Cambridge Centre for Housing & Planning Research

Low Cost Home Ownership and the Credit Crunch: A report on regional markets and competition with private developers

UNIVERSITY OF CAMBRIDGE

TSA TENANT SERVICES AUTHORITY

A Report from the Cambridge Centre for Housing and Planning Research for the Tenant Services Authority (TSA)

Gemma Burgess
Fiona Lyall Grant
Christine Whitehead

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Executive Summary

The aim of this study was to expand upon earlier research, *LCHO: Affordability, Risks and Issues*. The specific aims of this research were (i) to explore the nature of regional markets for Low Cost Home Ownership (LCHO) offered by housing associations (HAs) since the downturn and (ii) to clarify the impact of private developer shared equity (SE) schemes on HAs and the degree to which HAs are competing with these schemes. HAs and developers were interviewed to explore these issues, in addition to other key stakeholders such as the Home Builder's Federation and major mortgage providers to the LCHO sector.

This research was funded by the Tenant Services Authority (TSA).

Regional HA sales of LCHO
The research took place in a very depressed general housing market. The study found that there were significant variations between regions, within regions, and even within localities.

The study suggested that the North West and the West Midlands have seen the largest slowdown in sales, mainly on apartments. In the East of England, sales of LCHO in the growth areas and the London Commuter Belt were stronger than the north of the region and the lower value areas such as Bedfordshire. In London there was a lot of variation in the success of LCHO schemes between boroughs. HAs reported that it very much depended on the area, Kensington and Chelsea, West Camden and Hackney for example were selling well, whilst LCHO units in Croydon were struggling to sell.

Flats were generally more difficult to sell than houses. However, in parts of London, the London Commuter Belt[1] and the growth areas of the East of England, flats were still being sold.

Location also influences sales at a very localised level. HAs said that similar properties in developments in close proximity to one another might have very different sales rates. They said that local people are aware of very local scale area characteristics and now had more freedom to choose a property in the 'better' location. The capacity to choose was more restricted when the market was buoyant, but purchasers can now be more discerning in choosing a property.

Housing associations reported that the difficulty in securing mortgage finance remained the greatest inhibitor of sales.

Down valuations of LCHO units
The reductions in house prices and down valuations have three main impacts, on HA finance, on the confidence and capacity of the potential purchaser to pay, and on the capacity to obtain finance. The extent of reductions varies by location and property type with flats worst affected. HAs reported that similar properties on the same development might be down valued by quite different amounts by valuers working for financial institutions.

Private developer shared equity schemes
Private developers were offering schemes in most areas. They generally offer shared equity on a 75/25 percent basis. They were more likely to offer these deals on apartments than

[1] The London Commuter Belt is a Sub-Region positioned where the East of England housing markets join that of London. It is the largest of the nine sub-regions in the East of England, covering a population of almost 1.5 million people, incorporating fifteen district authorities, two county councils and over thirty social housing providers.

houses. One developer reported that their shared equity scheme had been very successful in the South, but that the same product had not been very successful in the North. Availability can be limited as the schemes are very costly for developers to offer and depend on their pipeline and market sales. The schemes were regarded as a way in which stock may be sold in a difficult market in which property values were falling and as a way to generate much-needed cash flow.

Impacts on private developers

Sales of the developer shared equity properties are mixed, but many report that they are an important part of current business since the downturn. Developers said that the schemes would be short term and would not be maintained in a more stable market. Developers report that prices are being reduced on all properties due to surveyors down-valuing properties, with apartments being worst affected. Many developers have halted new development and have been hard hit by the downturn, losing share price values and needing to make large staff cuts. This may lead to a shortage of skills in the sector when the market recovers.

Competition in the LCHO market

The developer-led schemes do generate some competition for potential LCHO purchasers. Private developers have a range of schemes and incentives on offer, including part-rent, part-buy schemes analogous to New Build HomeBuy, and financial incentives such as support for legal costs. They are being used as a marketing tool to attract interest in their products.

There were more incentives being offered by HAs in response, such as free carpets and curtains. They were relatively small in comparison to the incentives offered by private developers. However, HAs were also selling smaller initial tranches in response to the downturn.

HAs felt that they were able to compete with the developer shared equity schemes as they believe they offer a better product, are more trusted and provide long term support to purchasers. The only concerns were that developers can offer more incentives and have more flexibility.

Purchasers of HA and developer products

There were some changes to the characteristics of those now purchasing LCHO. Some HAs reported that people on lower incomes in the eligible group can no longer afford LCHO because of the restriction on mortgage borrowing. Instead, LCHO was being purchased by households with rather higher incomes. Young first time buyers (FTBs), singles and couples were the target group for developers, largely because the shared equity schemes were being offered on small units and apartments. The developers felt that purchasers of their shared equity schemes would have been able to have bought outright before the downturn but were now hampered by the limited availability of mortgage finance.

HomeBuy Direct

HomeBuy Direct is clearly welcomed by developers as an opportunity to sell units they are otherwise struggling to sell. Some HAs felt that there was some confusion on the part of both developers and HAs about the product, particularly in terms of management of the units and the degree of HA involvement. Some thought that it would be likely to be more popular than HA shared ownership (SO).

Impacts on HA LCHO pipelines

Some HAs reported that developments were still being completed but that they would be reviewing future planned schemes. A few HAs have had schemes that have not been completed, particularly in the Midlands, some caused by developers going out of business.

HAs were clear that this is a time of great uncertainty. This is reflected in close monitoring of business plans and regular updates and amendments. There were concerns about the loss of receipts from sales and staircasing and the resultant impact on the ability to cross subsidise social rented units, particularly from a cash flow perspective in the short term. Over the longer term some HAs felt that the downturn is giving them opportunities to acquire land and assets. The impact of the downturn on future pipelines for LCHO is unclear and is a matter of concern.

Lack of mortgage finance

Of the range of HA LCHO products available, shared ownership was reported to be the least popular. Lenders were not so keen to lend on traditional shared ownership products in comparison to shared equity products, because they consider there to be more financial risk for the lender attached to shared ownership if the property is repossessed; this view remains despite the Mortgagee Protection Clause.

All HAs said that 100 percent mortgages were not available to purchasers. Any potential purchaser that appears to pose even the slightest risk to lenders was no longer easily able to secure mortgage finance. The ability to secure a mortgage is the greatest constraint faced by LCHO prospective purchasers.

1. Introduction

The Housing Corporation originally commissioned the Cambridge Centre for Housing and Planning Research at the University of Cambridge to explore the impact of the credit crunch and housing market turbulence on Low Cost Home Ownership (LCHO). This initial research explored what the impacts of the credit crunch and market changes have been on the supply of, the demand for and the affordability of LCHO. How risk has changed for both purchasers of LCHO and of housing associations (HAs) as providers was considered.

The findings of the research were discussed at a stakeholder seminar. The findings showed both an uncertain and a varied picture for LCHO. The research suggested that two particular issues merited further study:

1. Market segmentation within regions

2. Private developer shared equity schemes and how these compete with LCHO development

An extension study to the main research was commissioned by the TSA to explore these issues. This report contains the findings from this additional research.

The first part of this extension study focused on increasing the understanding of markets within regions and looked to establish how they are now operating. The initial research pointed to differences in the impact of the market downturn on LCHO sales between different types of housing markets. At the time of the research these differences were only just emerging. This extension study provided an opportunity to explore this further and consider how markets within regions with different affordability conditions and levels of market activity are being affected. The research focused on case study HAs operating in areas with different affordability pressures.

The second section of the study focused on private developer shared equity schemes that have been launched as a result of the market downturn as developers struggle to sell units on new developments. In the initial research, most HAs reported that private developers were now operating their own shared equity schemes, sometimes on the same development in which HAs are trying to sell LCHO properties. The research focused on what is happening regarding direct competition between HAs and developers offering their own shared equity products.

Through the research the team also explored the developer based shared equity scheme announced as part of the government's housing market rescue package. HomeBuy Direct is a new shared equity scheme designed to help up to 10,000 first time buyers into affordable home ownership. The scheme will also help participating house builders by enabling more first time buyers to purchase their newly built properties. The scheme has been allocated up to £486m of funding.

2. Background

The mortgage and housing crisis in the UK has at least three distinct attributes:

1. Liquidity in the finance market as a whole and the mortgage market in particular has been reduced

2. Lending criteria have been tightened in the wake of fears about default

3. There has been reduced demand for housing as a result of real cost increases, lower incomes and employment and greater uncertainty, especially about future house prices

Evidence from providers in the first study suggested that there is still demand from LCHO target groups, although it has been much reduced. The most important problem was lack of access to credit. In the first study, lenders suggested that they were no less likely to lend to LCHO purchasers as such, but that households coming forward for LCHO could have more complex financial circumstances. As a result the general tightening of conditions automatically hit them harder.

Since the beginning of the credit crunch around August 2007, the impacts of the downturn have included:

- The financial crisis has spread to most financial institutions
- Confidence and demand has fallen across the housing market
- Mortgage lending has decreased significantly; the decrease in mortgage approvals between November 2007 and November 2008 was 67 percent
- The cost of borrowing had at first increased, although the costs of borrowing and living are now coming down and interest rates are at a historic low
- Unemployment is increasingly seen as being the pressing issue
- House sales have fallen significantly. Land registry data show that between May 2008 and August 2008, transaction volumes decreased by 46 percent compared to the same period in 2007
- House prices have fallen. The November 2008 Land Registry House Price Index data showed a decline in house price change of 12.2 percent over the year
- The length of time taken to sell properties has increased
- Possessions have increased
- Construction activity has fallen dramatically as developers have reduced output
- The five largest house builders have announced large scale job losses. Over the longer term, the loss of skills to the industry will take time to be regained when the housing market begins to recover
- The wider UK economy has moved into recession which is expected to be of much longer duration than originally predicted
- There have been a number of government initiatives including HomeBuy Direct, a mortgage rescue scheme, suspension of stamp duty on properties purchased at £175,000 or less and the Home Owner Mortgage support scheme (announced in December 2008)

There have been big changes over the past year. In late 2007 and the first half of 2008, the key issues were seen to be increased borrowing costs for purchasers and the rising RPI inflation. However, interest rates are now at a historic low and the cost of living inflation has ceased to be headline news. Unemployment is now the growing issue. Low interest rates are of no help to people who cannot get a mortgage, nor to those trying to save for the much higher deposit required.

Initial research: 'LCHO: Affordability, Risks and Issues'
The initial research conducted for the Housing Corporation by Cambridge Centre for Housing and Planning Research explored the impacts of the credit crunch and market changes on LCHO. The research was conducted in May and June 2008. It explored the impacts on LCHO on:

1. Supply

2. Demand

3. Financing

4. Affordability and risk

The full report is available
http://www.cchpr.landecon.cam.ac.uk/outputs/detail.asp?OutputID=191

At the time of this research, the existing phases of development programmes were being delivered. However, many HAs expressed concern that they would struggle, or were already struggling, to sell new build units. A number said that they were considering changing the tenure of the units, for example to social renting, intermediate rent and Rent to HomeBuy, rather than risk seeing the units stand empty. HAs were increasingly having to compete with other shared equity schemes now being offered by private developers.

There were longer term concerns about supply as the major housebuilders slowed down development. Some planned developments were now not expected to go ahead until the market improved. This would reduce the supply of LCHO units where they were part of S106 schemes. This has implications for LCHO, whether the target number of units can be delivered. It also reduces the ability to cross-subsidise social rented units. For some HAs the flow of units from private developers to the LCHO sector was expected to increase as private developers offered HAs the units they could not sell. However, many of these were not in the right location or of the right standards, type and size.

In some areas HAs reported high levels of continued interest for the products. Others had seen a fall in both enquiries and in sales. Many felt that the uncertainty in the housing market overall with falling prices and more difficulty in borrowing was discouraging potential purchasers from buying. Many HAs have increased their marketing activity in response. There were differences noted in the properties that were most affected; demand was still good for family houses in good locations, but much reduced for flats and units in less favourable locations.

There had not at that time been any major shift in the types of households purchasing the properties. The broad target group was still accessing LCHO. However, it was only households with deposits and good credit histories who could access mortgage finance. A few HAs reported more enquiries from households on higher salaries than the average LCHO purchaser.

For existing owners, recent months had seen a trend in falling inflation and prices, although this had been counterbalanced by increased unemployment. There was as yet little evidence of demand for downwards staircasing, although HAs feared it would increase in the future.

The cost of borrowing for HAs had increased. There were concerns that some HAs were quite highly geared and therefore vulnerable to cost increases. This was particularly relevant when HAs come to re-finance at higher rates. There were suggestions that some HAs could face cash flow problems on account of the reduction in income from sales and from staircasing receipts. Some HAs would need to re-visit their business/financial plans.

