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Low Cost Home Ownership Affordability Study




Final report by the
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Commissioned by:

Metropolitan Home Ownership

TOWER HOMES

Working in partnership across London

Contents

Executive Summary

Shared Ownership: MHO and Tower Homes

- A substantial proportion of the population in London and the South East is unable to afford market housing, but would be able to afford more than social sector rents. Many of these households aspire to home ownership and there could therefore be a large potential market for Low Cost Home Ownership. Both MHO and Tower Homes's schemes are over-subscribed.

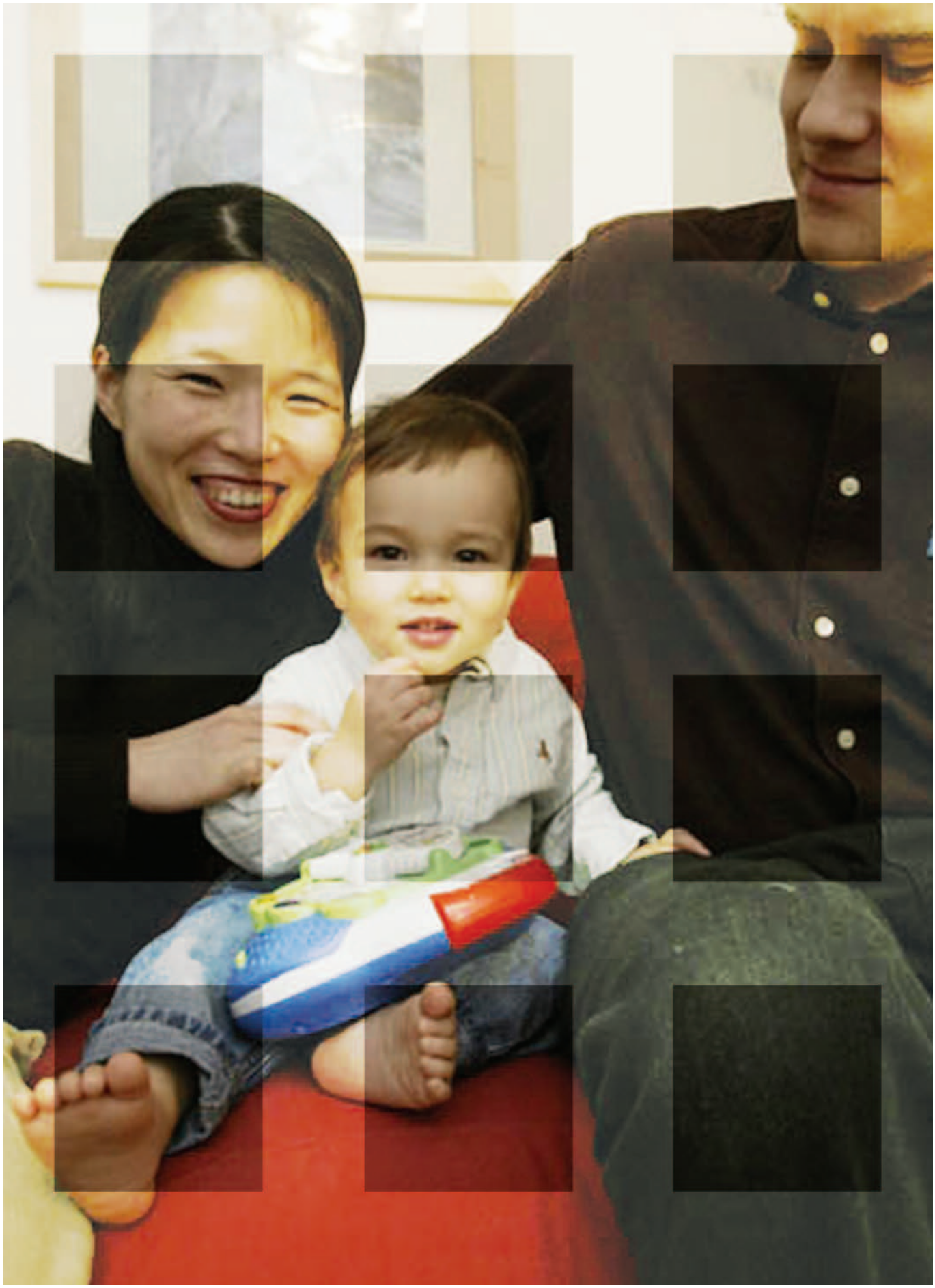
- Shared ownership offers a tenure that is affordable to those on lower incomes as compared with full owner-occupation. Its long-term affordability (as with all tenures) is dependent upon changes in the economy and in the housing market, but households within the tenure have the potential to benefit from growth in the housing market and so to acquire asset-based wealth.

- MHO and Tower Homes have built up considerable expertise in the area of Low Cost Home Ownership over the last twenty years and are two of the main providers in the London area. Together they have a total of 135 staff specifically dedicated to Low Cost Home Ownership. This specialism means that they are able to offer a client-focused service and through schemes such as the flexible tenure option can increase the sustainability and affordability of Low Cost Home Ownership.

- Shared ownership has proved a very successful product. The New Build HomeBuy scheme announced in 2006 is based very closely upon the shared ownership model that MHO and Tower Homes operate.

- Low Cost Home Ownership is accessible to households with lower incomes who can only afford lower levels of equity than full owner-occupation. It is thus serving to widen the asset-base that housing provides to include those without the savings, parental aid or inheritance necessary to find a deposit.

- MHO and Tower both vet their prospective purchasers very carefully and maintain an on-going relationship with their customers over time. This approach is considered essential to the long-term sustainability of the tenure, helping to ensure clients do not take get into difficulties with repayments.



Key Findings

- The research shows that the vast majority of MHO and Tower shared ownership clients are happy with their housing and are satisfied with the service they receive from MHO and Tower Homes. This satisfaction is sustained well after the initial purchase process as it is also found amongst households who moved in 3 to 4 years ago.

- MHO and Tower's shared ownership households are paying an average of around 30% of their gross household income on housing costs. Most are managing to meet their housing costs without difficulty even when their circumstances have changed.

- Substantial increases in housing costs would not be manageable to many households. This suggests that MHO and Tower Homes are successful in promoting sustainable levels of borrowing amongst their clients, and that higher levels than are currently permitted would place many households at risk of future difficulties.

- Where difficulties with repayments do exist, this is in most cases due to changes in personal circumstances, rather than to households taking on too much debt initially. The flexible tenure option of staircasing down provides a valuable safety net for the very small number of households who might otherwise face repossession.

The research demonstrates that shared ownership offers accessibility to home ownership for a wide range of households on lower incomes, thus contributing to social equity and expanding the asset base. Careful vetting ensures that people are not over-stretched but can participate in some of the equity gains that accrue to owner occupation.

1. Introduction

This report is to describe the findings from the research project looking at the long-term affordability and sustainability of MHO and Tower Homes's shared ownership schemes.[1]

The intermediate market, of which Low Cost Home Ownership (LCHO) forms the major part, is becoming an increasingly important component of affordable housing. There has been over recent years an ever-growing proportion of the population on moderate incomes who aspire to home-ownership, but who are unable to afford market housing. LCHO has been developing since the 1980s, and there are currently a variety of schemes in operation. It has generally been popular with both clients and Housing Associations and is often seen as the tenure of choice of key workers who can frequently be priced out of the market in the more expensive parts of the country, and especially in London. (Bramley et al, 2002; Joseph Rowntree Foundation, 2001)

Over the past twenty years many different housing associations have run some of the variety of LCHO schemes on offer. Some, such as MHO and Tower Homes, have gone further to make LCHO a field of expertise and have much experience in this area. The 2004 Housing Act, however, extends the Housing Corporation's grant-giving powers to unregistered bodies such as private developers, in the hope of increasing both efficiency and outputs. The Housing Corporation's recent paper New Partnerships in Affordable Housing (Housing Corporation 2004) sets out how their new powers are currently being used in the context of the pilot investment programme that is currently underway. Under this pilot, funding is no longer restricted to RSLs and private developers may also bid for funding.

In August 2006, the Government announced the details of the new LCHO schemes: Social HomeBuy, New Build HomeBuy and Open Market HomeBuy. The biggest change was the introduction of Social HomeBuy where existing social tenants can (if their landlord lets them) purchase a share of 25% or more of their property and pay a rent of up to 3% of the value of the remaining share. The New Build HomeBuy scheme is based fairly closely on the existing shared ownership model. It is open to:

- social tenants;
- those on the housing register;
- a new expanded list of Key Workers, and
- other first time buyers identified as priorities by Regional Housing Boards.

As with shared ownership, applicants may purchase a share of 25% or more of a newly built property and pay a rent charge of up to 3% of the value of the remaining share. Open market HomeBuy is open to the same groups and allows applicants to choose a home in the open market in London, the South East and the Eastern regions. They purchase a 75% share, paying a small charge on the remainder, which is bought by a housing association.

[1] The shared ownership schemes focused on here are the traditional shared ownership model and not Homebuy or Keyworker Homebuy.

These new developments clearly raises important questions relating to the role that RSLs have traditionally had both in the targeting of resources and in terms of their commitment to the longer-term affordability and sustainability of the homes they provide. The target client group for LCHO are typically those on the margins of being able to afford home ownership, and so could potentially be those most at risk of encountering difficulties in the future. High levels of repossessions and/or difficulties in the re-sale of shared-equity homes could also impact upon community sustainability and of shared ownership as a tenure. For these reasons it is important to fully understand the long-term affordability and sustainability of LCHO.

The main objective of this research is to assess whether value for money for the public purse has been achieved by MHO and Tower Homes. Issues such as long-term affordability, customer satisfaction, the long-term value of the asset that is shared-ownership and the sustainability of the purchase are all key to this.

The purpose of LCHO is to make home ownership more affordable. In particular, this research explores the affordability of shared-ownership from two perspectives:

- Objectively by considering the monthly outgoings incurred by shared owners in relation to household income and as compared to private first-time buyers and social renters; and
- Subjectively as revealed in two surveys, one covering those who have bought homes within the last year, and the other those who bought between three and four years ago.

This second angle allows us to understand what is in a sense true affordability, that is, whether people feel that they are able to afford their housing costs, given the other commitments on their resources. Value for money can be said to have been achieved if the schemes are meeting their objective, namely to help households into a home of their own, who would not otherwise manage to obtain a suitable home in the London area. Yet, long-term affordability is also crucial if the households helped are to remain in their homes, or be able to release the money they have invested in this asset in order to move elsewhere in the housing market.

2. Research Methods

The research project involved two postal surveys. The first covered households who had moved into shared ownership in the London area within the last twelve months, and the second covered those who had been resident between three and four years and so were in the “settled” phase of home ownership and had developed a pattern of paying bills, mortgages and other costs. The surveys are complemented by some desk-based research and a literature and policy review in order to put the findings into context and explore further the issues relating to affordability and sustainability.

The postal surveys were sent out to 600 households who had moved into LHCO within the last twelve months (300 MHO and 300 Tower) and 546 households who moved in between three and four years ago (246 MHO and 300 Tower). Reminders were sent out two weeks later to those who had not yet replied. The questionnaire was also put on the web and the households invited to complete their survey on-line. Both these steps seem to have increased response rates as over 30 on-line responses were received, and around a third of the postal questionnaires were returned after the reminder letters.

Survey response rates were generally good at 33% for both surveys.

Returned surveys were generally well completed with most giving full answers to all questions, including the open-ended ones. Response rates to income questions were also very high (95%).

Analysis was carried out to establish whether respondents were typical of all those who had been sent the questionnaire. This revealed that it was necessary to weight the data by age group to compensate for non-response bias. There appeared to be no other significant differences between those who had and had not replied in terms of size of household, ethnicity, income, property price or previous tenure. Therefore there was no need to weight the data further.

In addition to the postal survey, a total of 21 telephone interviews were carried out with a sample of survey respondents who had indicated that they would be happy for a researcher to contact them in this way. The interviews covered both those who had moved into shared ownership within the last year, and those who had moved in between three and four years ago, and included both MHO and Tower Homes clients. These interviews allowed a further examination of some of the issues raised by the survey and gave a more detailed picture of the experience of shared ownership.

3. Literature and Policy Review

Review of the wider literature

House prices have been rising faster than wages in the UK since 1997, and market housing is out of reach for many households. In addition, the number of available social housing units has declined through Right-to-Buy sales exceeding levels of new building. Households on moderate incomes often have difficulties in affording home purchase, but may not be able to easily access social rented housing in an increasingly pressurised sector. Many such households also aspire to home ownership and therefore interest in a range of intermediate housing solutions that might help to meet such demand is increasing.

LCHO products are focused on meeting the housing demands and needs of households in the intermediate market: those who might not be able to sustain a mortgage on the full purchase price of a market property, but who aspire to home ownership and can sustain higher housing costs than social rents. Low Cost Home Ownership schemes are one way of helping to meet the Government's aim of increasing the proportion of the population in owner-occupation, and to contributing to the objectives of the Sustainable Communities Plan. LCHO may help to create and maintain mixed communities, particularly in the more expensive areas of the country (JRF, 2001). However, concern has been expressed that there are downsides to freeing up social housing by encouraging better off households to move into owner-occupation elsewhere in terms of causing concentrations of poorer households on some estates (Low Cost Home Ownership Task Force, 2003). There is also concern that it may further marginalise the poorest households by diverting resources away from much-needed social housing (Shelter, 2005). Nevertheless, there is potential for LCHO to offer good value for money for the public purse, especially if it can accommodate households currently within the social sector, or who might otherwise require social rented housing.

There has also been some concern that LCHO could encourage households at the lower margins of LCHO affordability to over-extend themselves with respect to housing costs. Housing Associations can have an important role here to encourage sensible levels of borrowing as well as to continually monitor the affordability of shared ownership for their clients. Limiting the amount borrowed in the first place and allowing clients to resell part of their stake in the property, so that they can reduce their housing costs if they need to, are both excellent ways to promote sustainable homeownership.

There are a range of LCHO products available, including traditional Shared Ownership, Homebuy and Key Worker Living. Shared Ownership involves purchasing part of a property and paying rent on the remainder. Homebuy involves purchasing a stake in a property (usually 75%), with the remainder funded by a grant, to be repaid at the time of sale at market value (i.e. 25% of the sale price of the property). Some commentators regard Right-to-Buy sales as a form of LCHO (Bramley, 2005). However, these have strict tenure and residency requirements and are only available to some current social housing tenants. This report focuses on shared ownership, which tends to be more accessible to those on lower incomes than Homebuy as a smaller share can be bought.

Bramley et al (2002) suggest that LCHO can be an effective use of public funds as it can enable housing need to be met by releasing social rented dwellings. It therefore provides value for money provided that it is located appropriately (namely in housing markets where housing is generally unaffordable and there is significant pressure on social rented housing). In addition to meeting the housing aspirations of those moving into the sector, LCHO removes pressure from the social rented sector.

Future demand for LCHO

As a comparatively new and small tenure within the UK, it is important to consider the future potential of LCHO in order to understand its long-term sustainability. Mobility both within and out of the tenure requires there to be a reliable demand for shared ownership so that sellers can find buyers. Assessing the size of the intermediate market is difficult as there is little evidence of past trends that can be extrapolated to predict future demand. Holmans et al (2005) state that there is

‘no established method for estimating the need for intermediate housing’ (p3). Their work for Shelter relies on estimating the potential size of the intermediate market on the basis of those able to afford more than housing association rents but unable to afford lower quartile house prices. Another way to estimate the size of the sector is to use affordability ratios to determine those households eligible for and likely to be awarded social housing, and those households that can afford market housing. The remaining households constitute the potential size of the current intermediate market, to which newly arising demand for intermediate housing can be added. Financial or informational ‘gaps’ may affect households’ access to intermediate housing products, and Housing Associations such as MHO and Tower Homes play a particularly important role in promoting shared ownership.

The extent to which households within the income range will wish to take up intermediate housing options is difficult to assess. Recent research by Cambridge University and the South East England Regional Assembly highlighted some of the issues involved in trying to estimate demand once the potential size of the market is known (Cambridge Centre for Housing and Planning Research, 2005). Households already in the social rented sector who are theoretically able to afford intermediate housing might not wish to move sector. Similarly, households who are on the margins of being able to afford market housing may seek a higher mortgage multiplier in order to access full owner-occupation, which in turn reduces demand for intermediate housing products at the top end of the income range. Estimating demand on the basis of the proportion of current households within the appropriate income range is problematic, as research has shown that most households within the appropriate income range were already in owner-occupation (ibid). Other reasons why households in the correct income range might not choose to seek shared ownership might be that they hope or expect that their household income will soon increase, that house prices will fall, that they do not want their choice of property to be restricted or that they do not have sufficient knowledge of how shared ownership works. The Opinion Research Services (ORS) study of Greater London’s housing requirements (ORS 2004) estimates changing requirements for different tenure types depending on a range of ten-year economic forecasts. The size of the intermediate market varies from 0% to 26% of projected future housing requirements depending on economic assumptions about house price and wage growth.

However, observed demand for LCHO housing products is currently high and the provision of LCHO schemes is currently not sufficient to meet demand. RSLs have developed targeted allocations criteria, which give priority to certain groups of potential homeowners. It is clear that there is significant unmet demand for LCHO which expanding the sector would help to meet. This demand also ensures a continued supply of buyers in the second-hand shared ownership market.

