

# Shared Ownership Review 2013 Final Report

## **1.0 PURPOSE OF THE REPORT**

To outline the findings of a review of the Council's shared ownership scheme and make recommendations as to the way forward.

## **2.0 SUMMARY & RECOMMENDATIONS**

### **2.1 Summary**

2.1.1 Whilst there are issues with the Council's existing shared ownership scheme, it continues to offer value for money to both the Council and its shared ownership leaseholders. It helps to ensure that a range of housing options are available, particularly supporting the growing number of people who are unable to access social housing but cannot afford to purchase on the open market.

2.1.2 The Council's Affordable Housing Development Programme offers opportunities to increase access to intermediate tenure housing, and to help to ensure mixed and balanced communities.

2.1.3 The current scheme should continue – with some changes as outlined below, and should be extended to properties on new Council developments.

### **2.2 Recommendations**

2.2.1 That the Council continues to provide a shared ownership scheme.

2.2.2 That officers are granted delegated authority to develop a business case for each property which comes up for resale, and to assess – according to a set of agreed criteria - whether to:

- Buy back and sell a share to another applicant, or
- Buy back to use as rented stock, or
- Buy back and sell the whole property on the open market, or
- Advise the seller to sell their share on the open market.

2.2.3 That the criteria to take into account in the decision on what to do with an individual property under paragraph 2.2 above should be as follows:

- The costs to the Council of each of the options, the funding available, and the potential impact on the Business Plan;
- Whether there is an identified alternative need for that property to be used for rent which should take priority over re-selling as shared ownership. Eg: a property which is disabled adapted or particularly suitable to be adapted to meet the needs of an identified housing applicant; one which would suit the needs of a leaseholder needing to move as part of the Council's Affordable Housing development programme; etc.
- Rental and shared ownership demand for that particular type or size of property;
- The condition of the property;
- Whether the property is in a specific location that could free up land or access to land, or otherwise facilitate affordable housing development;
- The anticipated capital receipt (subject to pooling requirements);
- Housing market conditions at the time, including mortgage availability;
- Any planning restrictions which may apply (eg s106 restrictions around disposal on the open market);
- Any other factors which need to be taken into account to ensure that the best use is made of the property, and where value for money can be clearly demonstrated.

2.2.4 That shared ownership homes are provided on the Council's new developments where appropriate – eg at Clay Farm and on other new Affordable Housing Development Programme sites - to cross-subsidise rental build and help create balanced communities, in

line with the requirements of the Council's Local Plan and Affordable Housing Supplementary Planning Document.

2.2.5 That the current policy which seeks to ensure that housing is made available at a price which could be afforded by a household with '1 average earner (for 1 bedroom accommodation) or 1.5 average earners for larger properties, using standard income multiples be removed.

2.2.6 That the policy at paragraph 2.2.5 above be replaced with one which states that the Council seeks to ensure that an alternative form of housing is available as an option to those who would not normally be eligible for social housing, but who are unable to afford to purchase on the open market.

2.2.7 That new eligibility criteria are introduced for applying for shared ownership housing as follows:

- Applicants must have a gross household income of up to £60,000 (subject to any future change in the national income requirement for intermediate tenure housing);
- Applicants must be first time buyers, other than in exceptional circumstances. Exceptional circumstances may include: in relationship breakdown where children are involved; where an owner-occupier needs significant disabled adaptations which cannot be provided in their own home and they cannot afford to purchase a more suitable home; or existing shared owners who have medical needs which require them to move to a more suitable property.

2.2.8 That new criteria be introduced to decide the priority between more than one applicant for a particular property. Criteria should be ranked in the following order:

- Applicants who have the resources to go ahead with a purchase;
- Applicants who live or work within the City;
- Level of need, assessed in line with the Council's Lettings policy in place at the time;

- Date of registration on the Help to Buy register.
- 2.2.9 That applicants should not be able to purchase if they owe any housing-related debt to the Council where reasonable steps have not been taken to repay it.
- 2.2.10 That applicants should not be able to purchase if they have a history of unacceptable behaviour which would make them ineligible to be accepted onto the Home-Link register.
- 2.2.11 That staircasing be promoted where it makes business sense to do so (subject to pooling requirements).
- 2.2.12 That if buying a property back to sell it on, consideration is given to restarting the lease at 99/125 years if not doing so may make it difficult for the purchaser to re-mortgage at a later date.
- 2.2.13 To agree the option of using individual HRA rented properties for shared ownership in appropriate circumstances.
- 2.2.14 That if a rented property is converted to shared ownership, an appropriate alternative shared ownership property is converted to rent as soon as is reasonably practicable, to ensure that the number of rented properties is not reduced as a result.
- 2.2.15 That leases are reviewed for new leaseholders in conjunction with drafting of leases for newly developed shared ownership properties
- 2.2.16 That the marketing of shared ownership properties be improved
- 2.2.17 That information provided to leaseholders about their and the Council's rights and responsibilities be improved.
- 2.2.18 That equity share is not pursued at this stage, as an alternative option to shared ownership (as capital outlay is high,

and returns are much longer term and rely on values continuing to rise), other than for leaseholders on redevelopment sites.