After the original study had been completed a seminar was held to discuss the findings with key stakeholders, including the HAs that had participated in the research. The discussion at the seminar showed that HAs were experiencing problems arising from:

- The lack of access to mortgages for people who want to buy
- Reduced valuations on HA new build properties, affecting both sales prices and the purchaser's capacity to borrow for LCHO
- Reductions in consumer confidence, impacting particularly on the proportion of interested customers that take their interest forward to purchase
- Lack of staircasing, leading to diminished receipts and reduced cash flow
- Having a sizeable portfolio still for sale as the HA enters the next financial year
- Concern that HAs cannot adjust to market conditions quickly enough

The original research and subsequent discussion at the seminar showed that HAs were managing risk in a number of ways. These included:

- Engaging with lenders and valuers directly to ensure they understand the products and their benefits
- Carefully examining future pipelines to assess viability
- Scoring risk more carefully for particular schemes
- Changing tenure of the output where demand for LCHO is weak
- Offering a range of other incentives on schemes
- Re-valuing properties in line with market changes
- Looking at the widest range of scenarios possible in business planning
- Concentrating on reducing the number of properties to be sold
- Examining other non-social rented tenure options

Overall, the location and types of units available were highlighted as key issues.

Rationale for this study
Since the research was conducted in May and June 2008, the economy has worsened. The financial crisis has severely affected most financial organisations; confidence and demand have fallen across the market; developers have further reduced output; and there have been more general declines in the real economy and confidence. The Government has responded with various initiatives that impact on LCHO.

This report details the findings of a further study, to build on the findings of the original research described above, looking at regional differences in LCHO performance and the impact on HAs of developer shared equity schemes.

3. Aims and Methods

Aims
The aim of this study was to expand upon research conducted for the Housing Corporation, *LCHO: Affordability, Risks and Issues*. The particular aims of this research were:

1. To explore the nature of regional markets for LCHO since the downturn
2. To explore the impact of private developer shared equity schemes
3. To gather early views on HomeBuy Direct

Methods
The study comprised of interviews with HAs, developers and other relevant stakeholders. These were conducted in October and November 2008. The research that had already been conducted formed the starting point for this extension study and informed the selection of case studies. The research team interviewed HAs and some developers operating in different markets and in areas where there are private developer schemes in operation. The questions asked are contained in the Annex. The team had established HA contacts through the previous research. Interviews were conducted with representatives of major housebuilders. The team sought input from other stakeholders, such as the Home Builder's Federation and two major national lenders of mortgage finance to the LCHO sector. A quantitative data analysis of the general housing market was also conducted to provide some context to the qualitative data.

Research participants
The research included HAs and developers. Characteristics of the research participants are detailed below.

Housing associations

HA	Region	Area of activity
1	East	Bedfordshire, Cambridgeshire, Northamptonshire
2	London Commuter Belt, East	Hertfordshire, Bedfordshire, Buckinghamshire, Cambridgeshire, Northampton, North London, London commuter belt, north area of Essex
3	London	London – South East, East and West London
4	London	London, every borough
5	London	Across London and also have concentrations in Surrey, Hampshire, Bucks, particularly Slough, Oxford, but main areas are in London
6	London, Midlands	London, East and West Midlands, North East and West and Yorkshire and Humberside
7	W Midlands	Bristol, Bromsgrove, Banbury, Borrowash, West Bromwich (Sandwell) Shropshire, Telford, Wolverhampton, Walsall, Wensbury, Birmingham – but not city centre – Northfield, Edgbaston, Cheltenham, Tewksbury, Wynchcombe, Aylesbury, South Gloucester, Evesham – Cotswolds, and Barford Burrows in

		Warwickshire
8	W Midlands	Herefordshire, Worcestershire
9	E Midlands	Leicester Nottinghamshire Lincoln and Coastal Lincs
10	North West	Greater Manchester, Oldham/Stockport, Chester, Sheffield, Rotherham,Leeds, Grimsby, NE Lincolnshire,Newcastle
11	North West	Warrington,Ternside, S Manchester,Leeds
12	North West	Merseyside and Cheshire
13	South West	Devon, Cornwall and Somerset
14	South West	Southwest, Gloucester, Poole to the Devon border and Somerset

Developers

Developer	**Characteristics**	**Areas of operation**
1	Southern branch Over 1,000 homes completed for housing associations and others in 2007 Medium sized house builder	London and the Thames Gateway, the South East, East and North West Involved in regeneration schemes in the North West
2	As above, Northern branch. In 2007 announced significant job losses in the North	As above, Northern branch
3	One of the largest house builders in the UK Significant job losses during 2008	National
4	Major housebuilder In May 2008 announced job losses of at least ten percent	National
5	One of the largest house builders in the UK Reported huge financial loss and major job cuts in 2008	National
6	One of the largest house builders in the UK Profits fell in the first six months of 2008 Announced major job losses	National
7	One of the largest house builders in the UK Sales fell considerably during 2008 and announced major job losses	National

4. The National Picture

In order to evaluate findings from the latest research on Low Cost Home Ownership there are a number of important issues that should be borne in mind:

1. The range of LCHO products that are available has changed considerably – affecting their relative value to potential purchasers in ways that are not always easy to assess

2. The overall housing market is in a far worse condition than it was when the first project was completed. Moreover the rate of decline was still accelerating when this research was undertaken

3. The mortgage market appears still to be in the grip of the credit crunch, and the general lack of available mortgages is reinforcing the downward pressure on the housing market

4. Potential purchasers of LCHO gain benefits from risk sharing but also face problems specific to the intermediate market

The relevant schemes
The core housing association product is new build shared ownership which has remained fundamentally unchanged since the 1980s in that it is only available on new build and major regeneration homes. The purchaser buys a proportion of the leasehold property, the HA maintains ownership of the freehold and charges rent on the rest of the property, and both the purchaser and the HA may borrow against the value of the property. Over time, the proportions that can be offered for sale, the rent chargeable on the rest of the property, the size and types of property and the eligible households have changed.

The main alternative to shared ownership is shared equity where again the principle is unchanged since the original programme was introduced in the late 1990s, i.e. the purchaser buys a share of an existing dwelling with a conventional mortgage, and is enabled to provide 100 percent of the value of the property as collateral; the equity mortgage is delivered through the HA with government support, initially at zero interest. There have, however, been far more changes in the detail, and the name, of the different schemes in this category as compared to shared ownership.

Last year the government announced HomeBuy Direct. This is initially aimed at helping developers clear their backlog of unsold properties on a shared equity basis. There are up to 10,000 mortgages available, offering 30 percent equity mortgages for first time buyers funded by the HCA and the developer. The scheme directly competes with shared ownership because the properties are on similar, or even the same, estates and the first time buyers go through the same agents.

Private developers are currently offering a wide range of LCHO schemes, mainly to offload their completed or near completed properties which they are not able to sell on the open market.

Recession
A severe downturn in the UK economy is generally thought now unavoidable and the recession in the UK is expected to be "painful and prolonged" (British Chambers of Commerce, November, 2008). Unemployment has risen and is likely to rise further over 2009. Data are not available to effectively analyse whether rising unemployment affects potential LCHO purchasers disproportionately. The retail sector has been badly hit with falls in consumer spending. A number of companies have been placed into administration. New

car sales in November fell 36.8 percent year on year. The value of sterling has fallen. The economy shrank for the first time in 16 years between July and September 2008. The Bank of England said the UK has probably entered a recession in the middle of 2008 and is likely to continue to contract well into 2009. In January 2009, the Bank of England cut interest rates to 1.5 percent, their lowest level since the bank was set up in 1694. Not all lenders passed the cut on in full to standard variable rate mortgages, although often they are simply applying contractual terms correctly and are less willing to waive their rights under mortgage agreements.

Falling house prices
The October Land Registry House Price Index[2] data show a continued decline in annual house prices, with a movement of -10.1 percent. This marks the fourteenth consecutive month where annual price change has decreased in England and Wales. The monthly change stands at -1.5 percent and the average house in England and Wales is now worth £165,529. Prices are now at a similar level to what they were during the summer of 2006. Sales volumes in England and Wales remain low. The November Land Registry House Price Index data showed a continued decline in annual house price change, falling by 12.2 percent.

Sales volumes
Land Registry data also show that in the months May 2008 to August 2008, transaction volumes averaged 54,488 transactions per month. This is a decrease from the same period last year, when sales volumes averaged 118,165. The pattern of reduced transactions in London continues to mirror the rest of the country. Price index volatility is greater in areas where recorded sales volumes are low. Index volatility leads to erratic and high changes in reported price.

Key regional observations
Land Registry data show that every region in England and Wales experienced a decrease in their average property values over the last 12 months.

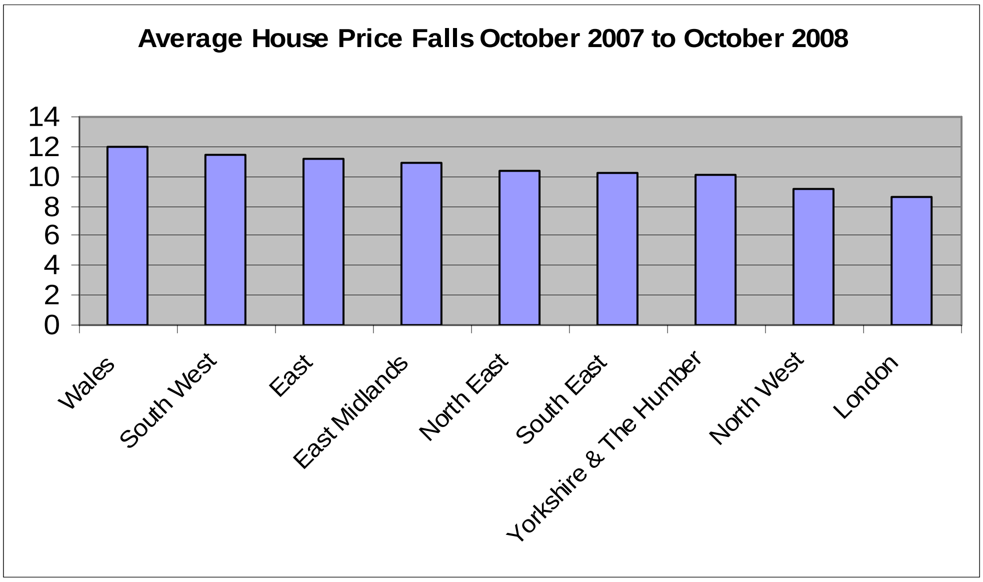
The region with the most significant annual price fall was Wales with a movement of -12 percent. The West Midlands experienced the smallest monthly fall with a movement of -0.6 percent. Wales was the region with the most significant monthly price fall with a movement of -2.8 percent.

[2] The Land Registry House Price Index (HPI) captures changes in the value of residential properties. The HPI is published by Land Registry using sales data collected on all residential housing transactions, whether for cash or with a mortgage, in England and Wales since January 1995. Seasonally adjusted House Price Index (HPI) with base period of January 1995=100. All average prices quoted represent standardised seasonally adjusted prices.
http://www1.landregistry.gov.uk/assets/library/documents/011208.pdf

Regional house price change

Region	Monthly change (percent)	Annual change (percent)	Average price (£)
West Midlands	-0.6	-9.3	£140,737
North West	-1.0	-9.2	£125,201
East Midlands	-1.3	-10.9	£131,329
East	-1.6	-11.2	£173,123
South East	-1.8	-10.2	£205,545
Yorkshire & The Humber	-1.8	-10.1	£131,210
London	-1.9	-8.6	£320,774
North East	-2.1	-10.4	£117,220
South West	-2.1	-11.5	£174,574
Wales	-2.8	-12.0	£125,569

London and the North West have experienced the smallest annual falls in average house prices. Wales and the South West have experienced the largest falls:



Key London borough observations
The borough with the highest annual price increase was Harrow, rising by 0.7 percent. The only borough not to experience a monthly price fall was Enfield with no movement. Waltham Forest experienced the lowest annual change, with a movement of -9.2 percent. Hackney, Lambeth and Lewisham all experienced movements of -3 percent, making them the boroughs with the greatest monthly price falls. All three boroughs have relatively good transport links to the City of London and Docklands, areas which have suffered from job losses in recent months.