LCHO is also readily accepted by developers in S106 agreements (as it generally requires less subsidy that social rented housing), and the expansion of the sector allows a wider range of tenure choices for households in highly pressured areas. Shared ownership fills an important gap in the housing market and provides a sustainable form of tenure for many, with very low levels of repossession nationally. It can also act as a ‘stepping-stone’ to full ownership, either by tenants “staircasing up” or by releasing the equity built up in their existing properties before purchasing an open market property.

Allocations policies for Shared Ownership

Allocations policies aim to ensure that shared ownership offers good value for money in terms of ensuring that resources are used to help those who would otherwise be unable to access suitable housing. Robust systems are also needed in order to ensure that shared owners wishing to sell can find a buyer, but also that as many second-hand properties as possible are re-allocated to those who would otherwise be unable to afford suitable market housing.

Allocations policies vary by housing association, but generally restrict access to intermediate housing products to first-time buyer households within a suitable income range. This initial pool of potential purchasers is then prioritised according to whether they have a local connection. The greatest priority is usually given to statutory homeless households and to those who are currently living in social rented housing and would therefore release their social rented unit for use by another household. Some RSLs reserve a proportion of their lettings for households nominated to them by the local authority. Many also maintain their own waiting list, or hold site-specific waiting lists for each area where they own housing.

Housing associations generally impose limits on the amount that clients can borrow, relative to their household income. This means that there is a lower income level, below which they are unable to help people, but ensures that their clients do not take on unsustainable levels of debt. The exact income level depends upon the housing market and on the size of household. Most RSLs allow clients to borrow in the region of 3 times their residual income after deducting rent and debt repayments.

The sub-regions have an increasing role in the allocation of intermediate housing and the East London Sub-Region Intermediate Housing Agreement makes typical priorities of certain groups. In priority order these are those:

- Social sector tenants who are unable to meet their housing needs in the market
- On LA housing registers within the sub-region
- Resident within the sub-region
- Employed within the sub-region,
- Who aspire to live within the sub-region.

Again, existing social sector tenants who would free up a property are given priority. LAs can determine priority groups for individual schemes.

MHO and Tower set up *Housing Options*, a central registration scheme for the intermediate market (excluding Key Worker Living) in the East and South East Sub regions of London in January 2005. This replaced the individual lists held by each LA within the two housing sub-regions. This site has since been developed and offers a pan London intermediate matching service for Londoners. The website (www.housingoptions.co.uk) allows prospective buyers to register in order to view available intermediate housing. This centralised service means that potential buyers can apply on-line and do not have to contact each housing association in the area directly, as partner associations are informed of their interest. Previously prospective buyers had to fill in as many as twenty application forms for the separate housing associations they wished to apply for. This service is a development of the original dual sub-regional Housing Options service and expands on the Zone Agents Key Worker Living programme providing a central contact for all intermediate housing solutions.

MHO

In terms of accessing intermediate housing, MHO defines gross household income levels of £18-24k as low, and those between £25-35k as moderate. Households must not be able to afford suitable market housing locally. Households are usually on the LA waiting list, social housing tenants or living in unsuitable accommodation, and have a local connection. Customers are usually first-time buyers (except in the case of relationship breakdown), and must live in the property themselves. Most schemes have no staircasing restrictions and customers can staircase up to full ownership of the property.

MHO run a ‘flexible tenure scheme’, funded by the Recycled Grant Fund, whereby tenants can staircase down as well as up and so can move between shared ownership and renting. This provides a safety net for existing tenants who may otherwise have to sell their property or be at risk of repossession.

MHO also manages a range of sub-regional schemes. One is the Londonwide Initiative, for which minimum criteria for intermediate homeownership are that the property should be affordable and suitably sized, and that applicants must be first time buyers. Priority is also given to households with children for 2-bedromed properties. Properties are marketed to priority groups 6 months before completion, with a cascade system to sale as market housing 3 months after completion (for which buyers do not have to meet the above criteria).

In Lambeth, MHO have agreed with the council that priority is given to certain groups as follows: existing social tenants who will vacate a property, other applicants in housing need and with a local connection, certain public sector workers employed in the borough, other public sector workers and other applicants in housing need. Properties must be affordable and suitably sized.

Tower Homes

Tower Homes give priority in allocating housing to households who are currently living in and will free up a social sector home. Priority is then given to those with a local connection, those in housing need and other priority groups. Household size, income and preference are taken into account when allocating properties. In some cases they take nominations from the local authority, which means that these applicants must be on the housing register.

Affordability

The affordability of purchasing a home is often calculated through mortgage multipliers (e.g. 3x gross annual income) or 30% of net income for households in the rented sector. This is the method that most Housing Associations use when calculating what size share in a property to offer intermediate purchasers. However, households on higher incomes may be able to afford to spend a higher proportion of income on housing costs, as they will have high residual incomes. Opinion Research Service's 'London Housing Requirements study' uses a more complex model, whereby the proportion of income that owner-occupier households can afford to spend on housing costs varies between 10% and 50% depending on income (ORS, 2005). The study uses affordability ratios of between 25% and 30% of equivalised gross income for renting.

The median income multiplier for first time buyers was around 2x salary between 1974 and 1994 but has risen steadily over the past ten years and is now 3.21 times salary, (CML, 2005a), with an average loan size of £94,000 and an average household income of £29,270 (CML 2005b). However, low interest rates mean that the proportion of income required to fund a mortgage is low by historical standards, at 15% (ibid). Most mortgages are now variable rate, and many recent first-time buyers are reliant upon the current low interest rates in order to afford their mortgage repayments. As, on average, first time buyers have a higher proportion of their salary committed to paying the mortgage they are therefore most at risk from encountering repayment problems as a result of personal difficulties such as unemployment or ill health. Research suggests that 75% of recent first-time-buyers have some sort of mortgage insurance, although only 31% have comprehensive insurance covering both unemployment and health risks (Ford and Burrows 2005). Housing associations providing shared ownership schemes are in a position to mitigate the risks faced by their tenants by ensuring that they do not borrow too much initially and offering the option of "staircasing down" (i.e. selling a proportion of the property back to the housing association) which can those who might otherwise be facing repossession.

It is necessary to consider the client group for whom shared ownership is affordable. The costs and potential gains to those purchasing shared ownership are compared here to those in other major tenures.

The average first time buyer currently borrows around 3.2 times their gross household income (CML 2005a). However, some will of course borrow more than this. Research carried out for this project into current mortgage lending practice suggested that most lenders are allowing first time buyers to borrow in the region of 3-3.75 times a single salary. Some lenders vary their rates for those with lower incomes, but others do not, so long as they and their client are confident that they will be able to meet their repayments. For dual income households there is more variation, but some lenders are considering dual income households very much in line with single income households and lending up to 3.5 times joint income for those with household incomes of between £20,000 and £50,000.

However, lenders are generally prepared to lend larger multipliers if the amount borrowed is not near to the full value of the property (for instance, borrowing £100,000 against a property worth £200,000). Households with substantial equity or savings will therefore be able to take out higher mortgages as long as they believe they can afford the repayments. There is also evidence that some households are using parental incomes to guarantee a larger mortgage multiplier or self-certifying their income to borrow more than may in fact be sustainable[2]. The current average of 3.2 times household income is very high by historical standards. It has been around 2 for most of the last thirty years, and has crept up largely in the last 5 years (CML 2005a). Interest rates are currently low by historical standards and have been stable over recent years, but the high amounts borrowed suggests many households would be at risk from any substantial increases in interest rates.

Mortgage lenders are often prepared to lend higher amounts than usual because they are aware that their investment is not at risk even if the household should default on payments as the other owner (such as the housing association) will in fact bear the risk. As a result households purchasing under most shared ownership schemes are often able to obtain very large mortgage offers relative to their income. This is effectively a mortgage indemnity clause which also covers the mortgage lender for other associated costs and means that lending high amounts to would-be shared owners does not represent a great risk to the lender.

It does of course represent a risk to the buyer and means it may be possible for households to take out debts larger than they can easily afford. In principle, if they were to be allowed to buy into shared ownership, they could take out as large a mortgage as they could persuade a bank to lend them. Responsible housing associations such as MHO and Tower Homes operate careful vetting of prospective clients to ensure that this does not happen.

It is possible to consider how the different levels of borrowing impact on monthly outgoings. A client borrowing 3 times their salary would incur outgoings of approximately 23% of their gross earnings under current mortgage interest rates, which are presently around 6% to first-time buyers (see http://www.nationwide.co.uk or www.halifax.co.uk). As clients borrow more than this, the percentage of their monthly income that is required to pay the mortgage increases accordingly, as it does if mortgage interest rates were to rise (see figure 3.1 below). First-time buyers who lack equity and are therefore looking to borrow 100% of the value of their property are often unable to obtain the best mortgage offers and will generally incur higher interest rates.

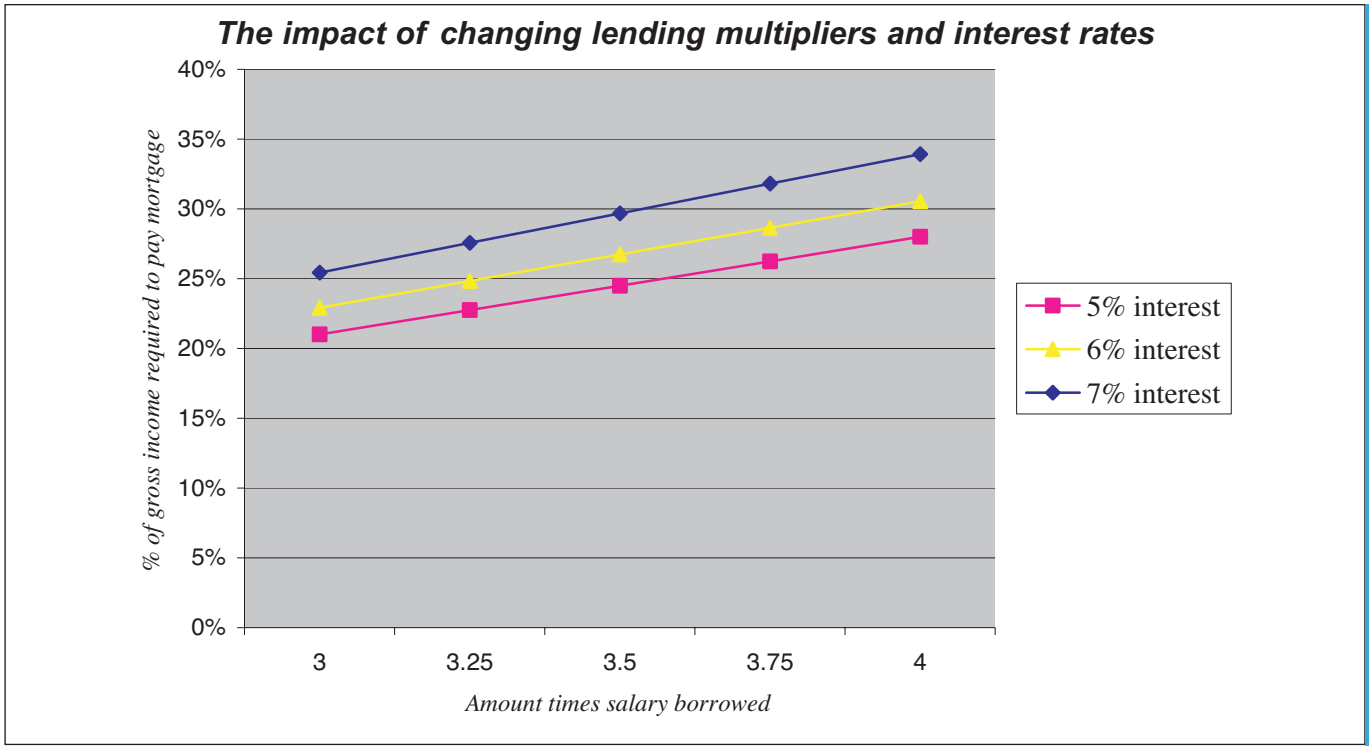
Figure 3.1: The impact of changing lending multipliers and interest rates (see opposite)

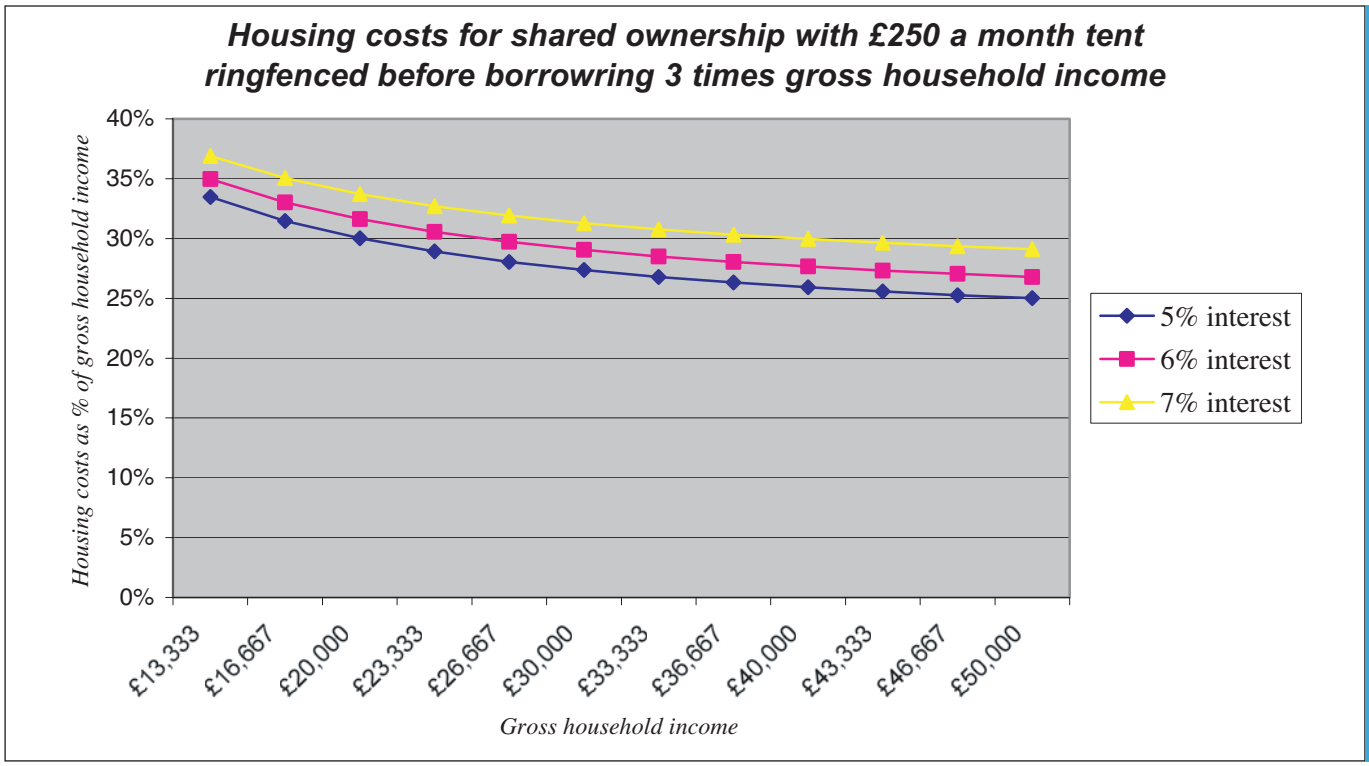
Those in shared ownership are not likely to encounter the problem of higher interest rates if they lack a deposit, as, for reasons discussed above, the mortgage lender does not face the same risks. They will, however, usually have additional costs in the form of rent. This can increase the proportion of income required to meet housing costs, although the rental element of this will not be exposed to the same interest rate-related risks.

Lenders usually insist on “ringfencing” the rental element before calculating the amount they will lend.[3] The amount that can be borrowed is then calculated on the remainder of the salary. This reduces the amount that can be borrowed, although it means that shared owners can be paying a higher percentage of their earnings in housing costs than a private sector first-time-buyer with an equivalent mortgage multiplier.

Figure 3.2: The impact of changing interest rates on shared owners (see opposite bottom)

[2] See, for instande http://www.firstrungnow.com for an example of advice currently available to would-be first-time-buyers struggling to access the property ladder.
[3] This usually involves discounting the element of gross salary required to pay the rent and/or lease and is typically worked out by multiplying the annual rent/lease by 1.33 (to take account of tax payable on the gross salary) and deducting this from the salary.





