

Cambridge Centre
for Housing &
Planning Research

Understanding the second-hand market for shared ownership properties

Executive summary

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Shared ownership allows would-be home owners to purchase a share in a property whilst a housing association owns the remainder. If shared owners wish to move, they may sell their share in the property and the buyer will become a new shared owner.

Drawing on a survey of housing associations, focus groups with shared owners and interviews with mortgage lenders and other stakeholders, this report examines the functioning of the second-hand market for shared ownership homes in England. The research also examines the practice of 'staircasing', whereby a shared owner may purchase additional shares of their home.

Key findings

Initial conceptions

Housing associations do not report any major concerns on the part of new purchasers around the operation of the second-hand market. Most envisage that selling a shared ownership home will be no harder or only a little harder than selling an open market home.

The option of staircasing up to full ownership is an attractive feature of shared ownership to most buyers. Most buyers were aware of it at the time of purchase. However, it may be less important to prospective buyers than sometimes supposed.

The operation of the second-hand market

Second-hand sales of shared ownership properties comprised 32% of all shared ownership sales during 2010-11. The proportion of shared ownership properties coming up for sale fell between 2006 and 2010, as did open market sales. There is some indication that it has picked up again since then.

Shared ownership housing appears to come up for sale less often than open market homes, and second-hand shared ownership sales appear to take longer than new-build shared ownership sales on the market, although sales times for both still compare favourably to open market sales.

Many of the difficulties associated with second-hand shared ownership sales are in common with those of the wider housing market – including problems of securing mortgage finance, lack of affordability, poor demand, negative equity, the added complexities of selling a flat, and uncertainty about what is happening to the housing market. However, within these there were specific issues associated with selling second-hand shared ownership homes:

Affordability

Shared owners generally looked to move out of shared ownership into full owner-occupation. Affordability constraints were the most common reasons cited that prevented this. Incomes had often not risen fast enough when compared with the substantial overall house price rises since they first bought, increasing the gap shared owners must bridge.

Negative equity

The lower deposits paid by many shared owners increases the risk of negative equity and it was evident from our surveys that this was a problem, as well as from focus group participants and lenders.

Inability to move to another shared ownership property

Many shared owners are unable to afford to move into full ownership, but wish or need to move for other reasons, such as for work or to accommodate a growing family. Under the government eligibility and priority criteria existing shared owners are likely to be ineligible and/or not a priority group for access to other shared ownership homes. The survey confirmed that less than 1% of shared ownership sales were to those already in the sector.

The selling process

Although the costs of selling a shared ownership property can sometimes be cheaper than estate agent charges for comparable open market homes, there can be significant upfront costs, notably for the valuation. Paying up front for valuations was a source of frustration to existing owners and there was also misunderstanding as to why a formal valuation was needed rather than a (free) estate agent-type estimate of value.

Under the shared ownership lease, there is a nomination period (usually eight weeks) during which the housing association has the right to market the property, and to prioritise potential buyers for it. Some shared owners expressed frustration at having to wait until the end of the nomination period before putting the property on the open market. There was a strong feeling that some housing associations did not employ the same range of marketing techniques that would be used by a good estate agent.

This research suggests that actual practice varies between different associations and Local HomeBuy Agents. Examples of good practice included taking a tailored approach to properties, using appropriate lists of potential buyers, moving quickly to wider advertising where necessary and using popular websites.

Selling properties where improvements have been made

A particular problem relating to the valuation of a property was identified by some focus group participants and confirmed by lenders in relation to approved improvements when a property is sold. Improvements are paid for in full by the shared owner under the terms of the lease. Housing associations often attempt to ensure that sellers recoup this added value by expecting buyers to pay a separate sum direct to the seller in respect to the added value of the improvement.

However, lenders will only offer terms for a mortgage on the basis of the valuation. Thus a buyer may find themselves raising a higher deposit to buy the property at a price exceeding the valuation, or the seller may have to negotiate a lower price and forgo some of the added value of their improvements. This can cause disruption to sales and frustration for sellers. It is not transparent. An alternative approach used by some housing associations is to simply share the added value of improvements paid for by the seller in proportion to the share of the property that they own. While this avoids problems over the valuation and selling price it may be considered inequitable.