2.2.19 That the revised scheme be reviewed in around three years' time to establish the impact of changes, and assess whether further changes are required in light of any further development in national thinking.

### **3.0 INTRODUCTION**

3.1 The Council is a direct provider of shared ownership housing. A review has been carried out of the Council's scheme in the context of Housing Revenue Account (HRA) self-financing, to assess whether continuing to provide this form of intermediate tenure housing should remain part of the Council's core business.

3.2 The review took place during 2013, and included assessments of the following:

- How the service fits strategically with the Council's objectives;
- The national and local market for shared ownership housing, and mortgage availability;
- The current stock;
- Current shared ownership policy;
- Sales and staircasing activity;
- The profile of Help to Buy<sup>1</sup> and Home-Link applicants;
- Discussions with other Housing Association and Local Authority providers;
- A survey of shared owners. This achieved around a 33% response rate, with respondents being generally positive about the scheme;
- A survey of applicants who had expressed an interest in shared ownership through Home-Link. The response to this was much lower, but the few received indicated that Home-Link applicants need to know more about shared ownership and how to apply for it;
- Financial issues affecting the existing stock;

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<sup>1</sup> The Help to Buy register (formerly known as Homebuy) provides a one-stop-shop for applying for intermediate housing, including shared ownership. The Help to Buy Agent for this area is currently Orbit. <http://orbithelptobuy.co.uk/main.cfm>

- Financial modelling and assessment of affordability in relation to the potential provision of new shared ownership through the Council's Affordable Housing Development Programme.

3.3 The need for a review was highlighted in the Council's Housing Strategy, and is an action in the HRA improvement plan.

## **4.0 THE MARKET FOR SHARED OWNERSHIP**

4.1 The local market for shared ownership appears to be strong. It was affected by the economic downturn and shortage of mortgage finance, but Housing Associations operating locally report high demand in Cambridge compared to many other areas, both for new and resale properties. For example, some new properties on the southern fringe are reported to be selling off-plan.

4.2 At April 2012, of the 1,095 Homebuy (now Help to Buy) register applicants for intermediate tenures living or working in the sub-region, 34% were living in the City and 39% worked in the City. 70 sales were recorded in the City in the three years 2009/10 to 2011/12.

4.3 National research<sup>2</sup> and data from the Cambridge sub-Regional Strategic Housing Market Assessment (SHMA)<sup>3</sup> shows that there is a strong market for shared ownership resales. Around 40% of sales of shared ownership properties sold through the Help to Buy Agent in Cambridge between 2009/10 and 2011/12 were resales.

4.4 Recent reports from the National Housing Federation (NHF)<sup>4</sup> and Shelter<sup>5</sup> recognised the importance of shared ownership as a housing option, and that the importance is likely to grow.

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<sup>2</sup> CCHPR – Understanding the second-hand market for shared ownership properties, May 2012: <http://www.cchpr.landecon.cam.ac.uk/Downloads/Shared%20ownership%20second%20hand%20market%20-%20proofed%20final%20for%20publication.pdf>

<sup>3</sup> Cambridge sub-regional SHMA: <http://www.cambridgeshireinsight.org.uk/housing/shma>

<sup>4</sup> NHF & Moat – The role of shared ownership in the future housing market, 2010: [http://www.shared-owner.co.uk/\\_media/static/The\\_role\\_of\\_shared\\_ownership\\_in\\_the\\_fuure\\_housing\\_market\\_-\\_discussion\\_paper\\_summary.pdf](http://www.shared-owner.co.uk/_media/static/The_role_of_shared_ownership_in_the_fuure_housing_market_-_discussion_paper_summary.pdf)

4.5 Only a limited number of mortgage lenders will lend on shared ownership properties. (NHF reports that there are around twenty national and local lenders willing to lend). However, responses to our survey show that whilst around one third reported difficulties finding a lender, only one said that they had been unable to secure a mortgage at a competitive rate.

