

Low Cost Home Ownership: Affordability, Risks and Issues

2008

Report for the Housing Corporation

Cambridge Centre for Housing and Planning Research

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2008

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Executive Summary

- The Housing Corporation commissioned the Cambridge Centre for Housing and Planning Research at the University of Cambridge to explore the impact of the credit crunch and housing market turbulence on Low Cost Home Ownership (LCHO).
- The research employed both qualitative and quantitative methods. CORE data were analysed. In May and June 2008 an email survey was sent to and telephone interviews conducted with a sample of Housing Associations/HomeBuy agents, with Housing Corporation investment managers and with financial organisations involved in the LCHO sector.
- The research explored what the impacts of the credit crunch and market changes have been on the supply of, the demand for and the affordability of LCHO. How risk has changed for both purchasers of LCHO and of HAs as providers was considered.
- At that time the current phases of development programmes were being delivered. However, many HAs expressed concern that they would struggle to sell or were already struggling to sell new build units. A number said that they were considering changing the tenure of the units, for example to social renting, rather than risk seeing the units stand empty.
- HAs were increasingly having to compete with the shared ownership schemes now being offered by private developers. However, the target clients were still rather different.
- There were longer term concerns about supply as the major housebuilders slowed down development and some planned developments were now not expected to go ahead until the market improves. This will reduce the supply of LCHO units where they are planned on S106 schemes. This has implications for the LCHO programme and whether the target number of units can be delivered. It also reduces the ability to cross-subsidise social rented units.
- For some HAs the flow of units from private developers to the LCHO sector was expected to increase as private developers were already offering HAs the units they could not sell. However, many of these are not in the right location or of the right standards, type and size.
- A few HAs had not seen a decline in demand for LCHO. Others had seen a fall in both enquiries and in sales. Many felt that the uncertainty in the housing market overall with falling prices and more costly borrowing was discouraging potential purchasers from buying in the current climate. Many HAs have increased their marketing activity. There were differences noted in the properties that were most affected, HAs said that demand was still there for family houses in good locations, but that demand for flats and units in less favourable locations had fallen.
- There had not at that time been any major shift in the types of households purchasing the properties. The broad target group was still accessing LCHO. However, it was only households with deposits and good credit histories who could access mortgage finance. A few HAs reported more enquiries from households on higher salaries than the average LCHO purchaser.
- For existing owners, the cost of borrowing had increased alongside broader increases in the cost of living as fuel and food prices have risen, for example. Higher

mortgage payments and other costs without increases in incomes were making household finances much tighter. There was as yet little evidence of demand for downwards staircasing, although HAs feared it would increase in the future.

- The cost of borrowing has increased so HAs faced higher costs. There were concerns that some HAs were quite highly geared and more vulnerable to the increased cost of borrowing. This would be particularly relevant when they come to re-finance and cannot access rates as favourable as their previous rates. There were suggestions that some HAs could face cash flow problems in the future. Some HAs would need to re-visit their business/financial plans, for example, where they are dependent on cross subsidy from LCHO sales and/or where their borrowing costs increase when they need to re-finance.

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Introduction

Over the past twelve months the UK has experienced considerable turbulence in the housing and finance markets. This has led to a number of related consequences:

- House prices have fallen
- The length of time taken to sell properties has increased
- House sales have fallen significantly
- Mortgage lending has decreased significantly
- The cost of borrowing has increased along with broader increases in the cost of living
- Construction of new properties has fallen dramatically
- The five largest house builders have announced job losses totalling 5,000

It is in this context that this research is exploring the impacts of turbulence in the housing and finance markets on Low Cost Home Ownership (LCHO).

LCHO has already been studied in certain contexts. For example, there has been considerable research in recent years into aspirations to home ownership among social tenants and other target groups of the Housing Corporation's Low Cost Home Ownership programme. These include a National Audit Office (NAO) study as well as specific evaluations of Social HomeBuy and the Right-to-Buy, and an earlier evaluation of the traditional shared ownership product whose results fed into the development of the HomeBuy suite of products.

Most of this research took place against a background of rapid house price inflation and low interest rates enabling cheap credit, except in the early 1990s when Housing Associations (HAs) faced major difficulties. These conditions made house purchase both attractive; rising house values create increased equity for existing owner occupiers. Whilst higher house prices coupled with relatively smaller rises in incomes make house purchases less affordable, before the 'credit crunch' mortgage lenders were relatively relaxed about the terms of the mortgage offers they issued enabling many households to purchase homes even at higher house prices. However, first time buyers and low income groups in particular have been priced out of the market as house prices have risen out of proportion to incomes. LCHO has been developed to enable these groups to access home ownership.

Over the last couple of years, house prices continued to rise rapidly, but rising interest rates made house purchase even less affordable, particularly affecting those at the margins of affordability. This has happened against a backdrop of private sector rents remaining relatively stable as they increased broadly in line with incomes. This suggests that LCHO was struggling to compete with private renting in terms of cost alone. However, very recent evidence suggests that rents in the private rented sector in some areas are now increasing, as potential first time buyers choose to continue renting and rising mortgage costs impact upon rents.

A further factor that has affected the market in which LCHO is operating is that there have been recent disturbances to the housing finance sector. The Northern Rock crisis highlighted the vulnerability of the market to the problems caused by sub-prime lending. One effect has been a slowdown in mortgage lending and more caution in lending. One of the features of shared ownership products is that, despite offering a considerable degree of mortgagee protection, lenders traditionally regard this form of home ownership as high risk.

The recent fall in property prices and predictions of further market turbulence have also created uncertainty in the housing market, for both buyers and lenders. Worsening affordability over previous years, followed by more recent market turbulence and uncertainty

has been reflected in a fall in the number of first-time-buyers entering the market. Towards the end of 2007 the numbers have been lower than at any time in the last 16 years.

This study sought to explore the impact of these recent changes on the supply of and the demand for LCHO and the financial implications for both LCHO purchasers and for HAs.

Background

The intermediate market

The intermediate housing market is defined as existing between the market for traditional social rented housing and the market for privately rented or owner occupied accommodation. 'Intermediate housing' is housing for households unable to afford to purchase on the open housing market but able to afford more than the rents charged for social rented housing. Modestly earning households find themselves in this market as they are not usually a priority for social housing (although they may be on the council's housing register) but they cannot afford to access suitable self-contained accommodation by buying privately. LCHO is a means to meet the needs of modestly earning households who cannot afford outright home ownership but who are usually not eligible for social rented housing.

The size of the intermediate market tends to increase during each economic upswing when house prices rise faster than earnings making home ownership unaffordable to greater numbers of working households. Past solutions have included direct employer provision of housing, notably for the police and fire fighters, and also nurses' homes. But in the past the social rented sector was larger than today and was able to house a broader range of working households including both public and private sector employees. Home ownership has risen as a proportion of the total stock in the UK. At the same time, the proportion of social rented housing has declined, notably as homes have changed from social rented to owner occupied through Right to Buy. The social sector now only houses those in priority housing need which usually means the lowest income groups, such as pensioners, single parents and unemployed families with children.

The recent rise in house prices in the UK has not only increased the need for more affordable housing in the form of social renting but has again highlighted the issue of providing for households who, although unable to access even the cheapest market housing, are able to afford more than social housing rents. This cohort is of a variable size and as affordability worsens, the composition of this group is liable to change. A greater number of households struggle to access home ownership as affordability tightens.

As part of the policy response, there has been a renewed emphasis on meeting the needs of the intermediate housing market. LCHO products such as shared equity and shared ownership have been introduced to address problems of access to owner occupation and affordability that are putting pressure on governments who wish to meet aspirations for home ownership and have an incentive to limit public sector commitments (Yates and Whitehead, 2006).

Such provision is attractive to government for a number of reasons: first, it can be produced with little or no public subsidy; second, it may be preferable to social rented units on full subsidy because the residents are likely to be in work and otherwise have characteristics that place them closer to home owners than to subsidised tenants; and third because it helps the UK government to meet its stated policy objective to increase home ownership by widening access. The provision of housing for low income working households can contribute to the mix of tenures that are perceived as necessary on new housing developments in the context of the government's emphasis on mixed and sustainable communities.

The HomeBuy programme is the government's low cost home ownership programme (see Annex A for further details of the products available and recent changes to the programme). Social tenants, those on the housing register and key public sector workers are all eligible for assistance under the HomeBuy programme. Key worker assistance has since April 2006 been mainstreamed through the National Affordable Housing Programme. There is no

longer a separate funding stream for Key Worker Living. However key workers remain a priority group for assistance. Priority is firstly for social tenants and secondly for key workers and first time buyers. The first time buyer category has been broadened, by decoupling it from the Regional Housing Strategies and now any household with an income of less than £60,000 a year that is in housing need is eligible for assistance.

Uncertainty in the housing and mortgage markets

Over the past twelve months there has been considerable turbulence in the mortgage/finance and housing markets. The mortgage and housing market crisis in the UK has three distinct attributes:

- it has reduced liquidity in the finance market as a whole (the credit crunch);
- it has tightened up lending criteria for marginal borrowers in the wake of fears about default particularly in the sub-prime lending market (sub-prime crisis); and
- uncertainties in the market have reduced demand for housing leading to falling house prices, reduced transactions, lower levels of new output and fears about recession in the economy (real income decline).

The impact on the UK housing and mortgage markets comes both directly from the US because of reduced liquidity and indirectly from fears that the UK will follow the US in terms of increases in defaults and declining demand for housing. Unguarded lending in the US has perhaps triggered the current turbulence, but the fact that it could do so is related to the interlinked character of global markets and to successive UK governments' pursuit of widened home ownership. The current credit crunch rests on longer trends.

A particular aspect of the UK situation has been the collapse of Northern Rock. When the market dried up the bank faced impossible liquidity problems. At the time Northern Rock was providing 20% of the market for new mortgages. In a time of uncertainty that proportion cannot readily be replaced by traditionally financed lending. The situation is exacerbated by the fact that traditional lenders have significant amounts of securitised assets on other books which they must write down. It is also worsened by the large quantities of re-mortgaging required by the short term fixed rate/discount mortgages coming to an end although refinancing here only recycles the same funding.

There are concerns in the UK market arising from the lack of liquidity for developers and Housing Associations and from concerns that the house price bubble is particularly large in the UK so there is a widespread view that house prices 'need' to adjust downward. This 'correction' in the market may lead to increased risk, for example for home owners facing negative equity, for HAs dependent on the sale of properties to make their financial forecasts stack up and for lenders who have lent more than the property is now worth.

In the housing sector construction and transactions are heavily reduced. This directly impacts on the real economy, increasing unemployment and reducing consumption. We are already seeing this within the construction industry as, for example, the five largest UK house builders have announced job losses totalling 5,000. The credit crunch has also led to rising redundancies in the city which will impact on the real economy. This could have impacts on the housing market that would need further economic analysis. For example, containment of the bonus culture may lead to declining demand for top-end properties. This could increase competition for mid-range homes, with inflationary effects. Alternatively, by taking cash out of the market, it might promote an affordability adjustment, with beneficial effects further down.

There are also concerns about rising inflation in the UK which is likely to have a significant impact on the level of disposable income households have and which would therefore affect their willingness to take on additional debt. Higher inflation is also likely to affect the appetite

of lenders to offer mortgages. There are real concerns that the UK is facing a recession. The most important issues are:

- increased risk for all stakeholders;
- lower liquidity for everyone and therefore higher costs; and
- growing uncertainty about house prices which is likely to adversely affect the decision to invest. The 'bubble' could therefore go into reverse – resulting in over conservatism in real investment and output and cutting back both transactions and, more importantly, levels of new housing output both private and social.

Potential impact on LCHO

There are therefore a number of distinct issues that arise specifically in the context of shared ownership:

- (i) On the demand side the impact of the credit crunch (i.e. reduced liquidity of the lenders, preparedness to lend at all or to lend on non standard products) may make it difficult for potential purchasers to obtain loans. Increased conservatism on the part of lenders may make it more difficult for potential purchasers to obtain a traditional mortgage as they are by definition more likely to be lower income households. Those who are credit impaired will potentially be badly hit. However, those who have a good record and are in relatively safe jobs may look 'better bets' from the point of view of lenders, especially as in shared ownership they obtain security of 100% the value of the property but the loan may be 75% or as little as 50%. Lenders are therefore protected against house price falls. This may attract a different group of purchasers to LCHO as households are no longer able to borrow at income multiples that would enable them to purchase outright;
- (ii) On the supply side many of the main sources of funds to HAs have dried up so they may have difficulty in funding both planned levels of output and additional purchases from developers. Additionally, developers themselves are seen as particularly risky – they always have difficulty in obtaining debt finance in this type of market and this problem is clearly exacerbated by the banks' liquidity problems;
- (iii) Affordability – if house prices decline it might be thought that affordability will improve. However the reassessment of risk that is now occurring has increased finance costs to borrowers, HAs and developers alike. This may well mean that problems of affordability are maintained in the face of declining house prices, if borrowing conditions remain tight and borrowing remains more costly. Time will tell whether this is a transitional stage in a cycle until house prices have fallen sufficiently to restore affordability.

The research explored what is happening in practice on the ground.

The Government recently announced measures to address some of the changes (see Annex H for more details).

Aim

The core purpose of this research is to analyse how the affordability of and demand for LCHO products may have become modified as a consequence of the turbulence mentioned above and what risks this might present to social housing providers.

Key Research Questions

The key research questions are:

1. What is happening to the levels of new build LCHO – is the Housing Corporation's development programme being achieved on the ground?
2. Who is now accessing LCHO? Are providers able to identify people within the target groups who can afford the product, or are cascade mechanisms or price constraints bringing in a different set of purchasers?
3. Are the financial institutions tightening up in lending for LCHO? Do they have differing views about the extent of recent turbulence and the nature of risk in the current situation?
4. Are LCHO products becoming difficult to sell? Are developers becoming reluctant to include LCHO as part of their S106 contributions?
5. What are the implications for HA financial models? -How is 'shallow subsidy' achieving value for money for the public purse?
6. What demand is there currently for 'downwards staircasing' (where a shared owner reduces their share of the property)? Is this demand increasing, and if so, are there resources available to meet it?

Methodology

The research began with a review of the literature relating to the recent changes to the housing, finance and intermediate housing markets.

Quantitative data

Quantitative data has been derived from CORE for analysis of recent activity in the LCHO sector. Data specific to London from the London Home Ownership Group was also analysed.

Qualitative data

Qualitative data was collected from the following stakeholders:

- HomeBuy agents
- Developing Housing Associations
- Housing Corporation investment managers
- Financial organisations

All HomeBuy agents and a sample of developing HAs were selected. The HAs were selected from four regions (London, South East, South West and North West) although we also had input from HAs elsewhere in the country, e.g. the West Midlands (see Annex B for the complete list of HAs contacted for the research). All participants were contacted by telephone. The questions were emailed to the appropriate person and appointments were made for telephone interviews to collect the responses. HAs were each contacted three times to encourage a response. Annex C provides the list of questions used in the interviews with HAs and HomeBuy agents.

Twenty one participants responded. Please see Page 13 for an anonymised list of respondents by region.

All Housing Corporation managers of the nine regions were contacted for the research, initially by email then by telephone. The list of questions used in the interviews is contained in Annex D. Investment managers were each contacted three times to encourage a response. Five of those contacted responded.

Representatives from financial organisations were contacted for the research. Lenders to both LCHO purchasers and to HAs were contacted as well as two mortgage brokers who specialise in the sector. Telephone interviews were conducted with participants. Annex E shows the list of questions used in interview. Twelve participants responded and the list of respondents is given in Annex F.

The interviews were transcribed. Each respondent was anonymised and allocated a number for cross-reference. All interviews were analysed by coding responses into themes on a question by question basis.

Both the qualitative and quantitative analyses have been drawn on to address the key research questions.

Methodological challenges

The research team pursued the participants tenaciously. As described above, the samples chosen were emailed and telephoned to introduce the research and where possible appointments were made for telephone interviews. All were telephoned up to six times to encourage a response to the questions. However, despite this level of persistence, responses were not forthcoming from some within the sample. HAs in particular expressed that they were very busy and under pressure and did not have the time or resources to

respond. A few also described 'research fatigue' saying that they had already been approached by other groups to ask similar questions, including the HBF, the NHF and publications such as *Inside Housing*. We were pleased that under these circumstances the research team were able to gather such detailed responses from all of the participants who were able to respond.

The responses to financial questions were initially not as comprehensive as we would have liked. As a result a further set of questions were prepared. The research team approached participants to explore these further questions.

The situation has been changing rapidly. For example, the Government recently announced measures designed to ensure affordable housing continues to be built during the current credit crunch (see Annex H). The interviews with HAs were conducted in May and June before the Government introduced measures designed to ease pressure on the housing market. Therefore it was not possible to address this in the interviews.

Analysis: Qualitative

See Annexes C-F for the questions used in the research and more details about the samples chosen.

Housing Associations/HomeBuy Agents

HA Respondents

| Number of HA | Region | HomeBuy Agent |
|--------------|--------------------------|---------------|
| 1 | London | |
| 2 | East of England | Y |
| 3 | East of England | Y |
| 4 | North West | |
| 5 | London | |
| 6 | London | |
| 7 | London | |
| 8 | South East | Y |
| 9 | North West | |
| 10 | North West | |
| 11 | North West | |
| 12 | North West | Y |
| 13 | London | |
| 14 | South West | Y |
| 15 | Yorkshire and the Humber | Y |
| 16 | London | Y |
| 17 | South West | Y |
| 18 | North East | Y |
| 19 | London | Y |
| 20 | South West | Y |
| 21 | North West | |
| 22 | West Midlands | |

| | | |
|----------------|----|-----|
| Total HAs | 22 | |
| HomeBuy agents | 11 | 50% |

Regional Breakdown:

| | |
|-----------------|---|
| London | 7 |
| North West | 6 |
| South West | 3 |
| East of England | 2 |
| South East | 1 |
| Yorks | 1 |
| North East | 1 |
| West Midlands | 1 |

Question one

What is happening to output levels of LCHO?

Market slow down

Seven HAs said that either developers are slowing their outputs and/or the market is slowing down which will impact on the supply of LCHO products:

Major development projects will be mothballed. Developers will sit on land as they only bring land to the market when they can get the best price. (HA 13)

A majority of LCHO homes are secured by RSLs through Section 106 agreements on mixed tenure developments with house builders. Due to the downturn in the housing market these schemes are being delayed or mothballed so production of housing is falling drastically. This means that LCHO units will not be provided from Section 106 agreements with the result that output will continue to fall until “development starts” increase. House builders are slowing housing production by not starting new developments and as RSLs become reluctant to take any more LCHO stock under Section 106 agreements it is inevitable that the supply will reduce. Until mortgage availability and affordability improves the ability to sell LCHO homes (particularly apartments) outputs will be impaired. (HA 22)

Most developments in recent years have been mixed tenure and whilst land is now readily available for new developments RSLs generally face difficulty in finding a private sector partner to carry out the outright sale element. Whilst in the past some RSLs have undertaken outright sale, (the profits from which have cross subsidised their affordable unit production) they cannot take the risk. If RSLs are to take advantage of the standing stock offers then the grant rates MUST be realistic and will certainly be above the Housing Corporation Regional averages in the NAHP. Similarly if RSLs are to act as the developer and buy land for all rent schemes, they will need higher grant rates. Result overall – output of LCHO products will fall as RSLs concentrate on rented unit output and as developers fail to start new developments. (HA 21)

No change yet

Five HAs said they had not seen any change to the supply of LCHO products as yet, but expect to do so within the next six to twelve months. For example:

Output levels are holding for projects due to hand over in 1-3 months.

For projects 6-12 months away there is a slow down, so they will hand over in 12 – 18 months instead. (HA 11)

Many said that it is too early to see the impact on LCHO output levels.

Increased demand for LCHO

The remaining three HAs had seen demand increasing for LCHO. Two of these HAs operate in the Eastern region and one in London.

Offered units from housebuilders

Many HAs reported being offered units by private developers:

HAs are being offered the properties that builders can't sell, but they are not right for us, the wrong size, too low standards, there is some bad stuff out there. So we are being offered lots of properties, but we will never be offered land. (HA 13)

No response

Seven HAs could not answer the question, either because they thought it was too early to comment on the impact of both financial and housing market slow down, or because they did not know the answer to the question.

Summary

The majority of HAs (seven) said they were seeing a slow down in the supply of LCHO products, particularly through S106 schemes, whilst others said although they had not been affected yet they would expect the supply of LCHO to slow down within the next six to twelve months. Conversely, a minority of HAs had seen the supply of LCHO increase and HAs are being offered units from housebuilders.

Question two

Are developers becoming reluctant to include LCHO as part of their S106 contributions? Any changes to volumes in or terms of S106 agreements?

Not reluctant

Six HAs said that developers liked S106 contributions mainly because LCHO is not seen as a risk. One HA said who operates in the East of England regions commented:

They [developers] like it- it's tenure or the people purchasing it. Some developers still have the old fashioned view of social housing and those in it, but they like them now because they are people on good salaries who are simply priced out of the open market. (HA 2)

Another HA from the North West region said:

Developers are more enthusiastic about section 106, they can sell SO. Suddenly we have developers calling us to see if we would be interested in taking stock off their hands, so basically they are interested in off loading on to us. Section 106 used to be a necessary evil but now they are seeing the benefits. (HA 11, May 2008)

Five HAs said they had not seen any change or had any problems with S106 contributions.

HAs becoming reluctant to include LCHO

Three HAs said that developers were having difficulty agreeing deals, but this was often because HAs were becoming more reluctant to take on any more LCHO. For example one HA said that the developers were now seeking to increase the rented portion of developments to reduce the outright sale risk, despite the lower grant subsidy on affordable rented units. HAs said:

If house builders are planning to start a new mixed tenure development, they will prefer to have LCHO as the affordable tenure but the reluctance of most RSLs to take on any more LCHO units means they will be forced to provide all rented units. They may also seek to increase the rented element to say 50% of the total scheme to reduce the outright sale risk. This pre-supposes that they will start a new development, which in the majority of cases they will be reluctant to do unless they have confidence in getting major pre-sales to RSLs. Both RSLs and house builders are seeking to negotiate a different tenure mix under Section 106 agreements and to increase the "affordable rent" element of the development generally. BUT the problem is that the house builder receives a higher price from the RSL for LCHO units than for affordable rent so the difference would have to be made up with grant. (HA 22)

They [the developers] are finding it increasingly difficult to agree deals with RSL's under the section 106 agreement due to RSL's having increased competition with developers' own products, OMHB/FTBI and having existing stock to sell. (HA 12)

Our RDM's report to us that developers are becoming reluctant to include LCHO in their S106s as RSL's become more cautious about agreeing to schemes for which there may be limited demand. (HA 20)

Housebuilding slowing down – S106 not coming through

Ten respondents said that housebuilding was slowing down and this would reduce the number of units coming through Section 106:

Developers are slowing the build of developments to restrict the number of completed units coming onto the market. However, RSLs are reluctant to agree to the offers because of the fear of prices falling and the losses we might incur upon valuation by the lenders on behalf of the shared ownership purchaser. (HA 8)

Output levels are holding for projects due to hand over in 1-3 months. For projects 6-12 months away there is a slow down, so they will hand over in 12 – 18 months instead. (HA 11)

Most RSLs will have made presentations to their Boards concerning the current housing market and the risk associated with the continuing build programme for NBHB. We have taken the view to honour the current NBHB programme, with appropriate detailed exit strategies for all developments such as converting to intermediate rent pending an upturn in market conditions. However, new pipeline developments are being scrutinised to make sure they are both saleable and mortgageable in the current market. As the market appears to be saturated with flats in various areas the number of NBHB flats in pipeline developments is likely to be examined. (HA 17)

No apparent reduction yet but potentially imminent. (HA 18)

Developers are still finishing off schemes started a while ago. Inevitably there's been a reduction in the last 12 months as it's clear that the number of staff on site is less than last year... they aren't starting new developments. If you ask around, in X last month there were no new house building developments starting at all, so the picture is that builders aren't starting them because they might not sell. Lots of them are going bust. (HA 21)

A majority of LCHO homes are secured by RSLs through Section 106 agreements on mixed tenure developments with house builders. Due to the downturn in the housing market these schemes are being delayed or mothballed so production of housing is falling drastically. This means that LCHO units will not be provided from S106 agreements with the result that output will continue to fall until 'development starts' increase. House builders are slowing housing production by not starting new developments and as RSLs become reluctant to take any more LCHO stock under Section 106 agreements it is inevitable that the supply will reduce. Until mortgage availability and affordability improves the ability to sell LCHO homes (particularly apartments) outputs will be impaired. Due to very slow LCHO sales, many RSLs are converting standing stock to rent either long term or until the market recovers. With falling sales of LCHO units and the conversion to rent, the supply of LCHO units is reducing rapidly. (HA 22)

No response

Ten HAs that were interviewed did not / could not answer the question.

