Cambridge Centre
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Understanding the second-hand market for shared ownership properties

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Anna Clarke and Andrew Heywood

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Contents

This research was carried out by the Cambridge Centre for Housing and Planning Research. The research team included Anna Clarke, Connie Tang and consultant Andrew Heywood.

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Executive summary

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.

Introduction

Shared ownership allows would-be home owners to purchase a share in a property (usually between 25 and 75%) whilst a housing association owns the remainder. If shared owners wish to move, they may sell their share in the property to a new shared owner. Around a third of households purchasing shared ownership properties are buying second-hand properties (resales).

This report examines the functioning of this second-hand market for shared ownership properties in England. This is defined, for the purposes of this study, as the resale of properties on an ongoing shared ownership basis – i.e. excluding those sold after the owner has acquired 100% of the equity.

The research also examines the practice of 'staircasing', whereby a shared owner may purchase additional shares of their home, in most cases staircasing up as far as owning 100% of the equity (and thereby ceasing to be a shared owner).

Methods

A survey of housing associations with significant shared ownership stock across England was undertaken to collect data on resales and staircasing activity. In total 52 out of the 120 housing associations invited completed the survey, covering 54% of the total shared ownership stock in England. Four Local HomeBuy Agents, operating in different parts of the country, and other national stakeholders were also interviewed[1]. A teleconference of four lenders to the shared ownership market was organised with the assistance of the Council of Mortgage Lenders (CML)[2]. In total, six lenders representing some 60% of UK shared ownership lending by value were involved in this exercise[3].

Three focus groups, held in early 2012 in Twickenham and Reading, involved a total of 33 shared owners and in addition, eight telephone interviews were carried out with shared owners. The shared owners were drawn mainly from Thames Valley Housing Association and lived in the South West London/Reading area. Their experiences may therefore not be typical of all shared owners living elsewhere.

Shared ownership: the legal framework

Under the current shared ownership lease, buyers purchase a share of the property – between 25% and 75%t of the full value. The housing association owns the remaining share and the owner pays rent on that share. The initial rent is regulated at up to 3% of the value of the unsold share and annual rent rises are capped at RPI plus 0.5%. Shared ownership properties are always sold on a leasehold basis.

[1] These included the Homes and Communities Agency, DCLG and two estate agents who dealt with shared ownership sales
[2] In addition, two individual interviews were conducted with lenders unable to participate in this event.
[3] The number of lenders active in the shared ownership market fluctuates over time as different lenders enter and withdraw. In February 2012 *Moneyfacts* estimated that there were 17 lenders currently supporting the shared ownership mortgage market while the Homes and Communities Agency (HCA) has recently estimated the number at 23, up from 22 in autumn 2011. However, the availability of shared ownership mortgages is more dependent on the commitment of the largest lenders to the sector, with a high market share, than the total number of lenders.

The lease

The Housing Corporation used to issue model leases that housing associations were expected to follow. However, a variety of leases have been used over the past 30 years and therefore remain in use in the second-hand shared ownership market.

The latest model lease, issued by the Homes and Communities Agency applies to properties sold after April 2010[4]. It was further revised in September 2011 (HCA, 2011b). Housing associations must ensure that their leases contain the fundamental clauses of the relevant model lease in order to satisfy grant funding conditions.

The lease normally stipulates that the shared owner has full responsibility for the outgoings and maintenance on the property, as an outright owner would.

Selling second-hand shared ownership properties

Where a shared owner wishes to sell their share in the property, the landlord retains the right to identify and nominate a buyer for the property for a set initial period, known as the “nomination period”. This is usually eight weeks, though can be varied. If, after this period, a buyer has not been found then the property can be marketed on the open market in the usual way, though any purchaser must still be approved by the housing association.

Government requires housing associations to comply with a set of eligibility criteria and priorities in selecting buyers, to ensure that the subsidy is well directed. These criteria apply both to resale and new-build and can be modified by local authorities.

The current qualifying criteria are:
1. The applicant’s household must earn less than £60,000 per year
2. They must be unable to buy a suitable property unaided
3. They must not be an existing home owner or shared owner unless they can demonstrate that they are in housing need (e.g. overcrowded) and unable to afford to meet their needs without assistance.

The following groups receive particular priority (in order):
1. Existing social tenants and serving Ministry of Defence (MoD) personnel
2. Locally determined priorities – local authorities are able to choose priority applicant groups according to the specific needs of their locality
3. Other first-time buyers who fit all other qualifying criteria above.

Applicants are usually eligible for properties with up to one bedroom more than they require for their size of household. More details on eligibility can be found in the HCA’s capital funding guide (HCA, 2011c).

[4] See www.housing.org.uk/publications/find_a_publication/housing_management_and_polic-1/idoc.ashx?docid=cce48c9a-b123-4d51-8fb8-500d46845940&version=-1

Selling properties where improvements have been made

If shared owners wish to make improvements to their home they must pay in full for these themselves. Housing associations take one of two separate approaches to valuing improvements when a shared owner wants to sell:

System 1:
Some housing associations seek to ensure that shared owners are reimbursed for the value they have added to their property by valuing the property and the added value of the "improvement" separately, so the buyer then pays 100% of the value of the improvement direct to the seller.

For instance, if the shared owner owned 50% of a property valued at £210,000, £10,000 of which was considered to be the result of an improvement, the buyer would pay a total of £110,000 to the seller (calculated as £100,000 for the selling price of the property without improvements and an additional sum of £10,000 in respect of improvements).

However, as mortgage lenders base their lending on the valuation of the whole property, buyers may be disadvantaged by this practice. In this case the buyer would end up paying £110,000 for their share of the property but would only be given a mortgage for the value of £105,000 as this represents 50% of the total £210,000 value of the property. This can cause difficulties in that buyers may have to find a larger deposit or sellers forgo some of the additional value they are owed in order to ensure a sale.

System 2:
To avoid the difficulties above, some housing associations operate a simpler system whereby the value of any improvements is simply shared between the housing association and the seller in proportion to their respective shares in the property.

With the example above, this would mean the buyer paid £105,000 each to the seller and to the housing association. While this does avoid the difficulties above it is considered unfair by some in that the housing association is gaining from an improvement paid for only by the seller.

Staircasing

Shared owners can choose to purchase additional shares of their home. They may do this on than one occasion and the size of additional shares can vary although in practice will not normally be less than an additional 10%. This process is known as "upward staircasing." The reverse process, the repurchase of equity by the landlord from the shared owner, known as downward staircasing, is only intended to be used where households are in financial difficulties and unable to sustain their level of ownership.

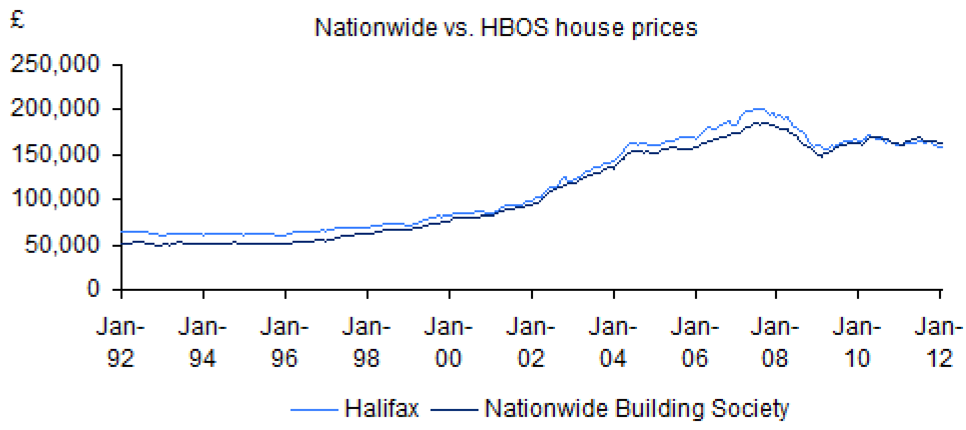
Context

The wider housing market

Analysis of the shared ownership resale market at the present time is complicated by the major housing market downturn since late 2007. The mortgage market has become much more conservative as a result of the crisis and it is widely believed that this will persist into the longer term. This has had implications not just for shared owners wishing to sell their share in their properties but for all potential sellers.

House prices have been falling or stagnating since 2007 according to the major indices (Figure 1).

Figure 1: House prices in the UK



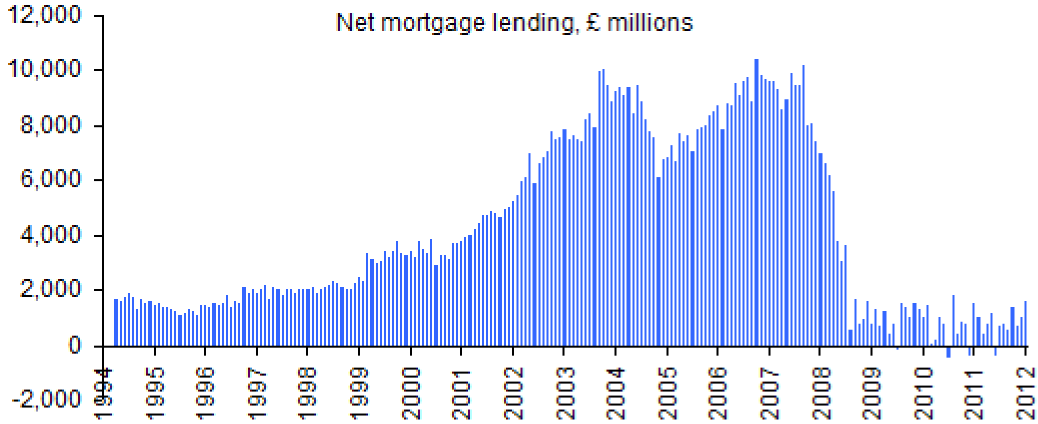
Source: CML 2012

In England prices fell by 5.7% from the peak in late 2007 to late 2011[5]. This change in house prices has not been uniform in terms of either region or house type. According to the Halifax regional index, while the UK saw an overall drop in house prices over the period Q4 2007 to Q4 2011, Greater London saw an overall rise of around 8%. This may reflect international investment in the London property market and the growing relative importance of better off cash-rich buyers in the UK as a whole. Yet within London it appears that prices of flats and maisonettes have fallen over this period while prices for detached houses have risen (Lloyds Banking Group, 2012) suggesting that cheaper properties may have fared less well than those at the higher end of the market.