## **5.0 THE COUNCIL'S SHARED OWNERSHIP SCHEME**

### **5.1 Background**

5.1.1 Shared ownership is a form of intermediate affordable housing tenure.

5.1.2 The Council currently has 85 properties which it leases on a shared ownership basis. The leaseholder buys a share of the property (usually 50%), and the Council retains the remaining share. The leaseholder pays rent on the Council's share.

5.1.3 Leaseholders have the option to 'staircase' upwards – ie to purchase further shares. They can potentially staircase out completely, by purchasing all remaining shares and becoming the outright owner.

### **5.2 Strategic Fit**

5.2.1. The service helps to meet the Council's vision of Cambridge as a city which recognises and meets the need for housing of all kinds.

5.2.2 Consultation on the Council's Housing Strategy highlighted that there is a growing group of people who would not have any priority for social housing, but who are also unable to afford to purchase on the open market. Shared ownership provides an alternative housing option for some people in this group.

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<sup>5</sup> Shelter – Homes for forgotten families, August 2012:  
[http://england.shelter.org.uk/\\_\\_data/assets/pdf\\_file/0014/702023/Shelter\\_-\\_Homes\\_for\\_forgotten\\_families.pdf](http://england.shelter.org.uk/__data/assets/pdf_file/0014/702023/Shelter_-_Homes_for_forgotten_families.pdf)

### **5.3 Who the Scheme is Aimed At**

5.3.1 The Council's current policy is to seek to ensure that housing is made available at a price which could be afforded by a household with '1 average earner (for 1 bedroom accommodation) or 1.5 average earners for larger properties, using standard income multiples'. This is quite complex, and is not particularly clear. It was agreed when property prices were lower, and more people were able to access market housing. It is also difficult to implement where property prices are increasing, and in the context of managing a self-financing HRA. It is recommended that this policy is removed.

5.3.2 In the current climate the Council should seek to ensure that an alternative form of settled housing is available as an option to those who would not normally be eligible for social housing, but who are unable to afford to purchase on the open market

### **5.4 Property Profile**

5.4.1 Of the Council's 85 properties most were purpose-built within the five-year period 1987 to 1992.

5.4.2 Just over half are one bedroom houses and flats, and around a third are two bed houses. Seven are three-bedroom houses. Some of the one bedroom properties are quite small – data suggests that around a quarter of properties may be under 47m<sup>2</sup>, which is below the minimum standard required for grant.

5.4.3 Properties were originally leased on 99 or 125 year leases. More than half the properties now have less than 75 years remaining on the lease. Shorter lease lengths affect the value of the property and the willingness of mortgage lenders to lend where a leaseholder wishes to remortgage. There is no provision in the current leases for leaseholders to extend the length of their leases.

### **5.5 Property Condition**

5.5.1 Leaseholders are responsible for repairs. The condition of each property is not known by the Council until or unless the leaseholder wishes to surrender the lease and the Council decides to repurchase,



when an inspection is carried out. Conditions of inspected properties can vary.

5.5.2 Although leaseholders may potentially be deterred from carrying out improvements for which they won't recoup the full value on resale, just under half of respondents to our survey said that they had carried out improvements since they moved in, including replacement kitchens, bathrooms and new doors or windows. Most said their property was in good or average condition when they moved in. However, as some of those respondents have been leaseholders for a long time it is not clear what the current condition is of the stock overall.

## **5.6 Shares Owned, and Staircasing**

5.6.1 Nearly three-quarters of existing leaseholders own shares of between 50% & 60%. Five own less than 50% (the lowest share being 35%) and another five own over 80%.

5.6.2 Leaseholders have the option to 'staircase' upwards – ie buy further shares, or to purchase 100% of the property and become the full owner.

5.6.3 Just over a third of the Council's original shared ownership stock has been purchased outright. Since 2005/6, fifteen leaseholders have staircased out completely, but only one has purchased a larger share without staircasing out.

5.6.4 Whilst in the early days of shared ownership it was expected that most people would want to eventually staircase out, national research shows that this often doesn't happen, and that for many shared ownership has become a long-term tenure option.<sup>6</sup> In our leaseholder survey, the main reasons given for not purchasing more shares was the cost of doing so, and half of all respondents said they were happy with their current share.