The availability of mortgages
The value of new mortgages has fallen even further over the same period November 2007 to November 2008 - by 63 percent. The proportionate fall in the numbers of first time buyers has been somewhat smaller, at 57 percent, although the value decline has been similar to the average, at 63 percent. This is reflected in the decline in the average loan to value ratio from 90 percent to 82 percent. The income multiple has also declined from 3.35 to 3.07. The situation is not improving. The numbers of mortgages declined by 19 percent between October and November as the ‘cliff’ was reached.

Rising unemployment
Rising unemployment poses a threat to the economy because of the knock-on effects, such as home-buyers falling behind with their mortgages and shoppers reducing their spending on the High Street. The Office of National Statistics (ONS) released (12 November 2008) the latest set of employment statistics showing a continued deterioration of labour market conditions including rising unemployment, increased redundancies and falling levels of job vacancies.

According to this ONS data there has been a fall in both the number of people in employment and the employment rate. The number of unemployed people, the unemployment rate and the claimant count have all increased. The number of economically inactive people of working age has increased but the inactivity rate is unchanged. The number of job vacancies has fallen. Growth in average earnings excluding bonuses is unchanged but earnings growth including bonuses has fallen.

The employment rate for people of working age was 74.4 percent for the three months to September 2008, down 0.4 from the previous quarter and down 0.2 over the year. The number of people in total employment for the three months to September 2008 was 29.41 million, down 99,000 over the quarter but up 134,000 over the year. Although employment has fallen over the quarter, total hours worked increased by 0.9 million to reach 940.9 million. This reflects an increase in average hours worked per week.

The unemployment rate was 5.8 percent for the three months to September 2008, up 0.4 over the previous quarter and up 0.5 over the year[3]. The number of unemployed people increased by 140,000 over the quarter and by 182,000 over the year, to reach 1.82 million. The last time the number of unemployed people was higher was in the three months to December 1997 (when it was 1.87 million). The claimant count was 980,900 in October 2008, up 36,500 over the previous month and up 154,800 over the year[4]. The last time the claimant count was higher was in March 2001 (when it was 990,900).

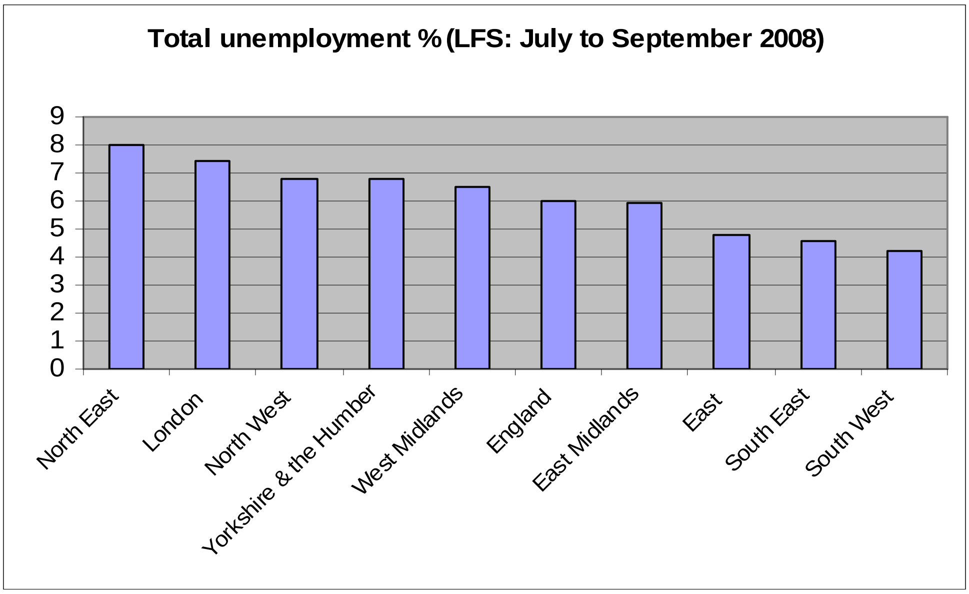
The redundancy level for the three months to September 2008 was 156,000, up 29,000 over the quarter and up 27,000 over the year.

There were 589,000 job vacancies in the three months to October 2008, down 40,000 over the previous quarter and down 83,000 over the year. The largest falls over the quarter occurred in distribution, hotels and restaurants (down 16,000) and finance and business services (down 10,000). The house building sector has been badly hit. Around 300,000 people work in the house building industry, with many thousands more in connected areas such as estate agents, solicitors and mortgage brokers. Many also work in related areas such as building supplies, delivery, equipment hire etc.

[3] Official estimates of unemployment are produced by the Office of National Statistics based upon the ILO (International Labour Organization) definition. Unemployment is a count of jobless people who want to work, are available to work, and are actively seeking employment. Unemployment is calculated using data from the Labour Force Survey (LFS), so it is subject to sampling differences.

[4] The claimant count measures only those people who are claiming unemployment-related benefits (Jobseeker's Allowance). It is always the lower measure because some unemployed people are not entitled to claim benefits, or choose not to do so. The claimant count comes from the administrative records of Jobcentre Plus (formerly Employment Service), and is available earlier than the LFS-based unemployment data.

Although unemployment has risen in every region, there are differences in unemployment rates. They were highest in the North East and London and lowest in the South West and South East (ONS, Labour Force Survey, July to September 2008).



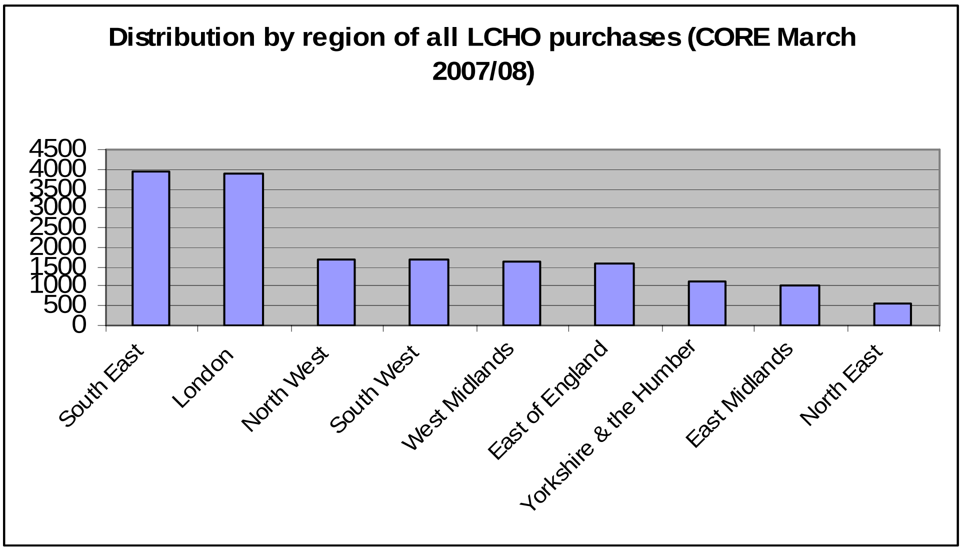
Unemployment in Yorkshire increased by 13.2 percent between July and September; the region has suffered the biggest unemployment increase in England. There are now 180,000 people out of work in Yorkshire and the Humber, an increase of 21,000 since July, leaving some 6.8 percent of the workforce unemployed. The West Midlands recorded the smallest unemployment increase in England, increasing by 1.7 percent between July and September. There are now 170,000 people out of work in the region an increase of 3,000 since July, with 6.5 percent of the workforce unemployed. Unemployment in the North East increased by 7.5 percent between July and September. The rise now leaves 100,000 people out of work in the region, an increase of 7,000 since July, with an unemployment rate of eight percent.

The official House of Commons Library statistics also show the stark difference between unemployment levels in August 2007 and 12 months later. The data show that there were a total of 105 constituencies nationally that saw unemployment rise by more than a fifth. The Birmingham Ladywood constituency with an overall jobless rate of 19.3 percent is the worst affected in the country. However, the largest percentage rises in unemployment are not in urban centres. For example, Westbury saw an increase of 41.2 percent, Salisbury 35.2 percent, Somerton & Frome 35.1 percent, North Dorset 34.8 percent and Mid Dorset and North Poole 32.8 percent. These were all in the highest 20 rises, related to localised job losses.

Repossessions
The Council of Mortgage Lenders (CML) has estimated that the number of homes being repossessed will rise sharply to 75,000 in 2009. That would be almost as many as during the peak of the last recession in 1991. The CML believed that repossessions would hit 45,000 in 2008. The problem is growing throughout the banking industry as the economy heads towards recession and more people are made unemployed. The number of repossessions jumped by 12 percent in the third quarter of 2008, according to figures from the CML, with 11,300 homes taken back in that period. That brought the total for the first three quarters of 2008 to 30,200, higher than the 26,200 for the whole of 2007 and much higher than the figure of just 8,200 in 2004. With 168,000 borrowers already behind with their repayments the number of home seizures is likely to grow further over 2009.

5. Regional LCHO Markets

LCHO sales
There were 17,131 LCHO purchases reported in the Continuous Recording (CORE) sales log in England during 2007/08, an increase of just over 500 sales during the same period in 2006/07. London and the South East saw the greatest number purchased with 3,971 and 3,949 respectively, showing a increases from the same time last year (of 627 and 134 respectively) The North East and North West showed the greatest decline in sales, a drop of 269 sales in the North East and 132 in the North West.



1) London
The majority of HAs that participated in the research offer shared ownership/shared equity products across many of the London Boroughs:

> We have mixed tenure schemes, private sale, shared ownership, social rented, and we try to build the majority of units near to good transport links, either the underground or over ground railways. (HA 4)

All the London HAs said that they predominantly were offering one and two bed apartments.

Three out of the five London HAs said they had seen a fall in enquiries for LCHO units. However, HAs suggested that this means that there is more likelihood of those applying for LCHO being accepted. Because of the tightening in lending by mortgage providers, only LCHO applicants with higher incomes and/or larger deposits are able to access mortgage finance:

> We have a lower amount of enquiries; however this is a quality trade off. At our peak we had lots of enquiries but many of the people didn't have a hope in hell, they just couldn't afford it. Now we have reduced enquiries but more people who are eligible and able to buy. (HA 5)

The progression from enquiries to reservations and subsequently to sales has slowed down and the process now takes longer than before. Lower transaction levels overall may mean that chain difficulties are less likely, given these extended timescales. It is taking LCHO purchasers longer than before to arrange a mortgage:

> Rather than taking five or six weeks to secure a mortgage it is taking two or three times as long. (HA 6)

A variety of reasons were given for the slowdown in the progression from enquiry to purchase, including the increased length of mortgage applications and more choice of properties available to select from:

> Once they have reserved it is taking longer because mortgage applications are taking longer. (HA 5)

> People are taking longer to commit there is so much choice out there. They view three or four times instead of once or twice and they negotiate...purchasers are more lax, they now have a lot more control of the market. (HA 3)

There has been a slowdown in the rate of sales:

> We are still selling, but we have lowered our expectations. We used to sell one or two a week on a scheme a year ago whereas now we sell about two a month. It really varies week to week. (HA 2)

Studio apartments are selling particularly slowly since the downturn, with one developer saying they would no longer develop studio apartments because of falling demand. Within London it is the characteristics of particular locations and of individual that determines where properties will sell and where sales will be much slower. In this market, LCHO purchasers are able to be more discerning about local area characteristics when choosing a property:

> It very much depends on the area – Kensington and Chelsea and West Camden for example are selling extremely well, people want to live there and will reserve and buy. However in Romford we have a nice block of flats that are doing nothing even though they are reasonably priced. We work in terms of micro markets – it is about specific schemes so we shouldn't really generalise but London has some better locations: Ealing is better than Havering and Westminster for example is standing up really well – it is a location issue really. (HA 5)

> A scheme in Hackney sold well near a regeneration area, you have to take in the local factor. People want good schools, transport links etc and a place without stigma. We have a scheme in Croydon meeting green eco standards but it was in the wrong location so is difficult to market and sell. (HA 6)

The location of LCHO units also affects prices and property valuations differently across the London boroughs. These differences occur at a very local scale:

> Varies across London. In one borough – Wandsworth – one development dropped by 18.5 percent in a year but just a mile away in the same borough prices have increased by two percent, so it is very localised, down to post code level. (HA 4)

Government target purchaser groups have not changed and HAs reported that there have not been radical changes in the profile of applicants within the eligible group for LCHO. Keyworkers, first time buyers and those earning less than £60,000 are still targeted by HAs as prospective purchasers, although help from friends and family has increased:

> There are less single occupation purchasers. Early evidence shows that friends are getting together to buy, rather than just those with partners. (HA 5)

> £34,000 is the average salary and £11,000 average savings. There are two lenders offering 100 percent mortgages – [but their] interest rate is over eight percent. More of our clients are taking 95 percent mortgage and with LCHO people might not have a five or ten percent deposit and rely on their family to help. (HA 4)

Although there are still general affordability issues in London, the tightening of mortgage lending in particular has restricted the ability of less well-off households to access mortgage finance:

> Affordability has not changed; it is the lenders' criteria that have changed. (HA 3)

People on lower incomes within the group eligible for LCHO are now finding it more difficult to purchase a property, mainly because lending criteria have been tightened:

> People on the lower end of income, so £20-25k, we used to help a lot more than now. That income group is being priced out both by the high values and lenders are reluctant to lend to this income bracket. But LCHO is attracting people who would not have looked into it before, those on a higher salary £45k – just under £60k – this group are replacing some, but not all, buyers priced out at the bottom. (HA 4)

LCHO purchasers may now be households with slightly higher incomes than before the downturn, but the tranche sales (the percentage of the property bought) have gone down. The average tranche sale for those purchasing in London was around 40 percent, but three HAs have seen a decrease in recent months:

> It used to be an average of 40 percent but now it is 25 percent. The problem is people don't want to commit to large proportions. (HA 3)

> On new builds the percentage has gone down from an average of 35-37 percent to 30 percent. (HA 6)

> The percentage has reduced. Before we had a property and tried to fit the person to it. So if we wanted to sell 40 percent we would wait to find the right person. Now it is the other way round – we look at the person and sell on what they can offer. 25 percent is the minimum. (HA 2)

The reduction in the proportion purchased could be a risk averse response in the current economic climate, as the balance of risk is spread more to the HA if the purchaser acquires a smaller share. It could also be due to the tightening in mortgage lending, as purchases may not be able to borrow as much as before the downturn and so have to purchase smaller average initial equity shares.

