findings

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The future of low-cost home-ownership

A Task Force set up by the Joseph Rowntree Foundation examined the future for publicly subsidised low-cost home-ownership projects. It drew on submissions to the Government's Housing Green Paper, reviewed available evidence and commentary from consumers, providers, planners, academics, local authorities, trade organisations and representatives of the DTLR and Housing Corporation. The exercise led to a report by Graham Martin which concluded that:

- There is substantial unmet demand for the various low-cost home-ownership products currently on offer.
- Strategic use of low-cost home-ownership initiatives can achieve wider benefits, in addition to increasing housing supply: they can help achieve more inclusive, mixed-income communities, contributing to economic and social stability in both high and low value areas.
- Local authority decision-makers often fail to take a strategic view when allocating capital resources for new housing provision, focusing narrowly on meeting urgent needs on a short-term basis that excludes a low-cost home-ownership dimension.
- Current low-cost home-ownership arrangements could be improved by more creative use of the 'Homebuy' model (using equity loans) and a standard lease for shared ownership.
- There is some evidence of poor performance by some providers of low-cost home-ownership and an inequitable range in the rents charged to shared owners (with some purchasers paying less than half the rent of others).
- Key recommendations include:

  DTLR should send a clear message to local authorities stressing their responsibilities for meeting the housing aspirations and needs of the wider community and drawing attention to the economic and social benefits of a housing strategy making full use of low-cost home-ownership;

  the Housing Corporation should ensure that all registered social landlords providing social housing always include some low-cost home-ownership; and that they meet clear and defined standards of management and competence for such schemes;

  DTLR and the Housing Corporation should jointly progress the improvements and developments identified for shared ownership and Homebuy, particularly to:
  - develop a standard modular lease for shared ownership;
  - extend the Homebuy scheme as an alternative to shared ownership for new build and regeneration schemes;
  - allow flexibility in the Homebuy Grant rate;
  - investigate the expansion of low-cost home-ownership opportunities through the development of the Homebuy arrangements to make use of interest-bearing equity loans or planning gains or contributions from employers.

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Demand and supply

Demand for low-cost home-ownership (LCHO) is very strong in high value areas. In Greater London in 2000/01, for example, over 41,000 eligible applications were received for such properties, despite registered social landlords (RSLs) adopting a narrow marketing approach to reduce demand to manageable proportions. (Only 1,300 new low-cost home-ownership homes were funded by the Housing Corporation for this region over the same period.)

House prices are rising in many areas and problems are growing for those on average incomes and below – including those working in the health service, teachers, transport workers and others required for the success of the local economy. Subsidies to selected purchasers will only displace problems if there is no corresponding increase in the supply of homes. Unless the supply of homes for low-cost home-ownership can be increased, the demand for social housing will grow markedly.

The wider significance of LCHO initiatives

Significant evidence now exists that housing large numbers of vulnerable or low-income households in the same estate generates additional problems of social deprivation and weakened social cohesion. Including home-ownership properties – and particularly low-cost home-ownership properties – as an integral part of social housing, can help achieve stable communities rather than 'welfare ghettos' which stigmatise their occupiers. The presence of owners, who are likely to be in full employment, provides role models, networking opportunities and community leadership. Secondary economic benefits include higher purchasing power for local shops and prevent the negative impact of 'credit red-lining' across a whole community.

A tool for urban renewal

Initiatives can also be used to attract grant to achieve renewal through conversion of derelict properties to residential use (as in Manchester and Liverpool) and to enable local key workers to live in the city centre in areas where there is polarisation between social housing tenants and those purchasing expensive central apartments.

Older people

For those older people who cannot afford suitable, manageable new homes with requisite amenities, low-cost home-ownership can inject the partial subsidy required. Older people who cannot raise the full cost of a retirement apartment can be helped through an LCHO scheme at far lower cost than through social housing, usually allowing the earlier release of a family-sized home onto the market. LCHO schemes can also help other specialised groups including some ethnic minority communities (particularly in the North West) where there is a strong preference to buy rather than rent.