5.6.5 Costs to the leaseholder include that of getting a valuation as well as capital and/or remortgaging costs. There may also be difficulties in re-mortgaging if the length of lease is less than 69 years (although the

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<sup>6</sup> Shelter – Homes for forgotten families, August 2012:  
[http://england.shelter.org.uk/\\_data/assets/pdf\\_file/0014/702023/Shelter\\_-\\_Homes\\_for\\_forgotten\\_families.pdf](http://england.shelter.org.uk/_data/assets/pdf_file/0014/702023/Shelter_-_Homes_for_forgotten_families.pdf)

Council does now enter into a 'section 442 agreement' with the leaseholder and lender, which gives lenders some protection)<sup>7</sup>.

5.6.6 Consideration needs to be given to reverting older leases back to 99 or 125 years at the point of resale where appropriate. Whilst this may increase the cost of individual properties, it may help with staircasing in the longer term.

5.6.7 Staircasing can benefit the Council where receipts can be retained and be reused. It can also benefit leaseholders; around half of respondents to our survey said they were considering or planning a move, but cost was cited as a barrier. Using financial capacity created by reduced mortgage costs over time to staircase upwards could help some people to afford to move on at a later date.

5.6.8 At the same time it needs to be recognised that staircasing will not be accessible to everyone, as it relies on incomes keeping pace with rises in valuations, or on access to capital.

5.6.9 We need to ensure that residents have enough information about staircasing to enable them to make informed choices within the resources available to them.

## **5.7 Resales**

5.7.1 When a leaseholder wants to dispose of their share of the property, the current policy is for the Council either to repurchase it to sell on as shared ownership – normally at a 50% share - or to instruct the leaseholder to sell their share on the open market.

5.7.2 There are advantages and disadvantages with both approaches. The Council repurchasing the property incurs a number of costs. (See paragraph 7.0 below) However, it does enable some control over who the property is sold to, ensuring that - as far as possible depending on demand - purchasers meet the Council's eligibility criteria. Although the cost to the Council of an open market sale is lower, properties may go to those who can already afford to purchase on the open market. Such sales may not make best use of existing homes – one of our strategic housing objectives.

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<sup>7</sup> S442, Housing Act 1985

5.7.3 The speed at which properties can be sold on where they have been repurchased by the Council varies enormously. The average void time over the past ten years is around twenty-eight weeks, with individual property void times ranging from eight to eighty-eight weeks.

Potential reasons include:

- Older properties competing with newer Housing Association properties which may be offered with additional extras such as carpets, white goods etc;
- One-bedroom properties – shared ownership purchasers generally prefer to purchase one more bedroom than they need, although general sales for one-bed shared ownership properties in Cambridge are currently strong.
- Size – some of the Council’s one-bedroom houses may be considered too small by couples wishing to purchase
- Location of properties
- Length of lease remaining
- The state of the market at the time
- The form and extent of marketing used
- Purchasers maybe preferring to purchase from a Housing Association rather than the Council
- Etc

5.7.4 However, there does not appear to be any particular pattern to void times based on these factors, except that properties tended to sell more quickly between 2006 and 2008 (just prior to the start of the economic downturn). Three bedroom properties have taken longer, but data is only based on two sales so may not be an accurate reflection.

5.7.5 The average void rent loss over the last 10 years (based on 2013-14 rent levels and the shares owned by each seller) is around £960 per property. From April 2013 the HRA is liable for Council Tax on properties void for more than a month. If this liability had existed since 2003, the average payable would have been just over £400 per void.

5.7.6 Whilst important to keep the void costs to a minimum, these levels of cost are not enough to make the scheme unviable when taking into account rents received and capital appreciation over time.

## **5.8 Leases**

5.8.1 The current form of lease has been in place for some time, and needs some updating to make it more user-friendly. We also need to consider allowing leaseholders to apply to extend the length of their lease. It would be impractical to renew them for all leaseholders, but improvements should be made for new purchasers. These should be reviewed in conjunction with the development of leases for properties on new developments.

## **5.9 Applying for Shared Ownership**

5.9.1 Historically the Council maintained a register of shared ownership applicants, made up of housing register applicants who were interested in shared ownership.

5.9.2 The Council no longer keeps a register as it was becoming increasingly difficult to find applicants on the list who wanted or were able to purchase properties as they became available. Properties are now advertised through the local Help to Buy Agent – currently Orbit.

5.9.3 Home-Link Applicants who express an interest in shared ownership are sent, as part of a package of information based on their needs, a link to the Council's website which gives information on how to apply. None of the respondents to our Home-Link survey who were still interested in shared ownership had registered with the Help to Buy Agent, and some said they did not know they had to or how to go about it. We need to review the information provided to applicants to ensure that they can make an informed choice about shared ownership as an option, and know how to apply.