The tightening of the mortgage market since 2007 is illustrated by the level of net mortgage lending (Figure 2).

[5] www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/housingmarket/livetables/housepricestables/mixadjustedprices/

Figure 2: Net mortgage lending



Source: CML/Bank of England

This dramatic fall in lending since 2007 particularly affects:

- High loan-to-value (LTV) lending
- Lending to those with poor credit histories
- Lending to those with lower or less secure incomes

With a first-time-buyer deposit now averaging 20% of the property value, the problems of first-time buyers are well-known. However, movers have also been affected, particularly those who have bought near the peak of the market and so have little equity in their properties. This means they are unlikely to be able to afford to move up in the market, especially in the new tighter lending conditions (CML, 2012). As a group, shared owners are more likely to have purchased with very small deposits (Clarke, 2008) making them particularly vulnerable. Prices in the UK are now around 6% lower than their peak in late 2007 (CLG, 2012a), so many other potential house movers are similarly affected.

Difficulties throughout the housing market are illustrated by the latest findings from the *Understanding Society* longitudinal study which suggests that in 2009-2010 39% of households in urban areas would like to move but that in fact only 13% of these did so. Of those “expecting” to move only 39% did so (McFall, 2012).

Declines in real incomes have also reduced the ability of people to move up in the housing market. Shared owners are drawn from lower income groups and it has been suggested that the position of those on low-to-moderate incomes may have weakened further (Whittaker, 2012).

Overall, it would seem that some difficulties with the shared ownership second-hand market could be expected at the present time, given the wider housing market difficulties and the profile of shared owners.

The shared ownership second-hand market and staircasing: What is known?

Staircasing has received less attention than might have been expected and resales in the secondary market have not been central to housing policy. Annex 1 reviews the existing research in the field.

Overall, analysis of the existing literature has identified a number of matters justifying further enquiry:

- The low rates of second-hand sales, relative to the overall stock, and compared with turnover rates of properties in outright owner-occupation.
- The reason for the decline in the incidence of 100% staircasing over the past decade.
- The impact of mortgage lender perceptions and practice on the secondary mortgage market, including the degree to which lending on first sale properties may be affected by perceptions about the resales.
- The valuation process for resale properties and the degree to which it may inhibit sellers and staircasing.
- The sales process, including the marketing effort for first sales and resales and the possible differential impact on each type of transaction. The public perception of housing association and local authority housing and of shared ownership and the degree to which this may inhibit first sales and the secondary market.

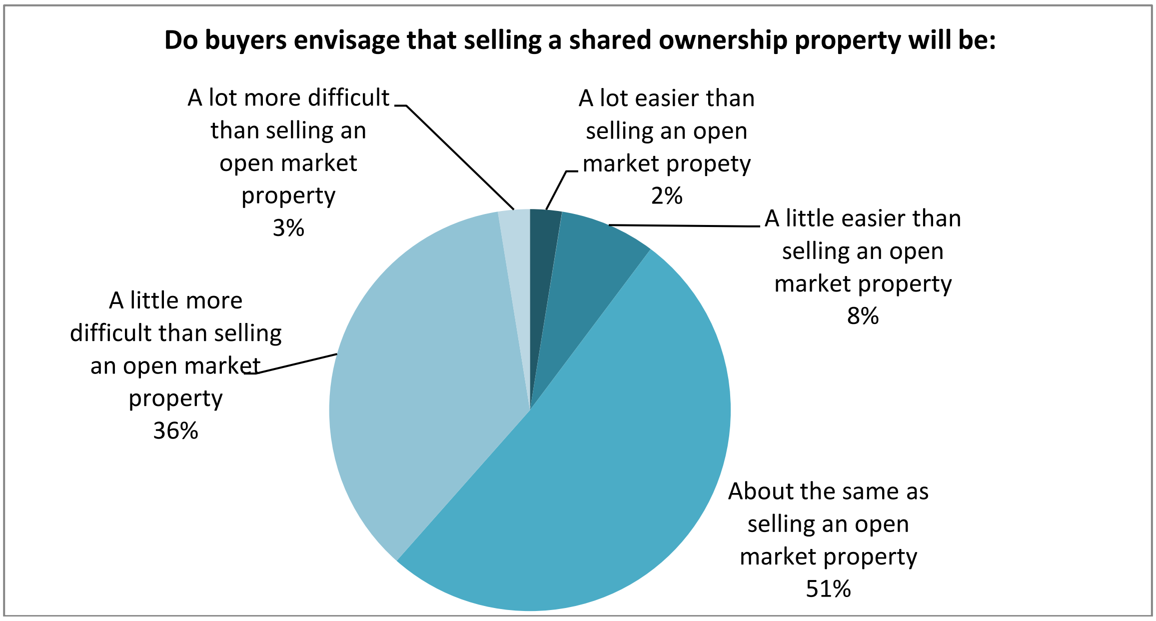
Section 1: Initial conceptions – buyers' views of staircasing and reselling

One issue that this study has sought to explore is whether the opportunities to move on from shared ownership or to staircase up to full ownership are motivating factors for potential new shared owners. Conversely, it is important to understand whether there are any fears about difficulties reselling which could potentially put buyers off.

Buyers' views of re-selling

Housing associations do not generally report that prospective new shared owners are put off by fears about reselling, with the large majority surveyed saying that new owners consider that selling a shared ownership home will be similar in terms of difficulty to an open market property, or slightly more difficult (Figure 3).

Figure 3: Buyers views of ease of resale



Source: Housing association survey 2012

Many associations noted that despite being given relevant information on reselling, it was not a major concern to buyers. They tended to be more concerned with issues around their initial purchase.

The survey findings from housing associations are largely echoed by the focus groups and shared owner interviews. The ease with which the property might be resold was almost never a serious concern at the time of initial purchase. Though owners generally commented that they were adequately informed about the resale process at the time of purchase it was clear from responses that at that stage they were concerned about other more immediate matters, notably obtaining a mortgage. Any concerns about the prospects for resale and about the process surfaced much later usually in the context of the household considering a possible move.

Buyers’ views of staircasing

The ability to staircase is widely perceived as a key positive feature of shared ownership by housing associations and lenders. Buyers’ views were somewhat more mixed. Some focus group participants were clear that it was a key part of what they were buying into; they intended to become homeowners after a period of time. For others, it was a less significant feature in terms of influencing their initial decision to purchase.

The majority of participants were aware of the opportunity to staircase at the time of purchase. Only two claimed to have been unaware of it. In the majority of cases they had been informed by the housing association, though conveyancing solicitors also played a useful role here for some. As with prospects for reselling, staircasing appeared to be a less urgent issue at the time of initial purchase. A small number had ruled out staircasing from the start because of their age or limited means.

Clearly the opportunity to staircase is an important factor but its importance may sometimes be overrated by observers. Participants cited a range of other factors as significant for their decision to purchase. These included affordability, the lower deposit requirements than for outright purchase, a preference for the property itself and/or a liking for the local area.

Section 2: The shared ownership second-hand market

This section looks at the operation of the shared ownership second-hand market and the experiences of those involved in it.

Rates of resales

Table 1 shows the total number of sales and resales recorded last year (2010-11).

Table 1: Number of sales/resales[6]

Resale	2,629	32%
First sale	5,573	68%
Total	8,202	100%

Source: CORE 2010-11[7]

The proportion of shared ownership sales that are second-hand sales varies regionally[8]. The highest proportion of second-hand sales is in the North West where they comprise 38% of all shared ownership sales, and the lowest are in London where they form only 19% of the market.

This doesn't necessarily indicate problems in the London second-hand market. It could be that the new-build shared ownership market is stronger in London at the current time, than in the north, and hence forms a larger proportion of sales in London.

Using CORE time series data it is possible to get a sense of the incidence of resales relative to the total shared ownership stock over time (Table 2):

Table 2: Resales as proportion of all shared ownership stock [9]

	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
London	2.0%	1.7%	1.7%	1.7%	1.0%	0.8%	1.3%
South East	3.0%	3.2%	3.5%	3.2%	1.9%	1.3%	2.6%
South West	3.4%	2.8%	2.0%	2.9%	1.7%	0.9%	2.0%
East Midlands	2.1%	1.2%	2.0%	2.0%	0.9%	0.5%	1.4%
East	2.2%	1.8%	1.6%	1.8%	1.0%	0.7%	1.7%
West Midlands	2.2%	2.4%	1.9%	2.3%	1.3%	0.8%	2.0%
Yorkshire & Humberside	1.7%	1.6%	2.5%	2.9%	1.9%	1.6%	2.0%
North East	1.2%	1.5%	1.1%	1.4%	1.5%	0.8%	1.5%
North West	1.1%	1.6%	1.5%	1.5%	1.6%	0.6%	1.4%
England	**2.3%**	**2.2%**	**2.2%**	**2.3%**	**1.4%**	**0.9%**	**1.8%**

Source: CORE and RSR

[6] There were 1,741 missing data on this variable, which were cases where the housing association respondent did not indicate whether the sale was a first sale or resale

[7] Unless otherwise indicated, CORE analysis throughout this report includes Shared Ownership, New-build HomeBuy, Shared Ownership for the Elderly, Social HomeBuy and Leasehold for the Elderly.

[8] CORE 2010/11

[9] This includes all types of shared ownership (including Leasehold Housing for Older People) because the RSR does not distinguish between types of shared ownership at regional level.

These figures suggest that resale activity varies to some extent between regions and fallen between 2007/8 and 2009/10, though increased somewhat in 2010/11.