Lowering the tranche sales reduces income for the HA which in turn has the potential to impact upon the future business of the HA. On the other hand, by reducing the percentage sold the HA is still able to offer a product which in turn will stop the LCHO market becoming stagnant.

Summary

The type of unit is important; studio apartments are particularly difficult to sell since the downturn. The location of the units is a key factor in how successfully they are selling. In desirable areas such as Kensington and Chelsea units are selling well, but in other areas such as Romford sales are more difficult to secure.

The general location and particular local area and scheme characteristics of the LCHO units on sale determine the rate of sale. Schemes can be in the same borough but one may be selling much more slowly than the other. Purchasers are now able to be more discerning when choosing a property as there are more to choose from. They are familiar with the local areas and know which are the most desirable locations and developments. These differences may have been hidden in a buoyant market but purchasers can now exercise greater choice. Similarly, the degree to which property prices have fallen and been down valued by mortgage providers is variable, probably for similar reasons as some areas and developments become less popular than others now there is more choice in the market. It is worth noting that a lot of providers are active in the outer London boroughs, which have large and diverse markets.

LCHO units are selling but at a reduced rate. Purchasers are taking longer to complete than before the downturn. Affordability remains an issue for purchasers in London. However, the ability to secure a mortgage is viewed as the main constraint for buying into LCHO at the present time.

The characteristics of LCHO purchasers are changing. Those at the bottom end of the eligible income bracket are now struggling to purchase LCHO properties due to the tightening of mortgage finance availability. There has been an increase in purchasers with higher incomes.

2) East of England

Two of the HAs interviewed sell LCHO products in the East of England, one of which also operates in the London Commuter Belt. Both housing associations mainly operate in urban areas although both do provide LCHO in a few rural locations. Both offer houses (two to three bed) and one offers flats for sale within the East region. Both housing associations offer shared ownership, New Build HomeBuy and shared equity products.

Affordability pressures differ considerably within the East of England region with areas such as Cambridge and St Albans experiencing high affordability pressure and areas such as Luton and parts of Northamptonshire experiencing lower affordability pressure. Demand for LCHO varied locally, remaining stronger in the growth areas e.g. Cambridge but falling outside the growth areas where affordability pressures have not been so intense:

> Demand for LCHO has decreased in North Cambridgeshire and Kettering but remained steady in Cambridge and Northampton (including flats) even though the marketing the HA did was the same for all areas. (HA 1)

This could be due to the higher average incomes in parts of the region such as the growth areas, enabling households to still access mortgage finance for LCHO, whilst households in areas with lower average incomes are finding it more difficult to afford deposits and access mortgage finance.

Interest from potential purchasers has generally remained stronger for houses than for apartments, although there is still demand for flats in the growth areas and the London Commuter Belt:

> In Hertfordshire and Bedfordshire they generally want two bed starter homes – people in these areas generally go for a house, they want to get on the property ladder and own their own home...In some areas we get no response for flats (Bedfordshire and the north of the region), there is just less interest in flats. In the south of the region people are willing to look at flats. The key is that properties have to be the right price, properties are constantly getting re-valued and things change

> very quickly. We have just heard that one HA has properties that have gone down by 115k, but this is the worst we have heard of. (HA 2)

The region has not seen a huge decline in sales but the time it takes to secure a sale has increased as potential purchasers struggle to arrange mortgage finance:

> We are very busy. Those people that saw themselves as borderline for shared ownership before are now showing a strong interest – they still want to buy. However, they wait longer to make a decision, and the deposit is an issue. They are worried about a downturn because of the uncertainty. We are still selling but sometimes we 'sell' a property four times until someone is offered a mortgage so we are seeing much longer void times. (HA 2)

> We are still selling but there are problems with mortgages, people are nervous to commit so we need to do a certain amount of hand holding to get them there – it is difficult. (HA 1)

Property prices are falling, but this is not uniform and varies at a local scale. The proportion to which property prices are being reduced by HAs and the proportion to which property values are being reduced by mortgage providers varies not only on a scheme by scheme basis, but between similar units:

> Prices are falling everywhere, some developments are holding up and others are not. We re-value every three months and drop prices accordingly, we pre-empt down valuations. (HA 1)

> They are holding up in Hertfordshire compared to Bedfordshire. If you get the price right you are less likely to get a down valuation. Sometimes you have properties valued differently that are exactly the same and next door to each other. Within a week a flat can fall from 150k to 135k. (HA 2)

Both housing associations have noticed a change in the characteristics of their potential purchasers. It appears that the tightening in mortgage lending has encouraged some households to consider LCHO whereas before the downturn they may have been able to access sufficient finance to purchase on the open market:

> There are a new group of people because who can't get 100 percent mortgages anymore. We have found increased demand. (HA 1)

One HA has seen prospective purchasers emerging due to the various consequences of the credit crunch and economic climate, including relationship breakdown:

> It has always been first time buyers but we are now dealing with more relationship breakdown. We also see people trying to manage debt by selling their home. (HA 2)

Both housing associations have lowered their first tranche proportions of equity sold in order to attract purchasers:

> We adjusted down to 30 percent, this is dropping. We traditionally marketed at a 50 percent share and we still expect between 30 percent and 60 percent. What we have found is that marketing at 30 percent has increased demand, so really we are introducing a new group of people into the market. (HA 1)

Summary
Both the type of unit and the location affect how well LCHO sales are doing in the East. In parts of the region outside the growth areas and the London Commuter Belt, such as North Cambridgeshire, sales are more difficult to secure. Demand for houses in most areas remains strong. Flats are more difficult to sell in some areas such as Bedfordshire and the north of the region, but are still selling in the London Commuter Belt and the growth areas such as Cambridge.

The rate of LCHO enquiries and reservations has not been particularly affected in the East. However, sales are taking longer to complete because of the difficulty purchasers face in securing a mortgage. Tranche sales have been lowered to enable customers to purchase LCHO more easily.

Property prices are falling but the degree to which they are falling varies across the region, again driven by the demand for particular units in desirable locations.

3) The Midlands

Four housing associations interviewed for this project offer LCHO in the Midlands, although one also operates in London and another in the South West. Between the four HAs most areas of the Midlands are covered in terms of where LCHO is offered and all types of LCHO are available from shared ownership to Open Market HomeBuy. The sizes of schemes vary and both houses and flats are offered, although flats dominate. Two HAs said they would soon be offering Try Before You Buy and Rent to HomeBuy:

> With Try Before You Buy the customer has to be eligible for shared ownership but they may be nervous about mortgages so they can afford it but are holding back. We offer a short shorthold tenancy for 3 years – they rent during this time at an intermediate rent (20 percent) below market rent and they must agree to start saving for a deposit. They must show us proof of savings for a three year period. They have to show commitment but they don't have to buy at the end of the three years. We have worked out that this is the same affordability as Barratts offering 75 percent share with no rent to be paid on the remaining 25 percent. (HA 7)

Enquiries and reservations in the Midlands remain buoyant, proving interest in the LCHO market is still high, however these do not necessarily lead to sales as households are struggling to access mortgage finance:

> Enquiries are high, but there is a drop out rate from those that can't get mortgages. (HA 6)

> Houses are selling but the mortgage market makes it difficult. If you have even slight poor credit, such as missing a credit card or telephone payment you won't get a mortgage. (HA 7)

HAs cannot account for all the fluctuations in enquiries:

> Enquiries have increased in the past two weeks, before that it was very quiet. I don't know why this has happened. If you listen to the media you wouldn't want to walk through the door. (HA 8)

Flats are the most difficult type of LCHO unit to sell in the Midlands; with all HAs saying that flats in urban areas are the most problematic. Birmingham, Leicester and Nottinghamshire were specifically mentioned as being difficult places to sell flats, whereas houses were seemingly still popular. It was reported that urban properties in the Midlands were already experiencing a decline in sales before the recent economic problems:

> Midlands town centres have seen a sharp decline but this started happening 18 months ago. We have changed the tenure to rented on some schemes. Lots of developers are converting to affordable housing so it is difficult to predict what will happen. (HA 6)

In rural and coastal Lincolnshire, average salaries are relatively low but so are house prices. The HA interviewed has no apartments and houses are still selling in this area (HA 9). In Hereford and Worcestershire affordability is more problematic as the areas are agricultural and salaries are low, but house prices are relatively higher and here they are struggling to sell LCHO.

In terms of house prices, two HAs said that there have been price reductions on their units; another two said that the price of houses has not declined greatly. The price of apartments has fallen the most and there are differences across the region in where prices are falling most:

> There is a pattern forming. Apartments have come to a halt; we have 235 stock units at the moment. Properties are valued every three months and they are reducing in value, the West Midlands seeing the furthest reduction. In Walsall they have dropped by 18 percent in just under 12 months and we are actively marketing these apartments. We have nine, what we call ‘hotspot’ schemes, where we have marketed well but the response has been poor. (HA 7)

> Prices are falling more in Leicestershire and Nottinghamshire than in Lincolnshire. Lincolnshire prices were relatively low anyway so the fall is not as dramatic. In Leicester, Ilkeston, we have seen falls of £30k. (HA 9)

> Where the location is good the prices tend to hold. (HA 7)

The characteristics of the purchaser group has changed with the impact of the credit crunch, often affecting potential purchasers on the lower salary scales who are now unable to obtain credit or are less likely to have financial help from their family in acquiring a deposit:

> We used to see an average income of about 17k, but now this has changed to an average of 22k. (HA 7)

> Yes, you generally need a deposit so the group applying has broadened. People may be on a reasonable salary but still need some help. (HA 8)

> We are seeing moderate income buyers who are disenfranchising the lower income people. Moderate income buyers may well be able to get help from parents for a deposit. (HA 6)

The initial tranches sold have also decreased in response to the current economic climate:

> The percentage purchased is more open to negotiation. It tended to be 50 percent for shared ownership but now we are more tailored to individual need and a lot of RSLs are looking to drop to 25 percent depending on the value and the location. (HA 8)

> Tranche sales have fallen. The average in Leicester, Nottinghamshire and Derbyshire is now 31 percent, normally 44 percent; the average in Lincolnshire is 34 percent. For completions in October the average is 31 percent. Why? People don’t

want the full commitment, particularly with interest rates as they were, this could change as they come down. Staircasing has fallen dramatically. (HA 9)

Two housing associations have adjusted, or may have to adjust, their rents in response to recent financial pressures. However, one HA is reducing rents to ensure owners can still meet their payments, whilst another HA is considering raising rents to cover their own rising borrowing costs:

> Affordability has become more of an issue – we try to adjust rents and some are as low as one or 1.5 percent. This is with Housing Corporation agreement. (HA 7)

> Our rents may have to go up to cover our borrowing. (HA 6)

Summary
Apartments in urban centres in the Midlands are the most difficult units to sell in the region. Family houses for sale outside the cities are selling better. These urban areas have seen a lot of recent development, leading to many empty apartments that are now struggling to sell. Similarly, prices have fallen proportionately less in some areas of the Midlands, while in other areas, such as Leicester, they have fallen more.