## **5.10 Applicant Eligibility and Priority**

5.10.1 Currently applicants must live or work within the City, and must be first time buyers (except in exceptional circumstances in relationship breakdown where children are involved and equity is available).

5.10.2 Now that the Council no longer maintains its own list, and no longer operates a points-based lettings scheme, eligibility needs to be re-considered.

5.10.3 Applicants for grant funded intermediate housing advertised through the Help to Buy Agent need to have a household income of £60,000 or less. Providers can also stipulate further requirements. It is recommended that the £60,000 household income limit be used for the Council's scheme, in line with national requirements.

5.10.4 Applicants should continue to be first time buyers except in exceptional circumstances. The exceptional circumstances should be extended to include:

- Relationship breakdown where children are involved and equity is available;
- Where an owner-occupier needs significant disabled adaptations which cannot be provided in their own home and they cannot afford to purchase a more suitable home on the open market;
- Existing shared owners who have medical needs which require them to move to a more suitable property.

5.10.5 Historically, where more than one applicant was interested in a particular property, a priority list of applicants was drawn up according to highest number of points held, household size, and length of time on the register. The Leasehold Manager made the decision as to who should be offered the property based on this information.

5.10.6 A clearer framework is required for assessing who should have priority if there is more than one applicant interested in a property.

5.10.7 Having a local connection through living or working in the City should not be an outright requirement, as this could restrict the number of applicants and take longer to sell properties on, but should be used to help prioritise one or more applicants for the same property.

5.10.8 Whilst most shared ownership applicants are likely to be eligible for C, D or D\* priority banding for social housing through Home-Link, it would maintain some consistency to refer to the Council's Lettings policy when prioritising applicants for the sale of a shared ownership property, taking into account their level of need followed by their date of registration on the Help to Buy register.

5.10.9 Applicants for each property should be ranked in the following order:

- Applicants who have the resources to go ahead with a purchase;
- Applicants who live or work within the City;
- Their level of need, assessed in line with the Council's Lettings policy;
- Their date of registration on the Help to Buy register.

5.10.10 Where priority cannot be assigned using these criteria, the Leasehold Manager should have the final say.

5.10.11 As with Home-Link applicants, shared ownership applicants should not be able to purchase if they owe any housing-related debt to the Council where reasonable steps have not been made to repay it. Neither should those with a history of unacceptable behaviour which would make them ineligible to be accepted onto the Home-Link register.

## **5.11 Profile of applicants**

5.11.1 Since Home-Link was introduced, applicants have been asked at point of application whether they would be interested in shared ownership as an option. 208 applicants had expressed an interest at July 2013, although some of those would not have had much information about what shared ownership involved so is not a truly reliable indicator.

5.11.2 Just over one third of of City resident Help to Buy (HTB) register applicants are one-person households, with a similar proportion being two-person households. Only 13% are households of four or more. The majority of HTB applicants are currently privately renting or living with family or friends.

5.11.3 Gross average income of City households applying through HTB is just under £30k, (around £7k less than the average for all households). This is well within the £60,000 limit required nationally for applicants for HTB products.

5.11.4 Savings levels vary amongst HTB applicants, although around half of those resident in the City are recorded as having no savings or less than £5,000. Around one third have savings of £10,000 or more.

5.11.5 Households applying for social housing through Home-Link tend to be on lower incomes. For example, 94% of Home-Link applicants expressing an interest earn less than £30k, compared to 56% of HTB

applicants. Home-Link applicants also tend to have less in savings – 95% of those interested in shared ownership said they had savings of £0-£10,000.

5.11.6 Just under half of respondents to our survey of Home-Link applicants who had expressed an interest in shared ownership said they were still considering shared ownership as an option. Reasons for not considering it included difficulty in getting a mortgage, and cost.

5.11.7 This suggests that Home-Link applicants do not form the main market for shared ownership properties. Indeed in 2010 only 8% of HTB applicants resident in Cambridge said that they were also on the local housing needs register.

## **5.12 Marketing of Properties**

5.12.1 The Council's properties are competing with newer properties provided by other Registered Providers, many of which are offering incentives such as carpets and white goods to purchasers.

5.12.2 Other providers also employ a range of marketing techniques to target purchasers, and the Council needs to review how properties are marketed to ensure that they can be sold on as swiftly as possible to those in the greatest need.

5.12.3 Officers from other local authorities providing shared ownership housing report that marketing is often under-resourced and they find it difficult to compete with other providers.