Summary

The majority of HAs (six) said that developers were enthusiastic about S106 contributions, volumes and agreements. However, HAs reported becoming more cautious about the proportion of LCHO they want included in S106 schemes and would prefer more social rented to minimise their risk of not selling the LCHO units. Most respondents said that housebuilding was slowing down and this would reduce the number of units coming through Section 106.

Question three

Has the rate of flow of homes from private developers to HAs had been affected?

Increased

The majority of HAs (eight) said that the flow of homes from private developers to HAs has increased. The following quotes are indicative of all eight HAs:

House builders are offering RSLs substantial numbers of standing stock that they cannot sell, but the RSLs generally only want such units for rent (social or intermediate) and NOT for LCHO. (HA 22)

We get offered a lot of private developed properties from developers who are finding them harder to sell lately. They want to offer them to us- they are offering them at discounted rates and we're taking some that we feel we can afford, and can sell or rent out. I think some of them feel a bit that they want the property to be used rather than sit empty. (HA 2)

We have had an avalanche of offers from private developers in the last three months. (HA 8)

Slowed

Two HAs (Yorkshire and Humberside and the South West) said the flow had slowed down from private developers. HAs do not want to accept units they are not sure they can market themselves:

We are more cautious to accept any homes that carry a high risk. (HA 15)

No change

Finally two HAs said they had not seen any difference, one of these adding that they expect to see 'significant changes' over the coming year.

No response

Ten out of the twenty one HAs did not answer the question.

Summary

The flow of homes from private developers to HAs has increased in the majority of cases. Only in two regions had the HAs experienced a slow down.

Question four

Are LCHO products becoming difficult to sell?

Depends

Three HAs said it depended on both the type of property on offer and the location. All three HAs said that apartments were becoming increasingly difficult to sell because of over supply:

Depends what it is and where it is, and what type of property it is. There's oversupply of apartments; people want houses - they'll take the bigger financial risk for the better tenure. Also we've had so many apartments there's no more demand. (HA 2)

No

Five HAs said that both interest in and sales of LCHO remained high. Two HAs said that whilst LCHO was being sold, the initial percentage share purchased had reduced and the time spent on marketing the properties to achieve sales had increased.

Yes

Four HAs said that their products were becoming difficult to sell. One HA mentioned that apartments were even more difficult to sell than other properties, partly because they require a larger deposit. Two HAs explained that this is a direct result of the difficulty experienced by prospective customers in obtaining a mortgage and from greater competition by developers trying to sell their own units in a slowing market. HAs explained:

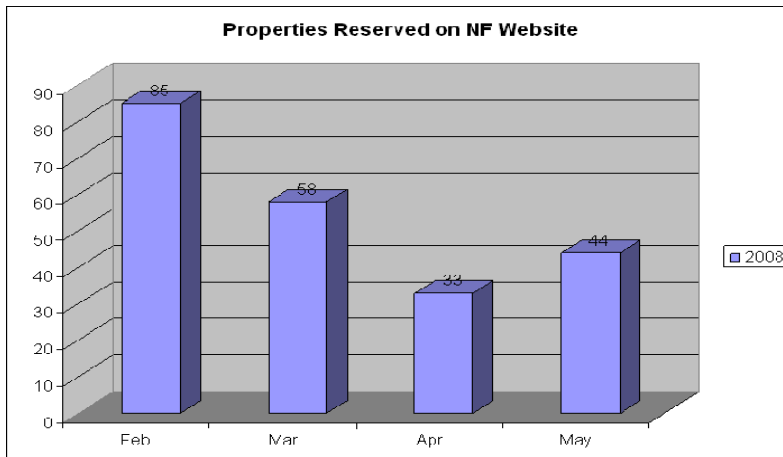
Yes – particularly apartments, which are being down valued and require a larger deposit. The reluctance of the mortgage lenders to see LCHO as a “safe” area of business is both puzzling and seriously restricting many potential purchasers from acquiring a home. LCHO products are being affected by the credit crunch in the same way as the outright sale market. (HA 22)

Lenders have tightened their criteria on actual developments and are becoming less likely to offer mortgages where a scheme has onerous S106 or nomination requirements. It is anticipated that only 1 or possibly 2 lenders will offer mortgages for developments with restricted staircasing requirements and coupled with stricter lending criteria for applicants could make these schemes unmortgageable in the near future. The majority of private developers are also starting to offer incentives and other deals to sell their outright sale units. Some developers are looking to do this on developments where NBHB are being sold, therefore competing with RSLs. (HA 17)

A HA from the North West said:

Yes they are. We are expecting this to get worse too. Looking at our target of where we should be there are 120 units that should have been sold now that have not been sold. (HA 21)

Finally one HA (HA 20) said their sales were mixed and provided us with the following chart showing reservations of LCHO products from February 2008 to May 2008:



No response

Six HAs did not answer the question.

Summary

There is mixed evidence as to whether LCHO units are becoming harder to sell. The type and location of the LCHO products do have an impact on sales, particularly with the over supply of apartments. House builders are competing with HAs to a greater extent.

Question five

Any changes to LCHO sales volumes and rates of sale?

Slow down

Six HAs said sales volumes and rates of sales and enquiries are slowing down. One HA from Yorkshire and Humber region said:

Low volume at the current time. Sales are taking up to 4 months to complete due to delays with lenders. (HA 15)

There has been a reduction in the number of telephone enquiries and applications and this is our barometer for forecasting forward sales. Compared to this time last year the number of telephone and application enquiries have reduced by 50%. This is also reflected in the actual reservation rates. The legal completion profile for the 1st Quarter was comparable with the same period for 07/08, due the number of sales carried forward into the financial year, however, since the change in mortgage lending in May we have experienced a high level of cancellations, currently running at 38% compared to 06/07 of less than 10%. Apartment sales are proving difficult to sell particularly in secondary locations. Interest in the houses remains steady but the funding for these purchases is proving a challenge particularly with the lenders changing their criteria, rates, loan to value requirements, etc, almost on a daily basis. (HA 22)

A HA from the South West region and another from the London region reiterated the importance of the type of LCHO on offer:

Sales rates have generally slowed, affordable two and three bedroom house are still oversubscribed in our operating area. Reflecting the market generally though, flats are harder to sell. (HA 17)

The main areas of a slight slow down are high density flats in provincial town centres because of a surplus of supply. However, the new sales of houses are fine; we are selling lots off plan. (HA 19)

Sales strong

Four HAs said rates of sale were going well. A HA from the South East region provided the following figures highlighting that:

Sales volumes are as strong as ever and the GLO Open Market Homebuy scheme has proved very popular despite the market turndown. (HA 8).

| | Reservations (new build) | Completions (new build) | Open Market Homebuy |
|----------|--------------------------|-------------------------|---------------------|
| Jan 08 | 20 | 9 | 24 |
| Feb 08 | 14 | 5 | 15 |
| Mar 08 | 13 | 9 | 17 |
| April 08 | 10 | 6 | 45 |

A HA from the North West said noted that although sales volumes have remained the same the rate of sales has slowed:

Sales volume remains the same. Rate of sale has slowed a little as we don't have the same ability to enforce 28-day exchange of contracts. This is due to delays with mortgage underwriters approving a loan. More detailed checks are being carried out against applicants applying for mortgage funds. (HA 10, May 2008).

No response

Three HAs did not answer the question.

Summary

There is a fairly even split between HAs saying that sales volumes and rates of sales are slowing down and those that say they are not slowing down. There is some competition from private developer schemes, as addressed in the next question, but the type of property, location and mortgage availability were described as the key factors impacting on the ability to sell properties.

Question six

Any known moves by private developers to subsidise prices or offer their own shared ownership sales to support sales volumes?

Yes

The majority of HAs (thirteen) said that private developers in their area were offering shared ownership incentives and/or subsidies on their new build properties (see Annex G for some examples). There are no regional differences; private developers are offering deals up and down the country. For example:

Just about all are offering incentives and/or running equity share options on some or all of their schemes. (HA 18)

Yes, of course most house builders are offering discounts on sales together with "deposit paid" offers and deferred equity payment schemes. Standing stock is also being offered to RSLs by house builders, but the discounts are generally not enough unless the grant rate increases. The short term "discount" schemes offered by house builders to attract buyers are usually taken into account by the mortgage lender and in many cases are not attracting the volume of buyers to replace outright sales. (HA 22)

Some HAs were concerned that these schemes are in direct competition with them and were adversely affecting sales:

Wimpey are dropping prices and offering the chance to people to buy 75% of the property and not to pay any rent on the remaining 25% - however after 10 years the remainder must be bought. We expect this scheme to bite after about 6 to 12 weeks; they offer a better deal than us. (HA 11)

We are aware of a number of developers offering their own shared ownership deals i.e. Bovis Homes Jumpstart. They are also offering huge discounts against published prices, to encourage sale of standing properties. Developers are keen to use the OMHB scheme to help to sell their standing stock. As a HomeBuy Agent we have been approached by a number of builders in the area, for details on how it operates. These schemes are partly to blame for poor sales, alongside credit issues, restricted lending and general apathy amongst buyers. (HA 12)

Others did not feel that the schemes posed a direct threat:

On one of our schemes, the private sale team are offering units at 75% with no rent payable. However, we have worked together to ensure that we will not be in direct competition with one another, as affordability will affect who is able to purchase each product. (HA 1)

No

Only one HA said they did not know of any private developers offering subsidies. Interestingly this HA also operates in the North West.

No response

Seven HAs did not answer the question.

Summary

Private developers are offering incentives to purchase new build either through shared ownership schemes or through other subsidies. These schemes are competing with HA products in some cases, but in others they were not seen as a direct threat. The type of property, location and mortgage availability were described as the key factors impacting on the ability to sell properties.

There are planning impacts of these changes. The PPS3 definition of 'affordable housing' excludes low cost market housing where subsidy is not recycled. While this is unlikely to have a direct impact for purchasers, it means that such homes are not included in delivery targets for affordable housing (although such homes may be reducing demand for affordable housing).

It was too early during the fieldwork for this study to assess the direct impacts of these schemes on HA sales or on how the units meet demand for affordable housing, further research would be needed to consider these issues in more depth.

Question seven

Who is now accessing LCHO? Are providers able to identify people within the target groups who can afford the product, or are cascade mechanisms or price constraints bringing in a different set of purchasers?

No change in who is accessing LCHO

Twelve HAs reported no significant change in the profile of who is accessing LCHO. HAs are still following the Housing Corporation guidelines and the profile of purchasers is little changed. Most HAs are able to identify people within the target groups who can afford the product. There is a waiting list for the products and LCHO purchasers are still first time buyers, restructuring households, key workers and HA tenants. Many HAs felt it was too early to assess whether there would be any changes. One HA said:

We have been selling some. It's not completely dead. To be frank what happened is that we stopped selling for a bit - it's not getting worse but not better either- we took our eye off the ball marketing wise though. We're still taking on houses from deals made a few years ago. Who's out typical customer? 80% are professionals - junior solicitors or accountants, keyworkers etc, and 20-40% in total are first time buyers. Whether that's changed in the last few month's in hard to say. There isn't a large proportion who are social renting clients. These buyers are our targets anyway - it's a matter of keyworkers, economically important people to a neighbourhood, who otherwise can't buy - police, ambulance workers etc. (HA 21)

Some change in who is accessing LCHO, some due to recent market problems, restriction of credit by mortgage lenders, higher deposits required from purchasers

Seven HAs reported some changes in who is accessing LCHO. There is some overlap between HAs describing no changes and some minor changes. For example one HA in the North East said:

It is becoming increasingly difficult for those with limited savings/equity to obtain mortgages due to the need for large deposits but there is no real evidence to date of a different set of purchasers entering the market. (HA 18)

The changes reported included:

- It is increasingly difficult for those with limited savings/equity to obtain mortgages due to need for large deposits.
- Higher income earners are applying for assistance.
- Previously we were finding low income earners able to access the product even if they had some adverse credit. Now the only applicants who can be considered are those who have 'squeaky clean ' credit.
- Market alternatives and 100% mortgages have disappeared as people can no longer borrow 4 or 5 times their income so their only option is subsidised homeownership.

For example one HA said:

It is simplistic to say that "affordability" is the problem as there are other issues affecting the current market. Potential purchasers cannot access the mortgage they want or can afford. Credit criteria are excluding many buyers – mortgage lenders are "cherry-picking" who they lend to. The 100% mortgage is very difficult to secure and the need for deposits is now the norm and is a major problem for most first time buyers. The Loan to Value ratio excludes many purchasers by increasing the deposit required, particularly on apartments where the deposit is higher and where the value

fails to match the selling price. In anticipation of a further deterioration in the housing market, valuers are “down valuing” homes thereby increasing the deposit needed. Many purchasers are also holding back as they lack confidence and expect further falls in values. People on low incomes with poor credit ratings cannot access LCHO because they cannot secure a mortgage, and even if they can, they cannot afford a deposit and in many cases they cannot afford the high interest rates. (HA 22)

Increase in applications for LCHO/better profile for LCHO

Three HAs reported an improvement in the number of people interested in LCHO, reporting more applicants and more requests for information about the products. These HAs described how better marketing has improved the status of LCHO and raised the profile of the HAs providing LCHO.

Cascades

Only two of the respondents commented on cascade mechanisms. One HA said that:

We will be asking for cascade (across Boroughs) more quickly once nomination periods expire, however this is something we needed to look at anyway. (HA 1)

No comment/no clear answer

A few respondents, four HAs, could not provide a clear answer to this question.

Summary

Generally, the purchasers accessing LCHO have not changed. Providers are able to identify people within the target groups who can afford the product. There is no clear evidence that cascade mechanisms or price constraints bringing in a different set of purchasers. However, some changes were identified, as lenders require higher deposits and a clean credit history from purchasers and restrict the income multiples they will lend. There are no regional differences in the responses.

Question eight

Please comment on patterns in take up and changes to patterns by property and scheme type?

Decreased demand for flats

Three HAs described the recent trend of city living being desirable. These are often small units and the majority are flats. Seven HAs reported that there has been declining demand for flats and in some areas a saturation of the market with an oversupply of apartments. Longer sales periods for flats compared to houses were reported. For example HAs said:

The one thing is the flats are lot less popular. If you look at properties that are stuck, they're all apartments. Everyone wants houses. It isn't about where people want to live though; it's more of the fear of dropping values that is putting people off apartments. (HA 21)

There has been a fall in interest of apartments in all areas due to over supply, over pricing compared to second-hand comparables and the high service/maintenance charges. There is still demand for 2 and 3 bedroom houses provided they have been priced to the local market. The downturn in the market generally is more obvious in the West Midlands and there have been signs of this for some 12 months. Interest in the South West and South East is still reasonably good but in the last month we have experienced a number of down valuations. (HA 22)

Sales of new build homes little changed

Six HAs reported that sales of houses were little changed and that houses were still in demand.

Fall in viewing numbers

Four HAs reported a drop in viewing numbers and enquiries.

Localised changes

The changes to take up are quite localised. Three HAs reported that it has become harder to sell flats in urban centres. However, the local market influences what will sell. For example, HAs said:

It is localised though, depending on location, as some developments are selling like hot cakes, and others are more of struggle - the cheaper ones are harder to sell. Central London selling well, but up and coming areas are the ones we're finding harder to shift especially without good transport links. The regenerations are the strugglers. (HA 7)

It all comes down to location and price. If properties (houses and apartments) are priced correctly or in desirable locations we are still seeing good demand. Apartments are proving harder to sell in and around City Centres. (HA 10)

We can see hardly any take up on Shared ownership apartments in the city centre (due to poor press coverage) and reduced take up for apartments in general, with purchasers hanging out for a 2 bed house or significant reduction in purchase price/valuation. (HA 12)

The downturn in the market generally is more obvious in the West Midlands and there have been signs of this for some 12 months. Interest in the South West and

South East is still reasonably good but in the last month we have experienced a number of down valuations. (HA 22)

No answer

Five HAs could not or did not answer this question.

Summary

Changes are localised and can reflect the local market. There has been less demand for flats but continuing demand for houses. Some areas are suffering from saturation of the market for apartments.

Question nine

How do the size and value of shared ownership first tranche sales compare to previous years?

Reduced

Many (eight) HAs reported a reduction in the size and value of first tranche sales compared to previous years. There is no regional pattern to the response. For example, HAs said:

We were still offering 50% share until recently. We have reviewed the purchase share and have now reduced it to 45% on some newer of our more recent developments. For 3/4 bed homes lower % shares are now being offered to encourage take up and possible negotiation on interest charge on remaining rental share. We are also offering something towards solicitors' costs as added incentive. (HA12).

In 07/08 and for the first quarter of this financial year we have averaged the first tranche sales at 47.2%. Of the reservations taken since the first of April this average has reduced to 42%. (HA 22)

Stayed the same

Some HAs (five) reported that the size and value of first tranche sales compared to previous years has remained the same. Purchasers are still encouraged to buy to their maximum lending capability. One HA said:

We tend to go for 50% but will drop that to less or indeed higher. As an average 50% is closer than 25% though. We've never averaged 25% and a shift towards this hasn't become obvious yet. (HA 21)

Increased

Only one respondent reported an increase. They said:

Average first tranche sale in 06-07 was 42.2%, but last year this rose to 45%. (HA 8)

Unable to answer

Six HAs were unable to answer this question.

Summary

The general pattern is for the size and value of shared ownership first tranche sales compared to previous years to be smaller, or at best to have remained the same. This could be a reflection of the long term affordability, rather than a specific impact of the credit crunch, although some HAs did say that the reduction has only been recent suggesting that the recent market changes, such as the cost of borrowing or need for a deposit, may have reduced the size share purchasers can afford.

There appear to be two interlinked things going on here: sales slowing because of lack of mortgage finance; and receipts reducing because of a falling market. In other words, HAs might still be making sales, but may be running to stand still in terms of reaching projected income. Overall, it is the latter which may have the greater long-term effect, where even those who can afford to buy and who get mortgage finance are not generating sufficient revenue.

Question ten

Are there any changes in enquiry levels and marketing activity?

Decrease in enquiries

Many HAs (nine) have experienced a decline in enquiries. As one HA said:

Yes, there has definitely been a drop. January was a good time to market a property but the last four months we have experienced a decline, month on month, compared to the same period in 2007. We have also hit a trough in the overall properties we are marketing, but overall it is to do with the current market. (HA 11)

No change

A few HAs (three) reported no changes in either enquiries or marketing.

Increasing enquiries

A minority of HAs (two) reported increasing enquiry levels. One HA said:

Enquiry levels and reservations taken for new build LCHO are consistently high. We monitor telephone enquiry levels and web hits monthly. We received 418,133 web hits for April 2008. The average number of web hits received each month taken over a 12 month period is 369,206. In relation to telephone enquiry levels the total number of telephone calls taken during April 2008 was 2,138. This is compared to an average of 1,892 monthly calls taken over a 10-month period. (HA 10)

Increase in marketing

Some HAs (five) reported an increase in marketing activity. This has been in response to fewer enquiries. For example:

There are fewer enquiries and we are marketing at an increased rate, in response. (HA 9)

We have increased the marketing activity considerable but there is nervousness and a lack of confidence. The customers are expecting a further downturn in values and are therefore cautious of proceeding with their purchase. The market conditions will continue to be challenging impacted by the extensive media coverage of the negative effects the credit crunch is having on the property market. We are still attracting applications but a major difficulty is the availability of mortgage finance at an affordable level for our customers. Our general marketing activity includes, sourcing LA nominations, using the services of local HomeBuy Agents by targeting key workers etc., posting on websites - Bromford Homes, Rightmove, Smart New Homes. Advertising in local press, specialised magazines, community based publications, bus advertising, posters sites within the local area, radio campaigns, showhomes and open day events, using the services of local estate agents, and signage. (HA 22)

However, one HA described how they increased marketing levels but have only achieved the same viewing figures:

We've increased marketing through the first five months of the year- we've done it and managed to get the viewing numbers figures the same as in previous years rather than seeing an increase. (HA 7)

One HA described how increased marketing levels have been precipitated by more competition from private developers:

Due to increased competition from private developers, we are reviewing our marketing activities for each development. In addition we are reviewing the marketing activities and incentives being offered by private developers to see whether this is something that we can adopt. (HA 17)

No response

Six HAs did not/could not answer this question.

Summary

There was no regional pattern to the results. Most HAs who answered reported a decline in enquiries and some have increased marketing activity in response.

Question eleven

Please can you provide information about household finances of new purchasers against target group (so that we can look at the ratio of total housing costs, including insurance, maintenance and service charges, to income)?

No data collected

Some HAs (five) reported that they do not collect this sort of data, or could not find it easily.

Proportion of income

Many HAs (eight) responded with comments about the proportion of purchasers' income spent on housing. This varied between 25% and 46%; the higher proportions were in London and the South West. Some commented that lenders are now lending at more 'sensible' lower income multiples. One HA said:

We have buyer interviews and go through the costs of what it will be costing them - there's an affordability model which sets their maximum desirable housing costs at 45% of their net income. If anything I would think it might reduce because of tighter mortgage requirements over the coming months though. (HA 7)

For example the table below gives figures for one HA on housing costs as a percentage of income, although the figures do not account for running expenses or other financial commitments of the purchaser:

| House type | Purchase Price | Mortgage cost Per month at 7.5% | Rent cost Per month 2.75% | Service Charges Per month £ | TOTAL Monthly cost £ | TOTAL Annual cost £ | % of gross income |
|--------------------------------|----------------|---------------------------------|---------------------------|-----------------------------|----------------------|---------------------|-------------------|
| 2 bedroom apartment | £123,000 | £414.66 | £153.75 | 56.89 | 625.3 | 7503.6 | 38% |
| 2 bedroom house | £160,000 | £539.39 | £216.1 | 0 | 755.49 | 9065.88 | 46% |
| The average GROSS joint income | | | | | | £19,878 | |

No response

Many HAs (eight) did not or could not answer this question.