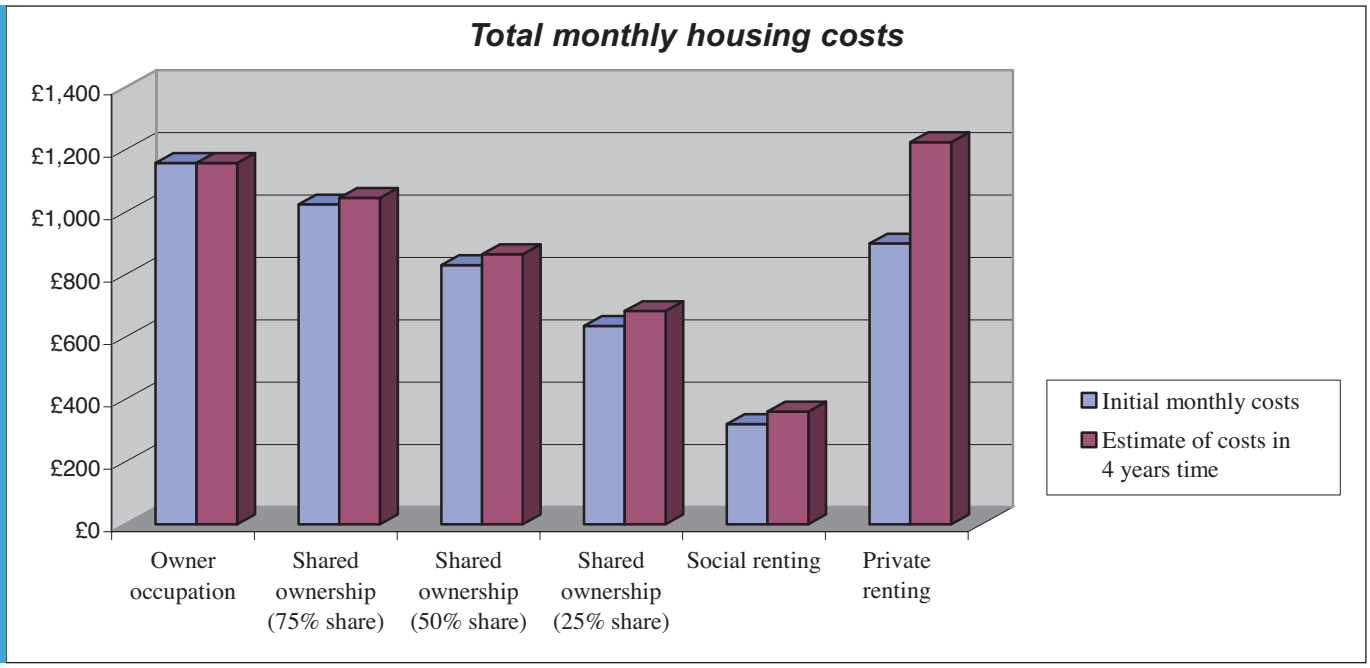
What this analysis shows is that shared ownership requires careful limits on the size of mortgages taken on as households incur rental costs which increase their total monthly outgoings. Mortgage lenders may not always have the incentive to impose limitations on borrowing, as the risk to their own money is very slight because the housing association (or developer) bears the risk should their client default.

As shown in the review of allocation policies above, housing associations tend to have targeted policies limiting the maximum amount that buyers can borrow, as they aim to promote responsible home ownership and do not wish their clients to take on unsustainable housing debts. Research suggests that these policies are successful and that shared owners are not currently

taking on too much debt: Bramley et al (2002) identified similar levels of payment difficulties among LCHO buyers as for first-time buyers in general.

It is also possible to consider affordability of shared ownership by comparing housing costs and equity gained to other major tenures. The following figure shows typical housing costs for living in a £180,000 property in London.[4]

Figure 3.3: Total monthly housing costs by tenure



This analysis suggests that shared ownership can offer a tenure that is more affordable than all others apart from social renting. For those on the lowest incomes, social renting may be the only affordable option, but for middle-income households, who have not yet accessed the housing market, shared ownership offers an affordable option. Over the longer term the gap between housing costs of shared owners and full owner-occupiers would narrow slightly under the economic conditions hypothesised above, but shared ownership remains more affordable for most. Under this scenario it becomes increasingly more affordable than private renting, which is likely to increase in line with average house price inflation, although differences between the tenures depend upon changes in the economy and the housing market and could vary (see below).

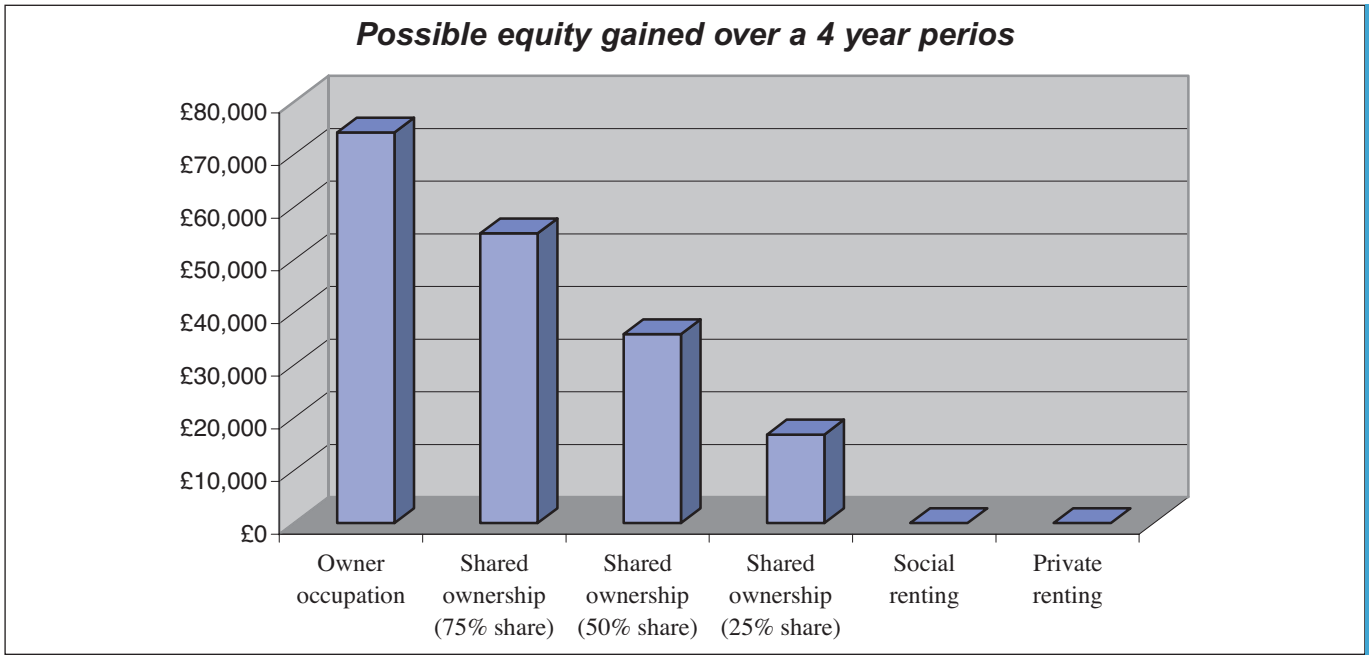
As well as considering monthly costs, it is important to consider the equity that is built up by the household within the different tenures. This is of course subject to changes in property values, which have been quite volatile in recent years. After a period of very high growth followed by a more recent slow-down, experts are currently predicting very low house price inflation over the next two years (CML 2005d). Shared ownership is, however, a long-term tenure for most households so potential equity gained shown here is based upon the historical average UK property price inflation of 8%, meaning that in four years time the £180,000 house would be worth £245,000[5]. This is an estimate and the gains could of course be considerable greater, or considerably less than these, or there could even be a loss.[6]

[4] Mortgage repayments have been calculated using 6% interest and assume a deposit of £6000. Rental costs of shared ownership have been calculated using average figures from Tower and MHO schemes. For average social rents, see Solomou (2004). Private rental costs have been estimated using the National directory of Estate Agents' web search facility for the rental costs of a similar valued property (see http://www.naea.co.uk/). Shared ownership and social rented rents have been assumed to increase at 3% per year and private sector rents at 8%.

[5] The Halifax House Price Index calculates the average since 1984 to be 8% annual growth.

[6] Equity gained has been calculated by assuming the property to have gained 8% in value each year over 4 years, and then by subtracting the £6000 deposit and £2000 assumed moving costs.

Figure 3.4 Estimate of equity gained over a 4 year period



As can be seen from the above chart, there are considerable gains in equity that homeowners can benefit from. Shared owners gain these in proportion to the share they have purchased. Whilst actual gains are uncertain, they vary in line with house price inflation and therefore provide a useful asset when seeking to move elsewhere in the property market.

Summary of literature and policy review

- LCHO has the potential to fill a gap in housing affordability between the relatively low costs of social renting and the much higher costs of private sector housing.
- Future demand for the tenure is hard to predict but current observed demand is high.
- Many households currently in private rented housing, or without their own accommodation aspire to owner-occupation and would often prefer LCHO to social rented housing
- Private sector first time buyers are currently taking on higher levels of debt (relative to their incomes) than they ever have before, in order to access the property market.
- Careful vetting of prospective buyers is important in order to ensure that shared owners do not over-burden themselves with mortgage repayments.
- Shared ownership can offer lower monthly outgoings for a given property value, and is therefore accessible and affordable to households whose incomes would not permit them to buy this property outright.
- Shared ownership gives low income households an opportunity to acquire asset-based wealth in the form of equity in their home. This may enable some of them to step up into full owner occupation.

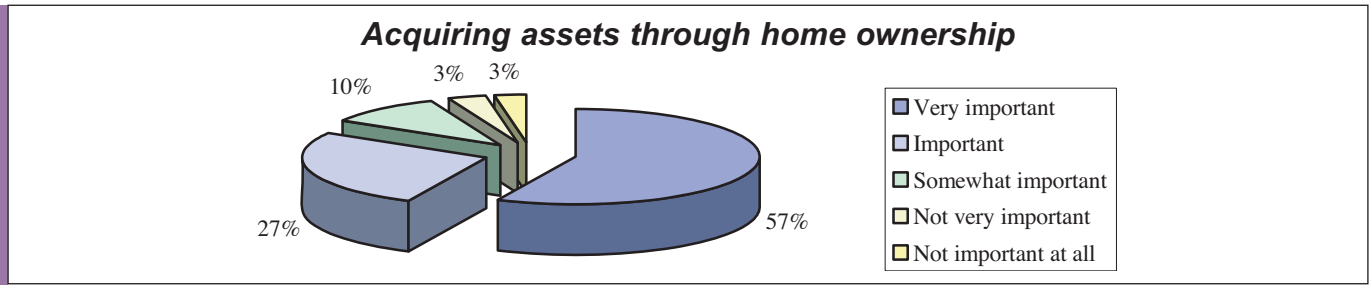
4. Research Findings: Applying for MHO and Tower's Shared Ownership schemes

These following sections present the findings from the surveys and telephone interviews conducted with MHO and Tower shared ownership clients who had moved in within the last twelve months and between 3 and 4 years ago.

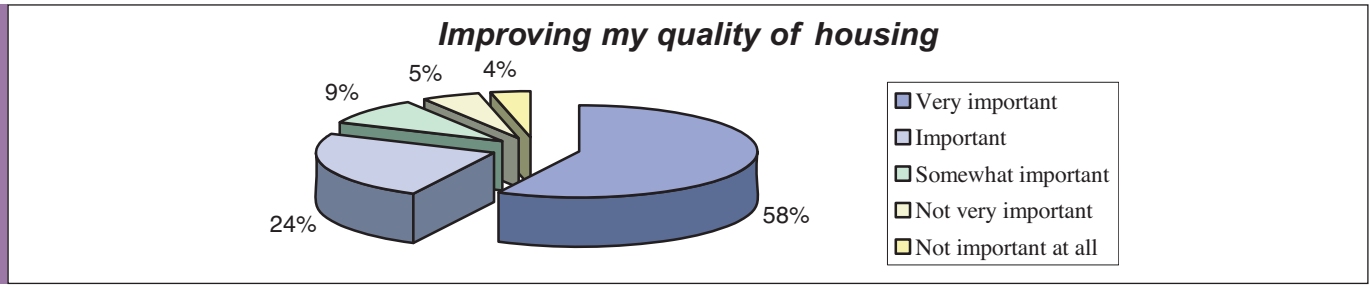
Why do households apply for shared ownership?

Households new to shared ownership were asked which factors had influenced their decision to apply for the tenure:

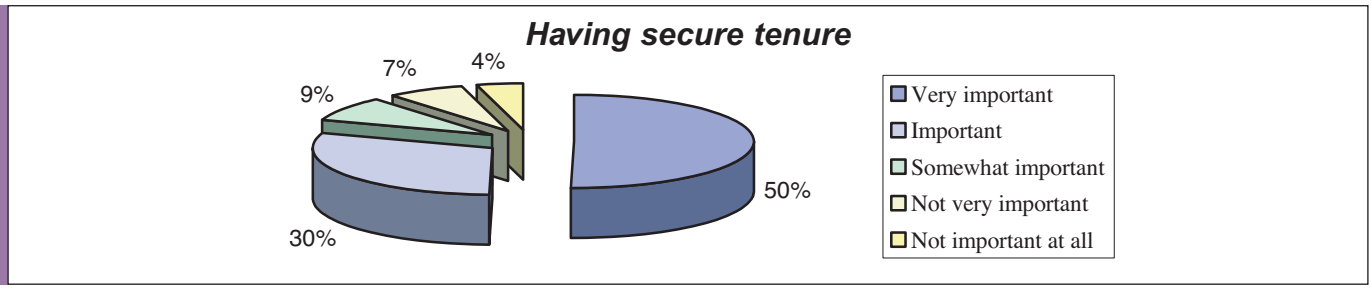
Figure 4.1: How important were the following factors in influencing your decision to apply for LCHO?



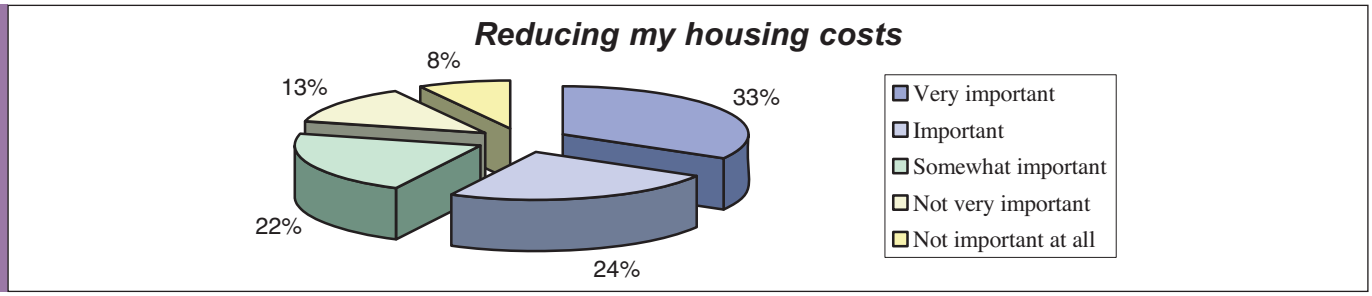
• 84% of households said that acquiring assets through home ownership was an important or very important factor to them.



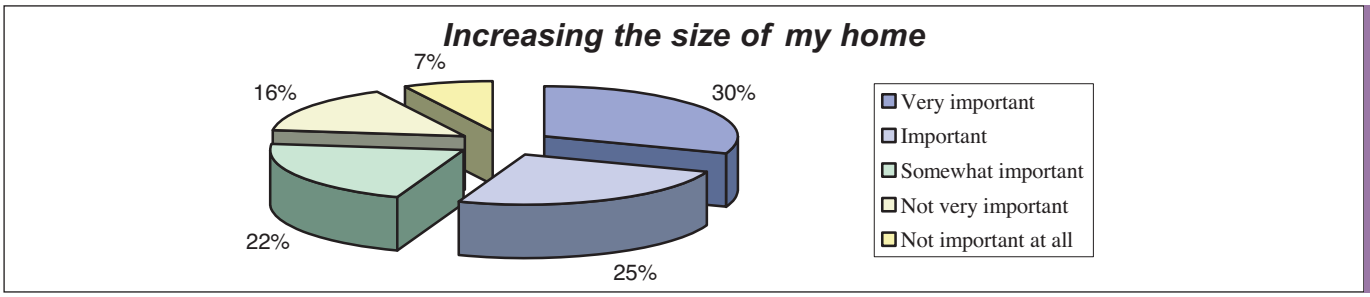
• 82% of households said that improving their quality of housing was important or very important.



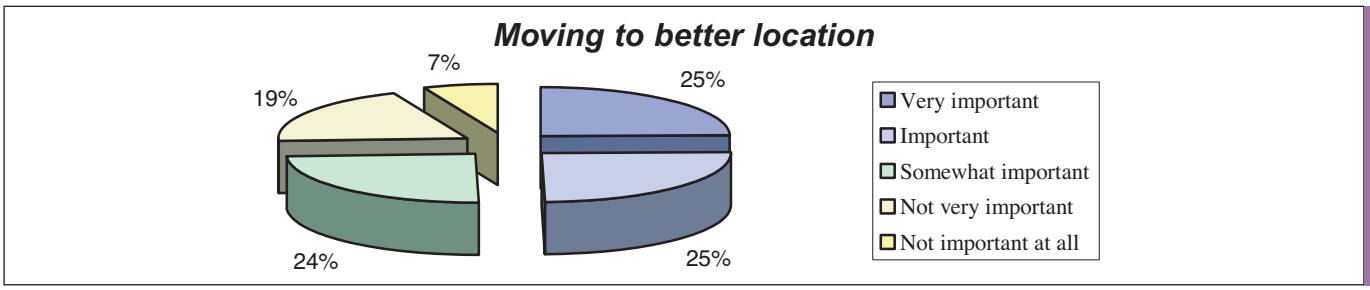
• 80% of households said that having a secure tenure was important or very important.