## **6.0 CURRENT COSTS AND INCOME**

### **6.1 Revenue Expenditure**

6.1.1 Revenue expenditure on the current service is made up of the following:

- Administration of the service, including that arising from sales, repurchases and staircasing;
- Marketing;
- Legal costs around repurchases and sales;

- Estate management costs;
- Void rent loss and Council Tax liability where properties are repurchased;
- Overheads;
- Stamp duty on repurchases of higher value properties or those where the leaseholder is selling back a larger share.

6.1.2 It is difficult to separate out the revenue costs of the service completely accurately as costs for the service are not recorded separately. Costs also vary considerably from year to year depending on sales and staircasing activity, amount of management activity required, etc

## **6.2 Capital cost**

6.2.1 There is currently £300k allocated in the housing capital programme as a recyclable fund for repurchasing properties and selling them on.

## **6.3 Revenue Income**

6.3.1 The main income streams are:

- Rental income based on the share owned by the leaseholder (discounted to reflect the leaseholder's responsibility for repairs and improvements).
- Legal fees
- Service charges (on flats)

6.3.2 Rental income is more than sufficient to cover the costs of managing the shared ownership service, and there is no subsidy from rents on general needs housing. Because of this, and from the positive overall response from our leaseholder survey, the service is considered to represent good value for money for the Council.

## **6.4 Use of Capital Receipts**

6.4.1 Government guidance on how capital receipts from shared ownership sales can be used is not entirely clear. Based on current interpretation the Council is presently working on the assumption that:



- Any receipt for more than a 50% share of a dwelling is subject to HRA pooling for the first ten combined Right to Buy and Shared Ownership sales in each financial year. ie 75% of the receipt from those sales is required to be pooled. The unpooled balance is split between the allowable debt and the one-for-one retained receipt.
- If a receipt is in relation to staircasing and takes the proportion of the dwelling sold to the leaseholder to more 50% within two years of the date of the original share sale, then similar pooling requirements apply.
- Any receipts for less than 50% of a dwelling, and receipts from any further sales over and above the ten allowed in each financial year can be retained by the Council and re-invested in new affordable housing.

6.4.2 We are seeking updated clarification on this. How receipts can be treated – and any change in the advice given - will need to be taken into account in the business decision made on each available property.

## **7.0 COST AND VALUE TO LEASEHOLDERS**

### **7.1 Cost to leaseholders**

7.1.1 The costs incurred by leaseholders include:

- Purchase cost and any mortgage interest;
- Rent and any service charges;
- Valuation costs and legal fees around purchase, staircasing, lease surrender etc;
- Resale costs if selling on the open market;
- Cost of maintenance and any home improvements.

### **7.2 Value to leaseholders**

7.2.1 Our survey asked leaseholders whether they considered their property had been good value for money. Only two said that it had not. A number of positive comments were made about the scheme being beneficial.

7.2.2 However, there were some additional concerns raised in the survey. These included:

- Dissatisfaction that leaseholders are responsible for repairs and improvements;
- More information should be provided to leaseholders about the scheme;
- One expressed concern about shared ownership properties being bought and let out (although it is not clear whether this refers to properties which have been purchased outright);
- Wanting to be able to move when older and no longer able to manage stairs.

## **8.0 PROPOSALS GOING FORWARD**

### **8.1 Business decision on each property becoming available**

8.1.1 As properties become available the Council will generally repurchase them and sell them on on a shared ownership basis, or instruct the leaseholder to sell on the open market, based on officer judgment.

8.1.2 As mentioned previously, selling on the open market may not be making the best use of that property. A business case should be drawn up for each property which becomes available, to decide the best course of action, depending on the circumstances which exist at the time.

8.1.3 The options available should be to:

- Buy the property back and sell to another applicant;
- Buy the property back to use as rented stock;
- Buy the property back and sell the whole property on the open market;
- Advise the seller to sell their share on the open market.

8.1.4 Criteria to be taken into account should include:

- The costs to the Council of each of the options, the funding available, and the potential impact on the Business Plan;
- Whether there is an identified alternative need for that property which should take priority over re-selling as shared ownership. Eg:

a property which is disabled adapted or particularly suitable to be adapted to meet the needs of an identified housing applicant; one which would suit the needs of a leaseholder needing to move as part of the Council's Affordable Housing development programme; etc;

- Rental and shared ownership demand for particular types or sizes of property;
- The condition of the property;
- A property in a specific location that could free up land or access to land, or otherwise facilitate affordable housing development;
- The anticipated capital receipt, subject to pooling requirements;
- Housing market conditions at the time, including mortgage availability;
- Any planning restrictions which may apply (eg s106 restrictions around disposal on the open market);
- Any other factors which need to be taken into account to ensure that the best use is made of the property and where value for money can be clearly demonstrated.