Staircasing

Staircasing to 100% has reduced in percentage terms from 4.3% of existing stock per year in 2001-02 to 0.9% in 2010-11. It has declined in absolute numbers too.

The survey of housing associations found that out of 1710 instances of staircasing, 84% were to 100% and 14% were partial staircasing to less than 100%. Downward staircasings amounted to just 2% of the total. Of the 1454, 100% staircasings, 203 occurred at the point of resale, probably to facilitate the sales process.

Barriers to staircasing

Shared owners highlighted several key difficulties with staircasing. For most, the initial share purchased had been the maximum they could afford. They had experienced insufficient growth in their incomes to buy any more, especially given the current mortgage lending restrictions. For some this was compounded by issues of negative equity.

Some had looked into staircasing but were deterred by the costs associated. Upfront costs (such as the valuation) were a particular barrier to giving serious consideration to staircasing. Whilst owners were for the most part keen to move to 100% ownership, there was a strong view that partial staircasing was not worthwhile due to the costs involved. Uncertainty over the financial costs and potential gains involved also emerged from the focus groups as a major reason for not staircasing.

Encouraging staircasing

Most associations make a priority of encouraging existing shared owners to staircase, although a minority (20%) do not. Ways of promoting staircasing identified by housing associations included publicity on websites, use of targeted mail shots and newsletters, holding staircasing events and use of independent financial advisers.

Shared owners suggested that better information would encourage them to consider staircasing. One suggestion was for a “staircasing calculator” along the lines of a mortgage calculator to help them understand the costs and potential gains involved. In general, targeted, individualised email communication was preferred.

Conclusions and recommendations

Shared ownership has continued to provide secure and affordable housing throughout the latest housing market difficulties. Overall it would appear that the shared ownership second-hand market has not been any harder hit than the wider housing market. However, the mobility out of the sector and rates of staircasing are not as high as might be hoped. This study makes the following recommendations to improve the operation of the second-hand market:

Improving mobility

- Consideration should be given as to whether it is sensible for shared owners to gain access to the tenure without paying a deposit big enough to afford them some protection during a housing market downturn or in a situation where prices are stagnant.
- Given that some shared owners will be there for the long term, further consideration needs to be given to the consequences of this and, not least, issues over long-term maintenance and improvements need to be addressed. Alternatively, if shared ownership is to function more effectively as a stepping stone into full ownership, it would be sensible to review the minimum level of shares sold with a view to helping ensure that new purchasers are better placed to move to full ownership over time. This would need to be balanced with the need to preserve shared ownership as an access route to ownership.
- Shared owners wishing to move within the sector should be given the same priority that social tenants currently receive.

Encouraging staircasing

- Housing associations should encourage staircasing to the maximum that a household can sustain with adequate provision for housing market downturns and other risks.
- Housing associations should consider whether it would be cost-effective to contribute towards the costs associated with staircasing themselves.
- A targeted, individually tailored approach to promoting staircasing is recommended.

Improving the sales process

- Housing associations, in conjunction with Local HomeBuy Agents, should review the way in which key information about the resales process is communicated to new buyers.
- Housing associations and local authorities should take a strategic and balanced view of the best way to sell each property that comes up for resale.
- Housing associations without the resources to offer a dedicated resales service should work with other housing associations or make use of the Local HomeBuy Agent to manage the sales process on their behalf.
- The sector should look towards moving to a model similar to that of estate agents where upfront charges for valuations are covered by charges levied only when a sale actually occurs.
- Consideration should be given to developing a model that ensures owners are appropriately compensated for any uplift in value they create from improvements.
- Consideration should be given to whether it would be possible to revise the lease in cases where additional restrictions are likely to create disproportionate difficulties for an owner wishing to sell.

For the full report, see www.tvha.co.uk/Sharedownersreport