Summary

The data that HAs could provide in response to this question was limited so it is difficult to assess whether the credit crunch and market changes have impacted upon the finances of new purchasers against the target group. The responses suggest that lenders now require borrowers to have very good credit histories and sizeable deposits. These tightened lending criteria are likely to influence which households in the target group are able to enter LCHO.

Question twelve

Any evidence of rent and mortgage arrears and any difficulties for existing home owners in refinancing to service debt or in undertaking resales?

No more than usual

Many HAs (six) reported that there is no evidence that the situation is worse than any other year.

No more than usual and if anything we are getting better at managing the debts with improved procedures. (HA 8)

Levels of repossessions are so far no different to last year. No requests for reverse staircasing have been received by us in 2008 so far. (HA 17)

Emerging

Some HAs (six) said that there is evidence that problems are emerging. For example:

Whilst we have not seen any significant change in the number of arrears cases (rent & service charge) we are experiencing higher levels of debt per household. For those households in financial difficulty that we are working closely with, the primary reason is not the rent and mortgage, but the additional debt the household has accrued with loans and credit cards. The level of interest in Shared Owners purchasing more shares (stair-casing) has decreased substantially from this point in previous years, with a 75% reduction in the number of new cases. Of those that start the process then cancel, about half confirmed that it is the lack of suitable alternative mortgage finance that is the primary difficulty. Re-sales remain at similar levels to previous years, but properties are taking considerably longer to sell. (HA 22)

We have only just started to see this. The number of repossessions is starting to rise but not dramatically. There maybe a 2% increase since last year but we anticipate more. It is difficult for us to know about debts against mortgage, as a HA we might pre-empt this happening, if it is not a straightforward repossession, some people sell without saying. However, repossession is climbing – it has been relatively low over the last five years but we have had four already this year. (HA 11)

We send them to CHAS - a debt relief agency, and they are assessed, then CHAS make a recommendation and in most cases we negotiate with the lender to either reduce or postpone the payments so as to keep them in ownership. We haven't had to do any this year yet, but we are getting more enquiries and in general over the years resales are increasing. (HA 7)

We look at that on a one by one basis - people ARE coming asking for re-mortgaging and we never did it before except to finance home improvements. However, we've just been to our board and solicitors about this because of the current crisis, and we are now able to do it if they have enough equity - it's measured individually. They've just given us the go ahead for this to be a possibility though of course it wouldn't be advertised to clients as such. Just as need arises. (HA 4)

Mortgages harder to access

A few HAs (three) commented on mortgages being harder to access. For example, one HA said:

We know lenders are tightening up on credit scoring and are much more careful about who they lend to. We've been approached by a number of LAs about whether we'd consider a mortgage rescue package - but whether that is because they feel it is needed already or might be in future, is hard to say. (HA 21)

No response

Some HAs (seven) did not or could not answer this question.

Summary

Whilst it is possibly too early to see an impact, some HAs are reporting evidence of rent and mortgage arrears and some difficulties for existing home owners in refinancing to service other debt or in undertaking resales. However, other HAs report that the difficulties are no greater than in other years.

Question thirteen

Any evidence of staircasing down activity, repurchase by HAs and repossession. Is this demand increasing, and if so, are there resources available to meet it?

No evidence

Six HAs reported no evidence of any staircasing down activity or repurchase and repossession.

In some circumstances

Four HAs reported some staircasing down activity in certain circumstances. For example one HA said:

We generally have low numbers of repossessions because of our effective management of debt; however, repossessions increased in 07/08. Whilst still remaining at low numbers, there was a 300% increase on the previous year. We have experienced no additional repossessions in this financial year to date (April 08 onwards). We do operate financial rescue packages to allow staircasing down and mortgage rescue. However, in our experience, few customers choose the staircasing down option, because the shared owner usually has limited equity in the property and the share they retain would be smaller than our requirement of retained ownership of a minimum 25% share. (HA 22)

However, this increase in repossessions is from a low base.

Increased enquiries

Two HAs reported an increase in enquiries about staircasing down. For example, one HA said:

The number of enquires for staircasing down has gone up but we don't offer it as an option because we don't have the funds. It is very rare for us to let someone staircase down or to buy a property back. Of course we would try to do something to help but the building society tends to jump in first if the arrears are too large. A lot of repossessions are DIYSO and are not the sort of property we would want in our portfolio, the properties are not well maintained and would be unlikely to meet the DHS. Therefore financially to take the properties back does not make sense. With DIYSO more people struggle because they can't afford the repairs and may have bought the property in a state of disrepair. With SO this is far less of an issue, they do not have to pay for repairs because the service charge covers it. (HA11)

Not yet/expect to increase

Some HAs (five) reported that whilst there is not much evidence of any staircasing down activity or repurchase and repossession at the moment, they expected it to increase over the coming months. For example, one HA said:

We have had enquiries but just in isolated circumstances. However I think possibly people will want to do it more and more. (HA 2)

Some HAs do not have the funds to support downwards staircasing:

The number of enquires for staircasing down has gone up but we don't offer it as an option because we don't have the funds. It is very rare for us to let someone staircase down or to buy a property back. (HA 11)

Other HAs do have funds for downwards staircasing if necessary:

We offer it and they don't need it yet. We did some market research last year at what people would go without- new clothes, holidays and cars etc. We talk to them about the lease and so on, and what's required of them and so forth and they know very well that they have to repair and maintain the property and it all adds up to a lot more than they could save by going without things so it doesn't actually make a lot of difference if they do tighten their belts. The resources available to meet downward staircases are there- we have recycled grant fund. It's from proceeds from different schemes sold in the past. (HA 7)

No response

Eight HAs could not answer this question.

Summary

It is possible that it is too soon to see the real impact on staircasing down, repurchase and repossession in the LCHO sector. Whilst only a few HAs reported evidence during the fieldwork in May/June 2008, a number thought that it would increase over the following months. Recent data for the overall housing market show a marked increase in repossessions. Some HAs have available resources to fund downwards staircasing but others do not have the funds to offer it as an option.

Question fourteen

What are your views about shifts in aspirations to ownership among social renters?

Always aspire but cannot afford it

Most HAs (twelve) reported that social renters continue to aspire to home ownership and this has not changed but the majority are unable to afford it. As one HA said:

Renters still aspire to buy. Social renters very rarely can afford to make this change. (HA 5)

Those social renters who are economically active have the option to purchase through Social HomeBuy or RTB/RTA. Current activity is minimal, with prospective buyers waiting to see if property values fall even further in the current climate. During the upward trend in house prices, many social renters could not obtain the % of mortgage they required to purchase their home due to the gap between rising house prices and affordability. Even though values have fallen in some areas, this situation generally prevails amongst our social tenants. (HA 22)

A few HAs said that they have seen no change in aspirations, for example, one HA reported:

We did a survey two years ago and 70% had the aspiration. There's been no shift in that number. (HA 7)

One HA said there was no urgency amongst their tenants to move into home ownership.

Increase in aspirations

A couple of HAs reported increasing aspirations to home ownership. For example, one said:

There is still demand from social tenants especially for Open Market Homebuy schemes. The new more generous My Choice Homebuy scheme has seen a massive surge from our region in the South West. Tenants are saying that prices have gone down and are seizing the opportunity to buy a home of their choice on this scheme. (HA 8)

Decrease in aspirations

Four HAs reported that aspirations to home ownership have decreased. One HA said:

Media selling merits of renting properties rather than home ownership, lack of affordable housing means they are inclined not risk moving out of social rented as they may not be offered social rented again in the future. (HA12)

Some HAs felt that in the market generally households were waiting to see how the market changed before deciding to purchase:

As in the market generally we are experiencing a "wait and see" attitude from tenants as they experience all the problems set out above when seeking a mortgage and they fear further falls in values and uncertainty about the economy generally. In summary – "why buy now even if we can?" (HA 22)

No response

Four respondents could not answer this question.

Summary

There do not appear to have been any major long term shifts in aspirations to home ownership among social renters. Many aspire to home ownership long term but are unable to afford to access it. Others are waiting for house prices to fall further or to see how the market changes before deciding to buy. In the short to medium term people are deciding to rent and foregoing the aspiration to own until the market changes and there is less uncertainty. In August 2008 the RICS reported that the supply of rental properties has increased as home owners choose not to sell in the current climate but to rent out the property instead. THE RICS reported that households are choosing to rent rather than to buy and that there is particular demand for family houses.

Question fifteen

What are your views about the impact of relatively low rents in the private sector on the flow of purchasers from private renting into LCHO?

Rents not low enough

Some HAs (five) did not feel that rents were low enough in their area to make renting particularly attractive relative to LCHO. For example, HAs said:

I'm not sure that the rents in the areas in which we operate have decreased to the point of affecting our purchasers. Most of them are of the belief that it is still better to own than rent and would therefore be prepared to spend a little more if required. (HA 1)

Our rents are high. For example in X. People want to come out of them into LCHO because they're more secure than in private rented. They're our main client group. They have to get round their landlords, and we accept a statement showing their rent has been paid rather than demanding a reference, if it seems their landlord may actually give them notice if it's obvious they're about to move. (HA 3)

Difficult to see impact yet

Some HAs (five) felt that changes were so recent that it was difficult to assess the impacts yet.

A further two HAs commented that changes had not had any impact on home ownership. Some HAs felt that the current market climate and media coverage may be discouraging people from buying. For example:

There is still an aspiration to buy. We don't know if potential buyers are holding off buying until the market recovers slightly. (HA 10)

Increase LCHO

Only one HA felt that high rents were encouraging people to take up home ownership:

Private rents are high. What is driving up the rent is the demand and the house prices. That is driving people into LCHO without a doubt. (HA 7)

Low rents have an impact

One HA said that:

Market rents in previous months have been competitive and a much cheaper alternative to LCHO where the rent payable on the unsold equity was at 2.75% with a 50% share sold. We have noticed that sales of the shared equity models with reduced rents or no rent payable on the unsold equity have proved very popular. (FTP'I, Ownhome, My Choice Homebuy) and a more affordable option but difficulties accessing mortgages still apply. (HA 22)

No response

Four respondents could not answer this question.

Summary

Some HAs did not feel that rents were low enough in their area to have an impact on the flow of purchasers from private renting into LCHO. Others felt that it is too soon to assess the impacts with any certainty and that the current climate and media coverage are

discouraging anyone from purchasing at the moment. Only one HA felt that renting is now competing with LCHO in terms of affordability in their region.

Question sixteen

What are your views about changes to patterns of take up looking at particular local factors (e.g. proposed/recent LSVT or ALMO; Liverpool in relation to city of culture status)?

No changes

Most HAs (eleven) did not feel that there had been any changes. For example, one HA said:

No, not at all - with RTB they are a sitting tenant, so that kind of fashion change is irrelevant, and with LCHO it tends to be based more on where people work and can easily travel to and from, and that doesn't change with the influence of proposed LSVT of stock, etc. (HA 9)

Importance of location

Whilst most HAs did not feel there had been any changes, many did stress the importance of location in relation to take up.

People are very territorial, so local factors such as LSVT and ALMO don't really matter – regardless of the landlord people want to buy. For example there was no impact when X held the games in 2002 – even though they tarted up certain areas it basically comes down to location, location, location – the people make the decisions and many don't want to move out of a certain area, even if it is only four or five streets away. (HA 11)

We do not operate in areas where there has been a particular change in the location to stimulate greater interest. However, it is worth noting that on one of these schemes in the outer conurbation of X we are now experiencing a down-turn in property values. (HA 22)

HAs commented on the importance of location *vis a vis* transport and employment and affordability as important factors in shaping take up. The importance of location in relation to take up was also stressed in the Evaluation of Social HomeBuy Pilot Scheme for Affordable Housing (CLG, 2008).

No response/no view

Many HAs (eight) had no view or did not respond to this question.

Summary

The general view was that there have been no changes to patterns of take up looking at particular local factors (e.g. proposed/recent LSVT or ALMO; Liverpool in relations to city of culture status). However, many HAs stressed the importance of location factors in influencing take up.

Question seventeen

Can you provide any contextual information on differential outcomes between 'buy to stay' products (RTB/RTA/Social HomeBuy) and 'buy to go' products (OMHB/NBHB) aimed at existing tenants?

Preference for 'buy to go'

Most HAs (eight) reported that there was a preference for the 'buy to go' products. One HA said:

Buy to go aimed at new buyers is more popular, with the increase in cost of living social tenants are struggling to see any benefit of owning their own home when they have a subsidised rent and assisted maintenance. (HA 10)

Limited interest in Social HomeBuy

A couple of HAs reported limited interest in Social HomeBuy. For example:

Social HomeBuy we have run a pilot of- we targeted certain areas like X and Y but the incentive wasn't big enough to encourage people. Buying a 50% share got you a tiny, tiny discount where the full share only got you up to 10% discount you see! It just wasn't worth them buying. We had interest though, but people aren't stupid, and they know they'll have the solicitor's fees to pay, and the whole of the maintenance costs, and you know, they know this works out at a lot. (HA 4)

RTB/RTA slowed

Three HAs said that RTB and RTA had decreased or was minimal. One HA said:

Despite the number of enquiries we receive regarding RTB/RTA these generally do not progress to sales, following valuation. There is very little take up at this current time, of all of the above types of products within our existing customer base. (HA 12)

Unable to answer

Five HAs were unable to answer this question.

Summary

The responses suggest an overall preference for 'buy to go' products and popularity amongst new buyers, but no clear picture emerged from the responses.

Question eighteen

What is the impact on the finances of both HAs and buyers?

For buyers: borrowing tightened

Twelve said that financial institutions are in the process of tightening up on lending for LCHO products. Of these four HAs said that lenders were becoming more cautious in lending to shared ownership purchasers. A HA from the North West noted that HAs are no longer considered safe by financial institutions

Previously RSLs considered safe bet! Recently aware that New Build Homebuy properties are now having to be registered with Land Registry for a 6 month period before lenders are offering mortgages to applicants on these properties. There are a limited number of 'good' deals from lenders due to 'credit crisis'. A number of the lender's LTV rates have dropped to 75% and there are 50% fewer products available! Very few 100% mortgages available and those which are on offer have premium on interest rate. (HA 12)

HAs have noticed that prospective LCHO mortgage applicants are very unlikely to be offered any sort of mortgage if they have a negative credit history. They also require a larger deposit and this is impacting upon potential purchasers' ability to buy. For example, HAs said:

Yes, [there are] tighter restrictions due to poor credit history. For example if an applicant has missed one or two credit card payments this is now causing problems in securing mortgage funds. Larger deposits are required. 100% mortgages less available and 5% typically required. (HA 10).

They're credit checking to death though - if you missed a payment on anything ever, they just won't consider you, but also multiples of salary are tightening up. We only ever offered 3.5x though as we obviously have a duty to be responsible. After we've approved them about 9.5 times out of ten they do go on to purchase but lately this is down to 7 out of 10 approvals so far this year after instructing solicitors. They seem to need to pay a bigger deposit now. Obviously it's nothing like the private but it's still gone up fivefold. It was a token deposit in the past, and now they're asking for sort of £500, which doesn't sound a lot compared with the private sector, but of course there are solicitor's fees to pay, and the survey, and it adds up to them having needed around £2.5k to £3k savings in the past to something more like £4.5k or £5k now. (HA 7)

Four HAs said they had not noticed any particular difference, financial institutions are tightening up across the board and this is not specific to LCHO:

Yes – they see the LCHO in the same light as outright purchase and are applying tight credit worthiness checks and the same overall criteria for lending. It is assumed by RSLs that mortgage lenders see LCHO lending as a low volume, "sub-prime" product. It is strange that they do not see the overall quality of the loan being [that] they have a first charge on the whole equity but are only lending on a share. (HA 22)

For HAs: mixed views

Only a few HAs described the impact on their finances. Borrowing costs have increased, some HAs are financially robust but there is a belief that some may struggle with finding finance:

From the HA's point of view, we're robust financially so we don't feel we have trouble funding developments. It's a matter of choice for us. (HA 7)

Most G15 Has are still able to borrow more financial capital but it is more expensive. Those HAs with a less strong balance sheet, I don't know how many will be able to borrow or when their liquidity will run out. We have 20 months of liquidity. Some will go for finance and will be told no. Some large HAs are having their terms changed by the bank at the 11th hour when the agreement is all but signed. (HA 13)

HAs commented that accessing finance for HAs may become more difficult. Their business plans will also be affected by the general down turn in housebuilding. One HA from the London region made a general comment that:

HAs will struggle to get capital finance, only the strongest will get it. Builders will slow down and release at a trickle as that is all they can sell. They will not start new schemes. (HA 13)

No response

Seven HAs did not answer the question.

Summary

Financial institutions are in the process of tightening up on lending for LCHO products but this is happening to all purchasers not just to purchasers of LCHO. However, any type of adverse credit could impact on acceptance of a mortgage and larger deposits are required. A year ago this was not an issue. Borrowing costs have increased for HAs.

Question nineteen

Any decline in mortgage approvals, tightening of conditions or trend among refusals (related to area, purchaser or property of scheme type)?

Tightening of conditions: credit history important

The majority of HAs who responded (ten) said that mortgage companies are taking things into account which they did not worry about in the past. Even the smallest adverse credit history can make the difference between being offered a loan and not. As HAs said:

There is more scrutiny from lenders now. We are working harder to inform lenders about the products and about borrowers, to explain that they are not sub-prime or social tenants on benefits, and to explain that the products are protected if there is a downturn. It is about educating the lenders. (HA 3)

Yes but related mainly to purchasers' credit ratings. So this means the marginal applicants will be excluded [from] a mortgage offer. (HA 8)

We have seen a decline in approvals across the board with lenders continuing to tighten criteria and indeed cherry pick clients. Any indication of a default or CCJ and lenders will reject the applicant because of not meeting their own internal lending criteria. Mortgage Company A, a mortgage provider offering finance to clients with adverse credit, withdrew from the market place and although an alternative has been made available the interest rates are over 11% therefore making the monthly payments unaffordable. (HA 22)

Refusals and down valuations

Three HAs said they had witnessed increasing mortgage refusals and all of these said that down valuations, particularly on apartments, were increasing:

Mortgages are subject to random down valuations. Within the same scheme we have had scenarios where one purchaser has got a mortgage through a lender fine, then someone else, going through the same lender, has had the identical property down valued! And they refuse to back down! (HA 20)

Currently on apartments schemes we are experiencing down valuations by at least 10% of the purchase price and lending is restricted with some lenders only offering 85% of LTV. Where a scheme is in a particularly difficult location, or part of regeneration, even if it's near to a significantly better area this will still impact on values. Lenders are instructing valuers to value at second hand prices, and judge the scheme on the poor location regardless of how the scheme may uplift the area once completed. (HA 22)

Two HAs said it is too early to comment on mortgage refusals while another said they had not noticed any change.

No response

Six HAs did not answer the question.

Summary

HAs have noticed that financial lenders are tightening up on lending. Whilst there is not much evidence across the board of a decline in mortgage approvals, those without a clear credit history applying for a mortgage for LCHO are now more likely to struggle.

Question twenty

Have the costs of borrowing to HAs, in new and existing business and the availability of funding been affected?

Increased costs of borrowing

Seven HAs said that funds are becoming tight. For example HAs said:

The underlying rate for LIBOR has risen increasing our cost of funds. It is rumoured that margins will rise, but most lenders are not granting new facilities at the moment. New funding is only being made available to existing borrowers by a very restricted number of lenders (2 to 4). Most lenders are not discussing extra funding unless the funds are required immediately. (HA 8)

Costs of borrowing have been significantly affected for HAs since autumn of 2007. Variable rate borrowings have been affected by the rise in LIBOR levels, which have regularly traded at 1% over the base rate. This has had an obvious impact on our interest bills. While much of our existing facilities have been secured at margins at pre crunch levels the funders are keen to re-price and there is serious pressure being brought to bear on us to allow re-pricing of the facilities. Any slight issue with covenants, or reporting, or a need to renew availability periods and we believe banks will take it as an opportunity to re-price.

New funding is now at costs significantly above those of last year and there is no sign of a levelling off of the costs' rate of increase. Margins last year were at levels of around 20 basis points. Now they are at 1% and above (a fivefold increase). Non-utilisation fees are now back meaning that lines secured in readiness for drawing will cost money to hold. This was not the case before and has an impact again in interest costs. Arrangement fees for new loans have trebled and, in cases of securing facilities worth several million pounds, the impact is again significant.

The availability of funding has been dramatically affected. The HA sector is funded by a small amount of financial institutions. Of the seven or eight of this group (Barclays, LloydsTSB, RBS, HBoS, Dexia, Nationwide, Abbey), several have been significantly affected by the credit crunch and the write down of bad debts. The need to be more selective about their lending means they can raise pricing and assess risk of each association more carefully. The impact of the Ujima HA collapse has also contributed to this nervousness.

Banks are requesting more information about the effect of falling sales of shared ownership properties on the business plans and clearly this paints a gloomy picture for many associations. The effect of this fall in sales income means HAs will have to use borrowing lines more quickly to cover the shortfall. At present we feel that there are only 2 or 3 funders who are interested in further lending to the sector and in all cases this would be at a much higher costs than last year. (HA 22)

Other HAs said that they had recently re-financed so felt relatively secure, but said that the availability of funding for other HAs may be scarce:

I think that for associations who have got to borrow money now, well, the interest is higher and the amount available in the market is lower, so they can't borrow as much as they need for the developments they want to carry out. (HA 2)

The signs are that those who are refinancing now are getting poorer deals than 6 month ago. We, by luck and planning, wonderfully, did a refinance a year ago! We've got a 100 million in finance. Some lenders are using breaches of covenants that used to be considered just technical breaches, as grounds for demanding that HAs renegotiate their borrowing though. (HA 21)

No change

Three HAs said they had not seen any affect.

No response

Eleven HAs did not answer the question.

Summary

The availability of funding has been affected and the cost of borrowing has increased, but not all HAs are as vulnerable as others. Added to this, some HAs feel pressured by lenders to re-price their current finance deals.

Question twenty one

What are your views about the extent of recent turbulence and the nature of risk in the current situation?

Risk to HAs

The recent turbulence is making management of HAs more difficult:

The extent of financial market turbulence is unprecedented and has stretched across the whole financial sector, regardless of whether that institution was heavily involved in the initial causes of the credit crunch or not. All banks are having to raise funds in the short-term markets at higher costs and are keen to pass on these costs to their customers. Banks' credit committees are taking a much harder view of the risk attached to housing related borrowers. This effect shows no signs of receding, indeed it is getting worse. Bank pricing is changing on a weekly basis and this volatility makes managing the financing of an HA extremely difficult and unpredictable. The risk impact of the credit crunch on the HA sector is widespread across various areas of the business. In Treasury terms it means we cannot guarantee future funding, renewal of existing facilities where necessary, or the level of costs attached to financing new schemes. The risk is increased given the lack of certainty of where this situation is going; as it is still deteriorating it is difficult to plan for the longer-term impact on the business. (HA 22)

Five say there is a risk to HAs that have overstretched themselves. As the market is slowing down new properties are taking longer to sell, flats have been particularly affected. A London region HA says:

Those who went in very heavily for flatted developments are suffering now as the market is saturated with flats and apartments - the buy-to-let market and the amateur landlord alone have that market practically saturated. (HA 1)

As the overall market slows, LCHO that is part of mixed tenure schemes will be affected:

Where LCHO is a component part of a larger scheme including market sales, the site may be mothballed in the absence of funded purchasers for the market sales units.