8.1.5 These proposed criteria are aligned, where appropriate, with those in the Council's HRA Acquisition and Disposal policy.

## **8.2 Using existing rented properties as shared ownership**

8.2.1 The Council should allow existing HRA rented properties to be used in some circumstances to enable more flexibility within both the shared ownership and rented stock.

8.2.2 There is significant demand for social housing for rent, with 4,242 applicants on the Council's housing register (Home-Link) at September 2013. Therefore use of rental stock as shared ownership should not lead directly to a reduction in the number of rented properties. However, there are a number of examples where use of existing stock could be beneficial:

- For disabled applicants or existing shared owners needing to move who need adaptations, but for whom no suitable alternative properties are available;
- For leaseholders needing to move for redevelopment through the Council's Affordable Housing Development Programme, who are unable to purchase on the open market;

- For older shared owners who are unable to access market housing but who need to move because their property is no longer suitable for their needs;
- Where the profile of the stock in an area needs to be rebalanced – eg to improve community sustainability or where there is a need for properties of a particular size or type;
- Etc.

8.2.3 This option is not likely to be used very often, but should be available as circumstances require.

8.2.4 Where a rented property is to be used as a shared ownership property, arrangements should be made for an appropriate replacement rental property to be provided from the shared ownership stock as soon as is reasonably practicable, so that the rented stock is not reduced as a direct result of this policy.

### **8.3 Shared Ownership for New Properties**

8.3.1 The Council has a programme of new and re-development of affordable homes on HRA land. Government grant has been secured for 146 properties to rent, and there will be an opportunity to bid for further grant in the 2015-18 bid round.

8.3.2 As well as development on smaller sites, there are plans for around one hundred new properties on housing-owned land at Clay Farm.

8.3.3 Modelling has been done on providing shared ownership at Clay Farm, based on a number of scenarios looking at different balances between rented and shared ownership properties, and different percentage shares sold.

8.3.4 Providing a percentage of shared ownership properties would help to subsidise the development of properties for rent, and should lead to a decrease in the time taken to repay the debt. It would meet the requirements of the Council's Affordable Housing SPD which requires a percentage of homes on new developments to be provided as intermediate tenure, and would play an important role in ensuring a mixed and sustainable community.

8.3.5 This does raise some issues in relation to affordability. As new properties these will inevitably be more expensive than most of our existing shared ownership stock. At current valuations and rent levels, smaller properties are expected to be affordable to those on average incomes (using one third of annual earnings being spent on household costs as a measure) provided purchasers are able to pay a reasonable deposit. However, larger properties are more likely to be only accessible to those on above average incomes but who are still unable to purchase on the open market. Future rises in interest rates will also influence who is able to afford shared ownership properties. Provision within new developments needs to be considered as part of a package which also includes ongoing provision of smaller and cheaper existing properties, to provide options to as wide a range of applicants as possible.

8.3.6 The details would need to continue to be developed as part of the planning for new development.

8.3.7 The Council should also consider providing some shared ownership properties in other new developments in certain circumstances where required to make the finances stack up and ensure mixed communities. These decisions will need to be made on a site by site basis, and subject to negotiation with the Homes and Communities Agency if grant is awarded.

8.3.8 Providing shared ownership in new developments would help to ensure an ongoing supply of this form of tenure as leaseholders staircase out of existing properties.

## **8.4 Information for Leaseholders**

8.4.1 The leaseholder survey identified the need for more information to be provided to shared owners on their rights and responsibilities, staircasing etc. It is recommended that a regular newsletter – maybe annually - be re-established to ensure that leaseholders are kept appropriately informed.

## **8.5 Applications and Eligibility for Shared Ownership**

8.5.1 Eligibility criteria should be amended (as detailed above) and prioritisation based on that used for allocating properties through Home-Link.

8.5.2 We need to improve the information available to Home-Link applicants who may be interested in shared ownership as an option.

## **8.6 Marketing**

8.6.1 A range of marketing methods needs to be employed to ensure that they reach as wide a market as possible and that they go to those most in need.