Enquiries and reservations have remained relatively constant, although conversion to sales has declined because of the difficulties purchasers face in securing a mortgage. The average income of prospective purchases is higher than prior to the credit crunch and downturn. Tranche sales have been decreased to enable customers to purchase LCHO.

4) The North West

Three housing associations were interviewed from the North West with two covering the North West extensively whilst the other operates in Merseyside and Cheshire. Areas where LCHO is being marketed include Warrington, Greater Manchester, Inner Manchester, Leeds, Chester and Yorkshire. All HAs offer a mix of houses and apartments on various sized schemes and both shared ownership and shared equity are offered, with one HA planning to offer Rent to HomeBuy.

All housing associations in the North West said that enquiries and reservations have seen a significant drop since the credit crunch:

> Fine until April, then none, Six in August then none last month so difficult to predict a trend. (HA 11)

> In Feb 07 we were getting 154 serious enquires a month... September we got 85 so there has been a steady decline. Those affected are My Choice HomeBuy possibly because most of the New Build HomeBuy are in regeneration areas which still have a reputation. We have always had peaks and troughs but this is a trend rather than a blip. (HA 12)

As with other regions across the country, HAs in the North West reported that houses are more popular than apartments, with apartments much harder to sell:

> Houses doing better, apartments are a problem. Across the schemes Leeds is most stuck because so much growth has happened over the last ten years, there is a lot around. (HA 11)

> Houses are doing better and where apartments have sold they have been in smaller blocks, say three in a refurbished Victorian house rather than larger blocks. (HA 12)

Whilst all HAs in the North West reported a downturn, there were localised differences between schemes and HAs felt that the popularity of a scheme depends very much on local area characteristics:

> It depends on where properties are: local interest, local business and having no local fear of unemployment. It is very localised, very individual. Even where developments are very close together we see very different scenarios regarding enquiries. Even though schemes are less than half a mile apart, on a map they look the same place, but people who live there know they are not the same. People have a very localised idea about where they want to live. (HA 10)

Purchasers are making value judgements between apparently similar homes that HAs cannot always fully explain:

> We have seen reductions in reservations and the length of time to completion everywhere. It is across the board but the peaks and troughs we cannot explain. We do not know what is making some people be scared off in one place and buy in another. (HA 10)

There were mixed reports about falling LCHO house prices. One HA said they had made so few sales it was difficult to generalise, because where the sales had gone ahead the price had not fallen (operates in Warrington, Ternside, South Manchester and Leeds). Another said there was no clear difference (operates all over the North West), whilst a third said:

> Yes, realistically they are falling by about ten percent and the problem at the moment is that we are not selling very much. In the last quarter we only sold nine properties at their original asking price but stock we have now we would have to reduce the price but this is also difficult because of confidence factors. If we reduce values on new build it will cause a down valuation from the lender and we end up with a double discount affect, we are trying to hold our prices to avoid this and I'm not sure if we've hit the bottom yet. (HA 12)

Enquiries do not always lead to sales because of the difficulty prospective purchasers are facing with obtaining a mortgage and because uncertainty means people are waiting to see what happens in the market and wider economy:

> The interest is there but people report struggling to get a mortgage. However, in some cases we think this is an excuse, a way to put off the sales people as they have decided to wait before buying. We offer financial advice, help getting a mortgage, negotiate the deposit, offer to lend the deposit, but it is not tipping the balance and making people buy. For some it is a real reason and when we look more closely at their credit history we see why they are not getting a mortgage. (HA 10)

In terms of whether the characteristics of purchasers had changed over the past few months all HAs said that they had not noticed any real change, although within this acknowledged that there were perhaps more people applying because of relationship breakdown, which is said to increase in economic downturns and can add an additional pressure for LAs managing need:

> We expect an increase in single parents as people divorce and as families relocate due to unemployment, stresses and strains. We still get young singles and young families. There is no move to higher income groups. (HA 10)

> We've maybe seen an increase in terms of relationship breakdown and owner occupiers changing to LCHO – they have a bit of equity to use. We are still seeing some first time buyers but the motive now seems to be housing need rather than housing dreams of owning your own home. (HA 12)

In terms of tranche sales, two HAs said that they were offering slightly lower initial percentage share whilst the other said there had been no difference.

Two lenders providing mortgages for LCHO interviewed for the research felt that the North had been worse hit by the downturn than some parts of the country such as London:

> The North has just about stopped; December saw only a few transactions. HAs are feeling the pinch with down valuations and purchasers are waiting because they could buy a property cheaper if they wait three months. (Lender)

> We are still lending. In terms of sales activity London and Greater London are still selling but smaller volumes, in the Midlands and the North less so. First time buyers need to go away and save for a deposit and culturally this is a shock with banks like Northern Rock that gave 100 percent and 124 percent mortgages. (Lender)

Summary
The type of unit affects how well the LCHO properties sell. Apartments are more difficult to sell in most areas; houses are selling better. Some areas have seen rapid recent development of apartments and there is now an oversupply in some areas in the North West. The location of units is also important, very local level factors determine which developments are selling better as purchasers are familiar with very local area characteristics and can now be more discerning about where they choose to purchase in what is now a 'buyer's market'.

All but one HAs with the reported falling property prices, but as sales are so diminished it was difficult for HAs in the North West to judge the degree to which prices are falling. Enquiries, reservations and sales have all seen a significant fall. Prospective purchasers have difficulties in securing mortgages. Two of the three HAs have lowered tranche sales to encourage LCHO purchasers. The income of applicants for LCHO has not increased but HAs suggested there were more people applying because of relationship breakdown.

It appears that the North West region has seen the biggest impact on sales of all the regions examined during this study.

5) The South West

Two HAs who offer LCHO were interviewed from the South West, one covering Devon and Cornwall and one covering much of the South West from Gloucester, Poole to the Devon border and Somerset. Both offer 2 and 3 bedroom houses and flats in urban areas. Both offer New Build HomeBuy and one offers Open Market HomeBuy. LCHO is offered in both urban and rural areas.

The HAs said that enquiries had remained buoyant but that reservations had declined.

Both housing associations reported that house prices were falling more in certain areas than others:

> We do our own revaluations every three months. We have not had down valuations on new build in Bristol or North Somerset but general reductions are between six and nine percent. (HA 14)

Both reported that sales were slowing and as one HA commented:

> When we do get a sale we will have had to talk to three or four applicants to get to the same sales rate. (HA 14)

One HA reported that the income of the purchasers was now higher. One HA has lowered the percentage of rent payable to make the housing more affordable whilst the other has lowered the percentage share:

> Average first tranche is 37 percent on New Build HomeBuy – this is about the same as last year. We have decided not to go below 30 percent, this is lender driven they don't want a bigger risk. We help by making the rent part affordable by adjusting the rent figures to between 1.75 percent to two percent - we have to take the longer term view. (HA 13)
>
> There is pressure on equity share. We are trying to make them lower and we need to try to re-model to fit. Units that were 75 percent have now been reworked to 50 percent and similarly others have gone down from 40 percent to 35 percent. (HA 14)

Summary
Sales are harder to achieve than before the downturn. Larger down valuations have occurred on some properties than others, depending on their location. One HA has lowered tranche sales; the other has reduced the percentage of rent payable to make the product more affordable. The income of purchasers has increased slightly.

Conclusions: regional variations in LCHO markets

All the evidence on variation in LCHO must be read against the background of a much reduced national market where transactions overall have more than halved and house prices are falling everywhere. In this context, households are both more risk averse and face higher constraints due to restrictions on mortgage lending, even though affordability on government measures may be falling as house prices decrease. Those who are in the potential market have a range of options – including in particular not going ahead with a purchase at this time. The variations in LCHO sales thus relate to both the national and local economic conditions and to views about long term value as much as to aspects of the mortgage market. In its own terms the mortgage market remains national – what has changed is the estimates of the relevant parameters and attitude to risk, causing lenders to be more cautious.

Across the regions, LCHO sales activity is higher in the South East, London and the East of England. In the North and Midlands, markets, which were anyway more difficult, have experienced more of a slow down

Within the regions, some localities have seen less of a decline in sales. Broadly, Central and East London are doing better than West London; the East of England growth areas are doing better than the north of the region and the lower value areas such as Bedfordshire. The Midlands and the North West urban centre apartments are worst affected but sales vary at a local scale.

The location of units is very important in influencing how well they sell. This varies at a very local level. Similar developments that are close together are experiencing very different sales rates. Local buyers are familiar with local area characteristics and are now more discerning about the location they wish to purchase in than perhaps previously in a buoyant market.

Flats are generally more difficult to sell than houses. In parts of London, the London Commuter Belt and the growth areas of the East of England, where the markets were still relatively strong, flats are still being sold.

The reductions in house prices by HAs and down valuations by mortgage providers are determined by location and property type. Flats are worst affected. There are variations in the extent of down valuations at a very local level. Even identical properties on the same development can be down valued by quite different amounts by different mortgage providers. This reflects both timing and the great uncertainty that characterises the current market.

The ability to secure a mortgage is the greatest constraint faced by prospective LCHO purchasers. Rising unemployment is a concern to both lenders and borrowers and may affect local housing markets in particular localities suffering a concentration of job losses.

HAs are selling smaller initial tranches in response to the downturn and report that households with higher incomes are now purchasing LCHO as tightened mortgage lending inhibits the access of those on lower incomes to LCHO.

6. Competition with Private Developer Schemes

The downturn in the housing market and recession impacted severely upon developers. The major housebuilders have experienced significant sales declines, falls in profit and considerable job losses. As the market slowed, developers began to offer potential purchasers the opportunity to buy a share of a new property entering into ownership but not outright ownership. Many developers quickly began to advertise these shared equity schemes. The original study with HAs conducted for the Housing Corporation in May/June 2008 suggested that HAs were facing increased competition from these developer schemes. This new study sought to examine these developer schemes and to explore the degree of competition between HAs and developer shared equity schemes.

HAs were unanimous in saying that competition for buyers has increased. With falling house prices leading to uncertainty over future property values, tightening of lending conditions and the impact of recession and rising unemployment, there are fewer potential buyers in the market. But HAs and developers still have stock from recent pipelines to sell. With lots of unsold newbuild stock and fewer potential buyers, there is inevitably more competition to secure sales. Now developers are increasingly offering their own shared equity schemes, potential purchasers looking to purchase a property, but not outright, can in theory choose between HA products and the developer products.

Many HAs said that there was more competition to secure sales because of the developer schemes.

> We are suddenly competing with the private sector and they are now using the same language as us. (HA 12)

The study explored the nature of this competition and differences between HAs and the developer schemes.

Private developer shared equity schemes

Developers explained how the shared equity schemes they are now offering work. All house builders interviewed are offering shared equity with a 75 /25 percent spilt. The 25 percent is most usually required to be repaid before ten years, with no charge on it. One developer in the North is offering an equity split of 80/20 on a limited number of houses and one developer in the South is planning to reduce the equity to 15 percent. One national developer also offers an 85/15 split on selected plots and sites. One scheme charges no interest for five years, then a nominal interest until the ten years when full repayment is required.

The developers are offering the schemes in most areas of operation. The schemes are not available on all properties. They are more likely to be offered on apartments than houses. Developers target these schemes on the particular stock which they want to shift quicker; or the particular areas where they think these schemes will work best. One developer reported that the scheme has been very successful in the South and will be reduced as it has had such a good uptake but that the same schemes were not successful in the North. Availability can be limited as the schemes are very costly for developers to offer:

> There is a shared risk with this product to the company with our secure percentage share but if values decrease our shares will decrease. We have to defer for cash for 10 years and added to that our administration is not set up to provide these offers – it decreases our cash take. Our schemes have been incredibly successful but we do need to balance that with the financial constraints. (Developer 1)

The schemes are regarded as a way in which stock may be sold in a difficult market.

Developer objectives
Developers have struggled since the downturn. Sales dropped off severely so developers needed an alternative to outright ownership in order to entice buyers. The schemes are a short term solution to ensure cash flows and to shift stock.

All developers described the current situation as dire. Some doubted whether they would survive over the medium to long term. Developers interviewed for the research said that they have halted new development and have been hard hit by the downturn, losing share price value and needing to make large staff cuts:

> We are going through a redundancy process again; this is the major impact on us. We will operate with a skeleton staff until the market improves. (Developer 2)

The developers interviewed said that apartments are more difficult to sell than houses:

> Apartments are a dead duck. Two and three bed houses are still doing well, but apartments have died a death. (Developer 5)

This may also be partly to do with drying up of the corporate market. It seems likely that multinationals are no longer bulk-purchasing flats for short term use by senior staff. That was once a market factor, in some parts of London, for example.