More marketing may be one response:

We need to ensure that values are realistic and marketing activity is increased. Purchaser incentives will become more common place.

Empty new properties: change tenure

A few HAs are worried about new properties standing empty and are considering changing the tenure:

Whilst interest in LCHO is still evident the ability to gain a mortgage and therefore buy the property is substantially reduced. Due to very slow LCHO sales, many RSLs are converting standing stock to rent either long term or until the market recovers. Result – with falling sales of LCHO units and the conversion to rent the supply of LCHO units is reducing rapidly. (HA 22)

There's the worry that we might not sell them and they'll be left empty. We borrow money to build and charge rent to cover that borrowing. We have converted some to social housing where needed but that requires specific approval from the Corp

because of the basis on which they originally provided some of the funding to build it. (HA 3)

There's risk for us as a business if we have unsold equity - we've got properties we're sitting on. We aren't yet planning to rent them out instead, but we may in the next 6 months when we've exhausted a lot of the other options for some schemes currently being marketed. (HA 4)

We are extremely concerned that we have standing stock, the value of which is reducing at a rapid rate, linked with the fact so many other incentives on offer, both by developers and other government funded schemes Open Market HomeBuy and First Time Buyers Initiative, competing with New Build HomeBuy, particularly on the same sites in some cases. This means difficult times ahead! (HA 12)

We have appropriate detailed exit strategies for all developments such as converting to intermediate rent pending an upturn in market conditions. However new pipeline developments are being scrutinised to make sure they are both saleable and mortgageable in the current market. As the market appears to be saturated with flats in various areas the number of NBHB flats in pipeline developments is likely to be examined. Thus far, we have not needed to convert any units to intermediate rent. (HA 17)

Finally two HAs said there was concern about affecting HA business plans:

There will be problems for some HAs as their business plans are predicated on expansion and high sales targets. There could be a few over the next few months. At the end of the financial year we will really see people's exposure. (HA 13)

Not worried

Some HAs are not particularly worried about the current situation, commenting that demand is still outstripping supply and that there is less risk in shared ownership. One HA said:

We've always looked carefully at the developments we take on, and aim for mixed communities and mixed tenures, to avoid these ghettos of flats, and as a result, our shared ownership properties remain in demand. Those who have been prudent in the past with their borrowing and their developing are reaping the rewards now there's a downturn. (HA 1)

Offered units from developers who cannot sell

Some HAs did comment that they are being offered new units from developers that the developers cannot sell. HAs said that the units are often not built to a high enough standard and may be the wrong unit type and in the wrong location. Some HAs are considering taking the units, as one said:

We anticipate an increase in SO from 90 to 130 because developers are not selling. (HA 11)

No response

Eight HAs did not answer the question.

Summary

There are many concerns about the extent of recent turbulence and the nature of risk surrounding the current situation. The long term financial planning of HAs has been made difficult by the credit crunch. The majority are worried about their own units not selling, whilst many HAs are being offered market units developers whose units are not selling. Some HAs

reported they are considering changing the tenure of new units from LCHO to social rented as they are concerned that units are not selling or will not sell.

Question twenty two

What are the implications for Housing Associations' financial models? How is 'shallow subsidy' achieving value for money for the public purse?

Risk

Risk has increased for HAs in a number of ways:

The change in the housing market reduces the development capacity of HAs.
This follows from:

- (i) broadly, shared ownership schemes are not viable at present and therefore a source of cross subsidy for rented schemes is no longer available
- (ii) active developers are working through an overhang of unsold or slow selling SO stock which is leading to additional, unanticipated borrowing costs.
- (iii) reduced staircasing receipts
- (iv) the costs of borrowing are increasing

In addition, some HAs will be affected by asset write-downs, reducing reserves and possibly impacting on gearing covenants. In the current circumstances, 'shallow subsidy' is not achieving value for the public purse. It is more likely to lead to a reduced development output. Higher levels of subsidy are needed if the output of rented schemes is to be maintained. (HA 22)

Five HAs said there was risk if the properties could not be sold because the cross subsidy is important. One HA from the East of England said:

There's a risk to our model if we're building properties that can't be sold. Included in our business models will be the income from the sale of the property and if that doesn't take place that puts pressure elsewhere. Hard to answer about shallow subsidy. There was a greater subsidy in the past - there is now greater pressure on us HAs from the Corp to provide housing on lower grants and that sweats our assets somewhat. (HA 3)

Three HAs said they may have to scale down. As one HA said:

Housing Associations may need to scale back or stop existing programmes. The programme may slow up anyway where the schemes being delivered form part of a larger developer owned site. (HA 7)

Three HAs commented that lower grant rates and less subsidy are impacting on their financial models. HAs are saying:

Lower grant rates are affecting viability, particularly with reduced income/rent from reduced sales values. Some bids made 6 months ago with lower grant requests were based on forecast sales values that cannot now be achieved. RSLs will either not deliver schemes or will take the decision to subsidise some or all of their LCHO schemes. (HA 18)

In finance models we're re-looking at it round S106s and will probably make some changes in terms of the returns we want to make on it. At this stage we're aware we

have to increase marketing and sales costs and factor that into the models. Our future with S106 isn't just doing a better bid; our strategy is about long term relationships with developers. (HA 21)

Lack of value for money

Four HAs felt that 'shallow subsidy' is not achieving value for money for the public purse as HAs out bid one another for S106 schemes:

In short, they are not. Our financial models have been continually scrutinised from within and while some HAs policy is not to bid on developments where another HA might be bidding, we have in the past done so - we have competed against other HAs. Of course we know roughly who will go up to what, but sometimes we get a surprise when we get outbid by a vast margin and we take a step back and think, whoa! Where did that money come from? Well, we've always been more cautious and have only bid on developments where we see a demand and value for the money we spend, and it's affordable to us, but we can see other HAs have sometimes overstretched themselves and sold assets to pay for a new development. I think in such cases, and in all cases where we effectively price one another up by competing on the same developments, we inherently give poor value for the public purse.

We've worked with an increasingly small number of developers, stopped bidding on S106s. Because you do get say an HA who'll overbid. We always make it plain what we'll go up to. If you get the right relationship with a developer it's to everyone's benefit. (HA 21)

No response

Thirteen HAs did not answer the question.

Summary

HAs may need to re-think their business/finance models to take into account the loss of cross subsidy from the sales of LCHO. The various factors in discussion are related. Either anticipated sales are not taking place, or (because of market values) receipts may be lower than projected. So, income reduces but several HAs also report that marketing costs have increased as they try to sell homes.

And when it comes to delivering rental units with LCHO receipts, it can be presumed that build costs have increased, perhaps in excess of headline inflation. This all suggests there is less money in the system and, because of the nature of housing development, the issues which this entails will take years to work through, leaving aside any increased nervousness on the part of lenders, leading to higher borrowing costs. Even where sales do take place, receipts may be less than anticipated, at a time of rising build costs, placing more pressure on HA finances.

There are concerns about value for money when HAs compete with one another to secure units through S106.

Question twenty three

What are your views about risk and viability and the implications for development and sales decisions, especially in relation to the National Audit Office Agenda?

Higher risk

Four HAs say the risk is higher than it was. For example:

The risks in development are clearly higher than they were and the previous paradigm of shared ownership or outright sale units providing a 'top up' subsidy for rented schemes to supplement reduced grant levels is no longer valid. Protecting liquidity is a key issue in a tight credit market and new commitments are being closely examined to ensure they fit our cash constraints. There is a high focus on managing the effect of the shortfalls in expected first tranche sales cash receipts from unsold shared ownership stock. All of this leads to significantly more caution in assessing development opportunities. There would need to be a fundamental shift in approach (i.e. higher subsidy levels) to temper this. (HA 22)

Location may impact upon the degree of risk:

Risk is higher - it has implications as in we don't take the risk of buying more in now. The market leads us. We need to do up front research before building in certain areas now - we see what the level of request and demand is in an area before we go in there. (HA 4)

More prudent assumptions being used in assessing individual schemes with certain geographical areas now being off limits for certain products due to local market saturation. (HA 1)

A third commented that if the developers can't sell their stock HAs could be left with it. This is particularly the case with apartments which have been over supplied. There is concern that housing developments where LCHO is included may not be completed:

It is a threat to Housing Corp numbers of houses they want built over the next 10 to 15 years, if HAs don't want to take the risk of developing and building and can't provide the quota required. A lot of our properties are part of a larger development and if they stop building the infrastructure it threatens our schemes - ours are always within the site not on the edge so if the rest of the development halts while potentially it may be cheaper to get the properties built, well, if they stop building the rest that leaves our section 106 bit either incomplete or stranded within an incomplete development - there is this threat. When letting that might not matter so much although it isn't attractive to tenants either, but when trying to get people to buy, well, it creates a sort of isolated enclave of only social housing and shared ownership properties - if the rest aren't built and the roads to the development aren't finished etc, where we are aiming to integrate and mingle with the general population. (HA 3)

Again, HAs may consider changing the tenure of units. Some HAs are considering moving stock from shared ownership to rented, whilst another may put schemes that are in the pipeline on hold.

Less risk

One HA from the London region said

Well in terms of risk, we've always been risk averse as I say. In one way we will now be able to meet the government's targets in terms of getting houses built - developers want the work and that gives us a certain amount of power which we haven't had in the past. In another way though, we may have to concentrate on rental properties and I'm not sure where that sits with the NAO. (HA 1)

Clearly, concentrating on rental properties conflicts with the NAO agenda which was principally concerned with propelling social tenants into home ownership.

No response

Twelve HAs did not answer the question.

Summary

There is a perceived increased risk with developing LCHO. There is concern about the knock on effect of developers building market housing at lower rates and not selling units. This raises the possibility of developments remaining half finished, with the related management issues and liabilities and problems for residents. Some HAs are considering changing the tenure of the units, for example, turning to social rented housing or intermediate market housing in the short term rather than leave them standing empty if they do not sell.

There are mixed feelings on risk, some HAs feel they are in a stronger position now market developers are struggling, but HAs whose units are included on market schemes are concerned about the impacts.

The NAO was principally concerned with:

- a) untapped demand, that is, beneficiaries not maximising their purchase at the outset
- b) selling to beneficiaries at the higher end of the income scale
- c) specifically targeting social tenants and freeing up social lets
- d) a more effective assessment of beneficiaries
- e) recycling of SHG for more affordable housing

This agenda has been affected by the credit crunch and market changes. Whilst the interviewees do not address this explicitly, implicitly it is possible to draw some conclusions from the research. Whilst house prices have fallen, the cost of borrowing has increased so affordability has not improved. Lenders now require larger deposits and good credit histories. The cost of living has increased markedly. These factors all make it less likely that social tenants will be able to afford to move into LCHO and less likely that they will wish to give up the security of social renting in such a market and economic climate. This suggests it is unlikely that the NAO agenda to free up social rented properties will be achieved. In the current situation, it is more likely that LCHO purchasers will be at the higher end of the income scale in the intermediate market. Care will need to be taken to ensure new purchasers are not at risk of over-stretching themselves financially in the context of rising costs and rising unemployment. Upwards staircasing is less likely as household finances are stretched and sales are slowing, reducing the receipts available to HAs to fund more affordable housing. Combined, these factors are likely to undermine the NAO agenda.

Summary: Housing Association/HomeBuy Agent Responses

Overall the housing market has slowed. Developers are not reluctant to include LCHO as part of their S106 contributions. There are no reported changes to volumes in or terms of S106 agreements. But, whilst HAs have not seen direct impacts on the supply of LCHO as yet, they believe supply may slow in future as housebuilders reduce production. This would reduce the numbers of LCHO being delivered through S106. This is likely to be the single most important reason for the Housing Corporation not being able to deliver against its output targets. House price reductions are also likely to have disproportionate impact on residual land values, which feeds through to S106 output and to the future level of developer contributions which can viably be achieved. This will have an impact on grant requirements.

However, the flow of homes from private developers to HAs could increase as developers are contacting HAs and offering them units that they cannot sell, although the units are often not built to the right standards, the right size, or in the best location for HAs.

There is more competition from developers trying to sell their own units in a slowing market. The majority of HAs said that private developers in their area were offering shared ownership incentives and/or subsidies on their new build properties.

There are mixed reports about rates of sales of LCHO. Some HAs report that demand for LCHO is stable, both interest in and sales of LCHO are reported to remain high but HAs are needing to increase the time spent on marketing the properties effectively to achieve sales. Other HAs report that sales volumes and rates of sales are slowing down. Most HAs who answered reported a recent decline in enquiries and some have increased their marketing activity in response.

Generally, the purchasers accessing LCHO have not changed. Providers are able to identify people within the target groups who can afford the product. There is no clear evidence that cascade mechanisms or price constraints are bringing in a different set of purchasers. However, some changes were identified, as lenders require higher deposits and a clean credit history from purchasers and restrict the income multiples they will lend. Prospective customers are having difficulties in obtaining mortgages. The initial percentage share of purchases has decreased.

The general pattern is for the size and value of shared ownership first tranche sales compared to previous years to be smaller, or at best to have remained the same. This could be as a result of the long term affordability issues in the housing market and not the recent market problems; although some HAs did report that the reduction in the shares being sold was recent. It could be that the increased cost of borrowing and requirement for a higher deposit is reducing the share that some LCHO purchasers can afford to initially buy.

Financial institutions are in the process of tightening up on lending for LCHO products but this is happening to all purchasers not just to purchasers of LCHO. However, any type of adverse credit could impact on acceptance of a mortgage and larger deposits are required. A year ago this was not an issue.

Changes in take up and changes to patterns by property and scheme type are localised and can reflect the local market. There has been less demand for flats but continuing demand for houses. The type and location of the LCHO products has an impact on sales, particularly with the over supply of apartments in some areas.

Whilst many HAs felt that it is too early to see an impact, some HAs are reporting evidence of rent and mortgage arrears and some difficulties for existing home owners in refinancing to

service debt or in undertaking resales. However, other HAs report that the difficulties are no greater than in other years.

It is possible that it is too soon to see the real impact on staircasing down, repurchase and repossession. Whilst only a few HAs reported evidence now, a number thought that it would increase over the coming months. Whilst at the time of the research in May/June HAs felt it was too early to see a clear impact, the Council of Mortgage Lenders reported in early August 2008 that in the first half of the year 18,900 people had their home repossessed, up a third on the same period last year. That compares to 27,100 repossessed homes in 2007 and 17,000 in 2006. Given the emphasis on the use of RCGF for new supply and reluctance on the part of RSLs to use RCGF for this purpose, this probably masks to an extent untapped demand for downwards staircasing. Downward staircasing is not a right, so shared owners cannot demand this of their landlords.

There do not appear to have been any major shifts in aspirations to home ownership among social renters. According to HAs, those who do aspire to home ownership are unable to afford to access it. Many households prefer to rent under the current conditions and are foregoing the aspiration to home ownership in the short term.

Some HAs did not feel that rents were low enough in their area to have an impact on the flow of purchasers from private renting into LCHO. Others felt that it is too soon to assess the impacts with any certainty and that the current climate and media coverage are discouraging anyone from purchasing at the moment.

The general view was that there have been no changes to patterns of take up looking at particular local factors (e.g. proposed/recent LSVT or ALMO; Liverpool in relation to city of culture status). Many HAs stressed the importance of general location factors in influencing take up.

The availability of funding to HAs has been affected and the cost of borrowing has increased, but not all HAs are as vulnerable as others.

There are many concerns about the extent of recent turbulence and the nature of risk surrounding the current situation. The majority are worried about their own units not selling, whilst some HAs are being offered units from market housing developers whose units are not selling. A few HAs are worried about new properties standing empty and are considering changing the tenure. HAs may need to re-think their business/finance models to take into account the loss of cross subsidy from the sales of LCHO.

Analysis: Financial Organisations

Financial Organisations' Respondents

| Number of Financial Organisation | Region | Lender |
|----------------------------------|-------------|--------|
| 1 | EE | Y |
| 2 | SE | Y |
| 3 | NW | Y |
| 4 | YH/NE | Y |
| 5 | NW | Y |
| 6 | YH/National | Y |
| 7 | SW | Y |
| 8 | National | Y |
| 9 | National | Y |
| 10 | EE and EM | Broker |
| 11 | National | Y |
| 12 | EM | Broker |

Total Financial Organisations 12
 Also Lenders 10 (83%)

Regional breakdown of respondents:

| | | |
|-----------------|---|-----|
| North West | 2 | 17% |
| South West | 1 | 8% |
| East of England | 2 | 17% |
| South East | 1 | 8% |
| Yorks | 2 | 17% |
| North East | 1 | 8% |
| National | 4 | 33% |

NB Halifax has been treated as both National and Yorkshire and the Humber because of the situation of the organisation and respondent.

NB Darlington operates across YH and the NE.

Question one (F)

Are financial institutions tightening up in lending to purchasers of LCHO? Any more so than to other borrowers?

Tightening up across the board

Nine of the financial organisations' representatives said that they are bringing in tighter criteria for approving mortgages across the board, not to LCHO in particular. However, it is felt strongly that the type of restrictions being imposed will affect would-be purchasers of LCHO more than other borrowers. The reasons for this include the fact that the lenders are demanding lower Loan to Value (LTV) ratios by requiring greater deposits, they are reducing their exposure to the instability of new-build developments' values and there is a smaller pool of lenders to the LCHO sector:

There is a lot of nervousness around flats and new builds... most of us won't offer the same LTV (loan to value) you know there was a number of a lenders offering mortgages at 100% up to February this year. (FO 11)

Regionally these issues were raised by organisations in the East of England and East Midlands (1), The North West (1), the North East (1), Yorkshire and Humberside (2) and from national organisations (4).

Not tightening up, or less strict with LCHO purchasers

Two organisations stated firmly that they have had no experiences which indicate a need to be more careful with purchasers of LCHO and are looking to increase this section of their business; one of these is still lending 100% to purchasers. Two further organisations said that they prefer this sector to other first-time-buyers. This was because:

- The 12 month mortgage protection clause adds to a sense of security amongst lenders to LCHO purchasers.
- They are borrowing less- the loss is less if they do default and the amount borrowed represents less of their income than it does with other first time buyers.
- The checks carried out by HAs before putting people forward for LCHO are rigorous- and the purchaser comes with a financial track record specific to how they manage their housing costs.

Two organisations mentioned altruistic attitudes towards LCHO and this standpoint was also evident elsewhere amongst financial organisations' responses:

We have reinforced our support for social housing at this time for a number of reasons. Building societies were set up 150 years ago to help fill the gap that banks could not and help people get on the ladder and we are still committed to this ethos. A moral standpoint. From a risk standpoint we are protected by the mortgage protection clause. The government, the Housing Corporation and HAs are focused on helping those most in need. We see it as safer than helping people with 100% mortgages. (FO 2)

Tightening up on LCHO in particular

Only one organisation, which is based in the South East, said that they are stricter with LCHO purchasers specifically. This is related to their experience of a default and the difficulty in winding up the situation before the 12 months for which the mortgage protection clause covered them:

We do lower multipliers for them and only within certain postcodes. The experiences we've had have taught us to be careful with LCHO. (FO 7)

This particular lender had dealt with HAs who did not inform them when shared owners were behind with the rent portion of their payments and they also said that several of the HAs they deal with refuse to buy back properties when the lender had to re-possess them. Since this has not been mentioned amongst any of the other financial organisation interviews it may be in early indication of a situation which will occur more often in the coming months, or it may be related to the management efficiency of certain HAs.

Summary

The majority of the financial organisations report that they treat LCHO purchasers no differently from others. Most said that they are tightening up mortgage lending across the board and that if LCHO purchasers are affected more it is because they have less deposit and are purchasing new-build properties in an uncertain market, rather than something connected with the purchaser type. Only one interviewee said that they have restricted their lending to LCHO purchasers in particular and this was in response to negative experiences they had had with the HA they dealt with when a client defaulted. A minority of those interviewed stated that they preferred lending to LCHO purchasers than other first time buyers because of the extra security they felt was provided, for example, through the mortgage protection clause.

Question two (F)

Is lending to LCHO purchasers regarded as any more or less risky than lending to 'traditional' borrowers?

Little difference/subtle differences between lending to LCHO purchasers and others

Responses to this question can be categorised roughly as neutral or complex, positive and negative comments. Of those giving neutral responses, or giving responses with reservations, none are based in the South of England although one of them is broadly speaking a national organisation. There is a view that the risks are the same but that when these clients get into trouble with their payments, they crumble more quickly than others:

Overall there is little difference between the borrowers but we find that if someone in LCHO gets into difficulties it tends to go bad very quickly. They tend to give up more quickly than someone in traditional ownership. There is a higher proportion of severe arrears and repossessions when LCHO borrowers get into difficulty, though no difference in difficulties overall. (FO 1)

Two of those interviewed felt that they treated these purchasers exactly the same as any others, in that the same checks are applied, and the same criteria for lending used, because so far in their experience, there has been no difference:

If it was automated we would just multiply their income by some magic number – say 3 and although we have that in the back of our minds it's obvious that some people have less disposable income than others, and though this tends to be the case for those interested in LCHO, by default, we can see that in many cases they might have a more established lifestyle and don't have as much new furniture on credit, to give an example of where people's disposable income may be tied up. It isn't less risky because we are careful whoever we lend to. (FO 4)

Positive comments made about lending to LCHO purchasers

Amongst the twelve respondents there were eight positive comments on experiences of lending to the shared ownership/shared equity sector. These included the following:

- The loss potential to the lender is lower (one in the South East and one in the East of England / East Midlands).
- Purchasers of LCHO have less other debt than many first time buyers (one in Yorkshire & the Humber / North East, and one national organisation).
- They are an intermediate risk category compared with experienced homeowners and open market first time buyers (one in the North West and operating nationally and in Yorkshire and the Humber in particular).
- HA checks are rigorous and provide good references (North West).
- The mortgage protection cover is reassuring (in the North West and the South East).

Negative views on lending to the sector

There were twelve comments which might be classed as negative. The issues of greatest concern are the fact that these purchasers' mortgage and housing costs represent a greater proportion of their income (five different organisations mentioned this) and that they are essentially no-deposit borrowers (four comments):

We tend to find LCHO applicants are more committed financially. When we do the affordability calculations we see a higher proportion of their income taken up by credit cards and other debt and they spend more on this and rent and the mortgage than traditional borrowers. (FO 1)

They will be on average lower credit score customers than those outside LCHO buying on the open market. There is the fact that they are borrowing 100% of their investment. The best predictor of defaults, you'd think it was income but it isn't, is loan to value. (FO 11)

Other problems mentioned are that HAs approve people whom the organisation would not (two comments from the South West and a national lender) and that amongst all borrowers where there is no deposit in the property, the borrower is more likely to hand in the keys and give up (four comments of this type all within the East of England, the South West and the national lenders).