## **8.7 Shared Equity**

8.7.1 Consideration has been given to introducing a shared equity product, where a buyer would purchase a percentage share of the property, with the balance provided as an interest-free equity loan. On re-sale, the percentage share on which the loan was granted would be repaid, with the Council and the seller benefiting from any increase in the value of their respective shares. A form of this has already been used as an option for a leaseholder needing to move as part of the Council's development programme.

8.7.2 Whilst this might be expected to generate a profit for the Council (subject to house prices continuing to rise), with no rental income the returns are much longer term than for shared ownership, and the timing of repayments is unpredictable. Use of equity share at this stage, other than for one-off exceptional cases, is not likely to make a significant contribution to the current requirements of HRA business plan.

## **8.8 Repairs and Maintenance**

8.8.1 Although the cost of repairs and maintenance was raised in the leaseholder survey, the Council already offers a discounted rent to reflect that this is the leaseholders' responsibility. The Council taking on responsibility for repairs would lead to increased responsibility for the Council and an increase in weekly rent for the leaseholder. It is therefore not considered necessary to change the current arrangements.

## **9.0 COST OF IMPLEMENTING RECOMMENDATIONS**

### **9.1 Revenue Costs**

9.1.1 Revenue costs of developing and assessing the business case on each property, improved marketing, improved information to leaseholders, balancing of the shared ownership portfolio etc will be delivered using existing resources.

9.1.2 Revenue costs for new shared ownership homes will be factored into the financial modelling.

## **9.2 Capital Costs**

9.2.1 Additional capital would be required to enable properties to be bought back and retained as rental stock, and for any work required to bring them up to the Decent Homes standard.

9.2.2 A capital allocation of £200,000 per year has been incorporated for this purpose as part of the HRA budget setting report for 2014/15 onwards. It is proposed that this is combined with the budget for repurchasing properties under the Right of First Refusal, to allow for flexibility in expenditure. This should allow for up to two repurchases per year over the next five years – depending on property valuation and size of share being repurchased. This will be reconsidered in three years' time when the new arrangements are reviewed.

9.2.3 Government grant will be sought to support the cost of developing new shared ownership homes.

## **9.3 Generating Capital receipts**

9.3.1 It is hoped that promotion of staircasing will generate some additional capital receipts, although it is not possible to forecast the impact at this stage. Promotion activity will need to be kept under review.

## **10.0 ALTERNATIVE SHARED OWNERSHIP MODELS**

10.1 Shared ownership has its issues as a housing option. Even though it is cheaper than market purchase, increasing rent levels (and service charges), interest rates, repair costs, and increases in valuations where leaseholders wish to staircase will affect affordability over time. It tends

also to be less flexible for service users than some other forms of intermediate tenure, including being subject to eligibility criteria, restrictions on selling on the open market, not being allowed to sub-let, etc. It is therefore only going to be attractive to a limited market.

10.2 Providers have trialled different models over the years, including selling much smaller shares, rent-to-buy where tenants rent for a period whilst saving for a deposit, do-it-yourself shared ownership (DIYSO) where purchasers buy on the open market, etc. This Council investigated setting up a DIYSO scheme around ten years ago, but the costs – either of setting up and managing it internally, or procuring through another Registered Provider, were considered prohibitive.

10.3 These schemes have had mixed success, and the tension between viability and affordability tend to be key issues. There is no one tried and tested alternative to basic shared ownership.

10.4 However, with the current lack of housing supply, and high levels of buyer interest in the new national Help to Buy shared equity scheme, there have been calls for government to re-examine shared ownership as a model.<sup>8</sup> The Council needs to keep an eye on developments in this area, and take these into account in future reviews of the service.

## **11.0 CONCLUSIONS**

11.1 Whilst there are issues to be resolved, there would be no justification for terminating the existing scheme. Indeed the scheme is judged to represent value for both the Council and leaseholders, and provides an additional housing option for those unable to access social housing or shared ownership.

11.2 As house prices and private rent levels continue to increase, shared ownership is the only option available to many to enable them to access settled accommodation and to get onto the housing ladder.

11.3 Improvements to the existing scheme, and extension into new developments as required, will help to ensure that the needs of this growing group continue to be addressed.

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<sup>8</sup> Resolution Foundation – One Foot on the Ladder, November 2013:  
<http://www.resolutionfoundation.org/publications/one-foot-ladder-how-shared-ownership-can-bring-own/>



11.4 The recommendations in this report need to be viewed as a package to ensure an ongoing supply of shared ownership housing which supports the HRA Business Plan, and continues to provide value for money for leaseholders.

11.5 Revised arrangements need to be reviewed in around three years' time to assess ongoing suitability of the scheme.