It is interesting to compare these figures with comparable figures for the open market. Previous studies have looked at mobility rates of owner-occupiers by means of comparison (Wallace, 2008). The most recent figures from the English Housing Survey show that 3.6% of all mortgaged owner-occupied households moved in the last 12 months. These figures have declined radically since 2006/07 when 6.2% of mortgaged owner-occupied households had moved home in the last 12 months (CLG, 2012b).

A comparison of the sales rates of privately owned stock can also be made. Prior to 2007, open market sales were broadly stable, averaging just over 1 million per year. Table 3 shows estimates of comparable figures for privately owned housing in England in recent years.

Table 3: Estimates of open market sales as a proportion of stock (thousands)

	2006	2007	2008	2009	2010
Housing market sales	1,223	1,190	610	587	626
New-build completions	193	200	158	124	118
Estimate of second-hand sales	1,030	990	452	463	508
All privately owned housing stock	18,040	18,252	18,472	18,616	18,728
Annual sales of second-hand stock as proportion of total stock	5.7%	5.4%	2.4%	2.5%	2.7%

Sources CCHPR calculations based on DCLG live tables[10]

Overall it would appear that rates of resales of shared ownership properties are low in comparison to open market sales, though they have been similarly affected by the recent housing market downturn.

Purchaser profiles

Looking just at those purchasing shared ownership or New-build HomeBuy (ie excluding schemes for the elderly), CORE provides detailed breakdowns of purchaser profiles. Not surprisingly, 91% purchasers work full-time with a further 4% in part-time work and 3% retired.

The financial profiles of resale purchasers and new-build purchasers are broadly similar. Those purchasing resale properties have slightly lower incomes (median of £26,494 as compared with £27,492), slightly higher savings (median of £12,000 as compared with £11,000 for new-build) and are slightly older (median age of 31 as compared with 30 for new-build)

By way of context the median age of all new first-time buyers is 29 (CML, 2012).

[10] The figures in this table are indicative rather than precise. Sales of new-build properties were not available, so completions have been used as a proxy. These are also available only for financial years, so have been allocated to the nearest calendar year instead. These issues, however, are not likely to make a significant difference to the overall rate of sales of second-hand stock, because the proportion of new-build sales is low.

However, there are differences in previous tenure, with 17.0% of resale purchasers having owned a property before, as compared with only 12.3% of first sales purchasers. This may suggest that eligibility is sometimes interpreted less strictly for second-hand purchases. But, a very similar proportion of between 4% and 5% of both kinds of purchaser were moving from social rented housing.

The average full market value of resale properties is £155,782 and that of first sales £184,173 (CORE, 2011). The level of average savings is higher for resale purchasers, while average incomes are comparable between resale and first sale purchasers. However, the average mortgage taken out by resale purchasers (£47,810) is very similar to that of first sale purchasers at £48,312, reflecting the fact that resale purchasers are buying larger shares on average. The average share purchased of those buying second-hand properties was 47%, as compared to just 38% for first sale purchases (CORE, 2011).

Overall this suggests that purchasers of second-hand shared ownership properties are a broadly similar group to those buying new homes, but that on average they buy higher shares of cheaper properties.

The decision to sell

The focus groups explored shared owners' reasons for wanting or not wanting to move.

Reasons not to move

The majority of shared owners who participated in focus groups or interviews did not wish to move in the foreseeable future. For many this related to their positive views of their housing situation and/or satisfaction with shared ownership. The large majority were very happy with both their property and their local area. Although most would ideally like to be outright owners, shared ownership was generally seen as preferential as compared with other options that they could afford. In particular it was seen as a much more settled and secure tenure than private renting.

A smaller group of participants would ideally like to move but were deterred from trying to do so because of being unable to afford anything else. Some were aware of friends or neighbours who were currently trying to sell their homes and experiencing difficulties. There were also some concerns around the general hassle and expense of moving home. A lack of knowledge and understand of how to go about selling a shared ownership property also deterred some from giving it serious consideration.

For most, however, moving was not an objective. They were settled in their current home and committed to their local area for the foreseeable future.

Reasons to wish to move

There were a range of reasons for considering moving.

Achieving outright ownership was perhaps the most common reason given for considering moving. However, there was some evidence of a split between participants who considered shared ownership as a relatively permanent tenure and those who had bought into the notion that shared ownership is a stepping stone to full ownership. There was significant dissatisfaction amongst this latter group that in practice their options to achieve full ownership were limited whether via staircasing or resale.

Buying a larger property and obtaining more space was also a common reason for wishing to move. In some cases this was due to changed accommodating a growing family. Being nearer to other family or relatives was also cited as an important consideration among some of the older participants.

A small number of participants had concerns about their property being associated with being part of social housing, and fitted out to a visibly lower standard that the nearby private properties. Nevertheless, most research participants were happy with the areas in which their housing was located and there was no evidence that any considered their area to be “blighted” in resale terms due to its location on estates of social housing.

Only one participant cited financial difficulties as a reason to seek to move and although full ownership would be the ideal tenure for most, several indicated that they would settle for being a shared owner again if they needed to move, though recognised that this was not likely to be possible under current rules.

Selling second-hand shared ownership properties

The 54 housing associations who responded to the survey held a total stock of 77,707 shared ownership units, of which 1734 (just over 2%) were currently on the market.
Only half of the respondents were able to provide data on the rate of resales over the past five years. The rates of resales each year as reported had fallen in recent years from a peak of nearly 3% in 2007/8 to a current rate of 1.8%, a broadly similar rate to that reported in CORE (see above).

The survey suggests that resale properties take longer to sell than new-build properties:

Table 5: New-build and resale properties unsold after more than 3 and 6 months

	Proportion of properties on market for more than three months	**Proportion of properties on market that have been there for more than six months**
New-build properties	23%	17%
Resale properties	38%	30%

Source: Housing association survey 2012

Data on the length of time properties have been on sale in the wider market are collected on a different basis. However, to provide some context, Rightmove suggests that the average open market property had been on the market for around 90 days in January 2012. (Rightmove, 2012). This suggests that the second-hand shared ownership market, though not performing as well as new sales, is experiencing fewer difficulties than the wider housing market.

Housing associations were asked whether they were aware of sellers who were experiencing difficulties in finding buyers. Two thirds of those surveyed answered ‘yes’. Table 6 summarises the types of difficulties experienced:

Table 6: Reasons housing associations cited for sellers' difficulties

Reason	Number of responses	Proportion of responses
Buyers can't get a mortgage	12	23%
Not affordable to target client group	8	15%
General low demand	8	15%
Particular problems with flats	7	13%
Owner in negative equity	6	12%
Concern over the state of the housing market	6	12%
Issues with properties in certain locations	5	10%
Lease restrictions on staircasing make it hard to get a mortgage	3	6%
Short lease remaining	2	4%
HomeBuy agents not having a healthy list of applicants	2	4%
Many shared owners want to sell at around the same time – insufficient demand	2	4%
Particular problems with properties in poor condition	1	2%
Eligibility restrictions in S106 agreements	1	2%
Buyers' difficulties selling own property first (retirement shared ownership schemes)	1	2%

Source: Housing association survey 2012

Affordability

The commonest reason for being unable to move cited by focus group participants was their inability to afford to achieve full ownership. A number of factors contributed to this perception:

- Incomes had not risen fast enough, if at all. A number of participants believed that they would not be eligible for the higher mortgage required.
- Several long-term shared owners cited the much increased value of the housing association share of the property as creating a gap that they could not bridge[11]. This was not a problem mentioned by more recent purchasers however, presumably because prices have risen much less (or fallen) since 2007.
- Some participants felt that the level of rent, in addition to their mortgage, made it hard to save to move into full owner-occupation. "The rent keeps going up and our income hasn't" as one participant put it. Often this point was conflated with dissatisfaction about lack of service provision in return for the rent paid (particularly when compared to services received by social tenants). Given that housing association rent rises are in fact capped, these individuals may have compared the rises in rent to falling real incomes and to the cost of mortgage interest, which has been exceptionally low for many in recent years.
- Participants frequently wished to remain in their area for amenity or work-related reasons. Given that they lived in South/West London or the Reading area, shared ownership may therefore be enabling households to live and work in areas that they

[11] Average house price to income ratios rose by nearly 50% between 1997 and 2007 (Harker, 2010)

would otherwise be unable to afford, but this does make it hard for them to move into full ownership whilst retaining their local ties.

Negative equity
Difficulties with negative equity exist across the housing market, especially for those who bought properties around the peak of the housing market in 2007. Shared owners exposure is lower in financial terms (as they only own a smaller proportion of their home's value) but likely to be just as great in proportion to their incomes and size of mortgage.

A key objective of shared ownership is to open up access to home ownership for those without access to substantial deposits. However, this does increase their risk of negative equity. The housing associations surveyed identified negative equity as an important reason for the inability of some shared owners to sell their properties. The focus groups confirmed that a number of owners believed themselves to be in negative equity. In addition, a significant number were unsure of the present value of their properties though they believed that the value could be lower than when they bought the property.

Mortgage lenders interviewed also identified an increased incidence of negative equity amongst shared owners.

Inability to move to another shared ownership property

The housing association survey found that less than 1% of sales by housing associations involved a shared owner moving from one shared ownership property to another. This low figure offers support for the contention of many focus group participants that they would be unlikely to be able to purchase another shared ownership property, despite some level of interest in this type of move were it to be available.

As an owner of an existing property, a shared owner would usually be ineligible to purchase another property unless in proven housing need, and might rank as a low priority even were eligibility established. Given the evidence from earlier research, as well as this study, that shared ownership is a permanent tenure for many if not the majority of shared owners, the inability to move within the tenure is a serious issue. It must also affect the functioning of the shared ownership resale market since over 130,000 households who could be potential sellers and buyers are in most cases effectively excluded.

Inability to obtain a mortgage

There was a general awareness amongst focus group participants that only certain mortgage lenders will lend for shared ownership. Though most had managed to obtain a mortgage to buy their existing property without excessive difficulty, their comments were a reminder that a larger group of lenders to the shared ownership market might increase choice and to some extent availability of finance. The housing association survey found obtaining a mortgage to be one of the problems associated with resales, although it is unclear whether this was specifically in relation to shared ownership or part of wider difficulties with mortgage finance for all homebuyers.