One of the national organisations did not answer this question.

Summary

There are mixed views about whether LCHO purchasers are regarded as any more or any less risky than 'traditional' borrowers. Most felt that there were minimal differences in terms of risk. The risk is perceived to be a little lower due to the security offered by mortgage protection cover, but perceived to be higher as LCHO purchasers are believed to walk away from arrears and difficulties more quickly than traditional borrowers and to have greater debt such as credit cards.

Question three (F)

Are LCHO products becoming difficult to sell, will they in the future?

Yes

Four organisations said yes, across the North West, East Midlands and two national organisations. The reasons given are that people are now waiting for better deals (three responses), and that in rural areas the cascade mechanisms mean that properties have less re-sale potential than in urban areas and this is off-putting for customers – this is in the North West specifically.

Another impact is that if you were a punter, a key worker, would you buy now anyway? Most people will wait for six months. The effects vary across the country, in places like Nottingham, Leeds and Manchester there has already been a correction. (FO 9)

When respondents considered shared equity and open market Homebuy products though, there were more complex views, for instance:

So with shared equity we have a more strict view. As to whether they'll become difficult to sell in future? They're two very different products. SO we treat in a number of ways, depending on the scheme but SE is different, and then Open Market HomeBuy where they give you money, well that product has changed several times last year, it wasn't right for the lending industry or the buyers. It was introduced primarily in the Southwest for key workers to encourage them and enable them into home ownership, and it needs tweaking still. (FO 3)

No

Eight interviewees did not believe that LCHO products are becoming difficult to sell. The most common reason given is that demand exceeds supply (four responses from East of England, East Midlands, North West and national organisations).

They're easy to sell but there's little available at the moment, there are too few properties available for shared ownership, at least in this region while on shared equity schemes there's little funding for buyers, the funding has all gone into New Build HomeBuy schemes which has left the rest high and dry. It's all the fault of the HC. (FO 10)

No. On the contrary we can't cope with the demand as there are so few of us in the market. (FO 1)

Two lenders said that they are members of a small group who lend to the sector and are therefore in no danger of running out of these clients (East of England and South East). Other comments included that it is the HAs who really sell these products anyway but there seems to be little difficulty finding customers (Yorkshire and the Humber/national organisation) and that once HAs approve people there are plenty of customers for the properties available (South West).

Future predictions included:

- Increasing demand (two responses from East of England and Yorkshire and the Humber/national organisations).
- Downward staircasing may need to be planned in (Yorkshire and the Humber/national).

- Increasingly risk-aware rates may put future buyers off for a period (two responses from South West and national organisations).
- Supply may decrease because of the Housing Corporation having difficulty finding funding (two responses from East of England and national organisations) and developers ceasing work (East of England response).

Other comments

Three lenders feel that lending to 100% had been an abnormal activity and that after the initial (current) reduction in lending, things will go back to 'normal' based on the long term behaviour of lenders in the past rather than in the unusually strong rising market of the last 10 years. These organisations represented the East Midlands, the North West and one national lender. One national lender said that they had little business of this type so that there was as yet no trend that could be detected, but they also feel that demand exceeds supply in general. The organisation based in the South West noticed an increase in available properties over the last two years, while one of those in the North West made the comment that estate agents tend to ignore Shared Ownership.

Summary

The majority of lenders and financial organisations feel that it is not hard to sell LCHO, mostly because current demand is higher than supply. There are fewer lenders to the LCHO sector than to regular house buyers so financial organisations do not perceive a reduction in business. Amongst those who consider it more difficult to sell these properties, the main reason given was that people are not buying at the moment, but waiting for prices to fall. This is the case for the market overall, not just for LCHO. It was predicted that supply might decrease and demand is likely to increase. The one comment on rural areas and cascade mechanisms seems to be an important point; that the resale potential of such properties is 'low and slow' and this might become a problem if there are increasing numbers of rural property repossessions in the future.

Question four (F)

Any decline in mortgage approvals or trend among refusals (related to area, purchaser or property or scheme type)?

No

Two of those interviewed thought there was little decline and no trend, but one (in the East of England) said that the cost of borrowing has increased overall. One lender in the South East said that whilst they have never accepted LCHO borrowers they considered to be sub-prime, for example, with poor credit histories, they have had more applications from this group and are continuing to refuse to lend to them:.

There has been no decline, but we have never been in the sub prime market. We are getting approached more by brokers on behalf of people with poor credit etc than in the past and we are declining those, but we would never have taken them on. (FO 2)

Yes

Ten organisations' representatives felt that there was a strong decline but this reflects the market overall. The trends in what is being restricted are explained by different factors. Broadly speaking there are three strands to these responses:

- Nobody is buying or selling anyway. A lack of buyers was perceived by those interviewed at the Yorkshire and Humber/national, East of England/East Midlands and South West based firms. Lack of sellers was seen to be a problem in the South West and Yorkshire and the Humber/nationally.
- There are fewer mortgage products available and at higher prices, across the board. This was said to be the case by four different interviewees, across three of the national organisations and one in the South West.
- Trends in decline relate to scheme type (new builds, distance from lender's basic area and areas with a small area of first cascade), mortgage product type (no-stake borrowing, buy to let mortgages and high income multiplier borrowing) and purchaser type (first time buyers and those with missed credit payments):

We always lend on particular postcodes local to us. We wouldn't look at lending to outside the area. It hasn't been a significant decline though; the market has changed and there's less supply for mortgages but that's across the board. (FO 7)

Three respondents stated that these restrictions affect LCHO purchasers disproportionately, two of whom are national lenders with another organisation based in the East Midlands:

Mortgage approvals overall are well down, by 40% or more. Although I have no specific figures relating to LCHO, they are likely to be represented more in this figure as, in many cases, they will not be the lower risk applications that lenders are giving priority for funds. (FO 8)

Most of the products that have been cut back are aimed at FTBs and key workers, who have the most issues with affordability. This affects those closest to the line on underwriting. They have to have a minimum deposit now and the income multiples have changed. This disproportionately impacts upon the types of customers most interested in LCHO. (FO 9)

Summary

Feelings amongst lenders and financial organisations are predominantly that there is a significant decline in approvals overall (figures mentioned fell between a 40 and 50% drop in

approvals over the last year) and that while this is not related specifically to LCHO purchasers, the types of restrictions being brought in by lenders will affect this group in particular (and FTBs generally). This is because borrowing with low deposit, first time buyers in general and those on low incomes are amongst the most severely affected groups of would-be purchasers. The two respondents who had not seen a decline in approvals felt that they had always been slightly more cautious than most lenders.

Question five (F)

What are the risks to would-be purchasers of hardening lending conditions?

The increased costs of living and of borrowing make home ownership more risky, particularly for lower income households:

LCHO is a logical and worthy product but there are questions around encouraging people on low incomes to take on ownership responsibilities at a time of considerable economic uncertainty. Rises in inflation, household running costs, interest rates and unemployment would all combine to hit hardest low income households and make such home owners vulnerable to re-possession. (HA 22)

Less choice of mortgages

The majority of responses (nine) agree that there is less choice of mortgage products available and these products are now more expensive. All regions are represented in this category of response:

There is less choice. Many providers of shared ownership mortgages have pulled out. This has led to rate increases and fee increases. (FO 1)

A problem is going to be that as 3 year fixed rate deals come to an end there will be no other lenders to re-mortgage with. People may have to move to a standard variable rate but this will increase costs. This will be a problem of 2009 not 2008. The problem is the same for traditional borrowers, but LCHO borrowers have even less choice than they do. (FO 1)

Mortgage approval unlikely without deposit

Further, seven respondents were of the opinion that approval for a mortgage is now less likely in the current economic climate, now that a deposit is more widely demanded. Five stated specifically that fixed rate products are no longer available and four are concerned that people are overstretching themselves:

It's tightening up and there aren't necessarily risks to the would-be LCHO purchaser more than to the general... maybe they'd be approved by the HA but can't get their mortgage, which is a risk in terms of what they go through to get approved by the HA, the time and effort going into it wasted perhaps. (FO 7)

For LCHO and other home purchases people should not borrow more than they can afford. The problem is often brokers pushing people on what they borrow to the limit. (FO 2)

Other comments (from three organisations) relate to the affordability of schemes available for LCHO. Borrowing for the purchase of LCHO may be difficult in the light of lower income multiples being offered by lenders. One of the national lenders also observed that smaller firms may be struggling and therefore their clients looking to move are unlikely to get mortgage deals they can afford and that there is the risk of going into negative equity almost immediately for many purchasers in a period of falling house prices.

One lender based in the North West stated that the risks are the same as always, although there is now a greater risk of property values falling and a swift descent into negative equity for the would be purchaser.

Summary

Most lenders and financial organisations felt that the choice of products is increasingly limited and the products are becoming more expensive. Income multiples for lending are reduced. There may be affordability problems for borrowers needing new mortgages as fixed rate mortgages come to an end. It was widely acknowledged that a deposit is almost always required in the current economic climate and this will affect the affordability of many shared ownership schemes for prospective LCHO customers. Some of these changes will affect the market overall and are not specific to LCHO.

Question six (F)

Has the position of existing owners looking to refinance been affected, given increasing levels of household debt?

No

Respondents saying no to this question are spread throughout the South East and West, the East of England and East Midlands, the North West and Yorkshire and the Humber/nationally. All these organisations' representatives agreed that very few LCHO purchasers re-finance in their experience, either because HAs rarely allow it, or because these people are careful about their other credit debt:

If they are looking to re-finance on shared equity it is almost impossible. HAs are very tight on not allowing debt to increase after re-financing. But this is not new. (FO 1)

'No' is the simple answer, the effect is the same as on any other property- it's hard to refinance anyway, for anyone. There is a perception that a certain type of person buys into shared ownership which assumes a stereotype which reflects reality, however that isn't accurate. In fact most of those in shared ownership have been so careful in the process of buying and are less likely to have overstretched themselves to do so, and this is reflected in the numbers looking to refinance, which are lower than in the wider client base. (FO 10)

Yes

The five positive replies come from interviewees based at firms in Yorkshire and the Humber/nationally, the North East and West, the East Midlands and one of the national lenders. Those with other credit debts and specifically missed payments will find it impossible to refinance.

The changes reported included:

- Higher charges for refinancing (two national lenders and one in the North West).
- Greater scrutiny of clients' credit behaviour (one organisation in the North West and two Yorkshire based firms, one with a national client base as well and one active in the North East, one in the East Midlands and one in the North West).
- Fewer deals available (a national lender and one each in the North West and East Midlands).

Other comments

Three lenders (South West, East Midlands and national organisations) have some experience of customers recently in trouble with their payments. However, these are reflective of FTBs generally not specifically LCHO purchasers:

I really am seeing that say, your young couple buying new furniture etc, credit was easy to get everywhere and that's made them overstretch. It's associated with first time buyers really. But if they lose their job as well- well anyway it's not LCHO only that this happens to. I think a lot of them have a large amount of credit purchases and it really is connected with first time buyers of whom a significant proportion are LCHO purchasers and vice versa. (FO 7)

Another lender pointed out that as their business largely rests upon their reputation, when they encounter customers in difficulty with payments, suffering genuine unforeseen circumstances, they will always try to help them:

We've always had two categories of non payers. There's the 'can't payers' and the 'won't payers'. We have had people say they can't pay this month because they're going on holiday, for instance. Those in real trouble from unexpected circumstances are being treated with the same consideration they have always had though and a lot of our business is through word-of-mouth recommendations, so people might be surprised by the lengths we'll go to for a client in genuine, unforeseen difficulty. (FO 4)

This supports a view expressed elsewhere by FO 11, that in the last economic recession, the lenders' best interests were not well served by a glut of clients experiencing problems with their mortgage payments simply handing in the keys and walking away. Now, it is felt, they are less likely than ever to foreclose without having done everything possible to help a customer manage the debt first.

One respondent commented that in the last ten years 'the borrower has been king', but that a more normal attitude to lending is returning these days, and that increases in rates of refinancing are required to cover savings rates payments (FO 5)

Summary

Purchasers of LCHO will face the same difficulties as other mortgage holders. There is very little further fixed rate funding available and that this will affect follow-on finance once the fixed rate loan comes to an end. The credit records of customers hoping to refinance will be more closely scrutinised. The cost of borrowing has increased.

Question seven (F)

Have the costs of borrowing for HAs, in existing and new business, and the availability of funding changed as a result of the current climate?

Many of the issues relating to availability of funding for HAs are the same as those affecting borrowers looking for mortgages, for example, the higher price of borrowing, the reduction in lenders with funds available and the loss of fixed rate money that was previously available.

Costs to HAs will increase

One major national lender does not have plans to approve any more business loans and the other is at the end of two very old loans of the type with no plans for any more to be approved to the sector. Respondents said:

HA funding is starting to be affected. This began at the end of the calendar year when one major lender stopped lending. Two further lenders to the HA sector have this week issued rights issues. Traditionally social housing has been low risk but also low return so banks are looking at their choices for business. (FO 9)

Yes, from our perspective, we are not currently offering any additional loans to any customers, although this positioning is continually under review. We believe that in the medium to long term, the costs of funding to RSLs will increase significantly beyond the 25/30 BPS seen most recently. Market evidence suggests that last week, those lenders who were still active in the market were charging margins of up to 150 BPS for long term arrangements. (FO 8)

Of those currently involved with funding HAs (there are six) five say that they think that the cost to HAs would increase, whilst only one did not feel that their terms will change for this client base. Of the organisations represented amongst current lenders, two are located in Yorkshire and the Humber (one also active in the North East and one with a national client base) one is in the North West and two more are national organisations. One of the nationally active brokers also felt that the costs of borrowing to HAs would go up:

Yes. The cost of mortgages is higher than three weeks ago and it affects all our customers, we can't say you lot pay a lot more, and you lot get the same deal because you've borrowed a lot, or for business or whatever. In fact we've got an official 'treating customers fairly' framework that we signed up to. The availability of the cheaper funding has dried up though, yes. (FO 4)

Summary

The majority of respondents confirmed that the costs have increased for everyone including for HAs and that cheap fixed rate funding has effectively dried up.

Question eight (F)

How have risks to lenders changed?

Changes in risks

Most respondents said that there had been changes to the nature of risk. What respondents perceive as a risk, or a change in risks, varies widely. Three firms' representatives are concerned that with falling property values some purchasers will begin to have negative equity. These firms were lenders or brokers who have been involved with customers borrowing 100% of their stake (two based in Yorkshire and the Humber and one in the North east, but two of these also have a national customer base). Two national organisations feel that there is a business risk of low demand for mortgages, and funding in general. Two lenders feel that there is a greater possibility of defaults (North West). This is particularly amongst self certified borrowers and those at risk of unemployment (national):

Yes, well, because really there have to be higher income multiples at the lower end of the salary ranges with everything else going up, we haven't seen it coming through in terms of missing payments yet, but we may well do because of the number of purchasers in rural areas who really do need a car and feel the pinch in that direction. (FO 3)

We were concerned that mortgage brokers were advising people to lie about their salaries, it was exposed on TV and we pulled them straightaway. These cases are a risk for instance, so we feel we've got certain risky customers on our hands from before we became aware of how widespread and blatant that issue might be. (FO 5)

For us, LCHO compared with the rest of our book (of customers) the risk is higher in general but not because of the credit crunch particularly, the trend hasn't changed relative to other buyers. The whole problems are the recovery of the debt and also getting HAs to manage debts more pro-actively. In an upward market you get your money back, but now, well we're put off LCHO in fact. (FO 7)

One person said that there is less risk with purchasers of LCHO:

Lenders do not understand shared equity and shared ownership. But they are lending so little against the value of the property that it is actually less risk than normal. (FO 12)

Summary

The majority of those who responded feel that the risks to lenders have changed and all said that risks have increased or are about to. Four of these have not yet seen any changes they could ascribe to the credit crunch but expect there to be some. The most prevalent fear was amongst those who had lent 100% to house buyers and are worried about a fall in property values leading to negative equity, combined with defaults or missing payments as a result of higher costs of living and potentially higher unemployment. Those who do not expect the risks to change were both smaller lenders and have only ever lent up to 95%, with a reduced margin in recent months, leading them to feel less exposed i.e. they have always borne the risks of a falling market in mind when lending. One of these also thought that LCHO is more risky than other lending.

Question nine (F)

How may the changes impact upon HAs?

Although three respondents have not answered this question, there is otherwise full agreement that there will be future problems for many HAs as a result of the credit crunch and market changes.

Difficult to sell

Five organisations predicted that it will become more difficult to sell LCHO properties. The key reasons suggested are:

- Restrictions on lending/funding, whereby would-be purchasers will have problems finding a mortgage (three lenders from the East Midlands, South West and North West).
- Renting may become a much cheaper option given the lending rates available to potential buyers (East Midlands organisation).
- Lower demand as the market becomes static (one firm representing the East of England and East Midlands, and one national lender).

More expensive to fund LCHO/other developments

Four respondents to this question are of the opinion that HAs will have trouble finding funding at reasonable rates in future, which will affect those looking to re-finance as well as the progress of new initiatives. HAs will themselves have to shop around for finance and take the risk of paying more for funding:

A lot of HAs are trying to access fixed rate money – that gives them predictability about what's happening with their finance. If the income they get increases slightly with RPI+1 over a year, say (+1 is the amount by which they're allowed to increase their rent annually I believe) then with fixed rate borrowing they knew they would continue being able to afford their finance, but they won't get that fixed rate certainty anymore and that means them having to take a risk, a bigger risk. (FO 4)

We would be prepared to work with them but as there are fewer lenders to work with them it will impact on them – they can't shop around either. (FO 5)

Dealing with arrears

One lender to the sector was concerned that some HAs do not have a very rigorous business plan for when purchasers of LCHO get into difficulties, and that their approach is to place this issue last on the list of problems to deal with:

I think they'll potentially struggle to place the business, to get lenders to cover the customers. I've asked them at meetings why they don't want the properties back if they go into repossession, and do you know, the representatives there didn't realise that they don't. Their back end and their front ends don't seem to agree. This is certain HAs in particular. They go along with it up at the top, but further down the chain, in the back office so to speak, they don't communicate, they don't pro-actively manage the customers who are in arrears with their rent proportion, and they don't seem to want to work together with lenders and debt management people for the good of the customers they don't see it as a business priority but as a last-to-attend-to problem, I find. (FO 7)

Summary

Respondents feel that HAs themselves will find borrowing more expensive. Their business plans may be affected if would-be purchasers struggle to access mortgages and if uncertainty in the market prevents units from selling.

Question ten (F)

What are your views about the extent of recent turbulence and the nature of risk in the current situation for LCHO?

Effects of cross subsidy dependence and difficulty borrowing in future

Four of those who responded felt that LCHO properties might become more difficult to sell and two of these pointed out that this will have an impact on HAs' ability to increase their rented stock, having relied on cross subsidy to fund developments in the past:

HAs who develop are now looking to develop housing to rent, but it's hard because in the past they've done cross subsidy, say five of every 25 built are for sale on the open market. Now that was making developments affordable, but now they won't want to build for open market sale in case they can't shift them, so that itself may impact on the rental market and the availability of social houses to rent. (FO 4)

Three respondents repeated that it will become more difficult to HAs to fund developments:

We're already seeing a slowing down of activity in LCHO sales levels in some locations, partly as a result of the reduced availability of mortgages and lower loan-to-value limits. Developers are slowing down construction activity. Those exposed to sale of new-build flats face a challenge and in some areas falls in values. We are vigilant with RSLs when they are exposed to variance in their sales incomes. (FO 8)

Potential difficulties

There are two who mentioned that they felt some HAs (as well as other business and domestic clients) may have over-reached themselves financially, and will now face difficulties because of turbulence in all financial markets. These are a national lender and one based in the East of England:

In the current climate it is more difficult for HAs to borrow. The cost of funding has increased. Those looking to grow their stock will find it difficult. There is concern for some HAs. Some have grown rapidly and are highly geared, as the costs of funding increase it is difficult to see how some will cope and we may see some getting into difficulties. (FO 1)

However, three organisations' representatives said that as far as LCHO is concerned, the effects on buyers will be the same as for purchasers of other types of property:

Falling property values will affect LCHO same as ordinary purchasers. If it's a scheme where properties are changing hands at 75% the value will go down in proportion. That spectre of negative equity... These customers are slightly insulated from falling values though, as it's only say, 50% of what the loss would be if they had bought 100% of their property. As an occupier you've then mitigated your risk. (FO 4)

Optimism

Four organisations are relatively optimistic about the extent and effects of the credit crunch. They are located in the North West, East of England and East Midlands. Two of these commented that they feel the current market upheavals will be over in the space of two years at most and that lending rates might return to the long term norm rather than the very favourable rates offered to borrowers over the last decade. Two respondents also said that they do not feel it is strictly necessary to tighten their own lending criteria but that if they don't 'toe the line' with other lenders and the major banks, they will be in an exposed position within the industry:

The biggest risk is that the current conditions may last for a couple of years into 2010 and this will limit some lenders enthusiasm for this sector versus other mortgage segments. (FO 6)

My personal views are that in two years time when everything's settled down we'll be back to the normal level of risk. Last year house prices were rising too quickly; we'll expect things to return to the long-term norm rather than 2007 levels. We may lessen our restrictions in future, they aren't brought in because of affordability issues but more to do with not getting out of line with the rest of the industry and therefore getting swamped with a certain high-risk segment of the community. We can't choose not to restrict our lending criteria when you have another major lender shutting its doors to it, because the housing market drives it initially so you just can't ignore that. (FO 3)

None of those interviewed admitted whether they themselves are at risk because of the credit crunch. There were several optimistic comments throughout the responses regarding the position of lenders as opposed to borrowers, in the current market conditions and in the future. For example, one lender said that it provides a useful damper on competitive lending rates that were becoming difficult for them:

Hopefully with fewer lenders to go to, present lenders charging higher rates (and I think despite this there will be money available) we can feel less pressured to be competitive. We've only had to price up first time buyers and if we didn't we'd get all of them as everyone else has tightened up on these groups. The crunch has an advantage for us as we can lend more safely for a while. (FO 5)

Another respondent was relatively optimistic about the risks to LCHO purchasers over the longer term:

I don't think there's any change in terms of risk, there's a low risk to buying houses and it will recover in the long term. Even an economy wide recession wouldn't affect this- property isn't a short term investment to make money on, especially in terms of shared ownership; there may well be too many people who have seen property in this light for a while now, but basically people who are interested in a home to live in are not taking a risk, because that's what they get. Not a fast buck. If they are looking at LCHO they aren't really likely to be in it to make cash so the risks relate to the usual things; e.g. new builds which are overpriced to begin with. (FO 10)

Possibility of acquiring private sector units

Another issue which was mentioned by a few of those interviewed is of funding to LCHO (including shared equity) and bringing in properties built for the private sector:

The major problem will be the supply of property. This could dry up very quickly unless there is an input of public funds. There are lots of properties standing empty and not selling, perhaps a way could be found to bring them into the sector. Or private schemes may take them for shared equity/ownership. (FO 1)

There were concerns expressed about the standards of the units being offered to HAs by private developers. One HA commented that in a previous economic downturn, lower quality units had been accepted into the sector and care needed to be taken to ensure this did not happen again:

There has been a lot of talk about the 1992 housing market package and its successor. There are moves by the HC to let HAs buy direct from volume

housebuilders. After 1992 they bought low spec units and because tenants duff up properties this was a mistake. They need high spec properties. If government output targets are to be met this could be through direct sales to HAs rather than the HAs developing themselves. (FO 10)

Summary

There is a sense that this is a relatively short (two year) downswing rather than a large-scale economic downturn and for some lenders it is a welcome check on a market in which they had been increasingly under pressure to compete with mortgage rates offered by major financial organisations. There is some concern about the effects of cross subsidy dependence and difficulty borrowing in future for HAs. HAs commented on the possibility of acquiring units from private housebuilders who are struggling to sell their properties in the current market conditions, but raised concerns about the standards of the units HAs were being offered.