Developers report that they are reducing prices on all properties due to surveyors down-valuing properties, with apartments being worst affected:

> Properties have seen a 20 percent reduction as a ball park figure; this has been more significant with apartments – up to 25 percent decrease on apartments and five to ten percent on houses in some areas. (Developer 1)
>
> 40 percent down because 40 percent less completions. And cancellations were as high as 35 percent earlier in the year. (Developer 4)

As a result of these considerable difficulties, developers needed to look for solutions. Offering new properties on a shared equity basis is one such solution. Developers hope to entice potential buyers with a new build property that they can own a share of now and move to full ownership when they can afford to.

Developers see the schemes as generally beneficial for sales and for generating much-needed cash:

> They are the cornerstone at the moment. They are helping our turnover of cash at the moment, not our profit. (Developer 2)
>
> In the short term it gets cash in which it otherwise might not have done but they need to look at the cash. It is a balance strike between money in, the customer and cash flow to the business and then you need to look at longer term capital, so shared equity is attractive because it means they have money coming in. (HBF)

The time period over which developers expect to offer the products varies although most developers said that the schemes would be short term only. Some have limited availability of properties on a shared equity basis due to the costs of the schemes. Some developers are already ending the schemes whilst some schemes are planned to run for over two years, or until the market picks up. Only one developer suggested they would be offered permanently.

Some developers also have historic experience of offering their own shared ownership schemes but they are in the minority.

> They will always be there, a permanent change and will remain a full part of what we offer. Really it has caused a sea change, developers have to get involved and stay there. (Developer 6)

Developer success

Developers reported some success in selling properties. Through their shared equity schemes they were meeting the objectives of generating cash through short term sales which helped to shift empty stock with falling market values.

Many reported that sales through the schemes are an important part of current business since the downturn:

> The results for our own shared equity schemes are mixed. Some are doing well, as in Stoke where there were major affordability problems before with very low incomes of around £15k. It is the same in St Helens. Others are not doing so good where earnings are higher as in Greater Manchester. Here FTBs are happy to rent, they prefer to wait and buy outright. Where the affordability gap was the largest, shared equity is doing the best. Outright sale has gone and is now very limited. We are only really doing part exchange of houses, FTBI and shared equity. This is keeping us going at the moment. (Developer 2)

> At the moment they make up 90 percent of our sales so it is very significant. Because of our combination of encouraging people into the market and our marketing strategy they have been very successful. (Developer 1)

> We will sell 10,000 homes this year and between ten percent and 20 percent of those will be LCHO. We could do more if we had more funds to do it, but we don't have the capital to support it further. (Developer 6)

> In August we did very well. One of our sites would have usually had six to eight reservations but in August we did 26, this was all because of our shared equity scheme. (Developer 1)

> Very successful in East London, we have shifted most units and Chelmsford has proved very popular – really all the London suburbs have done well. (Developer 1)

> Take-up has been reasonable and varies from site to site. In the current market conditions, our LCHO product is better than the 100 percent sales for first time buyers. (Developer 7)

Developer shared equity schemes appear to have been more successful in the South; they are less successful in the North:

> In England we have 400 sites. I suppose the North is doing less well then probably the Midlands and then the South – the South is easier. I suppose if I had to say then the North is tougher than the Midlands. I suppose the black spots are Birmingham, Nottingham and Leeds and the apartments there. We are far less exposed than our counterparts. Land and planning policy drove on development so in the West Midlands for example there are a shed load of apartments – this is just one of many inner cities facing that problem. (Developer 6)

Long term support versus short term sales

It was clear that the aim of developers was to secure sales in the short term. However, HAs had a more long term view of LCHO.

HAs had some concerns about the private developer schemes. They felt that whereas it is in the best interest of an HA to ensure that a purchaser can afford the product over the longer term; developers did not have such considerations. Some HAs felt that a number of purchasers of the developer shared equity products may struggle to repay the 25 percent equity after the ten year period and that some schemes were confusing:

> They will be problematic in the future. In ten years we can assume that prices will have risen, someone will need to find £25-35,000 to settle the finance and this will cause problems for some people. They will need to remortgage or move. These are not sympathetic schemes. People do not necessarily understand what it means for the future. (HA 11)

A developer in the North also said that lenders were concerned about the ability of purchasers to repay within the ten years:

> The ten years is causing problems with lenders as they are concerned about repayment, so we are looking to extend the mortgages. Lenders are very reluctant to lend on these schemes as they see them as too risky. (Developer 2)

One developer in the South said that they did not expect purchasers to have problems once repayment was due, but that they had included a hardship clause just in case (a hardship clause written into contracts means that if the purchaser cannot afford to pay back the loan, the developer will consider extending the repayment period for up to a further five years):

> Ten years – we expect that during this time they can staircase by 20 percent tranches. We do have a five year hardship clause, if the customer cannot manage to buy outright within the ten years. (Developer 1)

Most HAs felt that they can compete successfully with the private developer products because their products are better, they are more trusted, offer a better service and have a longer term interest in purchasers:

> New Build HomeBuy is a better product than what they are offering – we can distinguish that. HAs are more trusted and have a better reputation and we can make a lot on this. We have been doing LCHO for 30 years and private developers have not. They don't care what happens to the customer once they have made the sale but we continue the relationship with the customers as they buy more of a percentage or sell on. We also offer flexible tenure on all our leases. This is where we can purchase back a share and turn the property back to social rented if need be. We don't do it a lot but it is an option –just handfuls really. Everyone who applies for this is sent to an independent debt councillor and they write us a report with recommendations. (HA 4)
>
> Often our product is better and we offer a bigger a property that is more energy efficient and we can give people more reassurance in terms of looking after snagging, etc once the sale has gone through. We are more motivated to get our after sales right. The RSL is no longer stigmatised, it is not for profit and there is government involvement, this is becoming the norm. We don't do the same volume of house sales so really we are competing with a machine. (HA 12)

Incentives to encourage sales
All HAs and developers participating in the research were offering some form of additional incentive to encourage sales of properties being marketed on a shared equity or shared ownership basis. The type of incentives being offered are similar for HAs and developers but HAs said that developers were offering more incentives as they are desperate for sales.

One developer in the South said that their shared equity schemes have been very popular and that they were not offering any further incentives, but all other developers reported offering various incentives to encourage sales. These include white goods, legal fees and surveys paid:

> Various incentives; carpets, white goods are standard but we will add a washing machine, dishwasher, wardrobes, whatever people want and what it takes. (Developer 2)

HAs said that they were being flexible in the incentives offered and they varied on a scheme by scheme basis. HAs said that they had to offer more incentives to encourage buyers and to compete with developers. HAs said that the value of the incentives offered were relatively small in comparison to the incentives offered by private developers:

> We have always given white goods but we do offer to pay legal fees, mortgage arrangement fees and cash back, however these are not huge amounts. It is driven by desperate mainstream developers. We would struggle if we didn't offer any incentives. (HA 5)

Many HAs commented on the CML Disclosure of Incentives form, describing some inhibition on offering incentives as these have to be disclosed. For example:

> We are offering a lot less than others because we want the offer to be on price. Also from the 1st Sept we have to complete a Disclosure of Incentives form. Some suppliers offer goods up to £15k. But house builders want to keep the value of their stock up and incentives are not shown on Land Registry files. Basically if a developer is offering £15k this comes off the mortgage offer because the house must be worth £15k less than advertised as mortgage lenders readjust the valuations. (HA 6)

> We are offering incentives, whatever we can, carpets and curtains etc, cash back, deposit paid. We have to declare them on the CML form to the valuer but it hasn't stopped us offering them, but may impact on how much they can borrow. (HA 10)

Developers also mentioned the CML Disclosure of Incentives with regards to offering incentives:

> The most popular is the payment of stamp duty and legal costs. Increasingly white goods and carpets are standard. We are affected by the CML rule on incentives and also increasingly the mortgage provider won't accept the house builder paying the deposit. They have the feeling that if someone has paid something then they are likely to be more committed. (Developer 3)

The main concerns HAs had were that developers can offer more incentives and have more flexibility in what they offer.

HA and developer target purchaser groups
The study explored whether HAs and developers offering shared equity products were competing for the same potential purchasers.

The households eligible for HA LCHO are set by the government and have not changed:

> That is set by government: people on less than £60k [‘households’ on less than £60k who otherwise cannot afford to purchase on the open market unassisted], public sector tenants, Keyworkers and those that are private renting. (HA 6)

However, there are some changes to the group now purchasing LCHO. Some HAs reported that people on lower incomes in the eligible group can now no longer afford LCHO and instead it is being purchased by households with higher incomes. The tightening of lending criteria and need for a larger deposit have made it more difficult for those on lower incomes eligible for LCHO to actually purchase. Those eligible and on higher incomes may now struggle to purchase outright as lending criteria tighten, leading to more of the LCHO purchases being made by those on higher incomes:

> Some first time buyers, only we have people on a lower income not buying – they are being replaced by higher salaries. (HA 4)

> People previous to the credit crunch would have been offered a mortgage, with reduced lending they can’t buy outright so income levels of those accessing LCHO has increased a little bit. (HA 8)

First time buyers, singles and couples are the target group for developers. Although it may seem that these groups, particularly FTBs, will find it more difficult to access mortgage finance in the current climate, developers are aiming the products at these groups largely due to the type of units developers need to sell through the schemes, as they are mainly apartments and small properties. Developers felt that purchasers of their shared equity schemes would have been able to have bought outright before the downturn but were now hampered by the lack of mortgage finance available:

> Since the credit crunch there has been a reduction of mortgage products available, the 120 percent and 100 percent mortgage has gone. We are finding people who would previously buy on the open market are now looking at SO and SE because they can’t afford the deposit. (Developer 3)

> It depends on the area and the development site involved. It is critical to the market and first time buyers. Shared equity is very attractive to first time buyers having difficulty getting a mortgage. I think it is first time buyers taking them up as people who have existing equity can get a mortgage anyway, their loan to value ratio might be slightly less but it is not critical. It is critical that first time buyers get into the market, they may need some help but it is also critical to the wider health of the market. The implications are there is less going on, job losses and fewer options for purchasers although it is not the housing market that determines this it is the mortgage finance issue determining what happens next. (HBF)

All HAs reported that private developers are offering their own LCHO schemes in the local area, some developers are offering schemes on the same sites where HAs are marketing LCHO. There was a mixed picture as to whether HAs are in direct competition with the private developer schemes in terms of the prices offered and the people targeted. Many HAs felt that they are in direct competition with private developers because they were aiming at a similar target market and because the number of potential buyers in the market had decreased:

They are in competition with our own schemes. We are valuing every 8/10 weeks to ensure prices are competitive with others in the local area. For first time buyers we are competing for the same people. (HA 9)

There is a similar target market. If you wanted to buy a new build house it is a fantastic time to buy from developers, you can almost write your own price and there is shared equity if you can't quite afford it. (HA 10)

A few HAs felt that they were not targeting the same households as the developer schemes offer a different product and require a relatively higher income than those able to purchase HA LCHO:

They might be in competition on the same scheme of a development but in terms of price and people they are targeting a different group. They offer products such as discounted sale 70 percent of market value, our customers can't afford this. It is just another product. (HA 13)

HA and developer marketing

There is no major difference in the media used for marketing by HAs and developers. Although the scale of advertising by the major house builders is greater, they are tailoring how they market their shared equity schemes to the circumstances local markets. HAs generally have increased their marketing in response to the downturn.