The lender teleconference confirmed the limited choice of lender due to the more complex nature of shared ownership lending and the fact lenders can now place larger loans at lower loan-to-value elsewhere.

Both lenders and housing associations pointed to the difficulties sometimes experienced in managing arrears and repossessions in cases where three separate parties have a financial interest in the property. Lenders were concerned about housing associations attempting to shift shared ownership rent arrears onto the borrower's mortgage on pain of forfeiting the lease. Housing associations claimed that they were sometimes unaware that repossession procedures were underway until notices were served. These problems were the subject of published joint guidance between the National Housing Federation and the CML in 2009 but it appears that difficulties still exist (CML, 2009).

A further issue for the lenders was that of properties with restrictive sale or staircasing provisions. Restrictive provisions limiting the range of buyers to whom a property can be sold have long been an issue for lenders, since they make realising the value of the security following borrower default more difficult. Lending on such properties may be restricted in terms of loan to value ratios.

Most lenders would consider lending on all types of lease. Two of the smaller lenders indicated that they had moved to a position of lending only on the standard lease, introduced in 2010. However, the larger lenders did not impose these restrictions, and confirmed that they would not be likely to do so as they already have considerable numbers of mortgages on properties held on pre-2010 leases, which they would not wish to devalue.

Beyond the above matters, lenders did not raise any other distinct issues relating to resale or new-build shared ownership properties. These were treated on the same basis and on a similar basis to other lending. Indeed, deposit requirements tended to be, if anything, more modest than for full home ownership properties, with one lender currently experimenting with offering a very restricted number of 100% loans to shared owners with a strong credit history.

Costs associated with selling

There are many costs associated with selling properties, whether open market or shared ownership. These include estate agents' fees, removal costs, solicitors' costs and stamp duty.

Selling a shared ownership property sometimes involves lower marketing costs (because the housing association may market the property for a lower cost than an estate agent would charge) but there are some additional upfront costs. When a shared owner wants to sell their property they must first have the property valued. The housing association survey found that 40% of housing associations charge an upfront fee for the valuation. Upfront fees varied from £90 to £565, with a median of £157.

There was a variety of approaches used to charge for selling a property (Table 7).

Table 7: Fees charged by housing associations for selling shared ownership properties

Charge	Numbers charging	Proportion charging	Smallest charge	Largest charge	Median
Fixed fee on sale	16	40%	£144	£900	£330
Percentage of market value	17	43%	0.3%	1.8%	1.0%
Percentage of share owned	7	18%	1%	1.8%	1.4%
No charge[12]	9	-	-	-	-

Source: Housing association survey 2012

Overall, these charges compare quite favourably with those that would be charged by local estate agents, which average at 1.8% of the price achieved[13]. However, the initial cost of the valuation is an additional cost for shared owners.

Some housing associations and Local HomeBuy Agents interviewed felt that the charges should be raised in order raise greater resources for sales, particularly at a time when selling houses is difficult.

There was also a lack of understanding amongst shared owners around the difference between the type of valuation that an estate agent carries out and that which the housing association is required to undertake. Estate agents aim only to give a broad indication of what the property is worth before the actual price is set by the market in terms of what a buyer is prepared to pay for it. However, housing associations are required to use a RICS qualified surveyor in order to actually determine an accurate valuation as a target for the price at which the buyer’s share of the property will be sold. Shared owners often failed to appreciate this distinction and therefore felt frustrated at having to pay for a service that they felt they could get elsewhere for free.

The nomination period and marketing

Shared ownership leases allow the housing association a ‘nomination period’ within which they have the right to market the property and prioritise buyers for it. The nomination period is set by the lease and is commonly 8 weeks, though can be longer or shorter. Interviews with Local HomeBuy Agents, and housing association respondents to the survey, confirmed that the way in which this operates varies quite substantially between areas. Most housing associations make use of their Local HomeBuy Agent to access a list of suitable buyers and to get promotion on their website but some prefer to do their own marketing.

Local HomeBuy Agents expressed concern that housing associations without much of a current sales focus sometimes failed to make use of their services and were either ineffective at selling properties, or too ready to let them be sold on the open market with little effort to prioritise purchasers. Housing associations, on the other hand, sometimes felt that Local HomeBuy Agents may not be as familiar with their local area, or sometimes fail to maintain an up-to-date list of suitable purchasers.

Some housing associations did not always enforce their right to the full period and instead decided on a case-by-case basis whether they would be likely to find a buyer from their list. For instance, properties where the value of the share had risen so it was no longer

[12] Nine housing associations reported that they made no charge for selling properties. All of these were small associations (less than 100 shared ownership units) who between them had carried out only eight resales in the last year.
[13] Which (2011) *Estate Agents Fees Exposed* www.which.co.uk/news/2011/03/estate-agents-fees-exposed-248666/

affordable to people earning up to £60,000, or properties located in areas where the housing association was no longer active in terms of new sales, were sometimes marketed more widely from the start.

Once the nomination period is over, buyers are free to appoint an estate agent to market their property, though many sellers will allow the housing association or Local HomeBuy Agent to continue marketing too. Practice varied between Local HomeBuy Agents in terms of the extent to which they continued to enforce eligibility criteria once a property was with an estate agent. Those that did, emphasised the importance of clear communication with the estate agent over any criteria they were imposing, so as not to waste potential buyers' time.

Some focus group participants expressed frustration at having to wait for the end of the nomination period before they could put their property on the open market, in a few cases having struggled to find buyers during the nomination period.

There was a strong feeling at focus groups that housing associations did not always use the full range of techniques of an estate agent, such as access to Rightmove and use of a shop window. Some felt that housing associations tended to focus only on their lists of possible buyers during the period when they had first refusal. There was also a belief that if this was the case then a relatively brief period was all that was needed to establish whether any of those on the list were interested before the property could be turned over to an estate agent.

One of the two estate agents interviewed, along with several housing associations in the survey commented that the lists that the Local HomeBuy Agents maintained were sometimes out of date and that advertising solely on the Local HomeBuy website would limit the number of potential buyers.

Finding buyers for resales

Some of the answers to questions about the process for finding a buyer for resale properties did give some cause for concern. For instance, one Local HomeBuy agent, commenting on difficulties in finding buyers for its own resale stock, reported how they had gone back to a list of potential buyers compiled three to four years ago when a new site was developed, to see if any were interested at purchasing when one of its own properties came up for resale. Unsurprisingly, they found that the potential buyers were no longer interested. This does suggest that some housing associations – and even Local HomeBuy agents who might be expected to be experienced at sales – may have a sales team that is focused more around the requirements of new developments than the resales function, a fact acknowledged by some housing associations: "It's not like new-build when we have a show house and someone there on Saturdays to do the viewings."

There were also differences between parts of the country in terms of the ease of reselling. The Local HomeBuy (First Steps) Agent for the London area reported no difficulties at all in finding suitable buyers from their list of approved households, and was able to ensure allocation to the right size of household, and also to one able to afford that price and no higher. The Local HomeBuy Agent and other housing associations active in less pressured parts of the country, however, found this more difficult. They tended to relax the eligibility criteria for resales, in order to help the existing shared owner to sell and move on. In relation to the costs charged by a housing association, the focus group participants voiced a strong belief that housing associations should follow the practice of estate agents in charging a fee based on actually selling the property rather than an upfront fee levied at the outset of the process. The need for a six-monthly valuation was resented by some, especially if there had been other (legal) costs incurred through aborted transactions over a prolonged marketing period.

There are clearly examples of good practice around in terms of marketing properties and using the nominations process to maximum effect. It would seem best practice involves housing associations taking a tailored approach to each property that comes up for sale, marketing quickly to an up-to-date list of potential buyers, and moving on swiftly to wider advertising, including the use of popular websites and shop window advertising if there are no potential buyers on their list.

Reselling after making improvements to the property

There is no national data available on the proportion of shared owners who carry out improvements to their properties. However, Thames Valley resale data lists 137 transactions for 2011-12. Of these, 12 involve improvements to the property whose added value is noted. As discussed earlier efforts to ensure that sellers gain the added value from improvements can create difficulties with valuations at the point of resale.

Awareness of how improvements are handled was limited amongst focus group participants. Nevertheless, several participants were aware of neighbours who had encountered issues with the valuation of improvements. These participants were aware that buyers could have to pay an extra cash sum in these cases to cover the costs; though understanding of how this worked seemed vague there was clearly a degree of concern that such arrangements could cause problems when selling.

Lenders similarly believed that the practice of charging for improvements over and above the valuation as in System 1 (see p4) was problematic as they had to base their lending decisions on the valuation. They confirmed that in situations where the buyer was asked to pay a sum over and above the valuation this could cause problems as the buyer would have to find this additional sum from their own resources. It is beyond the scope of this report to identify whether these difficulties have actually resulted in a significant incidence of aborted or delayed transactions. However given the financially constrained circumstances of shared owner buyers the possibility that this could be the case cannot be ruled out. While the other current approach to valuing improvements identified in this report (System 2) can be considered more transparent it allows the housing association to directly share in the added value from improvements, and thus it offers less financial incentive to make improvements and can be considered to be inequitable.

Section 3: Staircasing

Staircasing is a key feature of most shared ownership schemes, although concern has been raised that shared owners do not staircase as often as might be hoped. This section explores rates of staircasing, along with research findings on views on the barriers to its operation.

Rates of staircasing

The RSR provides data on staircasing (Table 8).

Table 8: Number of leaseholders who have staircased to the maximum share available (usually but not always 100%)

Year	Shared ownership units owned[14]	Staircasing to 100% (or maximum share allowed)	Staircasing to 100% as proportion of all shared owners
2001-02	90,839	3,856	4.2%
2002-03	87,468	4,560	5.2%
2003-04	89,880	3,764	4.2%
2004-05	96,566	3,259	3.4%
2005-06	101,732	2,402	2.4%
2006-07	107,587	3,466	3.2%
2007-08	121,680	2,231	1.8%
2008-09	133,583	1,162	0.9%
2009-10	139,741	1,851	1.3%
2010-11	144,733	1,357	0.9%

Source: RSR 2001-11 via Dataspring and TSA

This means that over the course of ten years, a total of just under 28,000 households staircased to 100% (and hence left the sector). During this same period, approximately 82,000 new shared ownership units were built resulting in a net increase in the size of the sector recorded in the RSR from 90,839 to 144,733.