The role for local authorities

Many local authorities see investment in housing as relating exclusively to those with a high priority on their waiting list. Concentrating exclusively on this group ignores the genuine needs of key workers and others in high demand areas, the crucial importance of achieving mixed communities in future social housing development, and the value-for-money from using LCHO products to help with urban renewal, the housing of older people and others with fewer assets.

The Task Force felt strongly that local authorities should take a broader, strategic view of how best housing subsidy can meet local needs – as, indeed, many do. The requirement is for local authorities to take a 'joined up', corporate, approach to housing, planning, economic and community development. Messages for the DTLR and the Housing Corporation are clearly pointing toward an approach that goes beyond single tenure social housing estates. This includes, for example, the DTLR's planning guidance, Housing Corporation guidance on sustainable social housing which promotes inclusion of low-cost home-ownership in schemes exceeding 25 properties, the recommendations in the Social Exclusion Unit's National Strategy for Neighbourhood Renewal, and requirements for local authorities to develop Community Strategies. But further information, advice and possibly financial incentives (for example, linking 'discretionary expenditure' funds to develop LCHO schemes), with clear Ministerial backing, all seem needed.

Improving the products

Shared ownership

Concerns expressed about the current form of shared ownership relate to the complexity and number of variations of the lease, problems which regularly arise from inept conveyancing, disputes that occur when lenders need to take repossession action, and a failure of many purchasers to properly understand the nature of the agreement into which they have entered.

Many of these problems would be resolved by adopting a modular form of lease, provided it were to be endorsed by the Housing Corporation and major lenders.

The Task Force therefore proposes that a new lease be drawn up, structured in a modular form following the form and precedent of the Commercial Lease published by the Law Society. The benefits of this structure are that it can be more easily understood and used, and that it can only be altered by changes inserted at the end, rather than by alterations to the body of the text.

Such a lease should be initially drafted drawing on the best features of existing leases, and with extensive consultation with key RSLs, regulators and lenders. Particular care should be taken on such aspects as the consent mechanism for, and cover provided by the Mortgagee Protection Clause, and ensuring a duty of care from lenders to the RSL as well as to the repossessed owner.

Once adopted the lease should be issued in a pre-printed modular form, and the Housing Corporation could insist that all RSLs must use the standard form and only make amendments in the boxes provided at the end.

A further advantage of this approach is that if the standard form of lease were to be used in all future cases, it would be possible to produce a universal model tenants handbook which could accompany the lease, and clearly set out leaseholders' rights and obligations in plain English.

Homebuy

Under the 'Homebuy' scheme, the occupier is a full owner, not a shared owner, and pays no rent. But the terms of their second mortgage – an equity loan (currently of 25 per cent) on which no interest is paid – means the purchaser must part with a proportion of the proceeds (currently 25 per cent) when the property is sold. The cost to the occupier of acquiring 75 per cent of the equity through the Homebuy model will be much the same as for a shared owner buying only 50 per cent of the equity (and paying a rent for the other 50 per cent). Homebuy has proved very popular with both lenders and purchasers.

Nevertheless, shared ownership continues to have distinct advantages for those people who are eligible for Housing Benefit to cover the rental payments: these include buyers who get into financial difficulty and those who have some capital but low incomes (for example, older people who sell low value homes or single parents who have a lump sum from the sale of a family home following the relationship breakdown). Also, the 'flexible tenure' arrangements which enable people to 'staircase down' – i.e. to sell back part of the equity they have bought, to the RSL and pay rent in return – are more difficult to organise for Homebuy than in shared ownership schemes. Moreover, shared ownership can help where the cost of the home (perhaps in a regeneration area) exceeds its value: the gap can be covered by a loan financed by the rent.

