolitan Thames Valley has engaged at length with lenders who have accepted that it does not impact on lending.

We suggest that this approach could be adopted more widely across providers of shared ownership, with housing associations retaining discretion over whether and how they introduce it, drawing on their knowledge of the demand for low-value staircasing in their area and amongst their shared owners.

It should be standardised as far as possible via provision of template documents, processes and communications to minimise set up costs for the provider and ensure a consistent product.

Q1. What would be the impacts of smaller staircasing increments on shared ownership mortgage products?

One of the advantages of SO Resi PLUS is that there is minimal impact on shared ownership mortgage products. The additional 1% shares are paid for in cash and don't require a change to the mortgage terms. Lenders have satisfied themselves that the SO Resi Plus model does not increase their risk or costs.

If more significant changes were proposed to the broader shared ownership model, we would be concerned about the impact on mortgage provision, given the hard work that housing associations and lenders have put in over recent years to ensure a robust mortgage market for shared ownership homes.

Q2. What do you think the minimum staircasing increment should be?

We suggest staircasing in 1% increments should be the minimum available via this route. Even with the minimal administration costs of the model suggested above, staircasing in increments of smaller than 1% would impose too high an administration burden on the provider on each transaction.

Q3. What products could be developed to support a flexible approach to staircasing that enables people seamlessly invest in their homes from as little as £250?

There have been several efforts by housing associations to develop products which allow so-called 'brick-by-brick' staircasing, via small additional payments made on top of rent or at frequent intervals. In each case so far these have proven too difficult to implement, often because they act like savings products, requiring the housing association to register with the Financial Conduct Authority, which would impose prohibitively high administrative burdens. We know that housing associations and others continue to make efforts to develop these products.

Several of our members have suggested that savings products provided by the lender, which sit alongside the shared ownership mortgage, might allow incremental saving with a regular (e.g. annual, or on point of sale) conversion into additional equity. One option could include a specific Help to Buy shared ownership ISA to support staircasing. Others have suggested that overpaying on the mortgage within the limits allowed fee-free by many mortgage products might deliver a similar result for some customers as buying additional equity from the housing association.

We would be happy to work with the Government to develop these ideas further.

Q4. How should an estimated HPI-based valuation be implemented to ensure that people can staircase at a fair price?

We do not think that an HPI-based valuation is appropriate for larger staircasing transactions of 10% equity or above. For asset purchases on this scale an accurate valuation is vital to ensure that both the customer and the provider can have confidence in the transaction. HPI – even if regionally or area specific – can hide significant variation between properties which could see one party lose out.

On sales of smaller tranches (e.g. 1%), the benefits of an accurate valuation must be weighed against the costs of undertaking it. For these smaller transactions it is more appropriate to rely on a system indexed to the equity value at a previous point in time. While inflating by a locally or regionally-specific HPI might be possible, we think the simplicity of a simple percentage compounded increase (e.g. 3%) would be attractive for customers and simple to implement.

Q5. How can we ensure that the administrative costs for each staircasing transaction are fair?

If our recommended approach above were implemented then the administrative costs for staircasing transactions of less than 10% would be zero for the shared owner.

There will necessarily be administrative costs associated with larger transactions of 10% or more, to cover the valuation, legal and mortgage services. It is reasonable to expect the shared owner to pay their share of these costs, just as a homeowner would on remortgaging or moving home. Where these fees are paid to housing associations, it is generally only to recoup direct costs. These will understandably vary to some extent by region and provider, so we do not think a national fixed fee would be appropriate.

However, as a sector we are committed to transparency and accountability to our customers, including shared owners. As part of our shared ownership campaign, the Federation will seek to collect and transparently benchmark staircasing fees across the sector.

We will also work with members to share examples of approaches which work well for some housing associations and which could be more widely applied. For example, in many circumstances housing associations will offer to meet the cost of a valuation and/or legal fees if the customer staircases.

Q6. What else is preventing people from staircasing?

In some cases, a lack of awareness of the process around staircasing can be a barrier to doing so. Many housing associations proactively encourage shared owners to staircase, including via regular tailored communications, or campaigns offering to cover fees or other costs. However, there is likely to be variation across the sector in how frequently and how comprehensively this is done. As part of our shared ownership campaign the Federation plans to work with our steering group and members to agree some sector-wide communications and approaches to help increase awareness and understanding of staircasing.

Q7. Are there other ways to improve staircasing that we should consider?

We are keen to work with the Government and members to consider other ways in which shared ownership can be improved further.

Making it easier for people to sell their home

We support the Government's intent to ensure the resale process is as simple as possible for shared owners. But this should ensure that where possible and desirable, shared ownership homes are made available to new shared owners, rather than sold as market homes.

Currently, housing associations have the exclusive right to either buy back the property or market the property to another shared owner for eight weeks. Housing associations very rarely buy back the property directly, as this would tie up capital and increase risk. But it is an important tool in some circumstances, for example when stepping in to support a shared owner by preventing a distressed sale, or retaining a fully affordable scheme.

However, many housing associations do make active use of the eight-week nomination period to match up a new shared owner with the property, often using their own waiting lists. This can be extremely successful. We do not have national data, but individual housing associations have reported successfully matching hundreds of new shared owners each year, representing almost all their shared ownership resales. They also report average time to sale which is comparable to open market sale, so on average the process is no slower than going direct to market.

Nonetheless we know that practice varies across the sector according to local market and organisational policy. Some housing associations rarely use the nomination period and allow homes to be sold directly on the market.

We therefore propose a hybrid approach. The housing association would have two weeks in which to decide whether to:

- exercise the pre-emption right to buy back the property directly (which is unlikely but should be retained as an option)
- allow the shared owner to market the property directly on the market, immediately
- invoke the eight-week nomination period (inclusive of the two-week decision period) to match the property with another shared owner.

This means that housing associations with large waiting lists and an active resale programme are still able to retain shared ownership homes specifically for new shared owners. It will encourage housing associations which don't make use of the nomination period to waive their right sooner, after only two weeks. And it reduces the period of uncertainty for shared owners.

In addition to this, the Federation would work with housing associations to transparently benchmark sales fees and resale rates amongst those who did invoke the eight-week nomination period. This would help ensure that customers receive a fair service.

Introducing a standard model for all providers

Housing associations support the model lease and would welcome its extension to other providers of shared ownership homes, to ensure a standardised product for customers and for lenders.

If any changes are proposed to the model lease we would expect to be consulted on these in order to assess any possible implications for housing associations and customers.

In rural areas it can be extremely hard to replace a shared ownership home if it is sold on the open market, and landowners will often sell land for housing only with a guarantee that the homes will be retained for people local to the area. As the discussion paper notes, local communities are more likely to support new housing development if they are confident it will benefit local people.

On the other hand, there are instances where local restrictions are so strict that it can be difficult to sell on a home for lack of eligible demand. Therefore, while we support the principle of standardising the shared ownership lease including in designated protection areas, including by relaxing the most restrictive local connection criteria, we would not support completely removing local restrictions on designated protected areas.

More information

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