The data show that staircasing to 100% has declined steadily over the past decade both in absolute terms and as a percentage of outstanding stock. This clearly raises questions as to whether the initial selection of shared owners has increased the proportion of those without the means to staircase or whether external factors, such as availability of mortgage finance, have played a part. Equally, a less buoyant private housing market since the onset of the credit crisis may have made shared owners less willing to increase their investment.

Data is not collected by government on partial staircasing to less than 100%, or on downward staircasing. The housing association survey therefore asked about all types of staircasing (Table 9).

[14] This includes standard Shared Ownership, DIY shared ownership, New-build HomeBuy and Leasehold for the Elderly

Table 9: Staircasing in the past 12 months

	Number	As a proportion of stock	As a proportion of staircasing activity
Total shared ownership stock of housing associations responding to survey	77,707	100%	-
Staircasings to 100% in past 12 months	1454	1.9%	84.1%
Partial upwards staircasings in past 12 months	239	0.3%	14.1%
Downwards staircasings in past 12 months	37	0.05%	2.1%
Total staircasings in past 12 months	1710	2.2%	100%

Source: Housing association survey 2012

The rate of staircasing to 100% was somewhat higher than that reported in the RSR for the sector overall. This may be because the survey respondents were typically larger housing associations and/or more geared up towards staircasing. It could also be that the low figure of 0.9% recorded in the RSR for 2010-11 has picked up during the latter months of 2011.

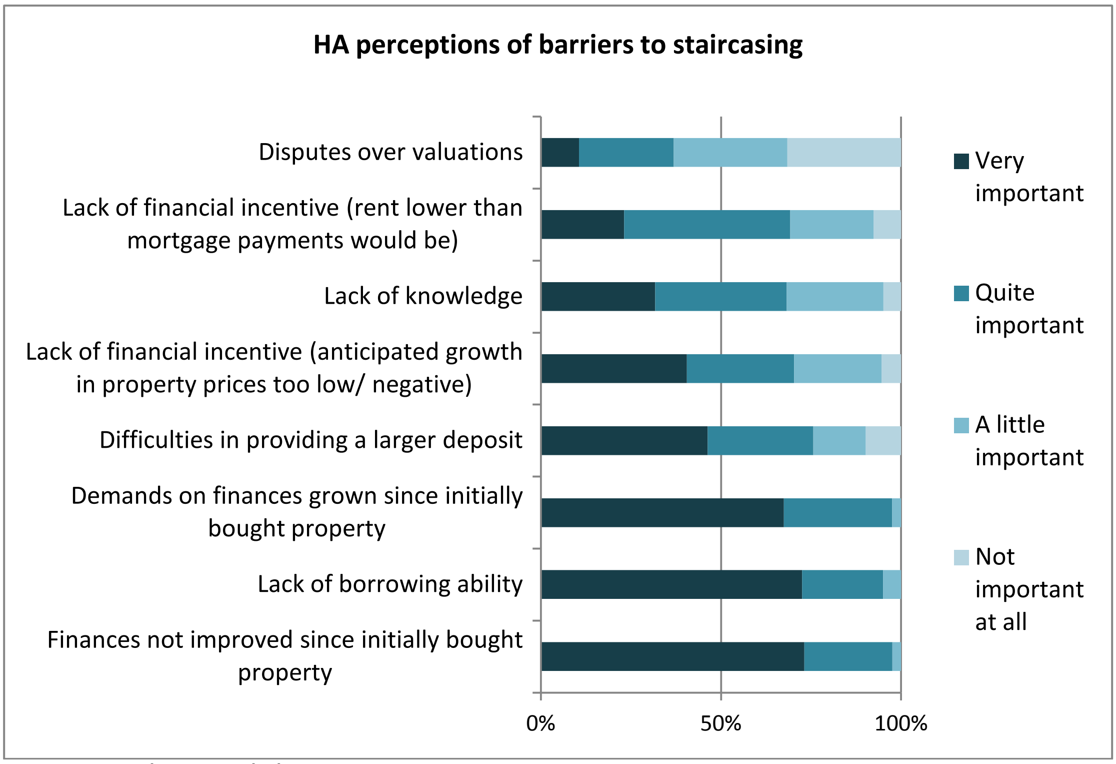
Partial staircasings form only a small proportion of all staircasing activity. The survey also found that of the 1454 staircasings to 100%, 203 were at the point of resale, so the property was bought outright and immediately sold on the open market. Shared owners may do this to avoid real or perceived difficulties in selling just their share in the property.

Three quarters of housing associations responding to the survey provide facilities for downwards staircasing in certain circumstances but, as shown in Table 9, uptake is small. Fewer than one in 2000 shared owners staircased downwards in the last 12 months. This suggests that the facility for downward staircasing is, as intended, only being used as an occasional safety net in situations where the owner might otherwise face repayment difficulties or repossession.

Barriers to staircasing

Housing associations believed that the most important barriers to staircasing were a lack of borrowing ability, customers' financial situations not having improved, or greater demands on their finances having arisen since they bought their properties (Figure 4).

Figure 4: housing association perceptions of barriers to staircasing



Source: Housing association survey 2012

The focus groups highlighted a range of similar barriers to staircasing:

Affordability
A serious issue in the eyes of the focus group participants was the perceived gap between their incomes and the value of the share still to be purchased. Those who had bought their properties a number of years ago had seen rapidly rising property values. A number of participants stated that their incomes had increased little or not at all and this was frequently contrasted with what were perceived to be rapidly rising rents on the housing association share. In fact rent rises are limited to RPI plus 0.5% per annum but it may be that, to a shared owner whose own income may be falling in real terms, such rises will appear challenging.

The inability to gain access to the extra funds necessary because of insufficient income was the most commonly cited reason for the inability to staircase. Low-to-middle income earners have typically seen their incomes rise little if at all in recent years, limiting their ability to increase their assets.[15] One participant summed up the frustration of a number over the inability to afford to staircase: "They call it affordable housing. It's better than full ownership but the rent gets higher and higher. We are stuck in a rut really. Lucky we like the area."
In a small number of cases, participants claimed that the up-front fees associated with staircasing would be unaffordable. It was unclear whether this represented the results of a detailed financial calculation or was part of an expression of resentment about those charges.

Negative equity
Negative equity was another important factor that focus group participants felt prevented them from staircasing. As discussed above, many shared owners who purchased around the

[15] See research by the Resolution Foundation cited in the Annex 1 (Whittaker, 2012).

peak of the housing market cycle may be in negative equity, particularly if they purchased flats.

The mortgage lenders questioned for this study were all supportive of staircasing but agreed that they were receiving an increased number of applications to staircase where the borrower was in negative equity. This meant extra funds for a further deposit were required and many of the transactions did not proceed. Clearly, if house prices continue to stagnate or fall, erosion of equity will continue to be a problem for shared owners considering staircasing. However, the more stringent mortgage deposit requirements of the past three years will mitigate the impact to a degree.

Lack of information
A common point made by participants was that more people might staircase if better and more regular information was provided by their housing association. While it should also be noted that participants from the same housing association often disagreed as to whether adequate information was provided, information issues did surface consistently. Suggestions for improving the quality of information included a "staircasing calculator", along the lines of a mortgage calculator, so that individuals could better assess the advantages of staircasing. Targeted information setting out the precise costs and potential savings on an individual basis, perhaps sent via email, was seen as preferable to circular mail-outs. There was also support for having a named contact at the housing association who would be able to see them through the process.

A related request was that housing associations should incentivise owners to staircase by absorbing some or all the up-front fees. In fact Thames Valley Housing, the housing association for the majority of participants, does periodically offer such incentives and it may be that such offers do not catch the attention of some individual owners unless they are already actively considering staircasing.

Costs associated with staircasing
There was no example of partial staircasing among the focus groups or shared owner interviewees. The strong view of participants was that staircasing made sense only if it was to 100% ownership because of the upfront costs (principally valuation and legal fees) involved with the transaction. There was a widespread belief that to incur several hundred pounds expenditure to staircase without achieving full ownership was not worthwhile. The fact that one might have to incur these fees several times as one progressively staircased towards 100% ownership was singled out by several participants. One suggestion made was that the housing association might do a deal with a firm of solicitors to bring down the legal costs associated with staircasing. There could be an analogy here with the practice of mortgage lenders who will frequently contract with a particular solicitor practice to handle mortgage further advances.

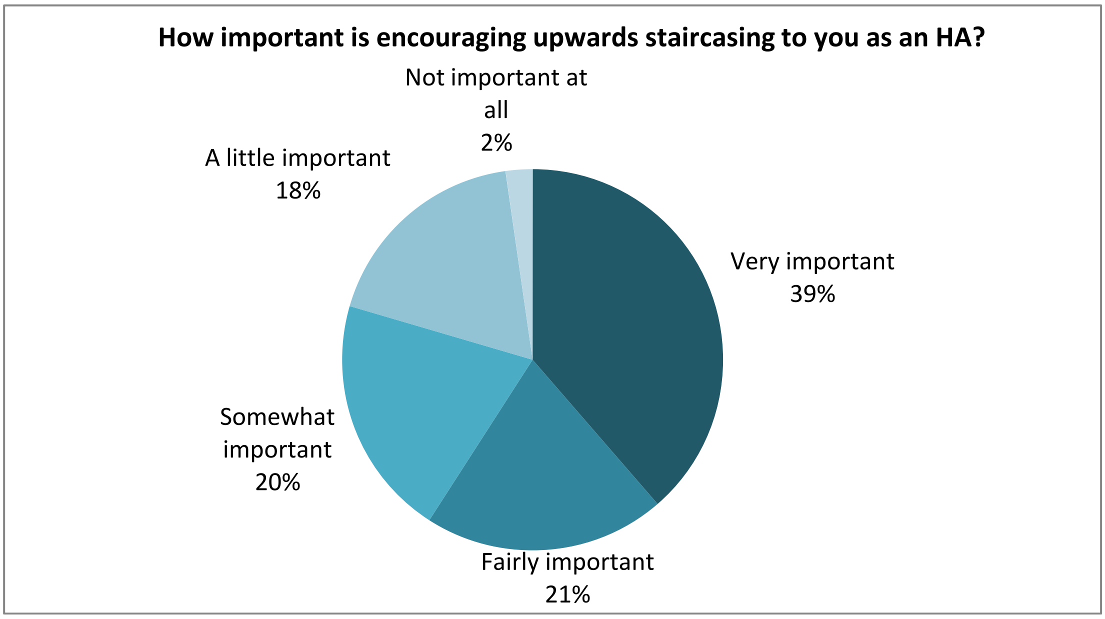
Clearly, there were many shared owners for whom partial as well as full staircasing would have been unaffordable in any case but the focus of their concerns was the costs and perceived "hassle" related to the transaction.