• 67% of households said that reducing their housing costs was important or very important.



• 55% of households said that increasing the size of their home was important or very important.

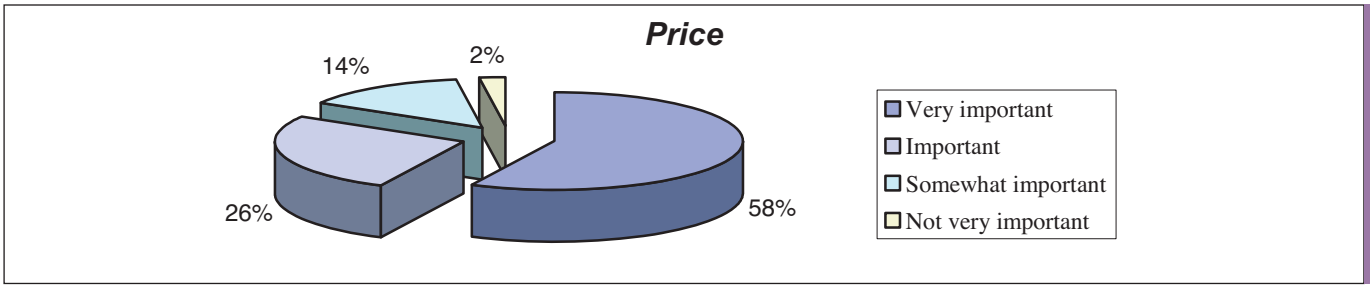


• 50% of households said that moving to a better location was important or very important.

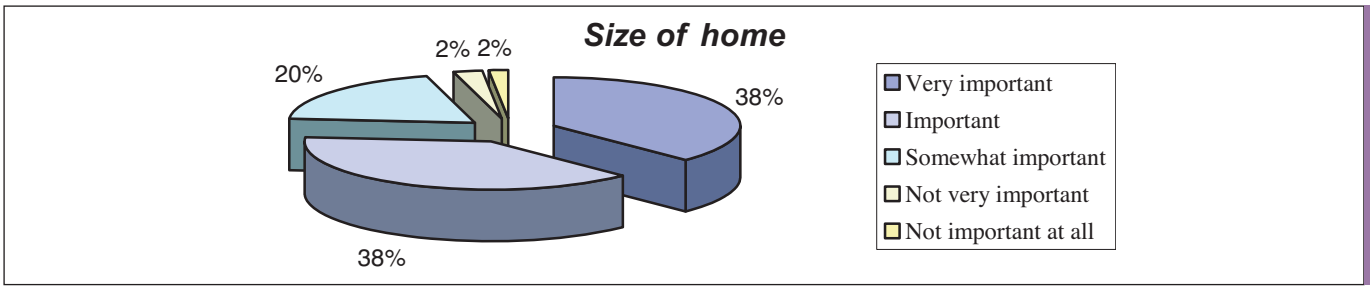
These results show that improving their quality of housing, security of tenure and acquiring assets though home ownership were important factors for nearly all households. Moving to a better location, reducing housing costs and increasing the size of their home were also important to most. Those moving from the private rented sector were more likely to say that having a secure tenure was important to them. Some respondents gave more personal reasons such as “mature first-time buyer seeking to leave the family home” and “downsizing due to divorce” to explain their reasons for seeking LCHO.

They were then asked what factors influenced their choice of a particular LCHO property:

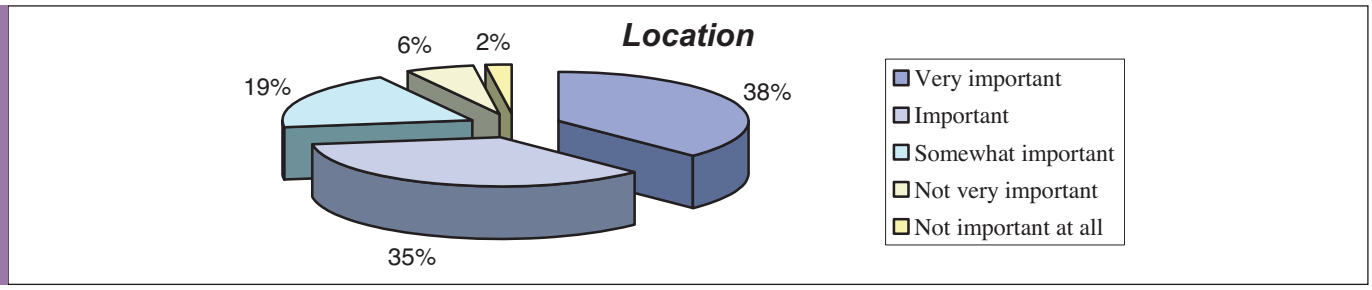
Figure 4.2: How important was price in influencing your choice of particular LCHO property?



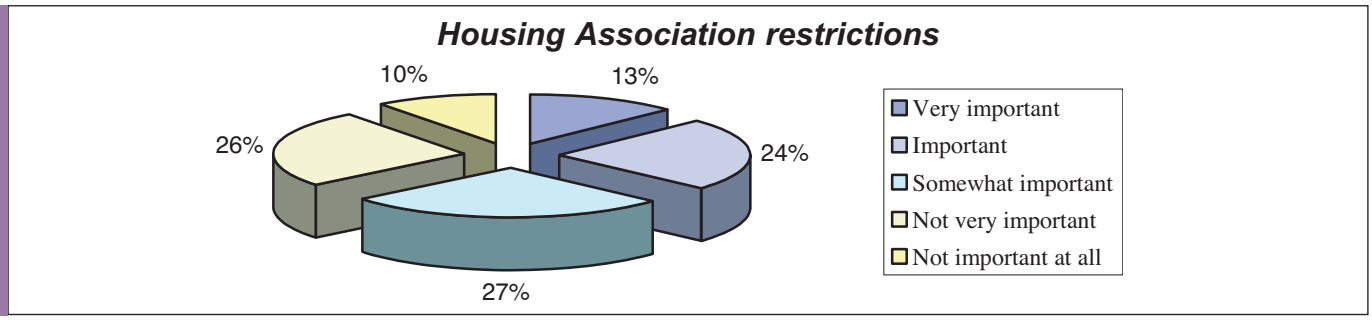
84% of households said that price was an important or very important factor to them.



75% of households said that the size of the home was important or very important.



73% of households said that location was important or very important.



37% of households said that housing association restrictions were important or very important.

These findings show that price, size and location are the most important factors to most households. The size of home was especially likely to be an important factor for larger households. Housing association restrictions limiting what they may apply for were an important factor for a smaller number of households. Again, some respondents indicated that more specific factors such the design, type, quality or investment value of the property were important to them.

Who are the client group?

Households entered shared ownership from a variety of different housing situations:

Figure 4.3: Previous tenure of households entering shared ownership in the last 12 months

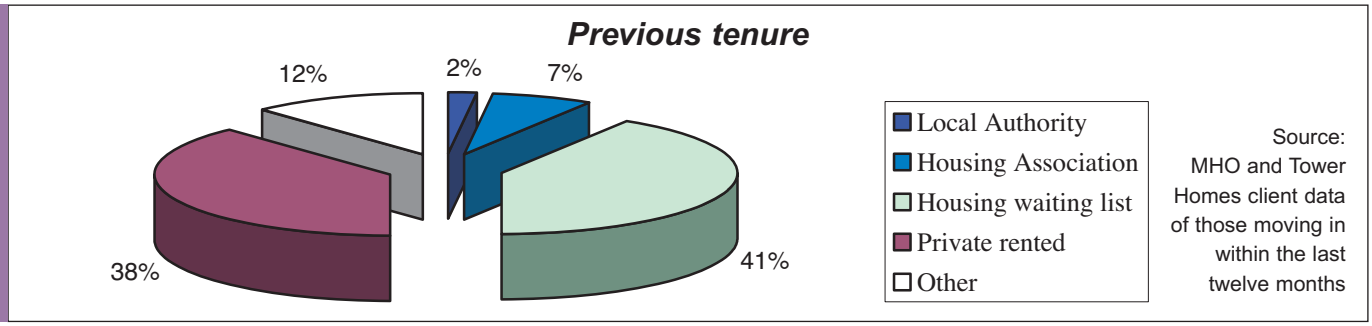
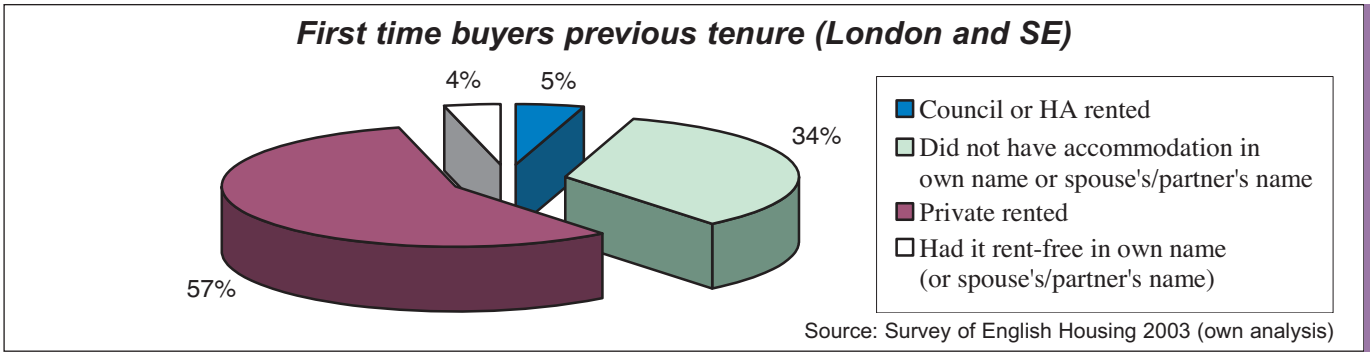


Figure 4.4: Previous tenure of first time buyers entering owner occupation in London and the South East (see opposite top)

The two figures above show that those entering MHO and Tower Homes's shared ownership in London and the South East come from a broadly similar tenure mix as those entering owner-occupation for the first time, although a higher proportion came to shared ownership from the social rented sector and a lower proportion from the private rented sector.

Those entering shared ownership have, on average lower incomes than those entering full owner-occupation (£29,200 compared with £40,300[7]). They also have lower deposits available with a median of only £500, which represents 0.3% of the



average full property value, whereas private sector first time buyers have a median deposit of 12% of the property value (CLM 2005a). This means that shared ownership is accessible to those with lower incomes and also to those who lack capital (for instance from parents who are able to help out). It is therefore helping to widen the asset base. This may be a factor behind the increased numbers of households from a black ethnic background entering the tenure, compared with numbers entering owner-occupation. Black African households are the least likely group to be in owner-occupation, and Black households overall are much less likely than either White, Indian or Pakistani households to be in owner-occupation (ODPM 2005). Yet a larger proportion of those entering MHO and Tower Homes's shared ownership come from these Black ethnic groups.

Figure 4.5 Ethnic group of those entering MHO and Tower Homes's shared ownership schemes in the last twelve months

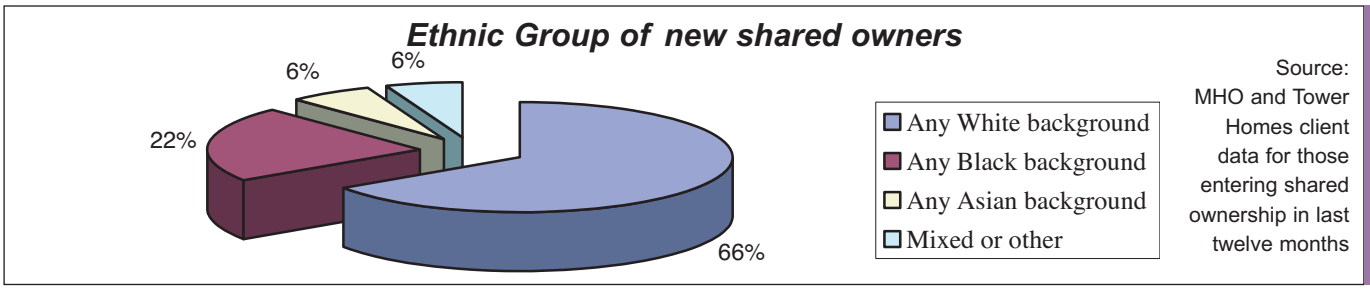
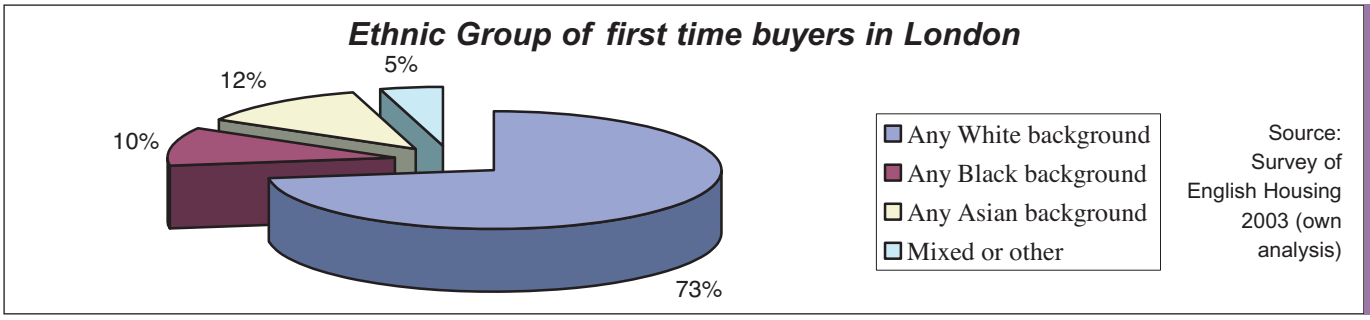


Figure 4.6: Ethnic group of private sector first time buyers in the London region

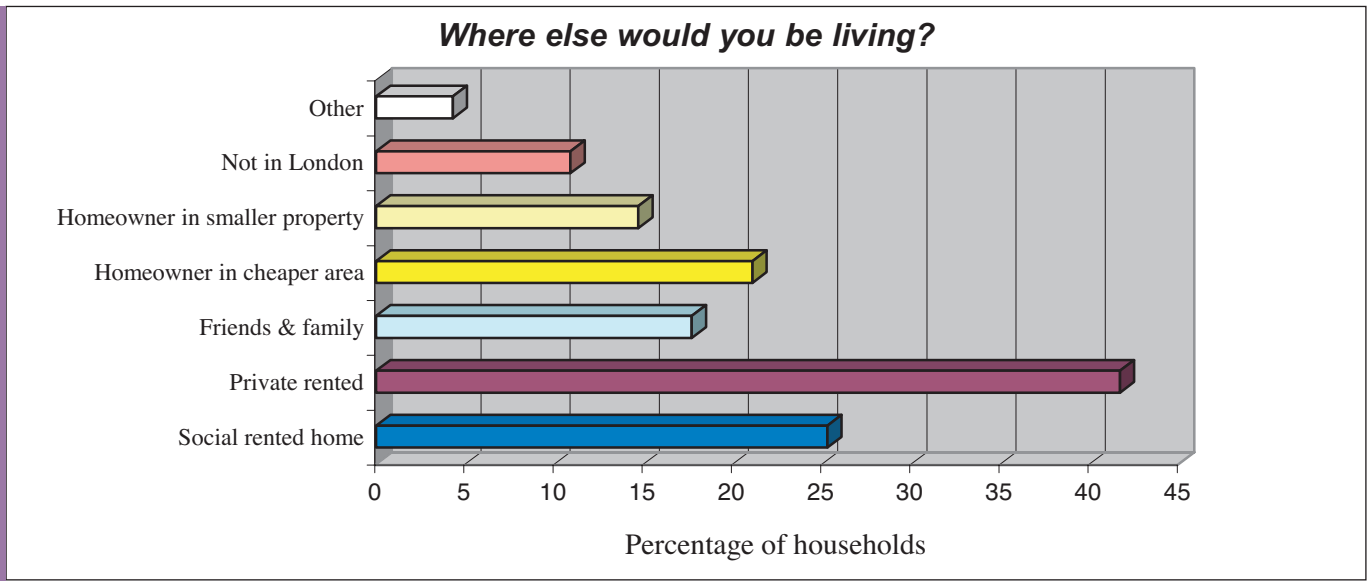


Most MHO and Tower household heads were between 25 and 40 when they moved in with an average age of 34. White and Asian households tended to be younger on average than those from a Black ethnic background.

The second survey which was sent to households who moved into shared ownership 3 to 4 years ago asked them where they thought they would likely be living if shared ownership had not been available to them:

(7) Survey of English Housing, analysis of those who bought as first time buyers within the last 12 months in 2003 living in London and the South East.

Figure 4.5: If shared ownership didn't exist, where is it likely that you would be living now?
Overall, 40% of households indicated that they expected that they would still have been living in the same place as when they applied for shared ownership.