Only a couple of HAs reported no change to their marketing strategy, one in London and one in the East:

Very much as normal, getting priority people from zone agents and LAs and marketing in our usual way using the web, texts, ads in the paper etc. The more direct approach is pretty effective and signage around schemes. We keep marketing under constant review. We have given out handouts in car parks and set up stalls at markets etc. (HA 5)

HAs market LCHO through a wide range of media. For example, one HA markets LCHO using:

Radio, local events, mainstream property events, property press, Rightmove, own website, email outs, leaflet drops, estate agents, staffed show homes. (HA 12)

Most HAs reported increased, more aggressive and/or more targeted marketing:

We have changed this significantly. We used to rely on local estate agents but this has not been successful since the downturn so we have used a marketing campaign. We have been doing mailshots to people who previously expressed an interest with estate agents and there have been some enquiries. We have been more proactive. (HA 11)

Developers described a range of marketing strategies, most of which are local rather than national:

We are marketing at the 50 percent price, leading with adverts for a house from £50k. It is working and has drawn people in. (Developer 2)

We do a range of things – ads in the local papers, site signs, mailshots etc. Some might be targeted to the immediate area, for example, if we know rented properties

> would be more expensive than what we offer, or where we target parents who might be able to help their children to get on the property ladder. [We] offer affordable housing and can therefore access HomeBuy agents, so if someone has a list of potential purchasers we can access that. (Developer 3)

For one developer, marketing their shared equity product had been very successful:

> The 75 percent-25 percent were marketed through extensive press, mailings, putting signs up on site, through Rightmove and included training of our sales consultants. We also have an extensive database whereby we were able to call up customers who had shown interest in the past. We stopped advertising in mid-August because we had too many enquiries. Now it is just word of mouth and our property portal. (Developer 1)

HAs – competing with developers?
Some HAs felt that purchasers trusted HAs more than developers and one or two HAs are trying to work with developers. This trust may well be a function of regulation. In the leasehold sector, HAs are preferred as managers to private agents. It is unclear, though, how much is trust in HAs, and how much is trust in regulation.

There is clearly some degree of competition between HAs selling LCHO and developer shared equity schemes, as the products are based on similar concepts, are targeted at similar households and there are fewer potential purchasers in the market. However, whilst there is some overlap in the households targeted by HAs and developers, some HAs felt that developers would attract a more affluent purchaser group.

HomeBuy Direct
HomeBuy Direct is a new shared equity scheme designed to help up to 10,000 first time buyers into affordable home ownership purchase properties directly from developers. The scheme has been allocated up to £486m of funding. HomeBuy Direct properties will be available across every English region, including London, and will be split around 50:50 houses and flats. Buyers will be offered a 30 percent equity loan, co-funded by the HCA and the developer to a maximum property value of £300,000. HomeBuy Agents will act as the first port of call for the first time buyer interested in the scheme. As such HAs are acting both as partners – but also may be fishing in the same pool of purchasers for their own LCHO schemes.

All of the developers interviewed are considering being involved in HomeBuy Direct in all of their areas of operation across the country, hoping that it will generate sales.

HAs were asked if they had been contacted by private developers to promote HomeBuy Direct on selected properties and sites. Only a few had been contacted and some of these had been asked for more information by developers who did not know about the bidding process. Only four HAs said that they would be likely to be involved in offering the product. Many HAs felt that the product would be successful:

> I think the ability of the big players to market the product well and to spread the message about the product will work well. But it is too early to say. They will have a wider exposure just because of their sheer size and volume. (HA 7)

> It is quite an attractive product – you get a 100 percent mortgage – this will prove more popular than shared ownership. (HA 1)

There were some concerns that buyers would be confused by a new product. There was also concern about whether it would compete too successfully with other HA LCHO products

– this is also a more general concern with shared equity as opposed to shared ownership products. HAs did not feel that it was very different to current products and would not be a problem with lenders.

Conclusions: LCHO and private developer shared equity schemes

All HAs reported that they were trying to sell LCHO units in the same locality as private developers offering their own shared equity products. All house builders interviewed are offering shared equity with a 75 percent/25 percent spilt. The 25 percent is most usually required to be repaid before ten years.

As the market has slowed, developers have a lot of unsold stock. One way in which they are trying to generate sales and short term cash flow is through offering shared equity to purchasers.

The developers offered the schemes in most areas of operation. The shared equity product is seen as a way to shift empty new build stock – usually apartments - in a market with continually falling property values, as a way to generate sales and cash flow. Success depended on the general market – better in the South than the North. Availability can be limited as the schemes are very costly for developers to offer.

HAs felt that they take a longer term view than private developers. They also felt that some purchasers of the developer shared equity products may struggle to repay the 25 percent equity after the ten year period and that the priority for developers was simply securing sales. HAs are more concerned that potential purchasers can afford LCHO over the long term and provide a range of support that developers do not.

There is some overlap between the target group of potential purchasers for HAs and developers offering shared equity. Developers are largely offering the schemes on apartments and small properties and so they are aiming them at FTB, singles and couples who would have bought outright before the downturn. The target group for HAs is set by the Government and will include some of the same households targeted by developers, although in the main developers were targeting more affluent households than the HA and so were not directly competing with developers. HAs also reported that households now purchasing LCHO have higher incomes than before the downturn and that eligible households on lower incomes are struggling to access mortgage finance.

There are more incentives being offered by HAs and developers to encourage sales in response to the downturn. Developers could be more flexible and offer a wider range of benefits such as help with deposits. HAs said that they are being flexible in the incentives offered and they vary on a scheme by scheme basis. They are relatively small in comparison to the incentives offered by private developers.

HAs market LCHO through a wide range of media. They reported increased, more aggressive and/or more targeted marketing. Developers described a range of marketing strategies, most of which were local rather than national.

HomeBuy Direct is clearly welcomed by developers as an opportunity to sell units they are otherwise struggling to sell. Some HAs felt that there was some confusion about the product and some thought that it would be more popular than HA shared ownership.

Overall, most HAs felt that they could compete successfully with the private developer products as their products are better, they are more trusted, offered a better service and have a longer term interest in purchases. The only concerns were that developers can offer more incentives and have more flexibility.

7. Immediate Prospects

Short and long term impacts of the downturn
HAs were clear that this is a time of great uncertainty. There were concerns about the loss of receipts from sales and staircasing and the impact on the ability to cross subsidise social rented units, particularly from a cash flow perspective in the short term:

> In the short term there is an impact from a cash perspective. Our business plan assumes we will have cash from the sale of houses but we have about 80 unsold that we thought would have been sold by now. (HA 11)

Over the longer term some HAs felt that the downturn is giving them opportunities to acquire land and assets:

> Over the longer term there are exciting opportunities to be able to pick up assets of land and sites at a knock down price that we are being offered by the day. There are opportunities to join developer schemes. For HAs who can ride out the cash issue over the next two years, we will be in a stronger position with more land and sites to build out in three or four years time. (HA 11)

In the original report, some HAs said that they would not be taking units from developers, as the homes were the wrong standard or location. It can perhaps be implied from what was said here that HAs have greater leverage over developers now, to cascade more of what HAs want, in terms of size and standards, although the ability to purchase units and land from developers will vary between HAs.

Pipelines for LCHO
All developers described the current situation as dire. Some doubted whether they would survive over the medium to long term. Looking to the future, there were mixed feelings from developers about the situation in five years time. Some felt that the market would have picked up and a shortage of supply may lead to a house price increase. Most major house builders have experienced considerable job losses. This will have led to a loss of skills from the sector and it is not clear how they will be regained quickly when the market recovers.

Some HAs reported that developments were still being completed but that they would be reviewing future planned schemes. A few HAs have had schemes that have not been completed, particularly in the Midlands, some caused by developers going out of business. A few HAs said that some schemes were as yet uncertain. There is clearly uncertainty about future pipelines. Further research would be needed to ascertain the impact on LCHO.

The downturn has disrupted the supply of LCHO units to HAs:

> It is all up in the air. As an organisation we have budgeted X units for 2009 and 2010 and now a third to half of our programme is in jeopardy. We may be able to replace it with alternative stock but we are having to juggle as we do not know if the planned developments will come on line so we don’t want to end up with too many. We are judging it month by month. (HA 10)

The intention of most HAs is to complete what is in the pipeline and then to review future supply. Some HAs reported that developments were still being completed but that they would be reviewing future planned schemes, particularly in London. For example:

> Mothballing, no. Our programme hasn't changed. We may well mothball in the future and may have to slow things down at the end of 2009/10 but not at the moment. Our intention is to complete what is already in the pipeline. (HA 4)

> We have no problems with everything we have got but we will look carefully at starting new schemes. (HA 5)

Some HAs have seen a slow down in supply of LCHO units through S106 sites as developers have gone out of business:

> We have a scheme in Northampton, the house builder went bust. It left us having to complete the works, it delayed the sales and some people had to move out because of health and safety issues, gas flues were not working. There has been slow progression on some other schemes and the delay in handover means that some people will lose their mortgage offers. This mainly affects medium and small house builders. (HA 6)

> One has been put on hold – the builders have gone into receivership so they won't continue. Developers are withdrawing from sites and offering us properties to purchase from them. We have looked into this but have not signed yet. (HA 8)

The disruption leaves future pipelines uncertain:

> Yes, on some we are unable to complete. We had no handovers planned between now and the end of the financial year. But we have at least half a dozen pipelines between April and June 2009 and 2010 but they are all on hold. Developers will tell us in March 2009 if they will be going ahead but for now they won't commit and have slowed or stopped. (HA 10)

The impact of a disruption to pipelines could lead to a shortage of supply when the market picks up, leading to an increase in prices:

> In five years if money starts to flow there could be a struggle to get the numbers going but there will be huge demand. The process could shoot through the roof. Land owners will expect large amounts for their land and affordability could be a real issue. We need to get back to the demand factor Kate Barker was talking about. (Developer 6)

The impact of the downturn on pipelines and what this means for the LCHO sector is uncertain and may require further research.

Lending for LCHO
The criteria for mortgage applicants have been significantly tightened in the past months. Any potential purchaser that appears to pose even the slightest risk to lenders is no longer easily able to secure mortgage finance:

> First time buyers and those struggling have been frozen out of the market. There is also score carding criteria to credit assess applicants, peoples' credit scores become even more relevant. This is less visible but it is definitely going on. There has been no change in our proposition for LCHO but because of the credit scoring more people have been declined. Really it is about the characteristics of the customer, we are still offering the same proposition. (Lender)

Lenders are not so keen to lend on traditional shared ownership products in comparison to shared equity products, because there is more financial risk for the lender attached to shared ownership, and because the lender does not have a first charge over 100 percent of the property:

> It is difficult with lenders with shared ownership as it is 50/50 and the risk is spread between the customer, HA and lender – so the lender could make a potential loss if the property is repossessed. With shared equity we have the first call on funds and the builder will take the loss so it is more attractive to us and also more attractive to the customer, so it is not just beneficial to the lender – we would prioritise shared equity as the risks are smaller. There is a need to make customers aware when signing up to these schemes of the risks associated with them. We should say that with shared ownership we do pursue the customer for any loss. There is a lot of risk with these schemes but there has to be otherwise there wouldn't be any incentive to pay. With the proliferation of these schemes there is just as much risk if they default.
>
> The reason is due to the priority with which debts are paid off on repossession. For shared equity the lender has first charge, this means that we have priority on repossession funds. For example, on a property valued at £100k, with a 50-50 share. Customer owns £5k, investor owns £50k, and mortgage is £45k. Property is repossessed and sold for £70k. From this the lender gets paid first and receives £45k for the mortgage then the investor gets £25k, investor loss £25k, customer loss £5k
>
> For shared ownership, the repossession proceeds are split according to the share. Same property and £70k received on repossession. This is then split between the lender and investor according to the shares in this case 50-50. Lender gets £35k and makes a £10k loss, investor gets £35k and makes £15k loss, customer loss £5k
>
> As you can see in this example, (which assumes completely straightforward contract) on shared equity we don't lose anything and on shared ownership we lose £10k. It also illustrates one reason why investors prefer shared ownership, the other reason is you usually get higher rental income (higher rental is just due to historic design of schemes). (Lender)

What is missing from any of the lender comments was acknowledgement of the Mortgagee Protection Clause, and the particular position that puts lenders in, in grant-funded shared ownership schemes. Taking lenders' views at face value, one would assume that lenders and HAs face the same degree of risk, when purchasers get into difficulties. This is not the case. The Mortgagee Protection Clause (which is a fundamental condition of grant) means that the lender's investment is protected, unless the sales receipt is very low. It is the HA that can end up with nothing.

All HAs said that 100 percent mortgages were not available to purchasers. The lender interviewed for the research does not offer them now. However, if a customer has a sound history with their bank they may be offered a 95 percent mortgage. It is increasingly important for the lender to see the commitment regarding repayments:

> Officially no, the limit is 90 percent. But 95 percent can be obtained by a local branch where the customers have built up a relationship with the bank, bank with us etc. There is no 100 percent mortgage for the foreseeable future. (Lender)

The current general nervousness of lenders would suggest that they would much prefer purchasers to pay a deposit and so signal commitment to the home. However, some people do walk away from a home, regardless of their financial stake. The determinant could well be whether they have an alternative available.