Downwards staircasing
Most participants did not show an interest in downward staircasing. It would seem likely that downward staircasing is only of interest when people are actually in financial difficulties. This may be the point at which to better inform shared owners of this facility, where it exists.

Encouraging staircasing

The survey sought to understand the priority given to staircasing by housing associations (Figure 5).

Figure 5: The importance of encouraging staircasing



Source: Housing association survey 2012

The reasons most commonly cited for prioritising staircasing were that it released cash for further development and that it was fulfilling the aim of shared ownership - to assist people into full ownership.

However, a minority of associations (20%) reported that encouraging staircasing was only a little important or not important at all. Reasons for this response were mixed. Some stated that their business plans were not reliant on this unpredictable or relatively small income stream. Others stated that they did not want to encourage their customers to overstretch themselves, especially in the current economic climate. A few reported unsuccessful efforts to promote it in the past and had concluded that their owners were unlikely to be able to afford to staircase.

Overall, 62% of housing associations undertake some form of promotion of staircasing, with promotion on websites and postal mail-outs to all households or to targeted groups the most common activities. Housing associations with limited shared ownership stock were less likely to actively promote staircasing.

Some housing associations were considering improvements to the way in which they marketed staircasing, with future plans including:

- Improving publicity, e.g. on website, newsletter, etc
- Holding (more) events
- Greater financial incentives
- Reminding customers of opportunities annually
- Targeted marketing
- Greater use of Independent Financial Advisors

- Ensuring all new leases permit staircasing

Overall, there was some good practice around in encouraging staircasing, and rates of staircasing varied a great deal between housing associations responding to the survey. This suggests that there is potential to increase the numbers of shared owners who staircase further.

Conclusions and recommendations

Shared ownership has continued to provide secure and affordable housing throughout the latest housing market difficulties. For some it may be a transitory tenure and a stepping stone into full ownership. For many others it is a long-term tenure and they do not necessarily expect to be moving into outright ownership within the foreseeable future.

Improving mobility

Coping with the current housing market conditions

Like the wider housing market, the new-build and second-hand market for shared ownership has been affected by a prolonged housing market downturn and by major changes within the mortgage market leading to a very significant tightening in the availability of loans. This has particularly affected key groups of potential purchasers for shared ownership such as first-time buyers, those on lower incomes, and those lacking substantial deposits.

Selling properties has become harder and it is clear that shared owners have not have been immune to difficulties, which include:

- Uncertainty about future house price movements affecting sellers and buyers
- Difficulties in obtaining mortgage finance and in raising a larger mortgage deposit
- Falling real incomes
- Difficulties with negative equity

This study raised some concerns that shared owners are sometimes prevented from moving or staircasing by negative equity. While this is a problem that affects significant numbers of full owner households, shared owners who have bought with very low deposits are likely to be particularly vulnerable in a housing market that is less buoyant than in the pre-2007 period.

Overall it would appear that the shared ownership second-hand market has not been any harder hit than the wider housing market. Shared owners have more difficulties today selling their homes than in the past. Nevertheless, they are still doing so, on average, in less time than that required to sell homes on the open market. This is probably because some households, no longer able to obtain mortgages for outright ownership, may look to shared ownership instead.

However, the research has also highlighted issues which have the potential to negatively affect people’s mobility. This is most likely to occur where buyers have only a very small deposit. **We recommend that consideration is given as to whether it is sensible for shared owners to gain access to the tenure without paying down a sufficient deposit to provide a reasonable level of protection during a housing market downturn or where prices are stagnant. To protect against future house price growth, it is also best to continue the current practice of ensuring buyers purchase the maximum share they can afford.**

Accepting shared ownership as a long-term tenure

Although regularly portrayed as a “stepping stone” into ownership, for the majority of existing shared owners shared ownership is a tenure for the long term. Indeed, many never achieve full ownership. This is possibly inevitable given the policy objective of prioritising those least able to afford full owner-occupation. Unless they experience substantial improvements in incomes relative to house price growth, or want to move to a smaller property or cheaper area, they are unlikely to be able to access full ownership. When house prices were growing rapidly this was because the gap between the share they owned and the full market price was increasing faster than incomes. Today tighter lending restrictions have had the same effect.

It is therefore important that **shared ownership be seen as a long-term tenure for many households.** This includes **consideration of the practical implications of considering shared owners as a permanent tenure rather than a step on the road to full ownership.** As housing ages, it commonly needs substantial investment simply to preserve its current value. Shared owners on tight incomes, owning shares as low as 25%, may not be willing or able to undertake this level of investment on a property. However, housing associations’ assets are at risk if the occupier does not undertake the maintenance required. **Housing associations and local authorities should also consider sustainability and housing options over the long term for those purchasing very low shares.**

The evidence suggests that 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.** In doing so, a balance must be struck between preserving the role of shared ownership as an access route to ownership via modest entry shares and the longer term aim of improving the numbers that are able to move onto full ownership. This requires careful consideration.

For a proportion of shared owners, mobility in order to fulfil their housing aspirations – for instance, to be nearer to their families or to have a larger home for a growing family – may need to be achieved without moving to full owner-occupation. It appears the Government’s eligibility and priority criteria for access to shared ownership effectively precludes most shared owners from being able to move to another shared ownership property. This seems odd since allowing movement within the tenure would still free up the same number of shared ownership homes for new households. A movement from one shared ownership property to another also provides an opportunity for the housing association to ensure that the household has purchased the maximum share affordable (thereby possibly releasing some equity). Shared ownership has become a permanent tenure for many and the opportunity achieve to mobility and maintain their stake in (partial) home ownership is important in itself. **We therefore recommend that shared owners wishing to move within the sector are given the same priority as social tenants and MoD personnel currently receive, in order to improve mobility within the tenure.**

Encouraging staircasing

Whilst some households are likely to remain shared owners in the long-term, others do see improvements to their financial circumstances and could potentially increase their share of the home. Many housing associations already promote staircasing, but not all consider it a top priority. **We recommend that, having regard to housing market and other risks, housing associations encourage staircasing to the maximum that a household can sustain. This would release assets that housing associations could invest.** The research found that shared owners are often unable to afford staircasing to 100% but are deterred from partial staircasing because of the valuation fees involved. **We recommend that housing associations consider the cost of paying these themselves and weigh this against the potential gains from staircasing.**

Examples of good practice in promoting staircasing can be found. **We recommend housing associations run roadshows and events, and promote special offers (with reduced valuation fees) to attract potential staircasers.** Good practice also includes housing associations establishing, from their records, the most likely client groups to staircase, based on household composition, property value and length of time in occupancy, in order to target promotional material. The focus groups suggested that what was wanted most was individual named staff members who would give them a detailed appraisal of their options, costs and potential gains from staircasing**. We recommend housing associations consider more widespread use of a 'staircasing calculator'**. This would give individually tailored information on elements such as:

- An indicative valuation of their current share (based on average house price growth since they first purchased or last had it valued)
- The size of additional shares available for staircasing
- Likely increases to monthly mortgage repayments for each additional share purchased (based on current average mortgage interest rates)
- Their current rent level
- Their reduced rent level (for each additional share bought)
- The upfront cost of staircasing
- Access to specialist mortgage and legal advice.

We would also recommend that housing associations consider working closely with a firm of solicitors to see if the costs associated could be reduced for sellers.

Improving the sales process

Rates of second-hand sales of shared ownership properties do appear low, and have been for some time. Only 2-3% of properties are sold on as shared ownership properties each year with a similar level again entering owner-occupation via staircasing (and possibly being sold on thereafter). This would suggest that only around 5% of shared owners move on or staircase in total each year, a lower rate of mobility than might be hoped for. There is some evidence that shared owners wishing to sell their homes do experience some difficulties. Not all of these are related to the current housing market conditions.

Information and communication

It was clear from this research that some shared owners had an incomplete or incorrect understanding of the process for second-hand sales. **Housing associations, in conjunction with Local HomeBuy Agents, should review the way in which key information is communicated to new buyers.** This should involve a renewed focus on ensuring consistent and appropriate information is provided on how the product works in practice, the financial commitment involved and the respective rights and responsibilities of each party. The resales process was rarely identified as a concern at the point of sale, but did develop into one. **This suggests a need to ensure existing shared owners are aware of the provisions around the nomination period, as well as the process and charges related to valuations, to avoid unexpected frustration.**

Another concern identified by shared owners was the transaction costs involved in staircasing and resales, in particular the charging of an upfront fee. It was also clear that practice between housing associations in relation to fees varied. **There needs to be consideration of whether the sector, as a whole, can move towards a model similar to that of estate agents where a higher proportion of the sales price is charged, to cover the costs of initial valuations and marketing. Fees should be levied at the point of sale.** The research found that housing associations managing small numbers of resales often lacked a dedicated resales service, as well as suitable buyers for resales. **Housing associations without the resources to offer a dedicated resales service should therefore be encouraged to work with other housing associations or make use of the Local HomeBuy Agent to manage the process on their behalf.**

Finding buyers

The process of selling a shared ownership property is somewhat more complex than an open-market property because of the need to balance the Government and local authority's eligibility and priority criteria, with the requirement to find a buyer and obtain a fair market price for the property. Practice clearly varies substantially between housing associations in this respect. In some areas, the eligibility and priority criteria used to determine access to shared ownership appear to work well and suitable buyers are found from the lists of applicants nearly all the time. In other areas, particularly where housing demand is less strong and shared ownership dispersed over a wide geographical area, housing associations struggle to find potential buyers who qualify. Some, in this situation, place properties directly onto the open market whilst others may sometimes try, but fail, to find suitable buyers from their lists of applicants.