Respondents interviewed were asked about how they had come to apply for Low Cost Home Ownership. Many had previously been living in the private rented sector. In most cases these were single people who were living in shared accommodation and seeking to live alone or with a partner. Some families had moved from self-contained rented accommodation in either the social or private sector. In many cases the previous accommodation was overcrowded and was causing stress and/or financial difficulties:

I was living in the local area in private rented housing. I'm on my own with a young child. It was a 3-bedroom house so I was sharing with others. In the last three months I was there someone else had moved out, so I had to pay all the rent myself.

I was living previously in private rented housing sharing with five others. I needed more control over my domestic situation. I would have liked to share with just one or two others but that was not affordable in the private sector.

I was living in a shared ownership one bedroom flat with Family HA. I was there for three years but by the end of that time I was married with one child and another one on the way. I applied to Tower Homes and they said I was eligible to move as I was overcrowded.

Word of mouth appeared to be the most common way in which people had heard about shared ownership. For some it was recommended by friends or family who had already moved into shared ownership. Others had been told about it by their local authority or a housing association when seeking social rented housing. In some cases they had been aware of specific new housing developments in their locality.

Respondents were asked about what their alternatives would have been if they had not been able to access shared ownership. Almost all said that they aspired to full owner occupation and some thought they would have obtained this without shared ownership, although that would have generally required them to buy a smaller property, move out of London, or waiting until they had saved up more money as a deposit.

The previous area where we lived was not nice and we would have moved from there anyway without the shared ownership option and maybe stayed in private renting or bought a smaller place.

I would have been able to afford a one-bedroomed flat in the area, so that is what I would have done.

If I hadn't been able to apply for shared ownership I would probably still be sharing rented housing and dreaming of owning.

Others, however, thought that home ownership would otherwise have been unobtainable and considered that they would have remained in private rented housing or living with their parents for the foreseeable future. Some had applied to the council for housing and had been hoping for social rented housing in the long term, although the pressure on social rented stock is such that only the most badly housed thought they would have had any chance of accessing this housing.

I was living with my parents in Hackney with my partner and young son. We were looking to buy but couldn't afford anywhere. I had registered for council housing but was told I'd have to wait about four years. If we hadn't got this I would have had to stay at my Mum's, which wouldn't have been very nice.

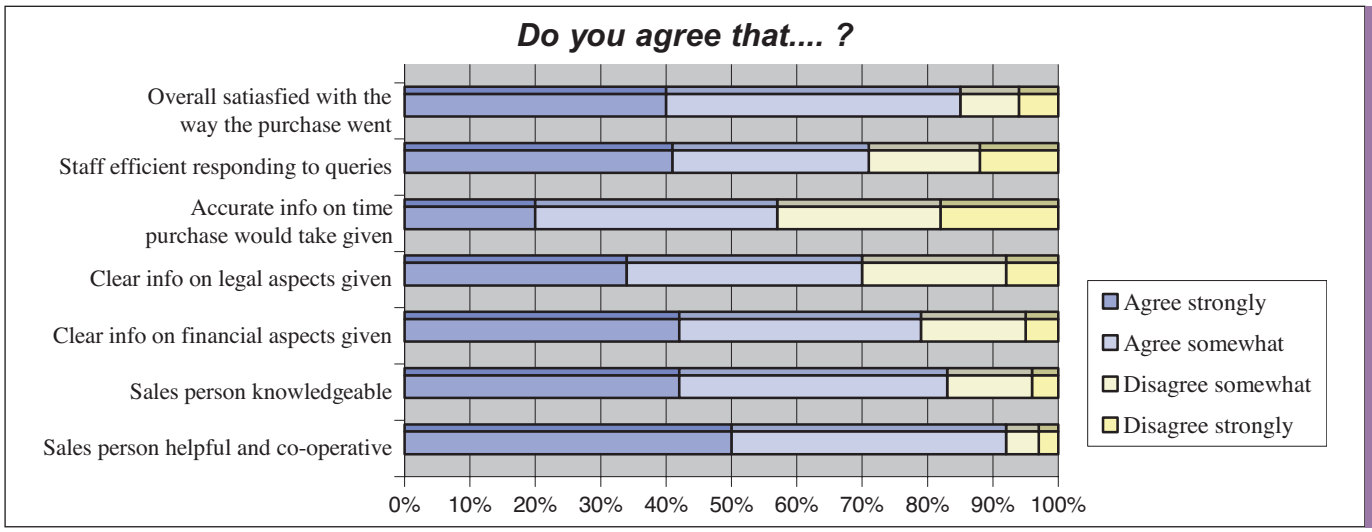
We had tried to apply to Kensington for housing but they told us to get lost, even though we'd been living there for 8 years.

I'd been on the council waiting list for two or three years but hadn't got anything. I was told the only thing I would have any chance of getting would be a one bedroom property in an area that I don't want to live in. Now I have a two-bedroom property in an area that I grew up in and I like.

The application process

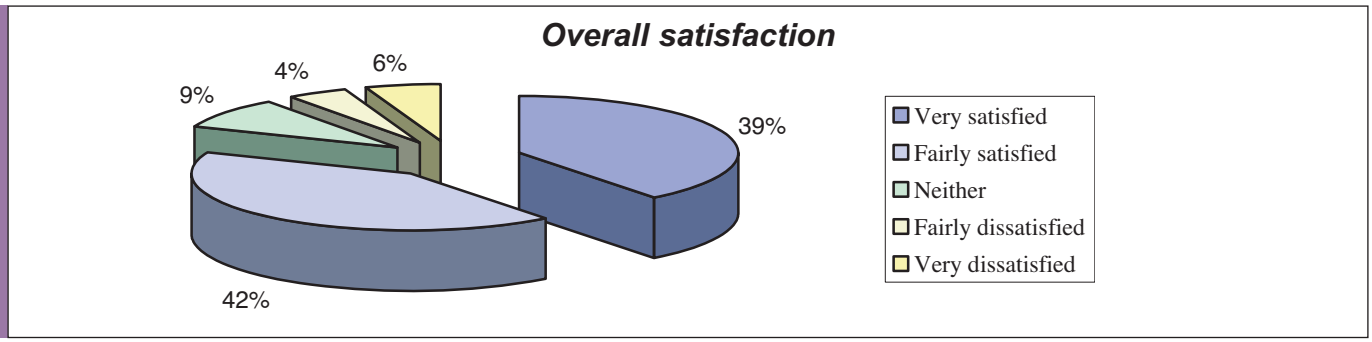
Those who had moved in within the last year were asked about their experiences of the application process:

Figure 4.6: Thinking about the contact you had with Metropolitan Home Ownership/Tower sales staff, do you agree that:



The vast majority of households had had a positive experience of moving into shared ownership and felt especially that the sales staff were helpful. 85% said that they were satisfied overall with the way the purchase went.

Figure 4.7 Overall, how satisfied are you with Metropolitan Home Ownership/Tower Homes? (0-12 month survey)



The process of applying for shared ownership had in most cases been a smooth one. Most applicants were first-time buyers and as such, few people had much idea what to expect but most felt that the housing association staff had given them a lot of information. The main difficulties that had been encountered were related to a scarcity of appropriately sized properties in the applicant's eligible location. Many people felt that the rules giving them priority only in the area in which they currently lived restricted their choice of property, although most said that they got the first property they applied for, once they had been offered one. This is however set to change in the near future, as there is a move towards sub-regional working. Most people in this research had not had much choice over which property they took, but nevertheless expressed enthusiasm for the property they were given.

There has been some discussion recently concerning difficulties that shared owners can have in obtaining a mortgage.[8] This research for MHO and Tower was of course focused entirely on those who were ultimately successful in obtaining shared ownership but did not, however, uncover any difficulties in this area. Those interviewed were asked whether they had encountered any difficulties in obtaining a mortgage for a shared ownership property and no one reported that this had been a problem. A few banks had been encountered that did refuse to lend on this kind of scheme, but in all cases the buyers were easily able to obtain a mortgage elsewhere. Some people had made use of advice given them from the MHO or Tower Homes financial advisor who was able to suggest appropriate mortgage lenders. These approved mortgage lenders are ones that MHO and Tower Homes work closely with to ensure that they are aware of the new developments and schemes in operation. It appears that there is enough choice of mortgage lenders in the market today to enable shared owners to choose a suitable mortgage, despite a few lenders imposing restrictions.

[8] See for instance:
http://observer.guardian.co.uk/cash/story/0,6903,1587861,00.html

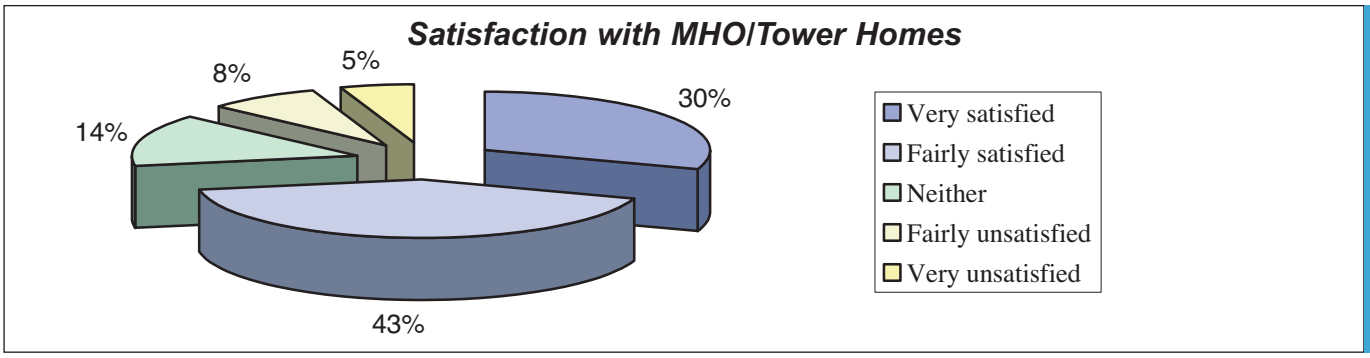
5. Research Findings: Experiences of MHO and Tower's Shared Ownership schemes

Since moving in, experiences had generally been positive. Most respondents were very happy with the properties themselves, and comparing their situation to their previous experiences, which were often of overcrowded or shared housing, they felt happy with their new housing:

> *It's a two-bedroom terrace. Most of the new housing is flats and we wanted a garden for our little boy, so we were very pleased to get this place.*
>
> *I didn't have much choice about where I lived.... but I'm very happy with it, especially as it's a new property. It has two bedrooms and the rooms are quite large for a new property.*
>
> *It's great, brilliant, fantastic.*

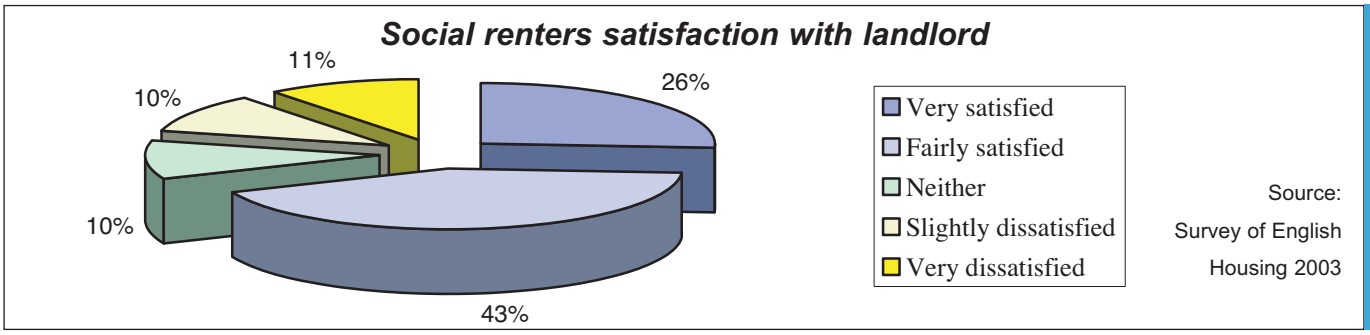
Most were satisfied with MHO/Tower Homes:

Figure 5.1: Overall how satisfied are you with Metropolitan Home Ownership/Tower Homes? (3-4 year survey)



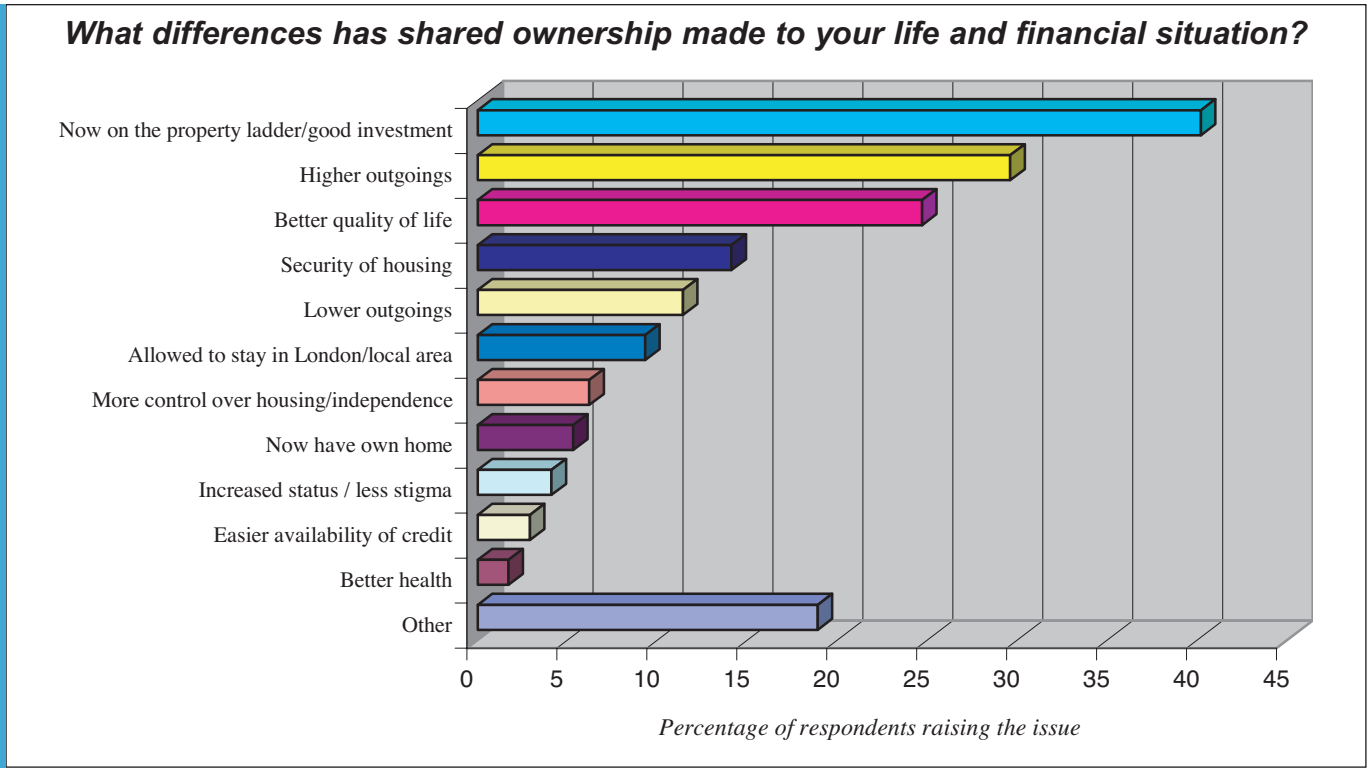
These findings suggest higher levels of overall satisfaction than amongst social renters.

Figure 5.2: How satisfied are you with the housing services provided by your landlord? (Social renters)



Those that had been in shared ownership for 3 to 4 years were asked to put in their own words what differences it had made to their life and financial situation:

Figure 5.3: What differences has shared ownership made to your financial situation? What other differences has it made to your life?



The investment that shared ownership offers to those otherwise unable to access the property ladder was most common response to this question with 40% of households identifying this as a benefit. Those that entered shared ownership in 2001/2 had generally seen the value of their property increase substantially over the last 3 to 4 years, and in many cases indicated that they were appreciative of the opportunity afforded them to access the housing market.

Becoming shared owners made substantial changes to the monthly outgoings of many households. Those who had previously been living in social rented housing, with their parents or in some cheaper shared housing in the private sector, did find that their monthly outgoings increased now that they were independent householders with mortgages and 30% mentioned that their monthly outgoings were now higher. Others, however, who moved from similar housing in the private sector, found that their monthly outgoings were now much less and 11% mentioned this improvement. Affordability is discussed further in section 6.

The security offered by shared ownership was an important factor identified by 14% of households, especially those that had previously been living in the private rented sector:

> *I haven't had to move for the last three and a half years, which is a blessing as I have been moving all my life.*
>
> *One of the good things about buying is that you don't have to move every 6 months as you do with a private landlord and so I have a permanent place to live. Things aren't temporary any more which makes a lot of difference and that is important.*

It was also clear that although shared ownership is technically a hybrid tenure (part social rented, part leasehold) most households clearly *perceived* themselves as homeowners:

We own 25% of the property and we consider it ours - the fact that it is shared ownership doesn't affect how we use it.