Summary: Financial Organisation Responses

There are mixed views about whether LCHO purchasers are any more or less risky than 'traditional' borrowers. Most felt that there were minimal differences in terms of risk. The risk is perceived to be a little lower because of the security offered by mortgage protection cover, but at the same time it is perceived to be higher as LCHO purchasers are believed to walk away from arrears and difficulties more quickly than traditional borrowers. They are also seen as having more credit card and other forms of debt.

The key risks to would-be purchasers can be summarised as:

- Less choice of mortgage products
- Borrowing is more costly
- Higher deposits are required

Lenders reported that they are tightening up lending across the board, not just for LCHO. They said that LCHO purchasers are worse affected because they usually have smaller deposits and sometimes imperfect credit histories, whereas larger deposits and good credit histories are both now required to secure a mortgage.

Purchasers of LCHO will face the same difficulties as other mortgage holders. There is very little further fixed rate funding available and that this will affect refinancing. The credit records of customers hoping to refinance will be more closely scrutinised. The cost of borrowing has increased.

The majority of lenders and financial organisations feel that it is not hard to sell LCHO, mostly because current demand is higher than supply. There are fewer lenders to the LCHO sector than to regular house buyers so financial organisations do not perceive a reduction in business. Amongst those who consider it more difficult to sell LCHO properties, the main reason given was that transactions are down in the market as a whole as would-be purchasers wait for prices to fall. This is the case for the market overall, not just for LCHO. It was predicted that supply might decrease whereas demand is likely to increase over the longer term.

Feelings amongst lenders and financial organisations are predominantly that there is a significant decline in approvals overall (figures mentioned a 40 to 50% drop in approvals over the last year) and that while this is not related specifically to LCHO purchasers, the types of restrictions being brought in by lenders will affect this group in particular (and FTBs generally). This is because borrowing with low deposit, first time buyers in general and those on low incomes are amongst the most severely impacted groups of would-be purchasers.

The majority of respondents confirmed that the costs have increased for everyone including for HAs and that cheap fixed rate funding has effectively ceased. Respondents feel that HAs will find borrowing more expensive. Their business plans may be affected if would-be purchasers struggle to access mortgages and if uncertainty in the market prevents units from selling.

There is some concern about the effects of cross subsidy dependence and difficulty of borrowing in future for HAs. HAs are being offered units from private housebuilders who are struggling to sell their properties, but there are concerns about the standards of the units.

The majority of those who responded feel that the risks to lenders have changed; they have either increased or are about to. The most prevalent fear was amongst those who had lent 100% to house buyers and are worried about a fall in property values leading to negative

equity, combined with defaults or missing payments as a result of higher costs of living and potentially higher unemployment.

There is a sense that for the financial sector this is a relatively short (two year) downswing rather than a large-scale economic downturn and for some lenders it is a welcome check on a market in which they had been increasingly under pressure to compete with mortgage rates offered by major financial organisations. However, it is catastrophic for the housing and construction sectors, which historically take far longer to recover than they do to collapse. Therefore, whilst financial institutions may be confident of a recovery in the next two years or so, the impacts on the housing sector are likely to be felt over a longer time scale and will need to be considered over not just the short and medium term but also over a longer time scale.

Analysis: Housing Corporation Investment Managers

Housing Corporation Investment Manager Respondents

Housing Corporation Investment Managers

East of England
East Midlands
North West
South East
West Midlands

Four investment managers/deputy managers were interviewed, one spoke for the two regions he covered providing different answers for regional differences. Two were interviewed in the last two days of May 2008, three at the beginning of June 2008.

Question one

What is happening to output levels of new build LCHO – is the Housing Corporation’s development programme being achieved on the ground? Are there any data available?

Three out of the five investment managers said it was too early to say what is happening to output levels of new build LCHO although all five say that the scheduled programme is currently being achieved on the ground. However, the investment manager for the East Midlands pointed out:

There is a slight additional delay because a few contractors have gone into liquidation. Delays always occur but I guess the delays are larger now – however the bulk of site work is still going on.

Summary

The majority of Investment managers said it was too early to comment on output levels of new build LCHO. There appeared to be no data available to them as yet.

Question two

Who is now accessing LCHO, has this changed?

No change

Three investment managers said that there has not been much change in who is accessing LCHO. The Investment manager for both West and East Midlands said:

Flats are an issue although it is certainly not a massive change.

Whilst the investment manager for the East of England said:

Based on generic information that comes back things are looking quite buoyant. Demand is falling for flats but is still buoyant for houses.

Possible change

The remaining two investment managers both mentioned those struggling the most (or in the most marginal position) perhaps having difficulty accessing the housing ladder because of the probability of being denied a mortgage:

I have not heard of any changes in terms of different groups of people. I suppose the more marginal people may find it more difficult to get a mortgage so it may impact on those that we would normally house.

People with relatively higher incomes, but [who] still meet the threshold criteria, are expressing more of an interest. They may not be able to get 100% mortgages or may not want to take the risk of a mortgage for outright owner occupation, so this might prove the more favourable option. However, this might also affect the people at the bottom – so we might lose people applying at the bottom.

Summary

Some respondents reported no change in who is now accessing LCHO. One felt that there may be some shift in who applies for LCHO because of the current restraints on 100% mortgages leading those on higher incomes to apply and another felt that those on the lower margins may be excluded in future.

Question three

Are the financial institutions tightening up in lending for LCHO?

Lending has been tightened across the housing market as a whole:

This is not in relation to low cost housing, this is a generic tightening of credit. (East of England)

There are less financial organisations lending to LCHO and borrowing is more costly:

Shared equity/homebuy people are not applying for 100% mortgages anyway. However, we have been told that deals are less favourable. There is perhaps a limit to the numbers of financial institutions offering mortgages on Shared Ownership products rather than Owner Occupation – this however could always be seen as a problem. (South East)

Summary

It appears that financial institutions are tightening up lending for LCHO but it is not exclusive to this type of home ownership.

Question four

Are LCHO products becoming difficult to sell?

Two investment managers reiterated that flats in particular are becoming difficult to sell. Whilst another says it is too early to say. HAs 9, 10, 11, 12 (see above) all said that LCHO

products were not difficult to sell but this depended on location. The fifth investment manager from the South East also said that:

It really is down to location and desirability of the property.

Summary

LCHO products are not particularly difficult to sell although it really depends on the location and type of the property. However, flats are now more difficult to sell.

Question five

What are the implications for Housing Association's financial models?

Four out of the five Investment managers said that if financial models are based on cross subsidy (for example, using the money from LCHO sales to build social rented housing) then this would impact on other areas over time. Two examples of this are highlighted here, the first from the West Midlands Investment manager and the second from the East of England Investment manager:

Lenders' expectations – those that invest in HAs – may find it difficult to cross subsidise. They may go from mixed tenure schemes to schemes that are just for rent – although this could be seen as monolithic. However, if the market is not there for LCHO then people may need to look at flexible tenure more and more. So changing social rented into LCHO in a few years time might be the best option.

If we can't sell the first tranche then sales drop, this leads to a fall in return from sales leading to less internal subsidy [profit] coming in. Over time this is going to impact on internal subsidy. This modelling might mean that levels of sales have a shorter life if grant rates are maintained or increase – basically it is a risk.

The other said they didn't know what it would mean for their financial model but it would not be good.

Summary

Although the impact has not yet been felt, there may be implications for Housing Association's financial models arising from a lack of cross subsidy for social rented housing if the LCHO sales rates fall. If this happens there is a possibility of using flexible tenure.

Question six

Has the rate of flow of homes from private developers to HAs been affected, will it be in the future?

Two investment managers say that the rate of flow has been totally unaffected, although the investment manager from the East of England says:

At the moment we have a high number on site so it is totally unaffected. It does however have implications for 18months – 2 years time. If starts don't happen there will be a supply crisis and even more so for the longer term if the private sector don't slow down on land banking – but it really depends on how people react to it.

Two investment managers, the first from the South East and the second from the East Midlands say that the rate of flow from private developers is increasing but both say that S106 has been affected:

There is also a decrease, or a slow down on site – if they can't sell existing stock they won't get the cash flow to start on new schemes, particularly S106 schemes which tend to be larger. This in turn will make a slow down in supply which will affect future completions.

Flow from private developers has increased, but S106 schemes have slowed down. There was once a glut of unsold market stock but house builders have slowed down so S106 has been affected – conversely HAs may be able to pick up the surplus – we really need to wait and see what happens in 6 months time.

The fifth Investment manager says that private developers are likely to slow down but a lot depends on how HAs engage with their products.

Summary

If the rate of flow of homes from private developers to HAs has not already been affected then it is likely to happen in the future. Supply through S106 schemes is likely to fall as housebuilders reduce development but private developers may offer HAs excess units that they are struggling to sell.

Question seven

Any changes to volumes in or terms of S106 agreements?

Three investment managers do not think that the volume of S106 agreements will be affected at present. However, two think there could be problems in the future, one pointing out:

[The potential for] problems where schemes are phased. So at the moment building for the first stage of a scheme is going ahead but later stages/phases might be affected by the slow down.

The investment manager for the South East has already seen a 'much lower proportion on S106 than we would normally expect' whilst the fifth investment manager says it is too early to tell.

Summary

Currently there are no major changes to volumes in or terms of S106 agreements. However, perceptions are such that there are likely to be in the future.

Question eight

Any known moves by private developers to subsidise prices or offer their own shared ownership options, to support sales volumes?

All Investment managers were aware of private developers offering subsidies and/or offering their own form of shared ownership options.

Question nine

Any other observations on the impact of the ‘credit crunch’ and recent events on the supply, demand and affordability of LCHO?

The following comments come from the West Midlands, East England, North West and South East regions:

It is a gloomy picture BUT there is a danger of talking this up. There are still massive waiting lists and demand for affordable housing. The worst that might happen is that builders will lay off employees and then when things pick up it will take ages for them to get going again in order to meet demand. We are hoping to bring flexibility into the market.

There is a bit of a perception that the credit crunch will be good for affordability, but it won't help first time buyers so that is a real misconception. The medium and long terms are a concern, particularly if there is a degree of inertia.

We are actively looking at affordability. If we want to ease the situation it would be useful to lower the tranche rents, although this would lead to higher subsidies so there is a potential for risk. We possibly need to look at how to mitigate against potential voids – one way would be to look at tenure conversion and the impact of mixed communities and community cohesion in the future.

The private sector could off-load stock as affordable but they must be careful and learn from the past about building large volumes of affordable housing [without mixing communities].

In general (not LCHO specific) HAs are reporting that the cost of borrowing is increasing which is obviously impacting on them. It is costing more to develop but they are not generating the cross subsidies from sales. Values of properties are also falling – anecdotal evidence suggests property values are being based on repossession value as a mean value as opposed to sale prices. HAs are being pressed from both sides – if development costs are squeezed this may well impact on their ability to reduce grant rate.

Summary: Housing Corporation Investment Manager Responses

Most respondents felt that it is too early to say what is happening to output levels of new build LCHO although all five say that the scheduled programme is currently being achieved on the ground.

Some respondents reported no change in who is now accessing LCHO. One felt that there may be some shift in who applies for LCHO because of the current restraints on 100% mortgages leading those on higher incomes to apply and another felt that more marginal groups may be excluded in future.

It appears that financial institutions are tightening up lending for LCHO but it is not exclusive to this type of home ownership.

LCHO products are not particularly difficult to sell although it really depends on the location and type of the property. Flats are now more difficult to sell.

Although the impact has not yet been felt, there may be implications for Housing Association's financial models arising from a lack of cross subsidy for social rented housing if the LCHO sales rates fall. If this happens there is a possibility of using flexible tenure.

If the rate of flow of homes from private developers to HAs has not already been affected then it is likely to happen in the future. Supply through S106 schemes is likely to fall as housebuilders reduce development but private developers may offer HAs excess units that they are struggling to sell.

Currently there are no major changes to volumes in or terms of S106 agreements. However, perceptions are such that there is likely to be a reduction in the future as schemes with an element of S106 slow down or do not go ahead.

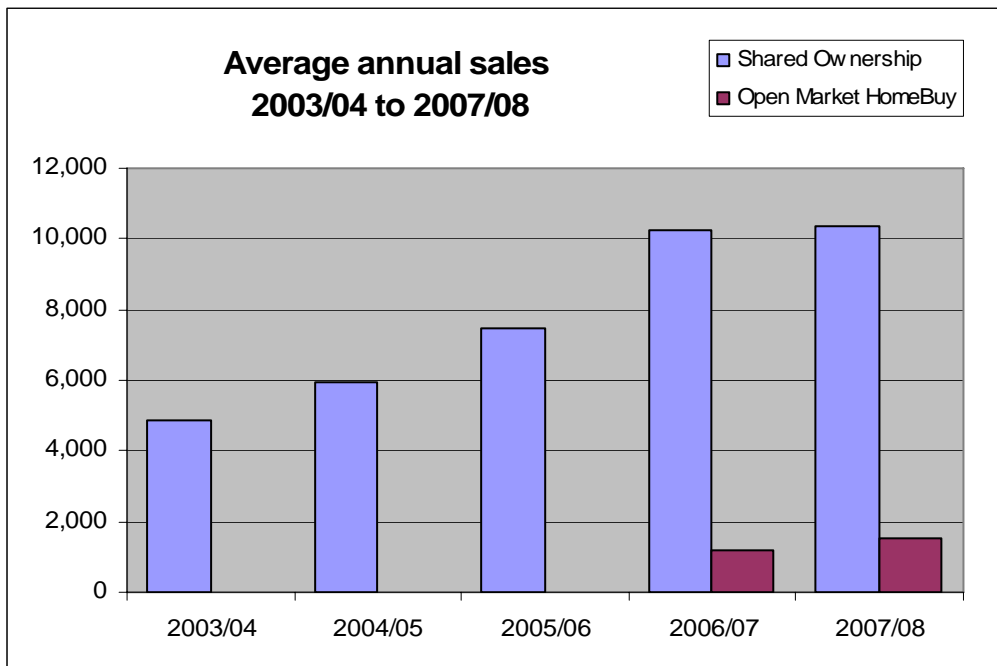
All Investment managers were aware of private developers offering subsidies and/or offering their own form of shared ownership options.

Analysis: Quantitative

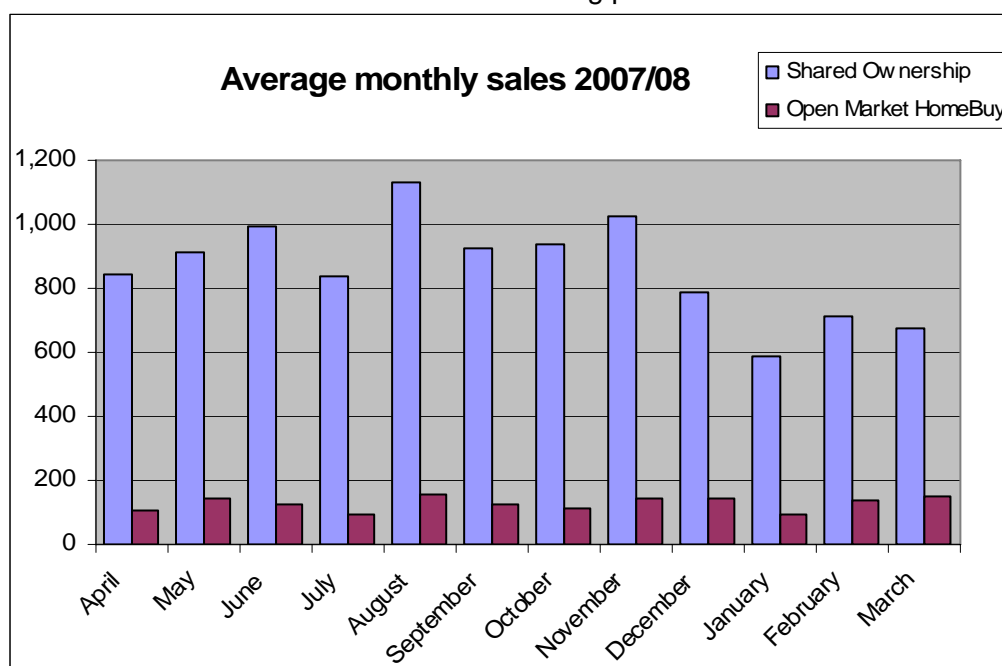
Data from CORE were used to analyse changes in the LCHO sector. However, the most recent data available are March 2008. This is too early to reflect the changes in the housing market brought about by the credit crunch and recent turbulence. We discussed this with HAs who said that the property sales recorded in March were likely to have been processed by HAs and mortgage lenders earlier than this, possibly several months earlier. This delays evidence of the credit crunch appearing in the data.

The downturn in the housing market has happened very rapidly. The qualitative data from this research and more recent analyses of the housing market overall show that house prices are decreasing, overall property sales are falling and mortgage lending is tightening. This has led to a requirement for a deposit as 100% mortgages are no longer widely available. The data below are not really recent enough to capture these changes. However, the data do show that in the first few months of 2008 the number of LCHO sales made with no deposit fell, reflecting the tightened lending criteria as buyers have to provide a deposit. Sales of LCHO fell slightly in the first few months of 2008; more recent data are not yet available to see whether this trend has continued.

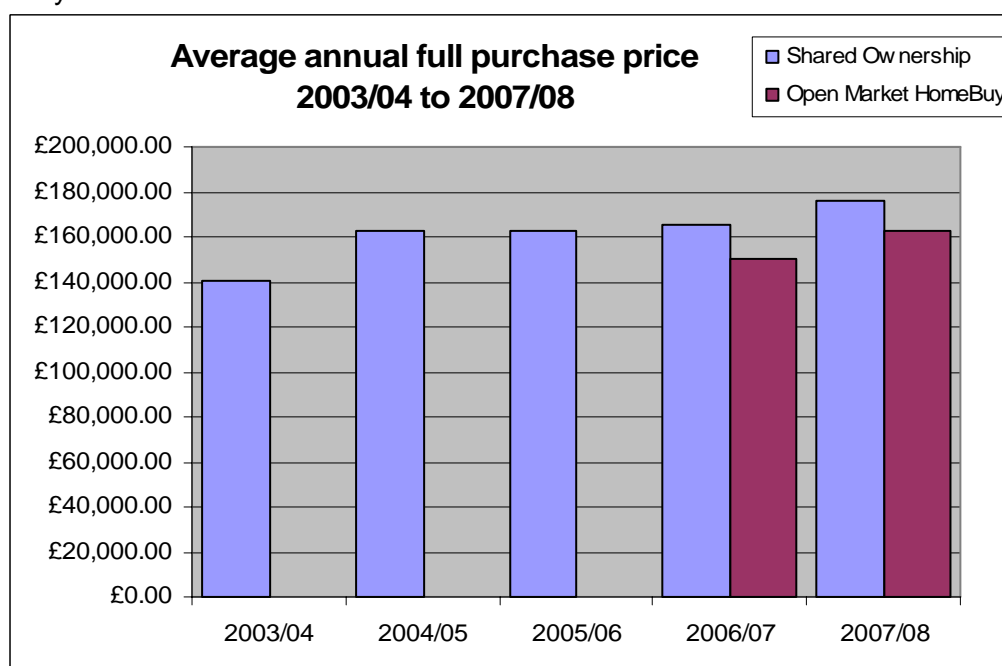
Over the past five years sales of LCHO properties have increased year on year:



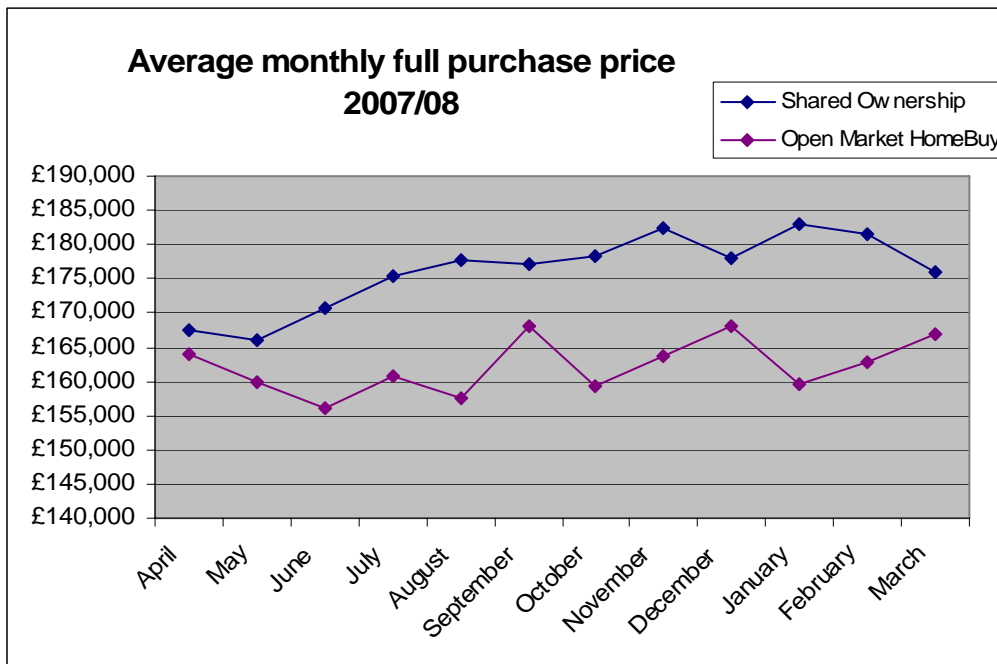
Over the twelve months to March 2008 the sales of LCHO rose in the first part of the year but fell in the final four months of the recording period:



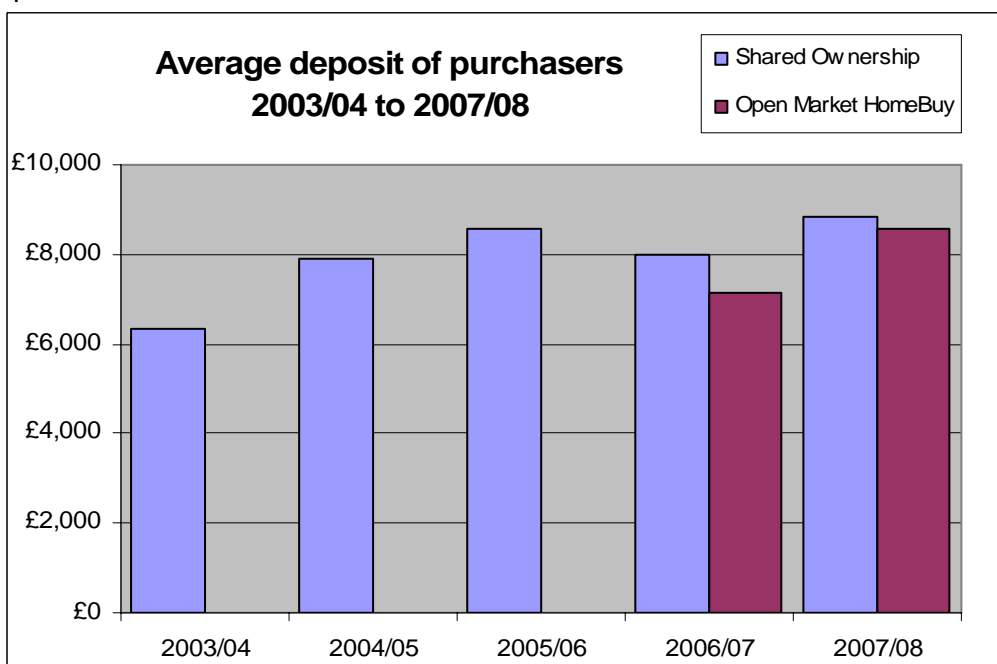
The average purchase price of LCHO properties has shown an upward trend over the past five years:



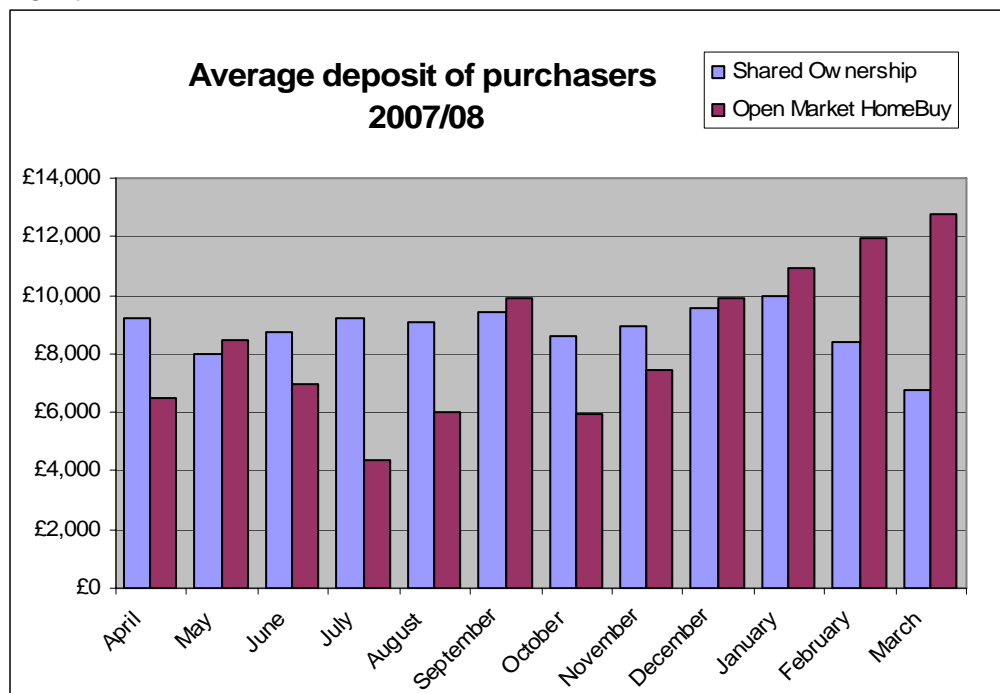
Over the twelve months from April 2007 to March 2008 the recorded purchase prices continued the general upward trend. The price of shared ownership units fell in March but not to the level of the average price of a year before:



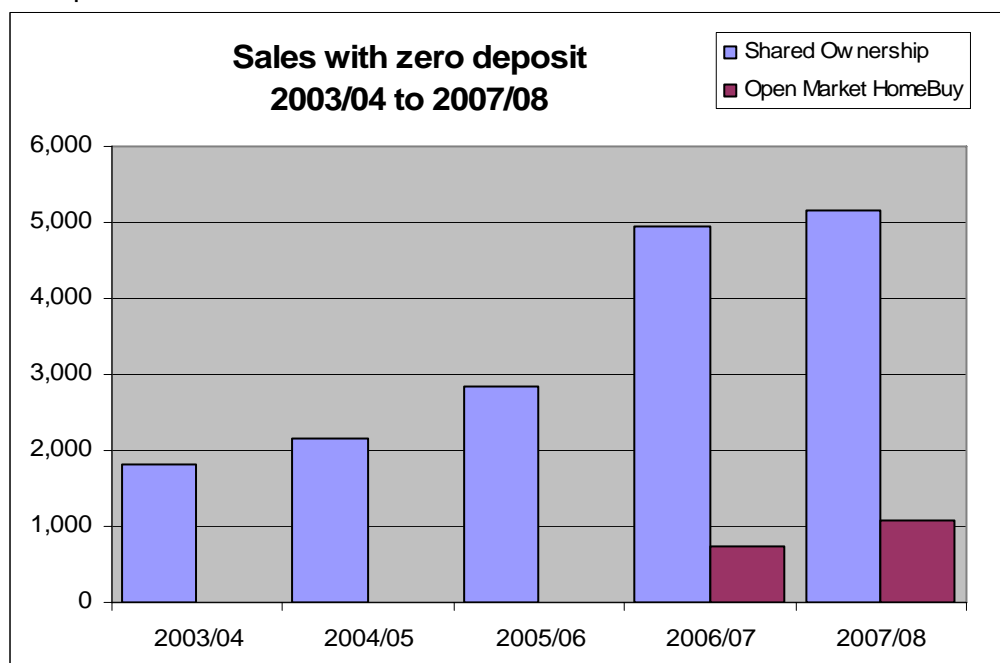
The general trend over the past five years for the average deposit of LCHO buyers has been upwards:



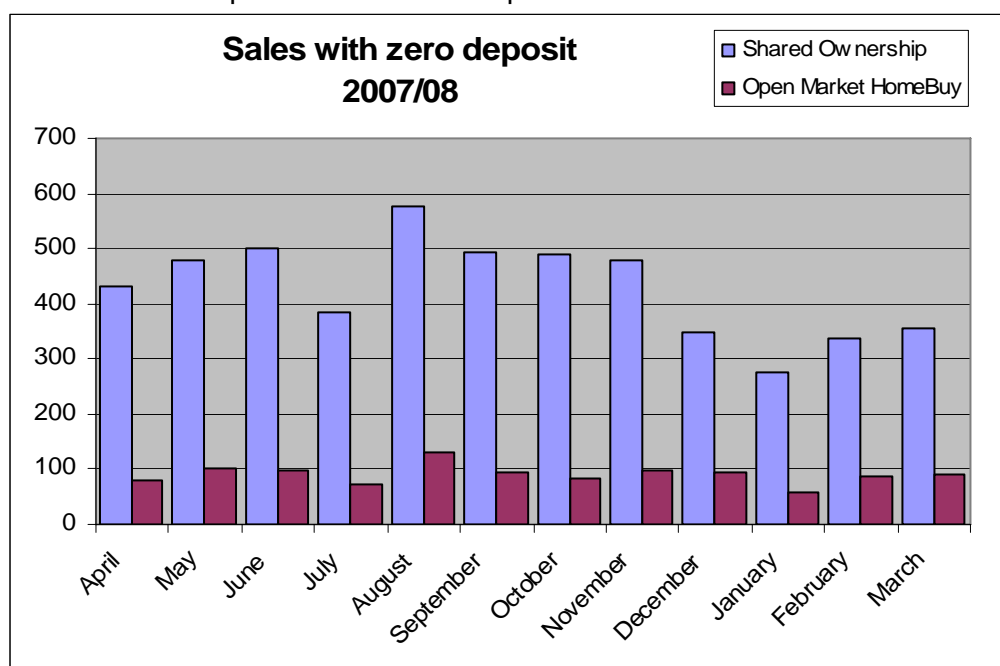
Over the twelve months to March 2008 the average deposit of OMHB purchasers has increased quite significantly. The average deposit of shared ownership purchasers fell slightly in March 2008:



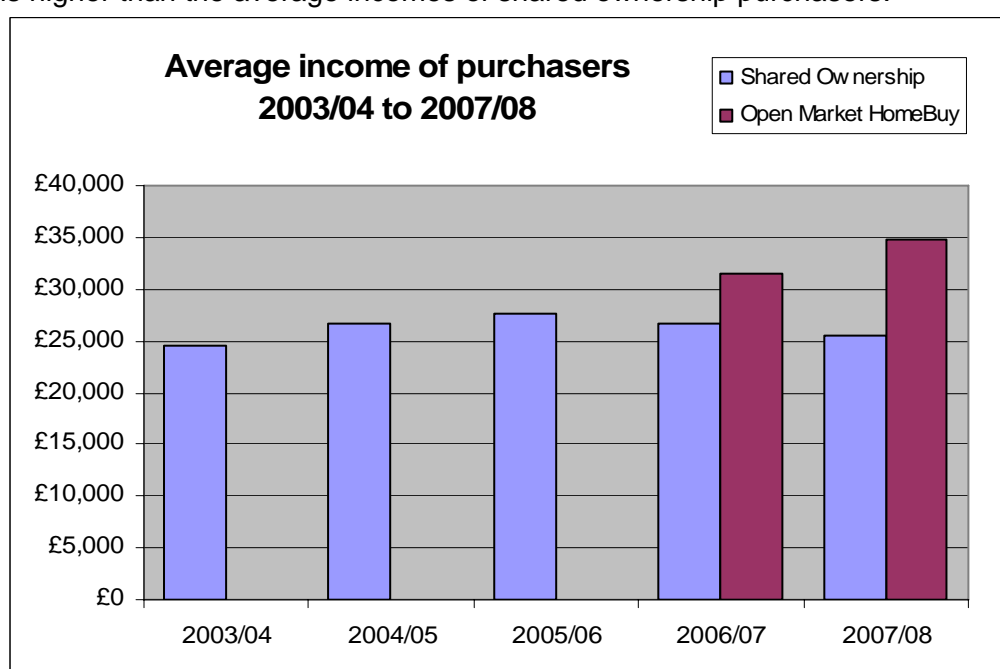
Over the past five years there have been increasing sales of LCHO where the purchaser has no deposit:



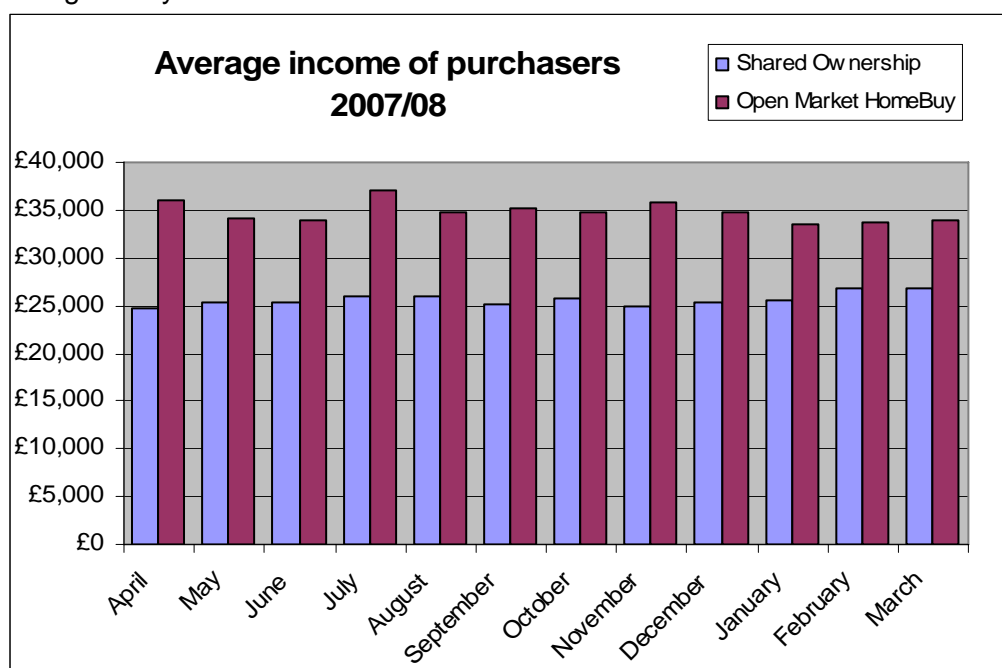
However, whilst the average value of the deposit fell, over the first few months of 2008 the number of LCHO purchases with no deposit fell:



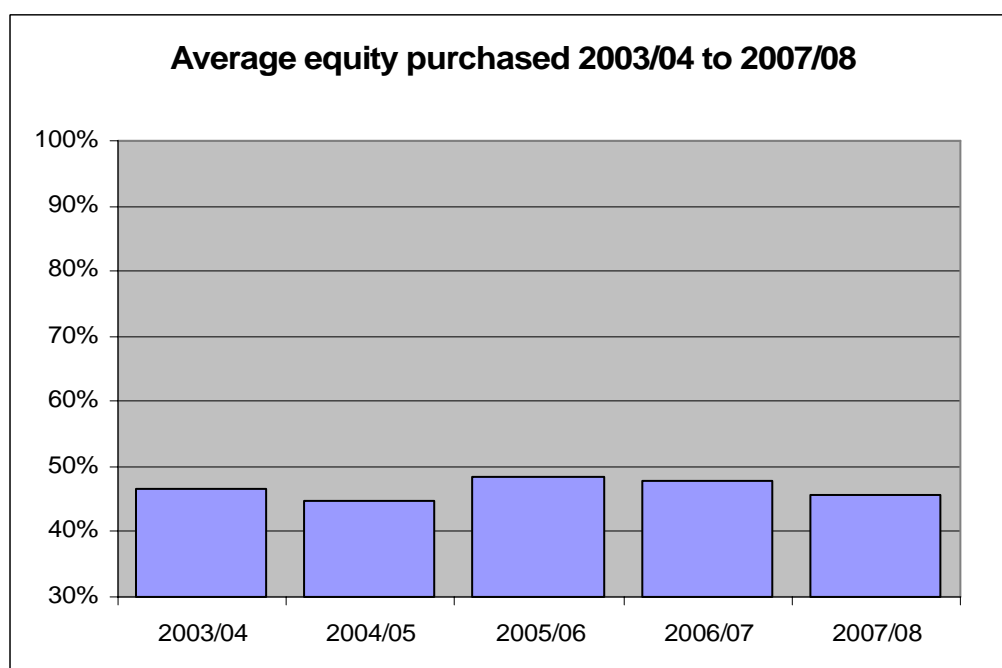
The average income of shared ownership purchasers has changed little over the past five years. The average income of OMHB purchasers has increased over the past two years and is higher than the average incomes of shared ownership purchasers:

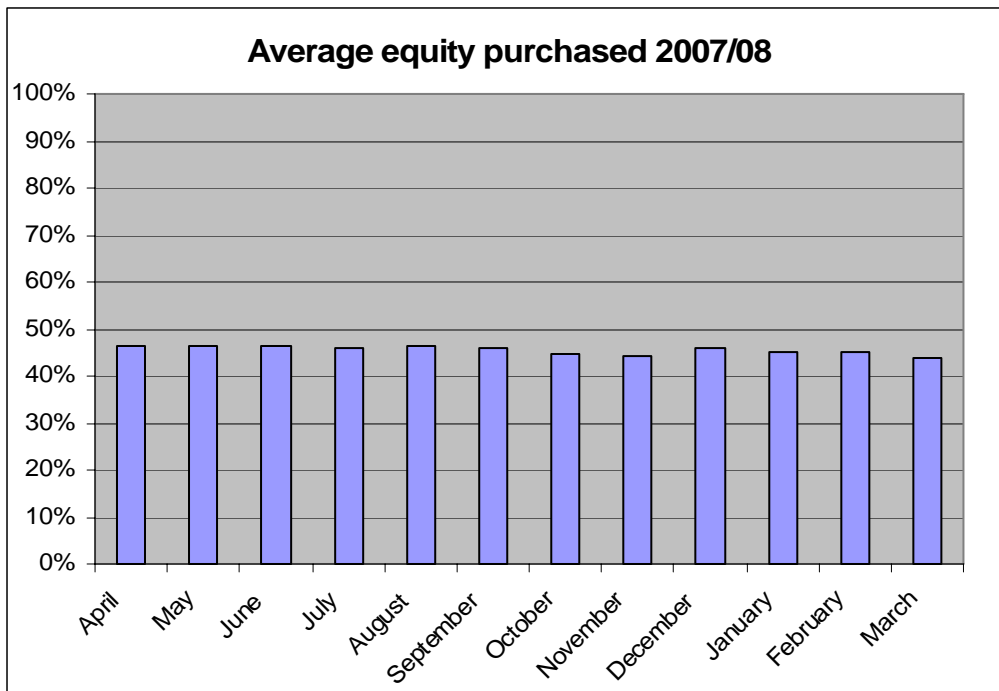


Over the twelve months to March 2008 the average income of LCHO purchasers has changed very little:



The average equity purchased has changed very little over the past five years and in the twelve months to March 2008:





Summary

The data available are not recent enough to see the full impact of the credit crunch and recent market changes. It appears that a greater proportion of LCHO purchases were made with a deposit and sales fell slightly in the first few months of the year. These changes are likely to be reflective of the credit crunch but only when more recent data are available will the full impact be seen.

Response to the Key Research Questions

The concise responses to the key research questions draw on all the research findings analysed in the preceding sections.

What is happening to levels of new build LCHO – is the Housing Corporation's development programme being achieved on the ground?

At the moment the development programme is being achieved on the ground but there are likely to be changes in the future. Some HAs said that output levels of LCHO are slowing down. Where units are planned to be delivered on S106 sites there may be a fall in output as private developers do not progress schemes because of the slow down in the market. HAs are concerned that new LCHO will struggle or is already struggling to sell. Whilst over the longer term new build supply through S106 schemes may fall, in the shorter term private developers are offering HAs units they cannot sell. If they are of the right standard, type, size and location and HAs have the available finance, there is a possibility of increasing supply through bringing these units into the LCHO sector, although many of the units offered by developers so far have not been appropriate for HAs to take on.

Who is now accessing LCHO? Are providers able to identify people within the target groups who can afford the product, or are cascade mechanisms or price constraints bringing in a different set of purchasers?

There is no significant change as yet in the profile of people accessing LCHO. This is likely to be welcomed by the NAO. However, the data collected did not show in detail the profile of households accessing LCHO so it is difficult to conclude if the households are the ones the NAO would like to see entering LCHO as a priority, such as social tenants.

Most HAs felt that it is too early for any solid evidence of significant changes. Providers are able to identify people within the target groups who can afford the product and cascade mechanisms or price constraints are not currently bringing in a different set of purchasers. It is possible that higher income households who may have previously been able to borrow higher income multiples than is now available may consider LCHO in the future. Those households at the lower income margins of the target groups may struggle even more than at the moment to access LCHO as the cost of borrowing has increased and mortgage lenders require perfect credit histories and significant deposits. Where changes are noted this has been put down to the difficulty of obtaining a mortgage because lenders are requiring a higher deposit.

Are the financial institutions tightening up in lending for LCHO? Do they have differing views about the extent of recent turbulence and the nature of risk in the current situation?

The overwhelming consensus is that financial institutions are tightening up lending, but it is by no means exclusive to LCHO. Financial institutions are lending at lower income multiples, asking for higher deposits and are more concerned about the credit history of borrowers.

LCHO mortgage applicants are being turned down if they have any negative credit history and larger deposits are required, making it more difficult than it was for prospective LCHO applicants to obtain a mortgage. In this context, risk has increased for would-be purchasers. Risk has also increased for existing LCHO owners as mortgage payments have increased along side wider increases in the cost of living. Pressure on finances may leave existing owners more vulnerable to missed payments and the possibility of repossession. The Council of Mortgage Lenders reported that repossessions are higher than the same time last year, but the full impact of the market changes is yet to be felt.

Risk has increased for HAs with high proportions of debt as the cost of borrowing has increased. This is in the context of an uncertain market with lower transactions in the housing market overall, with uncertainties over whether new properties will sell. HAs are considering changing the tenure of units from LCHO to rented.

Financial institutions believe that the recent turbulence in finance may persist for a couple of years although the knock-on effect on housebuilding will take longer to improve.

Are LCHO products becoming difficult to sell? Are developers becoming reluctant to include LCHO as part of their S106 contributions?

The housing market overall has slowed and sales have fallen considerably. HAs report a mixed picture, some have less enquiries and fewer sales whilst some report demand to be holding up. The type and location of units has an impact on how easily they sell, and flats are more difficult to sell in the current market. A key problem is for purchasers to arrange a suitable mortgage. Developers are not becoming reluctant to include LCHO as part of their S106 contributions.

However, private developers are struggling in the current market, starts of new schemes have slowed and if LCHO units are planned for delivery on S106 schemes, supply may fall. On the other hand, developers are offering units to HAs as they cannot sell them. Private developers are also offering their own shared ownership schemes which are competing with LCHO.

What are the implications for HA financial models? How is 'shallow subsidy' achieving value for money for the public purse?

The cost of borrowing has increased for HAs. HAs who are highly geared are more at risk as are those whose business plans are predicated upon large scale new development. They are building the anticipated drop in sales income into their financial models. There is concern about HAs who need to re-finance with higher borrowing costs. There is also concern amongst some HAs that if LCHO sales decrease significantly they will have to rework their business/finance plan so as to factor in the loss of cross subsidy for social rented housing. Similarly there are concerns about value for money, particularly where HAs 'out bid' one another to purchase units from developers on S106 schemes (although our research elsewhere suggests that this is not a feature peculiar to the credit crunch but a more general issue).

What demand is there currently for 'downwards staircasing' (where a shared owner reduces their share of the property)? Is this demand increasing, and if so, are there resources available to meet it?

There is currently little evidence of demand for 'downwards staircasing'. Enquiries, when made, have been few and far between. However, it is anticipated that enquiries will increase over the coming months and some HAs are beginning to consider how they would deal with more demand. It is not openly offered by most HAs.

Conclusions

Delivery

The current phases of development programmes are being delivered. However, many HAs expressed concern that they will struggle to sell or are already struggling to sell new build units. A number said that they are considering changing the tenure of the units, for example to social renting, rather than risk seeing the units stand empty. There are longer term concerns about supply as the major housebuilders slow down development and some planned developments will now not go ahead until the market improves. This will potentially reduce the supply of LCHO units where they are planned on S106 schemes that may not now go ahead.

Take-up

The research found mixed views about the current take up of LCHO units. A few HAs, for example those in the growth areas, had not seen a decline in demand. Others had seen a fall in enquiries and in sales. Many felt that the uncertainty in the housing market overall with falling prices and more costly borrowing was discouraging potential purchasers from buying in the current climate. There were differences noted in the properties that were most affected. HAs said that demand was still there for family houses in good locations, but that demand for flats and units in less favourable locations had fallen.

The type of households purchasing the properties has not yet seen a major shift. The broad target group is still accessing LCHO. However, it is now only households with deposits and good credit history who can access mortgage finance. Those households that a year ago may have been able to get a 100% mortgage and access LCHO may now be unable to do so if they cannot afford a deposit. A few HAs reported more enquiries from households on higher salaries than the average LCHO purchaser. They believe that households who may have been able to borrow high income multiples to access traditional home ownership cannot now do so and are considering LCHO as an alternative. It is too early to find solid evidence of whether higher income households will actually purchase LCHO.