The financial institutions do not formally distinguish between regions or areas. Rather they set out credit scores for potential mortgagors; loan to value ratios; dwelling attributes; and the risks associated with different financial instruments. These inherently differentiate between different groups of purchasers and products. In particular many potential LCHO purchasers are perhaps less likely to have prefect credit histories; new build prices are perceived as more volatile than existing homes; valuations of small flats are falling more rapidly than average; and LCHO products are more complex than traditional lending, especially when the loan to value ratio can be relatively low.

Within this framework, lenders argue that they treat shared ownership and shared equity borrowers exactly as they do any other first time buyers. Lenders are clear that they regard shared equity products, which give the lender first charge over 100 percent of the asset, as preferable to shared ownership products where the leasehold/freehold structure means they do not formally have first charge rights. They therefore regard the shared equity product as less risky. So when funding is constrained, shared ownership mortgages will be less easy to obtain.

Lenders have also made it clear that they want mortgagors to have an equity stake in their own property. This is particularly important to the lender when prices are falling as any further decline increases the probability of negative equity for those currently purchasing.

The lack of mortgage credit is the defining issue in the market at the present time. However, there are many different elements which are impacting on an individual's capacity to obtain a mortgage. First, the financial institutions are themselves heavily constrained with respect to funding. Second, potential LCHO purchasers generally have less access to parental and other assistance and therefore find it more difficult to raise the deposit. Third, the types and sizes of properties on offer are more likely to be subject to down valuation, so the dynamics of the process can be more difficult. Fourth, because they are responsible for public funding, HAs cannot always respond to market pressures to make it easier for mortgage deals to be completed in a changing market.

The process of obtaining a mortgage and completing a sale is complicated by the specifics of mortgage lenders' requirements (e.g. not too much exposure on a single site) of valuations and the impact of down valuation, and inherent inflexibilities in the subsidised sector.

Managing risk

While house prices were rising rapidly and interest costs were also increasing, the main rationale for LCHO products was affordability and access. Many LCHO purchasers were financially stretched even with the subsidy. Indeed the National Audit Office were pressing to reduce the extent of 'deadweight loss' by pushing the product further down the income scale.

In practice, many of those who purchased were relatively risk averse as compared to marginal first time buyers using 'traditional' products. To this extent LCHO purchasers may be in a rather better position (although too little is known about their relative exposure to labour market risks).

In the current housing market and more general economic climate the most important benefits of the LCHO product relate to risk sharing. A new purchaser is only taking on part of the risk that capital values will fall – the rest lies mainly with the government (especially given the Mortgage Guarantee Scheme). Taken together with lower outgoings, LCHO clearly offers valuable security to the purchaser deciding whether or not to purchase in an uncertain market. Even so, it would be highly undesirable to encourage those who face major income risks (e.g. through potential unemployment) to take on such a commitment. Nor should those who may need to move quickly be encouraged to do so. The benefits depend heavily on the potential long run value of the property and on the resale market if full staircasing is not possible. It is therefore entirely appropriate that potential purchasers make careful assessments of both the benefits to them as occupiers (as compared to their other alternatives) and the saleability and long term capital value of the property.

8. Summary of Findings

Regional variations in the LCHO market
The market for LCHO products appears to be stronger in areas where longer term gains appear higher; where there is current market activity; and for houses rather than flats and larger rather than smaller units. As a result the market can vary street by street as well as between localities and regions.

Within the regions, some areas have seen less of a decline in sales than others. The East of England growth areas were doing better than the North of the region and the lower value areas such as Bedfordshire. In the Midlands and North West urban centre apartments are worst affected but sales vary at a local scale. In London there was a lot of variation in the success of LCHO schemes between boroughs. HAs reported that it very much depends on the area, Kensington and Chelsea, West Camden and Hackney for example were selling well, whilst LCHO units in Croydon were struggling to sell. It appears that sales have been worst affected in the North West and the Midlands.

Across the regions flats are generally more difficult to sell than houses. However, in parts of London, the London Commuter Belt and the growth areas of the East of England, flats are still being sold.

The location of units is very important in influencing how well they sell. This varies within the regions but also influences sales at very localised levels. Similar developments that are close together are seeing very different sales results. Local buyers are familiar with local area characteristics and are now more discerning about the location they wish to purchase in than perhaps previously when the market was buoyant.

The reductions in house prices made by HAs and down valuations by mortgage providers were affected by location and property type. Flats were worst affected. Variations occurred in the degree to which valuations fell at a very local level. Even identical properties on the same development could be down valued by quite different amounts. This reflects timing and the great uncertainty that characterises the current market.

Competition with developer shared equity schemes
All HAs reported that they were now competing with private developers offering their own LCHO products on units that they were struggling to sell to clear stock and improve cash flow. Developer schemes are likely to be relatively short term as they clear their stock and do not see these discounts as part of the longer term strategy.

Developers reported that prices are being reduced on all properties because of surveyors down valuations, with apartments being worst affected. All house builders interviewed were offering shared equity with a 75 percent/25 percent spilt. The 25 percent is most usually required to be repaid before ten years. Availability can be limited as the schemes are very costly for developers to offer. They were more likely to be offered on apartments than houses. Some developers reported that enquiries and reservations for their shared equity schemes were holding up, others that they had fallen across the board.

Developers described a range of marketing strategies, most of which were local rather than national. HAs said that they were being flexible in the incentives offered and they varied on a scheme by scheme basis. Their offers were relatively small in comparison to the incentives offered by private developers.

Young first time buyers, singles and couples are the target group for developers. The developers felt that purchasers of their shared equity schemes would have been able to have bought outright before the downturn but were now hampered by the lack of mortgage finance available.

Generally the target group for HAs is the same as before the credit crunch and downturn. However, those buying HA properties have rather higher incomes and in a more stable market would probably have been able to buy with a traditional mortgage. Buyers are often taking on lower proportions, reflecting greater concern about both payments and capital values. But this move ‘upmarket’ is also about the availability of mortgages, the effect of credit scoring and the need for a down payment.

Overall, many HAs felt that they were in direct competition with private developers. Some HAs felt that purchasers trusted HAs more than developers and one or two HAs were trying to work with developers. A few HAs felt that they were not targeting the same households as the developer schemes offer a different product and require a relatively high income.

The issue of competition between LCHO schemes is not currently seen as of particular importance, probably because the ‘larger’ questions of house prices and mortgage availability dominate. Most HAs felt that they could compete successfully with the private developer products as their products were better, they are more trusted, offered a better service and had a longer term interest in purchases. The only concerns were that developers can offer more incentives and have more flexibility.

Immediate prospects
Developers felt that prospects were very bad. They have halted much new development and have been hard hit by the downturn, losing share price values and needing to make large staff cuts.

Some HAs reported that developments were still being completed but they would be reviewing future planned schemes. A few HAs have had schemes that have not been completed, particularly in the Midlands, some caused by developers going out of business. A few HAs said that some schemes were as yet uncertain.

HAs were clear that this is a time of great uncertainty. This is reflected in close monitoring of business plans and regular updates and amends. There are concerns about the loss of receipts from sales and staircasing and the impact on the ability to cross subsidise social rented units, particularly from a cash flow perspective in the short term. Over the longer term some HAs felt that the downturn is giving them opportunities to acquire land and assets.

Of the range of HA LCHO products available, shared ownership is reported to be the least popular. This is particularly the case where other products, such as MyChoice HomeBuy and FTBI are available on the same site as shared ownership. More generally, shared equity products are more popular with both purchasers and lenders. In particular, lenders were not so keen to lend on traditional shared ownership products in comparison to shared equity products, because there is more financial risk for the lender attached to shared ownership.

Generally, the position was significantly worse than during the first stage of the research. The picture is extremely variable across regions, localities and even streets. Shared ownership is still working relatively well in higher valued areas in regions where longer term prospects are thought to be better. The same applies with respect to dwelling type and local area.

The extent of direct competition between HAs and developers is relatively limited. Their objectives are different, the type of stock they are selling tends to be different, and the package that developers offer is more suited to young couples and singles who are probably hoping to move on fairly soon. HAs are aiming to offer products that can help people over a longer period.

Overall the problems with respect to mortgage availability, valuation and down payment remain the most pressing for those who are actually trying to buy. More fundamental issues relate on the one hand to the acceptability of the product to customers in the medium term and on the other the extent of the pipeline of completions once the immediate backlog is cleared.

Looking forward, the three fundamental issues which will help determine success relate to mortgage availability; confidence in the market; and the extent and nature of the development pipeline. At the present time all three need continued detailed monitoring and analysis.

Annex: Research Questions

Interview questions for housing associations

1. In which areas in the region do you offer LCHO products?
2. We are trying to understand any differences between markets. How would you differentiate the characteristics of the areas in which you are selling LCHO?

    - Types of units and size of development
    - Recent affordability pressure in area (high, medium, low)
    - Type of area (urban, rural, commuter, regeneration etc)
    - Where are sales doing better /which types of property etc

3. In different areas as described above, are there differences in LCHO:

    - Are prices falling
    - Enquiries
    - Reservations
    - Sales
    - Purchaser group
    - Percents purchased

4. What types of LCHO schemes are you offering? (If we haven't already got the details)
5. Has the tranche sale remained the same even though the economic climate is turbulent? If not, have you adjusted the tranche sale? By how much?
6. Has the market for LCHO products become more competitive?
7. Are you offering any incentives to encourage sales? e.g. white goods, access to funding
8. How are you marketing these schemes?
9. Who is your target purchaser group?
10. Is the target group for LCHO products the same target group before the credit crunch?
11. If not, why not?
12. Are private developers offering shared equity schemes in your area?
13. Are they in direct competition with your own schemes? In terms of price/people
14. Can you compete successfully with them?
15. If not, why not?
16. What do you think of the private developer schemes?
17. Is your association currently unable to complete units/phases on any developments because of the economic climate?
18. If yes, what implications does this have both for your future business plan and more generally the provision of affordable housing?

The government recently announced new measures to assist first time buyers to access the LCHO market. HomeBuy Direct is a new shared equity scheme designed to help up to 10,000 first time buyers into affordable home ownership. The scheme will also help participating house builders by enabling more first time buyers to purchase their newly built properties. The scheme has been allocated £300m of Communities and Local Government funding.

19. Have you been contacted by private developers to promote HomeBuy Direct on selected properties and sites?
20. If so, in which areas will you be offering HomeBuy direct?

21. Do you know what type of properties private developers will be offering and how many will be included?
22. How successful do you think this government initiative will be?
23. Will it be any different to the LCHO products you are already offering?

Anything else to add?

Interview questions for private developers

1. What types of shared equity schemes are you offering? Where?
2. How do they work?
3. Is there a time scale within which purchasers must acquire the remainder of the equity?
4. Are you offering incentives on the products? e.g. white goods, access to funding?
5. How are you marketing these schemes?
6. Who is your target purchaser group? Who is actually taking them up?
7. Is the target group for LCHO the same as the target group for outright sale before the credit crunch? If not, why not?
8. Are you offering the schemes on sites where HAs are also selling LCHO?
9. Are you aiming the products at people who would otherwise buy HA LCHO?
10. How competitive is the LCHO market in the area you operate?
11. How successful is the take up of your product? Is it better than that for 100 percent sales? Are you still facing difficulties – are these worsening?
12. What are the characteristics of the local markets in terms of :
    - Types of units/scale of development
    - Recent affordability pressure in area (high, medium, low)
    - Type of area (urban, rural, commuter etc)

13. In different areas as described above, are there differences in the product:

    - What is happening to prices
    - Enquiries
    - Reservations
    - Sales
    - Purchaser group

14. How long do you expect to offer the products (short/medium/long term)?
15. Will they continue until the market picks up?
16. Do they benefit you and your sales?
17. Given the current climate, how does offering LCHO impact on your business decisions and planning for future development?
18. Are you currently unwilling to complete units/phases on any developments because of the economic climate?
19. If yes, what implications does this have both for you as the developer and for purchasers in the area you operate?

The government recently announced new measures to assist first time buyers to access the LCHO market. HomeBuy Direct is a new shared equity scheme designed to help up to 10,000 first time buyers into affordable home ownership. The scheme will also help participating house builders by enabling more first time buyers to purchase their newly built properties. The scheme has been allocated £300m of Communities and Local Government funding, but also involves developer funding?

20. Are you considering becoming involved in the government's Homebuy Direct scheme?
21. If not, why not? If so, why?
22. Have you been invited to submit bids to the Housing Corporation to provide HomeBuy Direct on selected properties and sites?
23. If so, which areas will you offer HomeBuy direct?
24. What are the drivers that help you decide on one site over another?
25. What type of properties will be on offer and how many will be included in this scheme?
26. Which Homebuy agents will you be collaborating with?

How do you see the general picture:

I. Now
II. In 1 years time
III. In 5 years time