I know that it's part theirs, but that doesn't bother me. It still feels like ours.

For some, becoming a homeowner was clearly important to their sense of status. Having previously failed to achieve something that they felt society expected of them, they were now proud to be (part) homeowners:

It's allowed me to join home-owning masses.

We have escaped from the stigma of social housing tenants. We live in a normal street and feel proud to feel normal.

I feel I have achieved (50% of) the goal I needed to before my 30th!

I feel more respectable now.

This sense of themselves as homeowners may have been helped by the knowledge that there was the option in the future of purchasing the remaining share:

I consider it our house, and I think I still have the idea that we will eventually own it all.

The fact that the properties were leasehold (rather than freehold) did not appear to be a disadvantage to most people. This was especially true of those purchasing flats, or who considered that they would never have obtained any other form of home-ownership, although in some cases this may have been due to a lack of understanding:

I'm not bothered about it being a leasehold. It's a flat, so you'd expect that anyway.

I think the flat is leasehold but I'm not too sure - but I know they did explain it to me, I've just forgotten.

Those who had bought leasehold houses were somewhat more varied in their views, describing it more often as "*a necessary evil*" and something they would have preferred not to have.

There were others, however, who appreciated the benefits that shared ownership (as opposed to full owner-occupation) and leaseholds can offer:

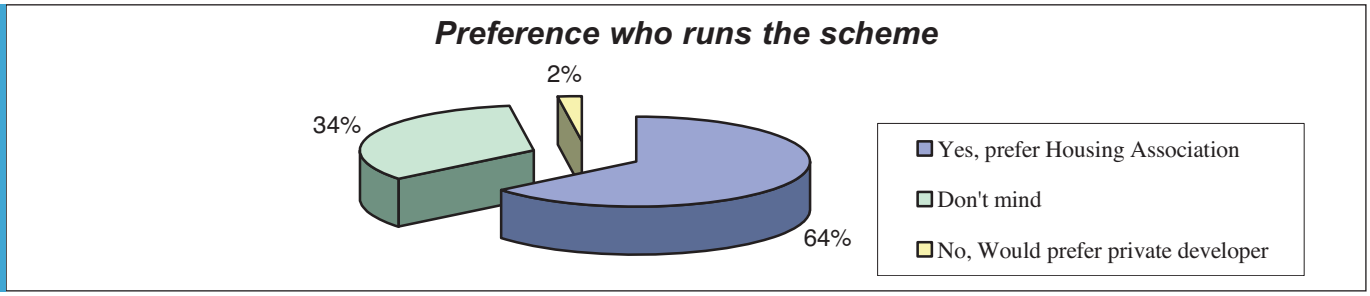
I like the fact that it's a leasehold. It gives you a bit of cover and lets you share the responsibility. For instance, we had trouble with the roof and it wasn't us that had to bear all the cost.

Management by a housing association was also seen as a benefit in this context and several people mentioned the sense of security and trust that this gave them:

> *I am reassured that it is managed through a housing association as I have friends who have leaseholds that have been sold off to companies that have disappeared.*

Overall, most respondents were reassured by the fact that the scheme was managed by a housing association:

Figure 5.4: Was it important to you that the scheme was run by a not-for-profit Housing Association?



Some respondents indicated that it was the end product that was important to them, irrespective of who runs the scheme. Most, however, felt reassured that the scheme was managed by a housing association that they felt they could trust, would keep costs lower and would be putting any profits back into helping others into better housing:

> *I assume a housing association puts people before profit*
>
> *I would worry that if a scheme was privately owned, costs would increase in order to satisfy corporate goals. Housing should remain a social issue*
>
> *I feel safer with not for profit organisations with respect to the monthly rent payments. I don't expect dramatic increases*

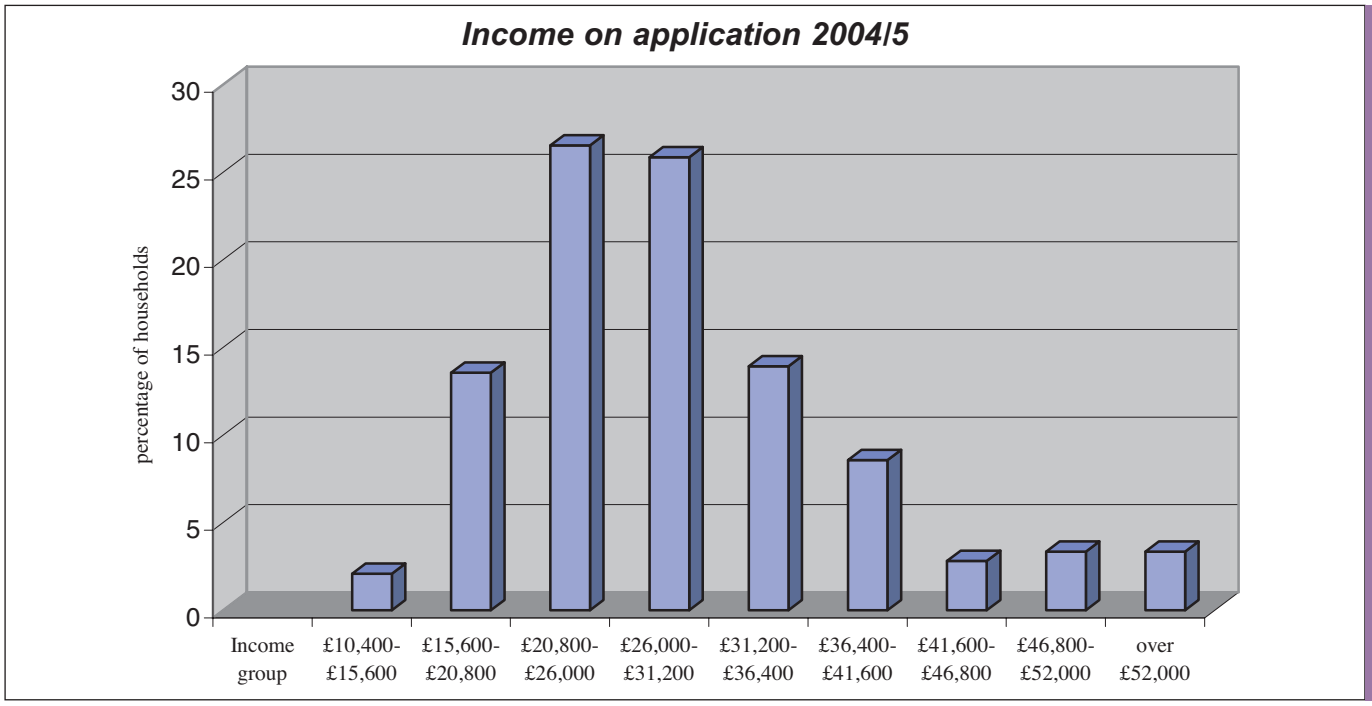
Moving into new properties had in a few cases caused some initial technical difficulties with aspects of the property such as heating systems and door locks. However, once these had been overcome, most respondents had had little difficulties with their properties and hence little reason to contact MHO or Tower Homes. Those that had, were generally positive about their experiences:

> *I think the service charge is very good value for money. It includes the buildings insurance. I had to make a call to them once when someone kicked in our front door and they were very good. It all went very smoothly.*
>
> *I've had to contact Tower on a few occasions about maintenance issues. They're normally very prompt.*

6. Research findings: Affordability of MHO and Tower's shared ownership schemes

MHO and Tower shared ownership clients moving in during the last year had the following household incomes:

Figure 6.1: Gross annual household incomes of MHO/Tower households who purchased within the last 12 months



Most households had an income of between £19,000 and £39,000, with an average of £29,200. 96% of households had incomes of under £49,000, the limit recently set by the Regional Housing Board for shared ownership in London.

The average property bought by households during the last 12 months was valued at around £179,000. MHO and Tower clients generally bought shares ranging from 25% to 75%, averaging at 41%. Those on lower incomes on average bought smaller shares. Those moving from their friend's and family's houses and from other tenures such as owner-occupation and other shared ownership properties were on average able to purchase slightly higher proportions of their properties. Those moving from the social sector and the private rented sector (who had on average lower incomes) were more likely to be purchasing smaller shares. The flexibility of shared ownership (unlike Homebuy[9]) in allowing smaller shares to be bought may therefore have been especially beneficial to those on lower incomes.

Living in shared ownership means that housing costs can be broken down into mortgage repayments, rent (on the part of the property that has not been bought) and a leasehold service charge.

[9] Under the traditional Homebuy scheme buyers choose their own home in the open market, but must be able to raise a mortgage for 75% of the value.

Figure 6.2: Monthly mortgage repayments of households who purchased within the last 12 months

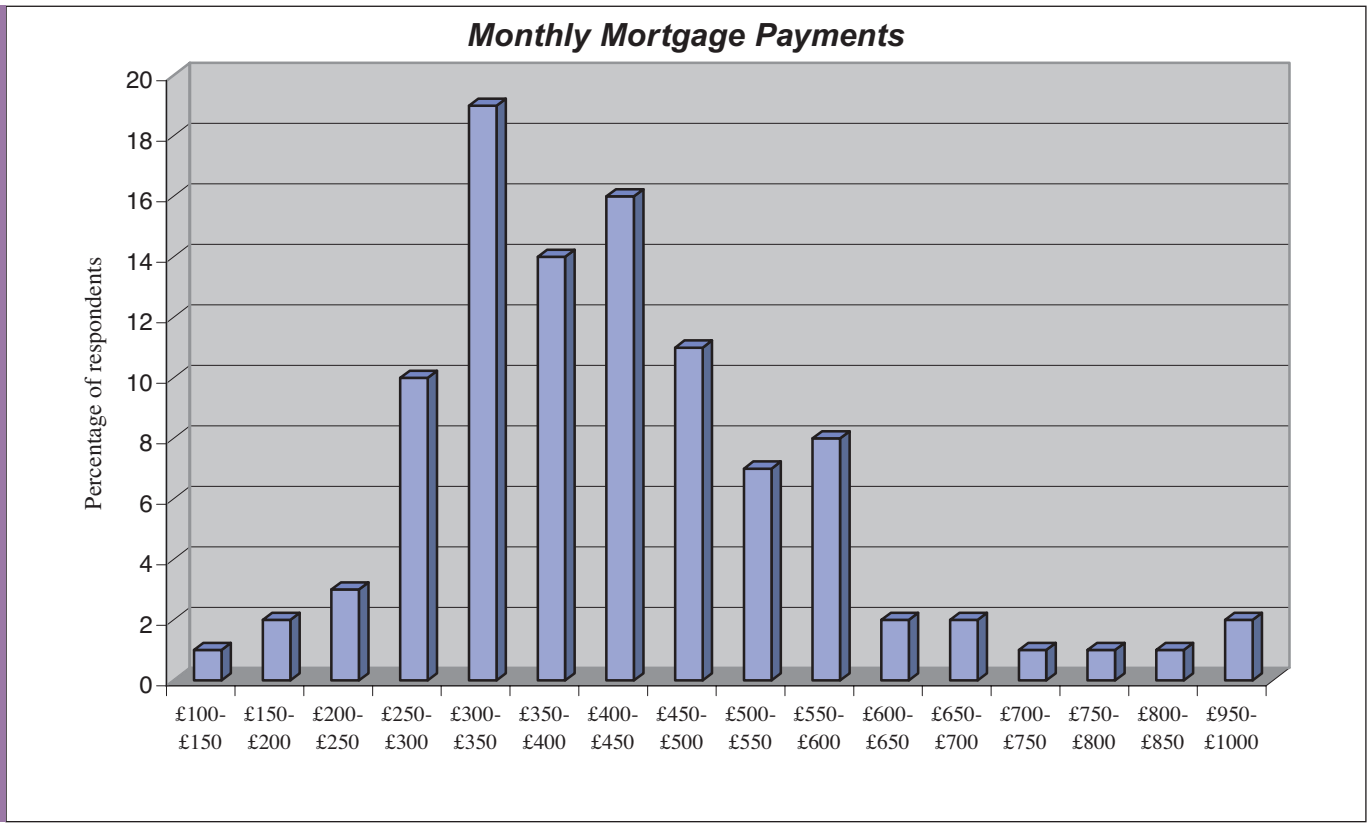


Figure 6.3: Monthly rent of households who purchased within the last 12 months

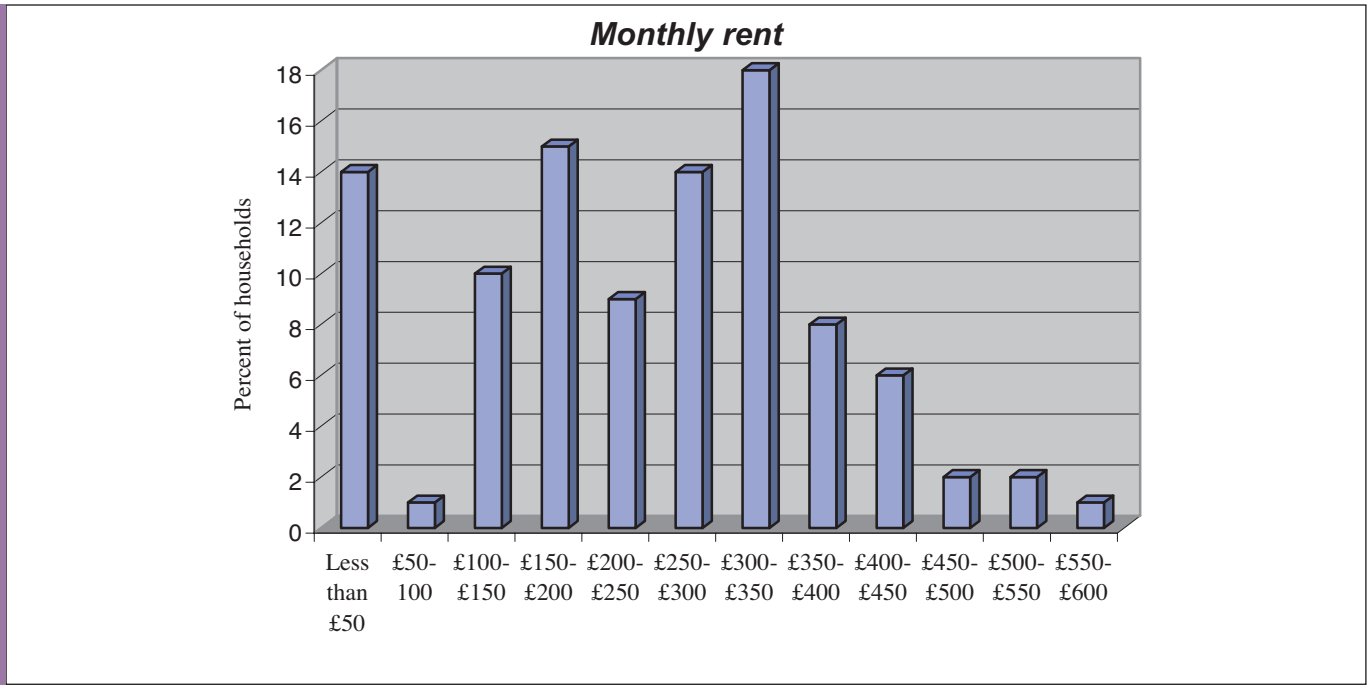


Figure 6.4: Monthly service charge of households who purchased within the last 12 months