Risk

Risk has increased for all those involved in the sector.

For existing owners, the cost of borrowing has increased alongside broader increases in the cost of living, for example, as fuel and food prices have risen. Higher mortgage payments and other costs without increases in incomes make household finances much tighter. There is a greater risk in this situation of owners becoming unable to afford mortgage repayments and a greater likelihood of defaulting on their mortgage payments, leaving them vulnerable to repossession. There is as yet little evidence of demand for downwards staircasing, although HAs fear it will increase in the future.

For would-be LCHO purchasers it has become more difficult to access mortgage finance and the process has become lengthier. Potential purchasers without a deposit and/or with an imperfect credit history risk being turned down for mortgages, even if their income is high enough to be eligible for LCHO. Households trying to purchase LCHO are sometimes finding that mortgage offers are being withdrawn.

For HAs risk has increased. LCHO owners may be increasingly unable to afford mortgage repayments and HAs will have to help to deal with these financial difficulties. There may be more demand for downwards staircasing which HAs who allow it will have to fund.

There are risks relating to supply for HAs. If developing HAs are planning their development programme with an emphasis on delivery through S106 schemes, there is increasing

likelihood that some schemes will not go ahead as the major housebuilders slow development down. This will impact upon the planned growth of HAs stock and supply may fall. This has implications for the LCHO programme and whether the target number of units will be delivered as well as for the ability to cross-subsidise social rented units.

On the other hand, there is a possibility that some HAs will be able to increase supply as private developers increasingly offer HAs the units they cannot sell. HAs who are offered units in the right location and of the right standards, type and size (as not all are) and who have the finance to do so may be able to bring these units into the LCHO sector.

The cost of borrowing has increased so HAs face higher costs. There are concerns that some HAs are more highly geared and more vulnerable to the increased cost of borrowing, particularly when they come to re-finance and cannot access rates as favourable as their previous ones. Those whose supply comes through S106 schemes may also face the loss of cross subsidy if schemes do not go ahead or if they decide that the LCHO will not sell and provide more social rented units instead. There are suggestions that some HAs could face cash flow problems in the future.

Implications and recommendations

Implications for Housing Associations

- Overall housing associations may need to re-visit their business/financial plans, for example, if they are dependent on cross subsidy from LCHO sales and if their borrowing costs have increased and/or will do so when they need to re-finance.
- New build units for sale may take longer to sell and HAs may struggle to sell them at all. This is particularly pertinent regarding inner city apartments.
- Supply longer term is likely to decrease through mixed tenure S106 schemes because developers are facing financial difficulties related to the overall market conditions and may not go ahead with new planned developments.
- The increase in the cost of borrowing may impact on the growth agenda, which will also be affected if new build does not go ahead as planned.
- Unsold properties and those coming through the system may need to change tenure from LCHO to social rented housing if the market for sales declines further. This has funding implications as social rented units require greater subsidy than LCHO.
- More money may need to be focused on marketing LCHO products.
- HAs are facing direct competition from developers who are now offering LCHO products on their own new build sites.

Implications for LCHO Purchasers

- The cost of living and borrowing has increased in recent months making it more difficult to take the first step onto the property ladder.
- The household costs of existing LCHO owners have increased as mortgage payments and the cost of living increase, making them more vulnerable to being unable to afford their mortgage repayments and increasing the possibility of repossession.
- Prospective purchasers need a clean credit history in order to be considered for a mortgage. 100% mortgages are no longer readily available so purchasers must also be in the position to provide a deposit.
- There is a slight increase in those with a higher income expressing interest in the intermediate market and less access for those at the lower income end of the intermediate market. This shift in the profile of LCHO purchasers is only just appearing but may well increase in the coming months.

Recommendations

- Follow up research in the next 6 to 12 months is required to fully assess the impact of the credit crunch. Most HAs felt that it is too early to really see evidence of some of the impacts. Retrospective quantitative data should be more readily available by that time. For the HCA, further research might be useful to inform funding decisions, bearing in mind that it will have wider investment interests than those of the Corporation. For the TSA, provider viability and ongoing ability to deliver for residents

will be key. Any further research would need to consider these perspectives accordingly.

- The Housing Corporation needs to engage with and support developing HAs in procedures for changing tenure, particularly on new build developments where HAs are concerned that units will not sell. There may be a potential tension here. On the one hand, it is clearly not desirable for homes to be standing empty and the Corporation is willing to consider tenure switching in some circumstances. But it has to be considered that HAs have bills to pay and that LCHO homes are developed with private borrowing which has to be repaid, typically from the rental stream. So, while homes should not be left idle, sales to purchasers outside the priority groups might need to be considered, for schemes to stack up financially.
- To ensure future supply, units could be purchased from private developers, but consideration of standards will need to be taken into account. Again, there may be tensions. Taking cascades from private developers is, in some respects, a useful route to meeting delivery targets. However, standards can be an issue and if defects subsequently come to light, HAs might be faced with additional expenditure. As some respondents to the research noted, land would be more welcome than completed homes. It is noted in Annex G that some private developers are offering shared ownership schemes and some have done so in the past. While HAs might be concerned now about competition from more flexible models, there does not appear to be conclusive evidence that many private housebuilders intend to use shared ownership as a long-term strategy.
- The type of unit and the location of property are all important. HAs need to be able to market different types of unit effectively, possibly with support from the Housing Corporation. Support for effective marketing may help to reduce confusion about changes to LCHO that have been introduced. HomeBuy Agents have the market overview for their area. It does not seem likely that there will be substantial change to their remit within the remaining life of the Corporation. However, in the longer term, HCA will need to consider how it wants its agents to market LCHO.
- HAs reported that local lenders often perceive LCHO borrowers as higher risk and as 'sub-prime' but argue that this is not the case. LCHO purchasers are 'sub-prime' in that they cannot buy a home on the open market, or at least cannot do so in the place where they want to live. But receipt of subsidy (whether via grant funding, S106 provision, or an equity loan) places them in a different circumstance financially and for shared ownership, mortgage lenders have considerable protection in the lease. More efforts could be made to make lenders aware of LCHO and the risks involved.
- The mortgage situation is unlikely to improve significantly in the immediate future and housebuilding has slowed. The uncertainty in the market is discouraging house purchase. LCHO sales volumes could decline and demand for rented housing will continue to rise. HAs may increase the amount of rented stock they hold, but this has implications for public subsidy as social rented housing requires more subsidy and HAs will receive less cross subsidy from LCHO sales. Discussion with HAs should be held to consider the funding implications. Successive funding rounds over the last decade have altered the balance between rented and LCHO provision, more in favour of the latter. A larger proportion of a larger programme is now home ownership and provider business models reflect this. Any change to the position would need discussion with CLG.

Seminar Summary

The main fieldwork for 'LCHO: Affordability, Risks and Issues' was conducted in May and June of 2008. The findings of the report reflect this research. The housing market and wider economy have seen uncertainty and constraints since this time.

A seminar was held in October with stakeholders to discuss the report and related issues. Those taking part included representatives from Housing Associations (HAs), lenders and the Housing Corporation.

Findings from the research were presented and feedback was given by stakeholders. Changes in the situation since the research were considered and a number of questions were posed to stakeholders for discussion. This report summarises this discussion.

Fundamentals

- LCHO is an important part of the business plans and cash flow of many HAs
- Affordability issues restrict the range of households who can be assisted by the scheme
- LCHO is heavily dependent on the more general construction, housing and financial markets
- Declines in demand and profitability were being observed prior to the credit crunch in parts of the country

The worsening economy

- The financial crisis has become all pervasive
- Confidence and demand has fallen across the market
- Developers have reduced output
- More general declines in the real economy and confidence
- Government response, including HomeBuy Direct, a mortgage rescue scheme and no stamp duty on properties purchased at £175 000 or less, impacts on LCHO

Questions for discussion by stakeholders

- What is your HA doing in terms of business planning to mitigate risk (LCHO only or whole association)?
- Can you refocus your activities and in what ways?
- Are you spreading risk, if so, how?
- What are your medium-term plans (over next 12 months) for ensuring stability/viability?
- Over next 3-5 years?
- Will government targets be met and how can the sector help achieve them?
- Solutions? What might help?

Key issues raised in discussion

The gap between who is eligible for social rented housing and who can afford to purchase LCHO has grown. It is not clear how best to provide for the group in between. The Housing Corporation is keen to consider the most appropriate solutions for providing products for these people in a way that will both support HA viability and ensure mixed income communities.

In some areas HAs report high levels of continued interest for the products. Even in these areas, the key problems for HAs include:

- The lack of access to mortgages for people who want to buy
- Down-valuations on HA new build properties and therefore capacity to borrow for LCHO

- Reductions in consumer confidence, reducing the proportion of interested customers that take their interest forward
- Lack of staircasing, leading to diminished receipts and reduced cash flow
- In areas where demand was anyway less buoyant these issues are similar – but more immediate
- Having a sizeable portfolio still for sale as the HA enters the next financial year.

Lenders stated that there were mortgage products available. However, on the one hand, rules on credit worthiness had tightened, and on the other hand, down valuation of the product was inevitable in the current environment. Valuations are particularly difficult to determine in low transaction markets.

Shared equity is more successful than shared ownership in the current climate. One reason suggested is that shared equity properties are second hand so down-valuing from the point of view of the HA is not an issue, whereas shared ownership is HA new build and down valuation impacts on the HA and the capacity to obtain a mortgage. It was also highlighted that access to mortgages is different for the two products and are more difficult to secure on shared ownership units. For lenders it is a question of risk. Shared equity is 75% whatever the valuation, but shared ownership is 100% so the underlying price structures are different for lending. For shared equity, lenders see the government/HA as bearing the core risk.

The location and types of units were highlighted as key issues. Houses are still selling more easily than flats. Properties have to be the right products, in the right place, at realistic prices.

HAs are managing risk in a number of ways. These include:

- Engaging with lenders and valuers directly to ensure they understand the products and their benefits
- Looking at future pipelines
- Scoring risk more carefully for particular schemes
- Changing tenure of the output
- Offering other incentives on schemes
- Re-valuing
- Looking at the widest range of scenarios possible in business planning
- Concentrating on reducing the number of properties to be sold
- Planning other non-social rented options

The general picture was therefore that of reducing risk by reducing activity.

There was discussion around the option of changing the tenure of units from LCHO to cost - rental units. Concerns were raised about the potential impacts of this on HA business plans and on the sector overall. The rental stream would not be sufficient to replace lost receipts from sales and staircasing. It may be an option for others with a strong cash base. Some HAs are considering intermediate rental products which could help potential LCHO purchasers for the future.

There were discussions about the longer term considerations of the downturn. There was a risk that if the sector is not in the position to acquire land, in 3-5 years the upturn may take much longer. There is also the risk of the sector losing skills and expertise. The question of how declining land values impact on S106 is fundamental to LCHO.

Concerns were raised about the perceived complexity of the products being offered and the many changes in the offering. The possibility of one 'gateway' to apply for a home, with the full range of products on offer, was suggested by participants. Concerns were raised at the problem created by not always building the right product in the right place at the right price. It was suggested that product development has not always been based on market research and there may be a need for more analysis of the market to decide if the current suite of products is most appropriate.

Further research

The study showed a need for further research in two specific areas. One was the need to look more closely at regional and sub-regional markets to understand more clearly how regional and local markets for LCHO may be functioning differently during the wider downturn. The second area for further research was in exploring the shared equity schemes now being offered by private developers. This additional research is scheduled for completion by January 2009.

Annexes

A) The Current System of Provision

| Product | | | Description |
|-------------------------------|-------|---------|---|
| New | Build | HomeBuy | Traditionally known as shared ownership, part buy-part rent and shared equity. The buyer owns an initial minimum share of 25 % (maximum of 75%) of the property and pays rent, typically 2-3%, on the unsold equity share. Can buy further shares when able. |
| Open Market HomeBuy | | | There are currently two Open Market HomeBuy products - MyChoiceHomeBuy and Ownhome offered by appointed equity loan providers. See below for an explanation of the recent changes to this product. |
| Social HomeBuy | | | A scheme that enables tenants of existing social rented homes (from housing associations and local authorities), who do not have the RTA or RTB, to buy their home at a discount. |
| First Time Buyers' Initiative | | | Similar to New Build HomeBuy. |
| Intermediate Rent | | | New build homes with rents set above social rent but not exceeding 80% of the market rents in the area the properties are located. |
| | | | Generally only available to key workers. |

Changes to the Open Market HomeBuy Scheme

In 2007 there were three HomeBuy products based on equity sharing to offer people a choice in the type of home they can buy. From 1 April 2008, two new equity loans became available under the Government's shared equity Open Market HomeBuy scheme. The new loans - MyChoice HomeBuy and Ownhome – are intended to improve affordability for purchasers and provide more choice in the mortgage which purchasers can take out.

<http://www.communities.gov.uk/news/corporate/720426>

The Budget of 12 March 2008 announced new home loans for first-time buyers and key workers. The Chancellor announced that from April this year two new equity loans will be available through the Government's shared equity scheme Open Market HomeBuy (OMHB).

Until now OMHB loans could only be taken out in chunks of 32.5 per cent, 25 per cent, or for the Government only loan, an average of 17.5 per cent of the property value. The loans were also restricted to just one specific mortgage from each of the three lenders providing the loans. This has now ended with more flexibility in the percentage of the value of their home that can be borrowed - to a maximum of 50 per cent. This means that a household with an income of £32,000 could afford a house of £200,000, paying £760 each month - as opposed to £1,350 without the scheme.

Housing and Planning Minister Caroline Flint said:

"We have already helped more than 95,000 households onto the housing ladder since 1997 through our low cost home ownership schemes. These new products will help us do even

more. Not only will the new loans increase affordability for key workers and first time buyers, they are a lot more flexible, allowing buyers to shop around for the best mortgage deals." (12 March 2008)

The new products are:

MyChoiceHomeBuy - an equity loan of between 15 per cent and 50 per cent of purchase price, provided by a consortium of eight Housing Associations named CHASE and used in conjunction with a conventional mortgage from a range of participating lenders.

Ownhome - an equity loan of between 20 per cent and 40 per cent of purchase price - provided in partnership with the Housing Association Places for People and Cooperative Financial Services - which can be used in conjunction with any conventional mortgage from the Co-operative Bank.

Both loans are open to social tenants, key workers and first-time buyers. They can be used alongside a deposit and be repaid early - in part or in full - or when the property is sold. The new products will be available from Housing Corporation appointed equity loan providers¹ from April 1 and will replace the existing Open Market HomeBuy products. MyChoiceHomeBuy is funded 50 per cent by CHASE and 50 per cent by Government. Ownhome is funded 58 per cent by Places for People and 42 per cent by Government.

New Build HomeBuy

With this product purchasers can buy a minimum initial purchase of 25 per cent of a newly-built home. A housing provider can hold the remainder of the equity. The provider will be able to levy a rental charge of up to three per cent of their equity. A lower target average for the charge is set at 2.75 per cent. Purchasers may buy further shares in their home when they can afford to do so - a process known as "staircasing". New Build schemes are generally part funded with grant from the Housing Corporation through its Affordable Housing Programme.

¹ Ownhome is offered by Places for People in partnership with the Co-op Bank. MyChoiceHomeBuy is offered by 8 housing associations, each of whom is an equity loan provider in their own right. These are; Aldwyck HA, Bedfordshire Pilgrims HA, Catalyst HG, Metropolitan HO, Moat, Swaythling HS, TVHA, Tower Homes

B) HA Sample

| Housing Association | HomeBuy Agent |
|---|---------------|
| Metropolitan Home Ownership | Y |
| London Tower Homes | Y |
| Catalyst | Y |
| Swaythling Housing Association | Y |
| Moat | Y |
| Thames Valley Housing Association | Y |
| New Futures Partnership | Y |
| West Country Housing Association | Y |
| Knightstone Housing Association | Y |
| Riverside Housing Group | Y |
| Eden Housing Association | Y |
| Manchester Methodist Housing Group | Y |
| Plus Housing Group | Y |
| Bedfordshire Pilgrims Housing Association | Y |
| Aldwyck Housing Association | Y |
| Orbit | Y |
| East Midlands Housing Association | Y |
| Eastern Shires Housing Association | Y |
| Nomad Housing Group | Y |
| West Mercia Housing Association | Y |
| Mercian Housing Association | Y |
| Yorkshire Housing Association | Y |
| Regenter | |
| ASRA Greater London Housing Association | |
| Islington & Shoreditch Housing Association | |
| London & Quadrant Housing Trust | |
| Notting Hill Housing Group | |
| Southern Housing Group Ltd | |
| A2 | |
| City West Homes | |
| Hyde | |
| Paradigm Housing Group Ltd | |
| Paragon Community Housing Group | |
| Sovereign Housing Associatio | |
| Raglan Housing Association Ltd | |
| Devon & Cornwall Housing Trust | |
| Sovereign | |
| The Guinness Trust | |
| Sanctuary Housing Association | |
| Raglan | |
| Knowsley Housing Trust | |
| Accent Foundation | |
| Great Places (Manchester Methodist Housing Association) | |
| BLOC Partnership | |
| The Guinness Partnership NW | |
| Arena | |
| Willow Park Housing Trust | |
| Bromford Group | |

C) Research Questions: Housing Associations/HomeBuy Agents

Supply

1. What is happening to levels of new build LCHO?
2. Are developers becoming reluctant to include LCHO as part of their S106 contributions? Any changes to volumes in or terms of S106 agreements?
3. Has the rate of flow of homes from private developers to HAs been affected?
4. Are LCHO products becoming difficult to sell?
5. LCHO volumes and rate of sale?
6. Any known moves by private developers to subsidise prices or offer their own shared ownership options, to support sales volumes?

Demand

7. Who is now accessing LCHO? Are providers able to identify people within the target groups who can afford the product, or are cascade mechanisms or price constraints bringing in a different set of purchasers?
8. Patterns in take up and changes to patterns by property and scheme type?
9. Size and value of shared ownership first tranche sales compared to previous years?
10. Are there any changes in enquiry levels and marketing activity?
11. Information about household finances of new purchasers against target group (so that we can look at the ratio of total housing costs, including insurance, maintenance and service charges, to income)?
12. Any evidence of rent and mortgage arrears and any difficulties for existing home owners in refinancing to service debt or in undertaking resales?
13. Any evidence of staircasing down activity, repurchase by HAs and possession? Is this demand increasing, and if so, are there resources available to meet it?
14. Views about shifts in aspirations to ownership among social renters.
15. Views about the impact of relatively low rents in the private sector on the flow of purchasers from private renting into LCHO.
16. Views about changes to patterns of take up looking at particular local factors (e.g. proposed/recent LSVT or ALMO; Liverpool in relations to city of culture status).
17. Contextual information on differential outcomes between 'buy to stay' products (RTB/RTA/Social HomeBuy) and 'buy to go' products (OMHB/NBHB) aimed at existing tenants.

Finance

18. Are the financial institutions tightening up in lending for LCHO?
19. Any decline in mortgage approvals, tightening of conditions or trend among refusals (related to area, purchaser or property or scheme type)?
20. How have the costs of borrowing to HAs, in new and existing business, and the availability of funding been affected?
21. What are your views about the extent of recent turbulence and the nature of risk in the current situation?
22. What are the implications for Housing Associations' (HAs) financial models? How is 'shallow subsidy' achieving value for money for the public purse?
23. Views about risk and viability, and the implications for development and sales decisions, especially in relation to the National Audit Office agenda.

D) Research Questions: Housing Corporation Investment Managers

1. What is happening to outputs levels of new build LCHO – is the Housing Corporation's development programme being achieved on the ground? Are there any data available?
2. Who is now accessing LCHO, has this changed?
3. Are the financial institutions tightening up in lending for LCHO?
4. Are LCHO products becoming difficult to sell?
5. What are the implications for Housing Associations' (HAs) financial models?
6. Has the rate of flow of homes from private developers to HAs been affected, will it in the future?
7. Any changes to volumes in or terms of S106 agreements?
8. Any known moves by private developers to subsidise prices or offer their own shared ownership options, to support sales volumes?
9. Any other observations on the impact of the 'credit crunch' and recent events on the supply, demand and affordability of LCHO?

E) Research Questions: Financial Organisations

1. Are financial institutions tightening up in lending to purchasers of LCHO? Any more so than to other borrowers?
2. Is lending to LCHO purchasers regarded as any more or less risky than lending to 'traditional' borrowers?
3. Are LCHO products becoming difficult to sell, will they in the future?
4. Any decline in mortgage approvals or trend among refusals (related to area, purchaser or property or scheme type)?
5. What are the risks to would-be purchasers of hardening lending conditions?
6. Has the position of existing owners looking to refinance been affected, given increasing levels of household debt?
7. Have the costs of borrowing for HAs, in existing and new business, and the availability of funding changed as a result of the current climate?
8. How have risks to lenders changed?
9. How may the changes impact upon HAs?
10. What are your views about the extent of recent turbulence and the nature of risk in the current situation for LCHO?
11. Other

F) Financial Organisations: Respondents

Financial organisation

Ipswich Building Society
Kent Reliance Building Society
Cumberland Building Society
Darlington Building Society
Furness Building Society
Halifax
Newbury Building Society
Nationwide Building Society
The Housing Finance Corporation
JIMS Mortgage Brokers
RBS
CTAB Mortgages

G) Private developer shared ownership/equity schemes

Barratts

Barratts offer a shared ownership scheme to keyworkers and first time buyers, for properties valued at less than £250,000, called 'Dreamstart'.

The purchaser pays 75% of the asking price, with a mortgage over 25 years, with the remaining 25% owned and paid for by Barratts. They keep it for 10 years without charging the purchaser interest on it, after which period the purchaser must start paying for the 25% share as well, over a 10 year mortgage. If they sell the property within the first 10 years the original purchaser must pay for the 25% held back share out of the proceeds of the sale of the home. If the house value increases, the purchaser must pay the market value of the 25% share when the time comes, whilst if the house value decreases, they must pay the original value of the 25% share, not the market price, so either way Barratts don't lose money.

They set the house price value at just above the threshold for stamp duty, but offer the following incentives; they pay the legal fees (up to £1000) and stamp duty; kitchen appliances and carpets are included and additionally there is no deposit but a £500 commitment fee. On one scheme in Nottingham they also charge £67/month for maintenance and £18/month ground rent.

Bryant Homes

Bryant operates 'Marketplus', a shared equity scheme. Buyers do not have to pay a deposit. They own 100% of the property but pay for 75% upfront through a traditional mortgage. Buyers pay no interest or rent on the other 25% for up to 10 years. They have up to 10 years to repay the outstanding 25% at market value. Bryant secures their equity with an interest-free loan agreement and a second charge on the property. When the buyer wants to want to sell, they repay their mortgage provider, Bryant get back their investment of 25% of the price the property is sold at and whatever is left is the buyer's profit.

H) Government intervention in the housing market

Facing the housing challenge: Action today, innovation for tomorrow

CLG July 2008

<http://www.communities.gov.uk/publications/housing/facinghousingchallenge>

Ensuring a fair housing market for all

CLG September 2008

<http://www.communities.gov.uk/news/corporate/950558>