We recommend that housing associations take a strategic and balanced view of the best way to sell each property that comes up for resale. For many properties, a buyer with the right income level and household size can quickly be found from a priority group without any need to go to the open market. For other properties this is less easy - for instance when the value of the share owned is too high to be supported by an income of £60,000 (or sometimes lower incomes that have been set by local authorities). Lists of approved buyers may contain no households who could afford to buy these properties. Housing associations could (and sometimes do) consider buying a proportion of the property back in these cases, so that the value of the share sold is lower. Alternatively they may sell the entire property on the open market and use the proceeds to fund shared ownership elsewhere. Both these practices serve to keep shared ownership affordable to the target client group, whilst allowing the seller to move on.

Valuing improvements

The process of valuing improvements and trying to ensure that the seller gains from any financial uplift that they have created is problematic at present. System 1, as described earlier, can raise unrealistic expectations among sellers as to their ability to recover the full value of improvements on sale and may on occasions cause difficulties when buyers seek to obtain a mortgage.

The simplest and most transparent option would be to use the System 2, as described earlier, where the buyer is simply informed upfront that they must pay for any improvements but will only gain from any uplift in value in proportion to the share they own. However, this may be considered inequitable.

A related issue to emerge in this study is evidence of confusion between shared owners and housing associations about what constitutes an improvement and what falls under the headings of repairs or maintenance. This can lead to disappointment among owners that they cannot recover the cost/value added associated with their "improvements". **We recommend that consideration is given of how to develop a system that ensures owners are appropriately compensated for any uplift in value that they create from improvements.** If the housing association wishes to retain its percentage share of a property that is now worth more money this may require some funding.

Addressing specific restrictions in the lease

This study identified particular difficulties in the second-hand shared ownership market for properties with additional restrictions in the lease. Often the result of S106 restrictions, these commonly involved restricted staircasing (so that the owner was not allowed to staircase to more than 80% of market value) or additional rules around eligibility of new buyers. Housing associations commonly reported additional difficulties in finding suitable buyers who could obtain mortgages for such properties and the existence of these difficulties was confirmed by lenders. **While recognising that strategic considerations may sometimes require some restrictions on resale, we recommend that consideration is 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.**

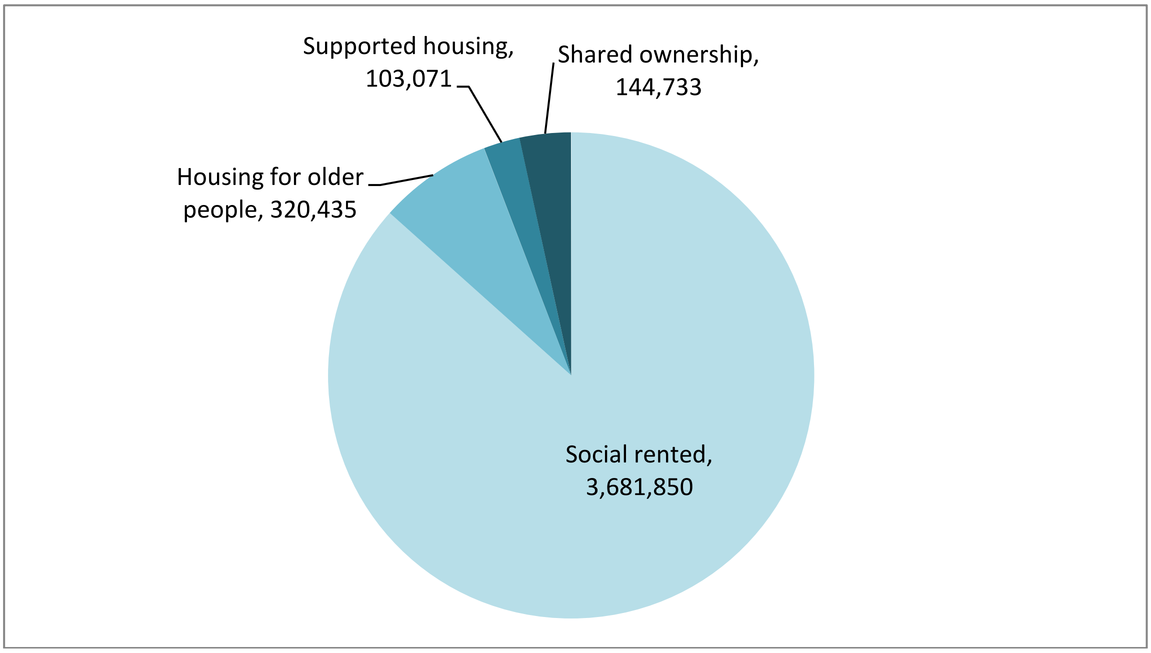
Issues for future research

This study has thrown up significant issues about how resale and staircasing processes can be improved to the advantage of shared owners and ultimately to the affordable sector as a whole. There is more to be done to develop full understanding of the dynamics of the second-hand market and of staircasing. This study has not, for instance, examined regional factors in any detail, yet differences between areas appear to be significant. Variations in the behaviour and attitudes of different age cohorts of shared owners have barely been touched on. These issues, and others flagged up above, indicate that there are a range of questions to be resolved by further research.

Annex 1: Baseline review of existing evidence

The total numbers of shared ownership homes are set out in the chart below.

Figure A1: Shared ownership as a proportion of Affordable Housing in England



Source: RSR 2011

This figure can be broken down by region and by local authority area. London has the largest number of shared ownership homes at 27,500 representing 8.7% of total stock. This is the highest number and proportion of shared ownership stock of any English region.

The history of shared ownership: shifting perceptions of resales and staircasing

Shared ownership expanded in the 1980s, against the backdrop of a radical shift in housing policy initiated by the then Conservative Government, with a strong focus on encouraging home ownership for all but the most needy. This was combined with a relative decline in overall public housing expenditure, a shift from supply-side to demand subsidies and a precipitate decline in the construction of social rented housing (Balchin & Rhoden, 2002).

Shared ownership was seen as a transitional tenure, offering an opportunity to gain a place on the housing ladder in order to progress to full home ownership (Booth & Crook, 1986). At a time of relatively high inflation, it was hoped that 100% staircasing would soon be possible (Allen, 1982). In this situation, interest in the secondary market, in any case hardly mature, was limited.

Evidence began to emerge early that 100% staircasing was by no means universal or achieved even by the majority of shared owners. In 1993, Cousins et al produced *An Appraisal of Shared Ownership* (Cousins, et al, 1993). Their findings, based on extensive fieldwork in 1991, included evidence of staircasing activity. They concluded that only around 25% of residents across a number of housing associations had staircased upwards and posited a staircasing rate of around 5% per annum - a high figure compared to recent activity as recorded by the latest Regulatory and Statistical Return (RSR). The work on staircasing was linked to the stated desire of the Housing Corporation to encourage full ownership in order to recycle grant; a policy preoccupation with maximising the supply of new dwellings that was to grow as the years passed. The secondary market received relatively little attention.

The report did, however, ask shared owners their plans over the next five years. While almost half expected to move and buy another property, only 2% expected to move and remain shared owners. Significantly, when asked if it was easier or harder to sell as a shared owner rather than as a full owner, 45% considered it harder against 17% “easier” and 17% “the same” (1765 sample base).

While such findings are now too old to be directly indicative, they do suggest that relatively early on a perception had grown up that the second-hand market was not fully functional. Analysis of movers suggested that most moved into full owner-occupation, with less than 10% moving to another shared ownership property.

Interestingly, the above study identified only a group of 10-15% of shared owners who would “never” become full owners on the basis of evidence of the actual staircasing rate. It was concluded that “after six years between 30% and 50% of residents will have purchased additional shares, of which a majority would then be home owners”. With hindsight, such a conclusion appears over-optimistic and arguably at variance with aspects of the detailed survey findings (Cousins, et al, 1993).

In spite of some evidence that staircasing activity was more limited than previously assumed, there remained an air of confidence about the transitional nature of shared ownership i.e. that most shared owners would eventually become full owners. The effectiveness of the second-hand market and staircasing was not seen as a major issue.

It is significant that an early expression of concern about the functioning of the secondary market for shared ownership was raised in a study sponsored by the Council of Mortgage Lenders (CML) and which contained input from mortgage lenders (Chapman Hendy, 1995). Mortgage lenders have a direct interest in the ease with which properties can be resold in the event of repossession and in the degree that such sales will realise full value. The CML study found concerns around whether a secondary shared ownership market was forming and who was buying second-hand shared ownership property. Lenders were concerned to see an active second-hand market form to keep property prices healthy and to enable them to realise the value of their security should they be forced to take possession of the property. Lenders have continued to discuss shared ownership and its second-hand market within their organisations and trade body, and to offer evidence of limited interest in lending to the sector (Hoyle, 2004). It is not until over a decade later that research begins to focus on this area with the study by Alice Wallace discussed later in this report (Wallace, 2008).

Evidence of limited staircasing activity continued to emerge. Of indirect relevance is a study by Pieda for Scottish Homes, which included interviews with over 500 Scottish shared owners (Pieda, 1996). This concluded that fewer than 4% of shared owners had staircased and of those most had staircased straight to full ownership.

Grant and increased supply

As UK house price rises accelerated and grant rates were progressively reduced, discussions in relation to shared ownership focussed increasingly heavily on the need to maximise new supply. This involved getting the most out of a given level of grant and attempting to ensure that new-build properties were affordable to prospective purchasers.