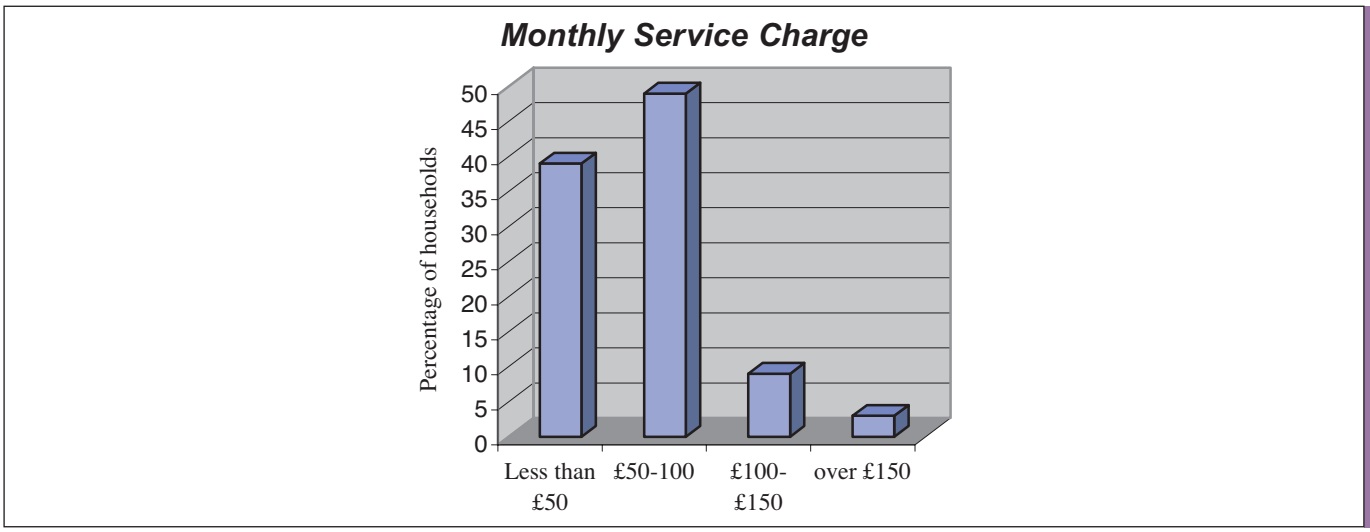
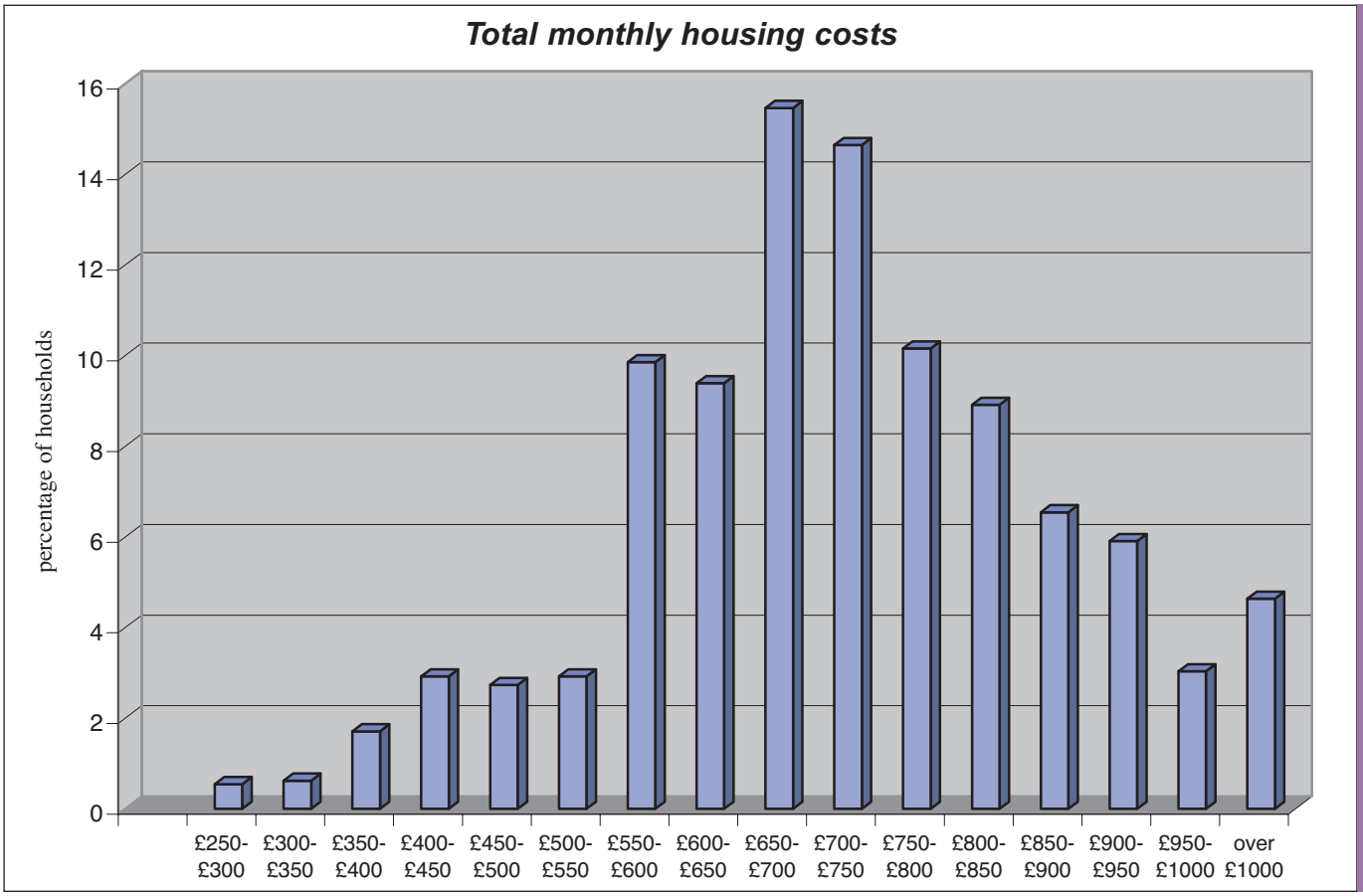


Figure 6.5: Total monthly housing costs of those moving into shared ownership within the last 12 months



With an average monthly repayment of £428, mortgage repayments constitute the largest proportion of housing costs. The average rent was £253 and the service charge was a relatively small component for most households, with the average being £65.

The total average monthly housing cost was £746 (or £8950 per year), which means that the average household is paying around 30% of their gross household income in housing costs.

In detail, no LCHO clients were paying under 10% of their income in housing costs (as compared with 6% of private sector first-time buyers in London and the South East, although this includes some with very high incomes); 8% were paying between 10 and 20% (compared with 36% of the private first-time buyers); 28% were paying between 20 and 30% (compared with 35% of the private first-time buyers); 45% were paying between 30 and 40% (compared with 18% of the private first-time buyers); 9% were paying between 40 and 50% (compared with 3% of the private first time buyers); 4% were paying between 50 and 60% (compared with 3% of the private first time buyers) and 2% were paying between 60 and 70% (compared with 0% of the private first time buyers).

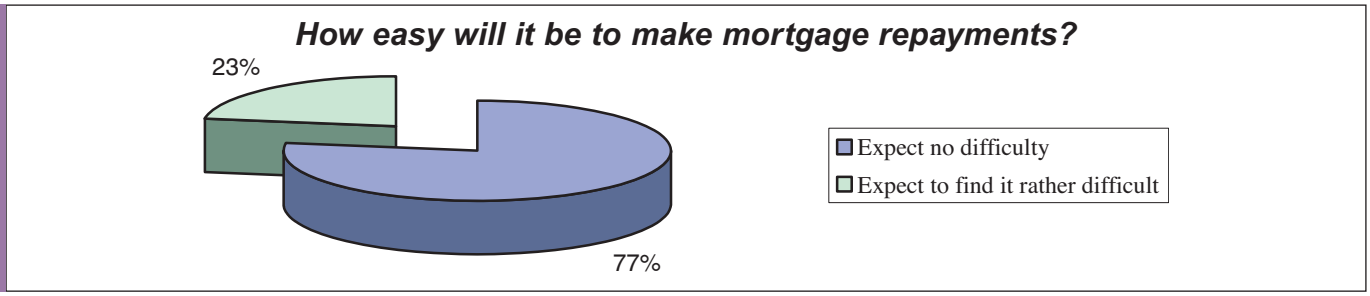
Overall, majority of new MHO and Tower clients are paying between 20% and 40% of their gross household income in housing costs. This equates to roughly 26% to 51% of their net income (or slightly less for dual income households). These costs are, however, not subject to as much risk as private sector buyers encounter as only the mortgaged element is subject to the risk associated with interest rate rises. The rent rises are likely to be steadier. Those on the lower incomes (under £25,000) were on average paying a higher proportion of their income in housing costs than those on the higher incomes. 97% of households with incomes under £25,000 were paying over 30% of their income and 37% were paying between 40% and 60%. These are, however, more likely to be smaller households, so they may have less other demands on their income. On average, households buying a lower proportion of their property had higher total housing outgoings as a proportion of their income. This is related to the smaller shares they had purchased, and hence higher levels of rent payable.

Those that had entered shared ownership 3 to 4 years ago were still experiencing similar housing costs. The average household had increased their earnings from £27,000 to around £31,000, and were now paying a monthly mortgage repayment of £421, rent of £320 and a service charge of £49. This means that they too are paying on average around 30% of their gross income in housing costs.

As discussed in the literature review, spending up to 30% of income on housing costs is generally considered affordable. This analysis also suggests that most MHO and Tower shared ownership clients are paying about as much as they could generally be expected to afford in housing costs, and would be putting themselves at risk of encountering difficulties if they were to substantially increase their costs in any way (for instance, by taking out a larger mortgage in order to afford a more expensive property). This is especially true of those in the lower income groups.

It is clear however, that the majority of new MHO and Tower shared ownership clients feel that their costs are manageable, although any substantial increases would not be:

Figure 6.6: How easy do you think you will find it to keep up with your mortgage repayments? (0-12 month survey) (10)



(10) The option of "Expect to find it very difficult" was also offered but not chosen by any respondents.

Figure 6.7: How easily would you be able to meet your mortgage repayments if interest rates rose, so as to add £100 a month onto your repayments? (0-12 month survey)

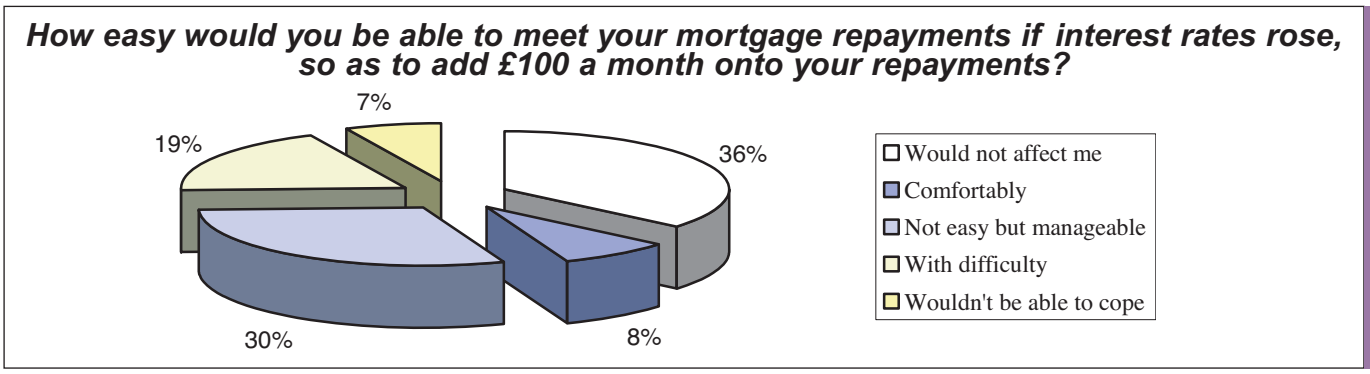
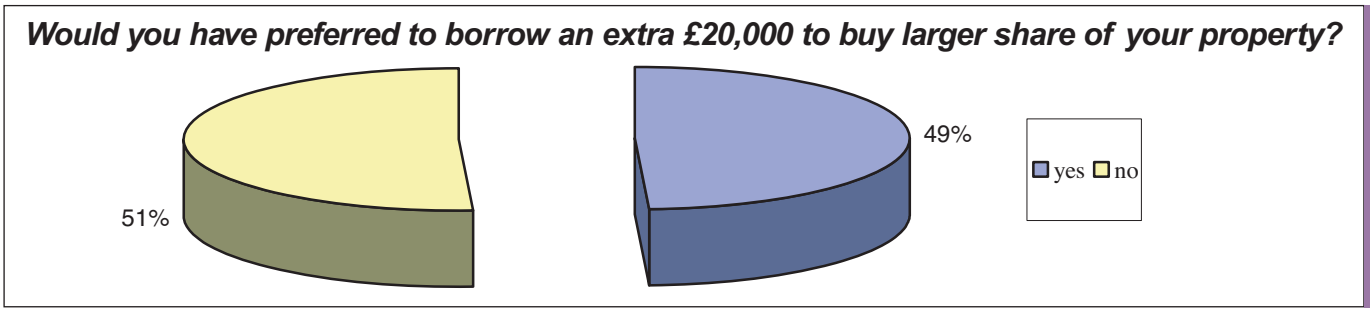
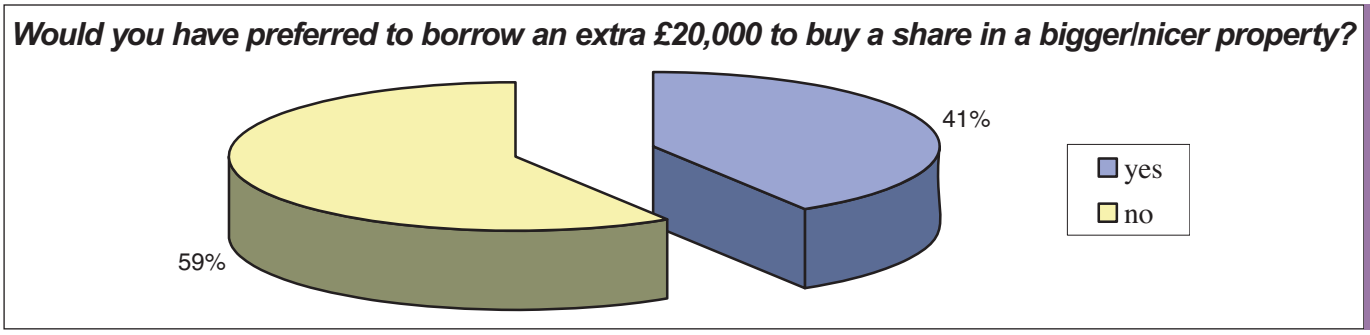


Figure 6.8: Would you have preferred to borrow an extra £20,000 in order to buy a larger share of your property? (0-12 month survey)



Those who said they would have preferred a larger share generally felt that this would be a better investment, especially as it would reduce the rental costs. Some were considering staircasing up to increase their share in the near future. Those who indicated that they would not have wanted to borrow more generally felt that this would not be affordable.

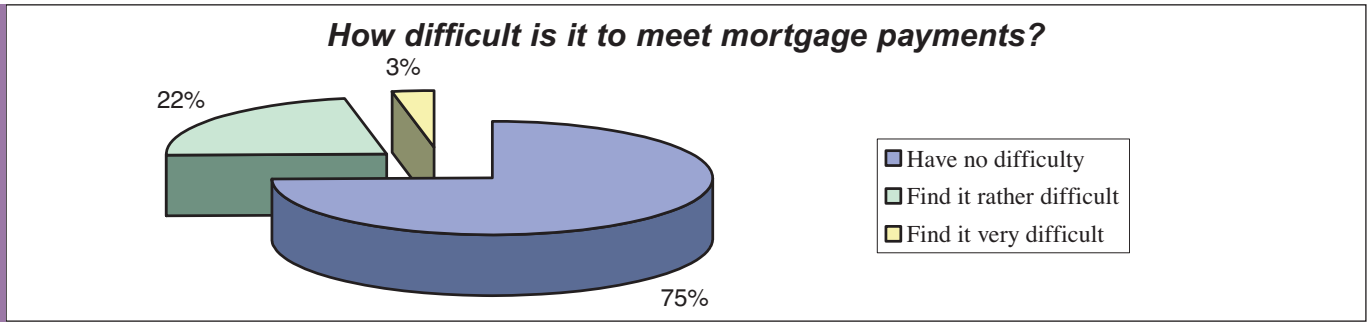
Figure 6.9: Would you have preferred to borrow an extra £20,000 in order to buy a share in a bigger or nicer property? (0-12 month survey)



Answers to this question related more to the household's needs and aspirations in terms of property size (rather than the investment value of shared ownership). Many who answered no stated that they had no need for a bigger or nicer property, and that they were very happy with what they had. Those that did answer yes were often looking to the future with the possibility of a growing family and saw a need for extra space or a garden. Households with three or more people in them were much more likely to state that they would have preferred a share in a larger property than were one or two person households.

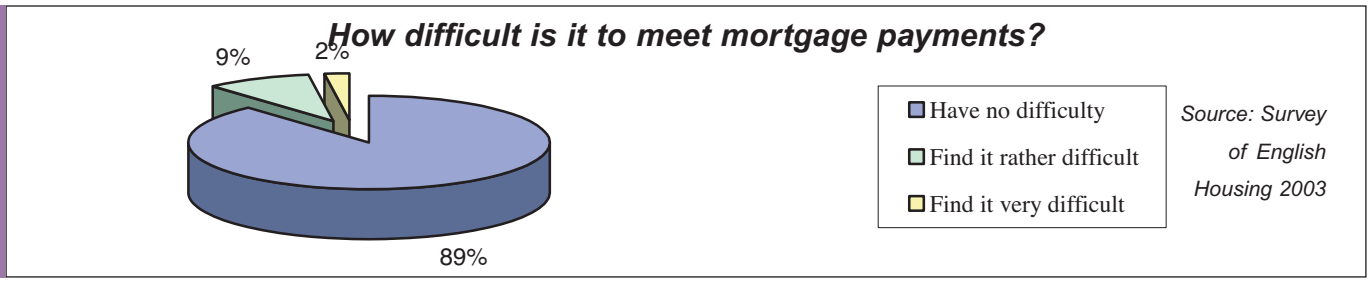
Households who moved into shared ownership 3-4 years ago were asked similar questions:

Figure 6.10: How difficult do you find it to meet your mortgage repayments? (3-4 year survey)



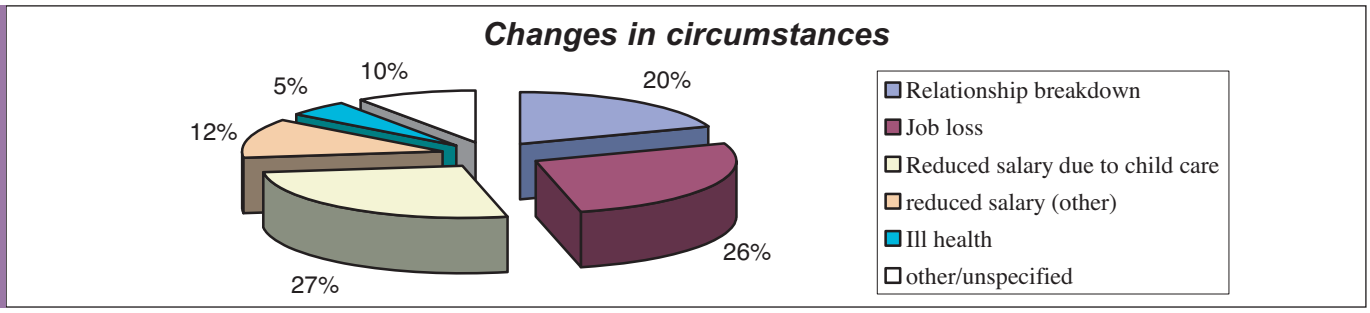
Despite higher average housing costs as a proportion of income, these numbers finding it very difficult are similar to private sector first time buyers:

Figure 6.11: How difficult do you find it to meet your mortgage repayments? (Private sector first time buyers, purchasing 2-5 years ago)



It was also clear that the majority of cases where the household was having difficulty repaying were cases where they had suffered a change of circumstance making it harder for them to meet their repayments. 48% of those who said they were having some difficulties making repayments had suffered a change in circumstance, including 100% of those who were finding it very difficult, compared to just 18% of those who had no difficulties making payments. Overall, 25% of households had suffered changes, which included loss of earnings, separation from a partner and illnesses.