But for many, Homebuy will offer an excellent deal and in Wales it has proved more popular than shared ownership. The Task Force, therefore, would like to see current limitations on its use removed:

- In England, Homebuy can only be used to purchase *existing* properties chosen by the purchaser, not to fund *new* developments.

- The level of grant is currently fixed at 25 per cent (to cover the interest-free equity loan) irrespective of whether the property is in a high value or a low value area: this pays no regard to the affordability of the product in different places. And the fixed ceiling provides no opportunity for variations to suit individual circumstances.

Expanding Homebuy

The Task Force recommends two straightforward changes to make greater use of the benefits of Homebuy:

- It should be possible to use Homebuy to fund new developments, as is the case in Wales. In many mixed-use developments – including schemes of full ownership as well as of social housing – it can prove a simpler, cost-effective route to low-cost home-ownership which should be offered to potential purchasers.

- There should be some flexibility for the Housing Corporation a) to use higher levels of grant in Homebuy schemes than the standard 25 per cent level, in higher value areas; and b) to allow RSLs to vary the level for different purchasers provided the average level of grant is consistent.

Extending Homebuy
Work commissioned by the Task Force has devised a new product to increase the number of people who can benefit from the Homebuy concept. This extends the affordability of Homebuy using the equivalent of the 'shared appreciation mortgages' which have been developed in the United States of America.

The scheme would involve a conventional mortgage and an interest-free equity loan (usually of 25 per cent) as for Homebuy; but the conventional loan would be smaller – say 50 per cent instead of 75 per cent - and the balance would comprise an interest-bearing equity loan which would be less expensive. In this way, some of those unable to purchase through the current Homebuy arrangements could afford to do so. Or, in areas where the ratio of average incomes to average house prices is more favourable, it would be possible to produce more homes for the same level of subsidy – stretching the public money further. This technique would allow Homebuy to operate with alternatives to a 25 per cent Social Housing Grant – for example, through the indirect subsidies from planning gain (secured by Section 106 Agreements), through contribution by employers to help house their workforce; by the provision of equity loans from some of the larger RSLs through their own resources.

Improving RSL management standards

There seem likely to be few developments of social housing in the future which will comprise 100 per cent social renting. So a growth in LCHO products to achieve some mix will be very widespread.

But the Task Force observed sharp variations in the management standards and practices of housing associations providing low-cost home-ownership. In some cases, principally because of the level of rents, occupiers were found to be paying nearly 90 per cent of the cost of full, outright ownership when purchasing a 50 per cent share; in other cases, the equivalent occupier was paying less than 70 per cent for a 50 per cent equity share.

Performance in areas such as development strategy, arrears management, leasehold satisfaction and the avoidance/management of repossession cases also varies sharply.

The Task Force makes two recommendations for levelling these variations in performance:

- a requirement that RSLs responsible for managing or developing LCHO have a Board Member and Senior Management team member with designated responsibility for LCHO performance;
- action by the Housing Corporation to apply regulatory pressure to RSLs failing to achieve a reasonable standard of development competence and management performance. The Corporation should introduce some key performance indicators and benchmark standards for LCHO. The adoption of a 'CAT Mark' system could be used to endorse those housing associations which meet the appropriate standards.

About the project

The JRF Task Force met on four occasions, with presentations from additional experts. The researcher, Graham Martin, analysed submissions on low-cost home-ownership to the Government's Housing Green Paper and undertook original work in devising new models to extend the Homebuy arrangements. The draft report and *Findings* were presented to the Minister for Housing and Planning in September 2001.

How to get further information

Further information is available from Graham Martin, 221 Allerton Road, Allerton, Liverpool, L18 6JN, Tel: 0151 475 0726, email: gjmartin@blueyonder.co.uk.

The full report, **Swamps and alligators: The future for low-cost home-ownership** by Graham Martin, is published for the Foundation by YPS (ISBN 1 84263 063 6, price £13.95)

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