The Low Cost Home Ownership Taskforce reported in 2003 but apart from recommendations relating to distressed home owners' ability to staircase down, staircasing and the second-hand shared owner market were not a preoccupation (Low Cost Home Ownership Taskforce, 2003).

Government policy increasingly drove both the home ownership and supply agenda during the years preceding the credit crisis. The pressure to achieve best value for public investment intensified. The National Audit Office opined in 2005 that it represented poor value to allow grant-funded shared ownership homes to go to those who could have accessed home ownership unaided (National Audit Office, 2005). Earlier that year the Government had committed itself to extending home ownership (defined to include shared ownership) to 75% of households (HM Treasury/ODPM, 2005).

The Shared Equity Taskforce in 2006 defined the aims of shared ownership as (HM Treasury/CLG, 2006):

- To free up the supply of social rented accommodation either directly or indirectly
- To improve recruitment and retention of key public sector workers
- To create sustainable communities
- To enable more people to accumulate asset wealth
- To widen choice and meet home ownership aspirations.

Although shared ownership figures substantially in the Taskforce report, the secondary market does not figure at all. In the early years of shared ownership provision, the second-hand market was essentially tangential to the main public policy preoccupations and assumptions, insofar as it was recognised at all. By the time of the Taskforce the existence of a second-hand market was arguably more problematic. In a climate where staircasing was seen as crucial from both a home ownership and public investment perspective, those who did not move on or staircase to full ownership implicitly challenged prevailing policy perspectives. Clearly permanent shared owners tied up property that had been grant aided.

In addition, facilitating an effective secondary market could be seen as removing an incentive to staircase to 100%. However, it has been recently argued that the desire to encourage only households who could not access full ownership unaided to enter shared ownership has made upward staircasing less likely since the financial hill will be harder to climb (Whitehead, 2010). Ironically, encouraging households with lower incomes to gain a foot on the housing ladder may actually have confined many of them to its bottom rung. This was not generally recognised at the time.

In 2006, in a report assessing the degree to affordable housing provision met government objectives, Cho and Whitehead noted that shared owners had significantly lower incomes than first-time buyers in general but that their regular outgoings on housing were almost as high. Even so they concluded that between 1991 and 2002 a high percentage of those who entered shared ownership were able to achieve full-ownership, suggesting that many of these could in fact have bought on the open market in the first place (Cho & Whitehead, 2006).

By 2007 some commentators were warning that the secondary market could be here to stay and deserved greater recognition. Wilcox and Williams, in a study of the intermediate market in London noted that the lower income households entering shared ownership had "little prospect of ever being able to buy the whole property". They concluded that "the risk of intermediate tenure is that for some it becomes a tenure in its own right rather than a means to an end" (Wilcox & Williams, 2007).

Similar conclusions were reached by a study for Metropolitan Home Ownership and Tower Homes (Clarke, et al., 2007), which surveyed shared owners with less than one year's tenure and those who had been in their homes for three to four years. It found that acquiring assets through homeownership was the single most important positive factor in their choice to buy, closely followed by price, suggesting that financial constraints were real in determining choice.

Only 9% of the 3-4 year survey respondents were found to have staircased. Insofar as upward staircasing is difficult for many residents, this may at least in part be because of the profile of those selected as eligible for shared ownership rather than the characteristics of the tenure itself.

The existing literature has therefore raised some concerns that assumptions, stretching back to the early days of shared ownership about the likelihood that real incomes amongst shared owners would rise significantly in the early years following initial purchase of their share, may have proved over-optimistic.

The banking crisis and beyond

The above study reported only months before the collapse of Northern Rock in September 2007 precipitated the onset of the credit crisis. Also in 2007 the accelerating drive to maximise affordable housing supply and to squeeze the most supply for a given level of grant was articulated in key policy publications.

The green paper *Homes for the Future* affirmed the intention to raise affordable supply to over 70,000 per annum by 2010/11 (CLG, 2007). These conclusions were confirmed in the Comprehensive Spending Review that autumn. In the meantime, the Housing Corporation had announced new and challenging targets in terms of grant rates, in *Unlocking the Door*, a paper of its time in terms of its reflection of the optimism of the final pre-credit crisis period (Housing Corporation, 2007).

As the banking crisis unfolded it did not immediately result in cutbacks to grant. Housing associations were encouraged by government to press ahead with their development plans, including those for shared ownership. Meanwhile, house prices began to drop and the supply of mortgage finance fell dramatically. The demand for shared ownership dwellings also fell over the period 2007 to 2009, mirroring issues in the overall housing market. By January 2009, over 10,000 shared ownership properties remained unsold and the unsold figure was still 5,196 in April 2010 of which over half had been on the market for over six months (TSA, 2010). The HCA deployed significant amounts of grant into housing associations to ease cash flow constraints (Social Housing, October 2009). The Global Accounts reported that the overall surplus from shared ownership sales was eroded by almost £100 million between 2008 and 2009 (TSA, 2010).

The changed climate did not lessen pressures to maximise the return on grant but did cause some questioning amongst housing associations and commentators about the plight of shared owners in more turbulent times. Clearly, the shortage of mortgage finance and fears about future price falls both led to concern about owners' ability to staircase or sell in order to move into full-ownership.

It was almost on the cusp of housing market downturn that Alison Wallace undertook her study *Achieving mobility in the intermediate housing market: moving up and moving on?* (Wallace, 2008). The study was focussed on existing data sources plus a nationwide survey of housing associations and local authorities. In addition, Wallace conducted a survey of shared owners in six areas. The findings suggested that mobility within the shared ownership market was lower than that of owner-occupiers.

An important observation by Wallace is that shared owners who are committed to high-cost areas for reasons such as proximity to employment may well find that, unless they move to another shared ownership property, they may not be able to move. Therefore, they may be disadvantaged if the local choice of shared ownership properties is limited, or if they are not seen as a priority by housing associations with properties to sell.

Wallace notes that a lower proportion of shared owner buyers come from professional or managerial occupations than first-time buyers in general. It is suggested that this may mean that their incomes rise more slowly than other buyers, making upward staircasing less affordable due to an income gap relative to that needed to enable extra borrowing. Again this argument deserves further attention.

Interestingly, Wallace discovered that both housing associations and owners believed that small equity shares were easier to sell than larger. If this is perceived by shared owners to be the case it could provide a disincentive to upwards staircasing.

Of those selling their share in their property, the majority reported that they succeeded in selling via estate agents rather than housing associations, although it is suggested that responses from Scotland and Northern Ireland may have distorted this finding. Nevertheless, only 15% of all sellers were satisfied with the process, albeit on a very small sample size. Some sellers indicated that their housing associations had put them to the expense of a second valuation once the property had been unsold for three months or more. In some cases respondents reported that on a falling market, housing associations would insist on the use of an initial valuation to determine their share of the receipt, even though the property subsequently sold at a lower price.

Additional material of relevance to the situation of shared owners is provided by research by the Resolution Foundation which suggested that low-to-middle earners (households on £30,000 income or less) have lost out in terms of relative increases in real incomes over many years and have fared particularly badly in terms of cuts in real income over the past four years (Whittaker, 2012).

An important additional piece of work that throws additional light on some issues raised by Wallace is *Public attitudes to housing in England* (Taylor, 2011). The survey examines attitudes to the three main tenures amongst households and has received attention for showing the continuing high level of aspirations to home ownership. The report has only a very limited focus on shared ownership but its conclusions are worth some attention. While 75% of all current renters had heard of shared ownership schemes, only 31% would consider such a scheme; 15% were ambivalent and 53% would not consider such a scheme. Private renters were more likely to consider shared ownership than either housing association tenants or local authority tenants. Even among the key first-time buyer 18-34 age group a majority (46%) would not consider shared ownership. While 11% of renters thought government should give more money to shared ownership schemes, 23% supported more money for social renting. The main disadvantage cited by residents of all tenures in relation to living in an housing association/local authority property was the risk of anti-social behaviour.

These results clearly have relevance to both the first sale and resale shared ownership markets. The fact that many renters would not consider such schemes is surprising. Overall, these results could suggest that where shared ownership properties are, rightly or wrongly, perceived as being situated in less desirable neighbourhoods there may be an impact on demand. Resale properties no longer have the cachet of being “new” and therefore any such impact could perhaps be greater for this sub-market. Further research could be justified here as these questions are not resolved in the present report.

Overall, in drawing out the policy and market context for perceptions and research on staircasing and the second-hand market over 30 years it is possible to observe that neither subject has really received the attention it might be considered to have deserved. Those who do not staircase to 100% have at best been tangential to key policy interests, notably that of maximising the impact of grant in terms of new supply. It is by no means clear that the new austerity ushered in by the Coalition Government in 2010 will necessarily raise the salience of staircasing or the second-hand market. Home ownership levels are now widely recognised to be falling (Heywood, 2011), a phenomenon identified as early as 2007 (Williams, 2007). Nevertheless there remains a commitment to open up access to home ownership as evidenced by the “Age of aspiration” speech of the Minister, Grant Shapps:

> “There are an estimated 1.4 million households who aspire to own a home but are unable to do so because of house prices and mortgage availability. There are hundreds of thousands of people in rented accommodation, or living with parents, who yearn to be first-time buyers. It is now true that the average age of first-time buyers (with no support from their families) is 37. Now that 37-year-old is not asking for a handout; they just want a chance. We need to give them that opportunity. “
> (Shapps, 11 June 2010)

With housing completions in England standing at 102,000 for 2010, the pressure to maximise diminishing amounts of grant is intense, with the move towards the Affordable Rent development model likely to intensify the desire to recycle scarce investment resources through shared ownership sales (HCA, 2011). The Government housing strategy, published in November 2011, gives little clue as to whether shared ownership is seen as a valid permanent tenure in its own right or as a transitional tenure for those on the road to full ownership (DCLG, 2011). There is no real reason to believe that staircasing and the secondary market will receive more attention from policy makers in the immediate future than in the past; the present study is therefore likely to be a significant milestone for some time to come.

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