Figure 6.12: Reasons given for changes in circumstance making it harder for households to pay their mortgages

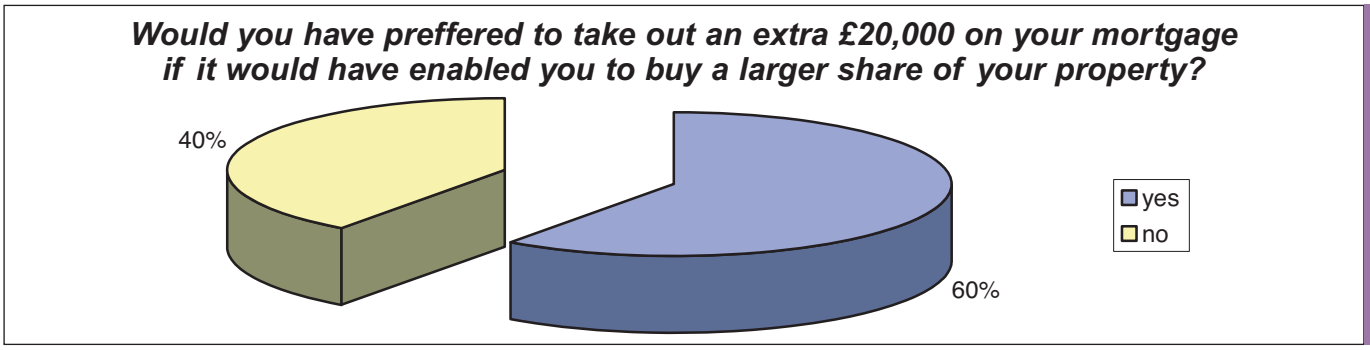


This suggests that a large proportion of repayment difficulties are caused by changes in circumstance, rather than by households over-stretching themselves at the outset. Finding it difficult to afford mortgage repayments did not appear to be statistically related to household income on application, or to the proportion of income initially required to pay housing costs. It was, however, strongly correlated with *current* income, which again suggests that it is changes in circumstances that cause most problems.

It is also apparent from figure 6.12 that mortgage payment protection insurance would offer only a limited protection against such difficulties, as the majority of cases would fall outside of the policy's remit.
Despite some reported difficulties, MHO and Tower shared ownership clients are overwhelmingly managing to meet their housing costs. Over 99% of respondents to this survey reported that they were currently up to date with mortgage repayments. Although staircasing down was an option available for those in severe difficulties it is not often used, suggesting that it is a last resort, and that most households do manage to meet their housing costs.

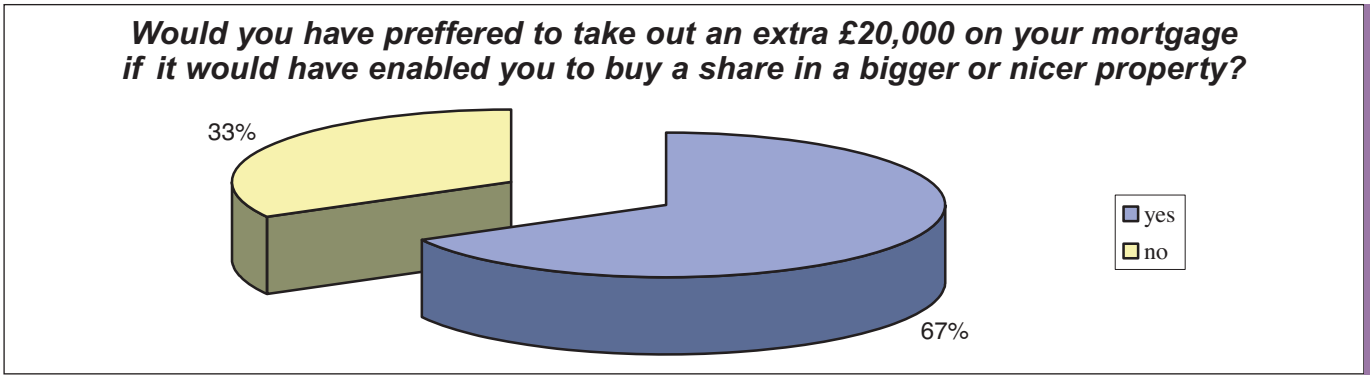
Those who bought their properties in 2001/2 had in most cases seen their property's value increase substantially over the last 3 to 4 years and in many cases thought, with hindsight that buying a larger share would have been a better investment.

Figure 6.13: Would you have preferred to take out an extra £20,000 on your mortgage if it would have enabled you to buy a larger share of your property? (3-4 year survey)



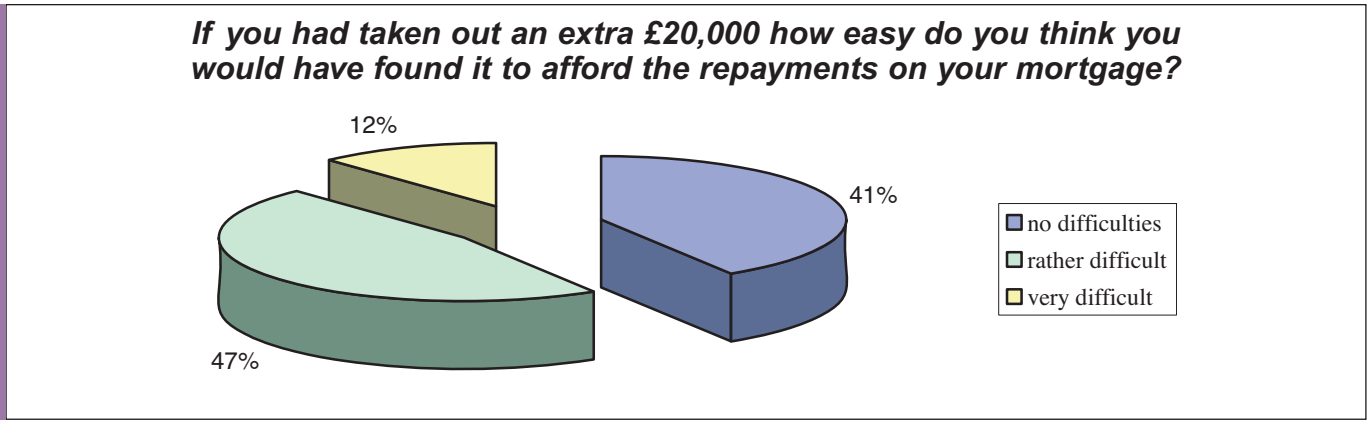
9% of respondents had increased their share during the last 3 to 4 years by taking advantage of the opportunity to staircase up and in some cases they now owned 100% of their property.

Figure 6.14: Would you have preferred to take out an extra £20,000 on your mortgage if it would have enabled you to buy a share in a bigger or nicer property? (3-4 year survey)



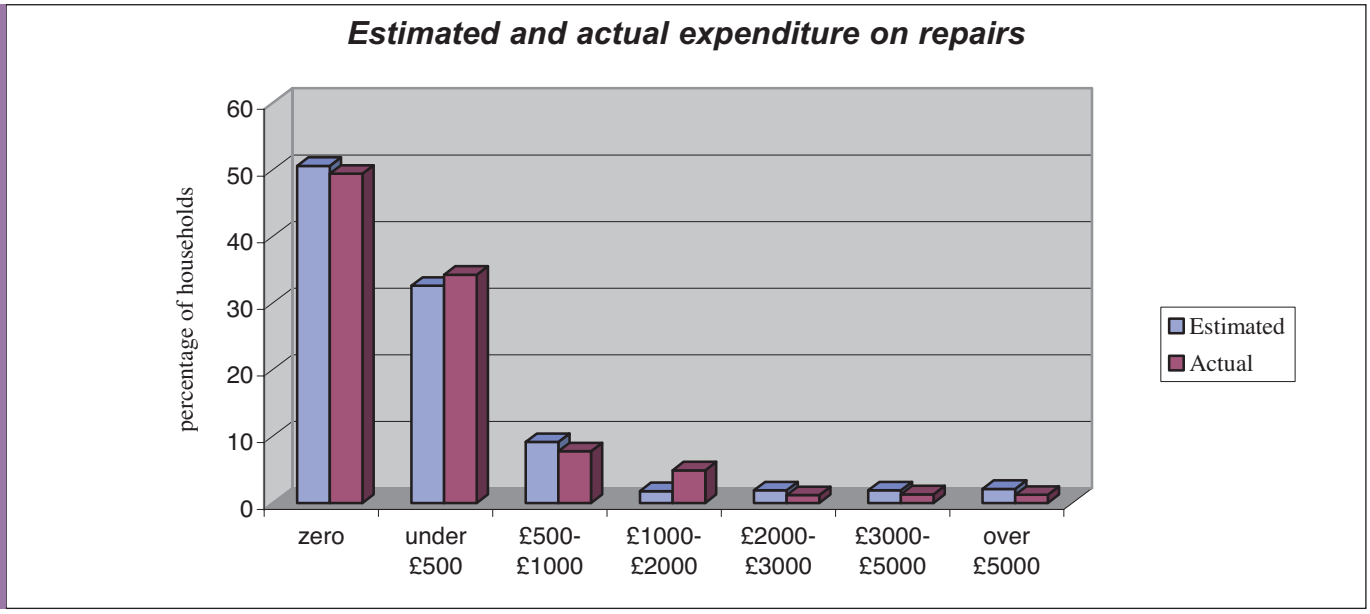
The majority, however, realised that to have increased their borrowing in this fashion would have caused them difficulties in affording the repayments.

Figure 6.15: If you had taken out an extra £20,000 how easily do you think you would have found it to afford the repayments on your mortgage?



New shared ownership households were also asked about how much they expected to spend on repairs over the course of the next year. Those that had moved in 3 to 4 years ago were asked how much they actually had spent. Both estimates and actual expenditure varied considerably with around 50% spending nothing but the rest spending anything between £30 and £10,000.

Figure 6.16: How much do you anticipate you will spend on repairs over the next 12 months? (0-12 months survey)/How much have you spent on repairs over the last 12 months? (3-4 years survey)



Overall, estimates of expenditure were very similar to actual patterns of expenditure, which suggests that most households entering shared ownership had a reasonable idea what to expect. MHO and Tower Homes offer advice on these issues and that may have helped households with their financial planning.

Views on the affordability of their housing varied considerably between people interviewed. Incomes, property values, and percentage shares bought all varied, as did the rent and service charges paid. Previous housing costs were also an extremely important factor in determining how affordable shared ownership appeared. Those who had been renting self-contained housing in the private sector (mainly families) had generally been paying the most and were now appreciative of the lower costs of housing:

This property is much better than the one we were renting. We have a better standard of living. The mortgage, rent and service charge combined are still less than the rent we were paying on the last place.

Living in shared ownership has enabled me to save money towards a deposit on a property on the open market as it is cheaper than renting a flat of the same size in the area I live.

Others had moved from shared housing where housing costs were often similar, but still considered that their current housing was affordable and also offered them a better quality of life and was a better investment than they had had before:

I lived in the private rented sector prior to moving and outgoings there on rent were similar to overall costs paid now for mortgage, but without the security and satisfaction of having your own home.

I have little money left over every month but it is worth it as I have my own house rather than paying rent on a property I do not own

Some of this client group however, were struggling to afford home-ownership, and even with shared ownership found it hard to meet their housing costs:

I am single and a freelancer and all the costs are my responsibility. This creates quite a strain and even though I've managed to be in work more than I'm not, but I've had a few periods that have negatively affected my finances.

I do find it quite tight to afford it. I'm paying considerably more than I was in the shared rented housing. Every month I find it tight, but I think as long as I keep my job, I will manage. I don't think I'd predicted quite how tight it would be. Maybe I'd been under an illusion that things were cheaper than they are.

Some people who had previously lived in shared housing or with families found that other costs related to having their own place (such as council tax and bills) were more than they had realised.

There was also a view expressed by many (with hindsight) that full owner-occupation would be a more affordable option in the long term and a better investment:

We are paying more in rent than on the mortgage, which seems a bit silly so we are hoping to buy more of the property this year. At the time we bought the financial adviser suggested getting 25%, it was frustrating not being able to buy more then but we couldn't really afford it. He said it was better to ease people into it as well, so we followed his advice. Also there is a strict 2.5 times salary limit on the mortgage (imposed by the HA) so we could not have bought a bigger share.

These views had of course been expressed by a cohort of households who entered shared ownership during a period of rapid growth in the housing market. Their properties have mostly increased substantially in value over this period and consequently shared ownership compares vary favourably with private renting, but somewhat less favourably with full owner-occupation which they now know might have been worth the extra strain on their finances in return for the substantial gains in equity. Those entering shared ownership today, may not feel quite the same in the future as the housing market may perform differently over the coming years.

Many in this research nevertheless appreciated shared ownership as route into full owner occupation, or as a more affordable option in the long term than renting a comparable property privately:

> *It's not amazingly affordable. With the rent and the mortgage I'm paying about the same as I would be if I had a mortgage for the whole thing. The difference is that I wouldn't have been allowed that size of mortgage so it has allowed me to get onto the property ladder.*
>
> *This has provided us security, a foothold on property ladder and taken away spectre of having to move out due to landlords, etc.*
>
> *I find it a lot easier now than I did at first to afford it. My salary has gone up. The rent and service charges have gone up too, but not by too much.*

— 7. Conclusions: The long-term sustainability — of MHO and Tower's shared ownership schemes

Shared ownership can be considered sustainable if it is affordable to its client group, and if households moving in are able to move out as and when they need to either into other shared ownership properties, outright owner-occupation or (more rarely) other tenures.

Households interviewed generally aspired to full owner-occupation. The majority thought that they would eventually achieve this, although many felt that this would not be for many years:

> *I bought 50% and plan to buy out the rest as soon as I can but definitely within five years. I'll then rent the place out privately and move somewhere else myself.*
>
> *I am hoping to purchase the other 50% within 5 years. And maybe sell and move on another 5 years after that. I am happy here for now.*

Families were especially likely to say that full owner occupation would not be an option for the foreseeable future, although it remained their ultimate aim:

> *I consider it our house, and I think I still have the idea that we will eventually own it all. Although in reality now that we have kids and childcare costs, I don't actually know how that will happen - maybe in six years time when they are both at school.*

Only a small minority felt that full owner occupation would never be an option generally due to house prices. For most, it remained their long-term aspiration, but they viewed shared ownership as a desirable secure tenure in the short to medium term and as an option more affordable than private rented housing.

In conclusion, this report has found that MHO and Tower's shared ownership are providing a secure and sustainable form of housing for many households. Most households are paying a higher proportion of the their income on housing than private sector first time buyers, but this is related to their lower incomes and available deposits. Households do appear to be able to afford these housing costs and this research suggests that the limits on borrowing imposed by MHO and Tower Homes are currently successful in delivering sustainable levels of repayments.

Shared ownership households are generally paying less than those renting or purchasing comparable accommodation in the private sector, so shared ownership is providing a more affordable tenure than either of these, whilst at the same time allowing households to gain a stake in the housing market. Some of them will be able to use this in order to progress into full owner-occupation in the near future. For other households shared ownership may be a long-term tenure, offering the security of the social sector, but with the sense of ownership only otherwise found amongst owner-occupiers.

Households are generally pleased with the service that MHO and Tower offer to them. They are also pleased with the tenure and in most cases would have been unable to enter owner-occupation without it. Those that would have been able to would generally have had to live in a smaller (and in many cases overcrowded) property, or move a long way from their work and community in order to afford housing.

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