SWAMPS and

the future for low cost home ownership

ALLIGATORS

Graham Martin

A report for the Minister of Housing and Planning based on the work of a JRF task force in 2001 (list of members, page 76)

Published for the Joseph Rowntree Foundation by YPS

ISBN 1 84263 063 6

Report production: Tim Dwelly in Partnership www.timdwelly.com
Design: Satzooma
Additional photos: Steve Tanner
Cover photo: Nichol's Court, Hackney (Peabody)

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Printed by Headland Printers, Penzance

Published by
York Publishing Services Ltd
64 Hallfield Road
Layerthorpe
York YO31 7ZQ
tel: 01904 430033
fax: 01904 430868
email: orders@yps.ymn.co.uk

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FOREWORD

'WE MUST be careful not to get so bogged down in the detail that we lose our sense of strategy. In wrestling alligators, we must not forget that we came to drain the swamp.' The words of Lord Falconer, Minister for Housing, Planning and the Regions.

In the world of social housing, it is easy to lose sight of the big picture. Combating today's immediate problems - such as putting a roof over the heads of homeless families - could make it harder to achieve long term goals such as 'an affordable home for every household'. Low cost home ownership may not seem like the highest priority for housing providers. But schemes can help achieve long-lasting benefits:

- increased housing supply for people unable to buy their own homes
  on the open market - relieving pressure on social housing and stretching available public resources
- mixing otherwise mono-tenure housing schemes to create more inclusive, mixed income communities. This can produce economic and social stability in both low and high value areas.

Despite LCHO's considerable strategic importance, current arrangements are not perfect. Lenders and consumers have expressed criticisms of shared ownership and there has been evidence of poor performance by some providers.

To look at the future of low cost home ownership, JRF established a task force of practitioners and occupiers, with representatives from lenders, local authorities, the DTLR and the Housing Corporation. This welcome report by Graham Martin is the outcome of their (and his) excellent contributions.

The picture that emerges is of an under-utilised route to easing shortages in some areas (not least for those needed in the local economy and to run key services) and to achieve regeneration and combat residualisation in other areas (where low demand has depleted value and occupiers of social housing can be quickly stigmatised).

It is gradually becoming the norm for planners to require some affordable housing within developments for owner occupation and LCHO homes can be part of this. But it is not always a requirement for social housing to contain a proportion of owner occupied properties. Yet this can help enhance the life chances of the tenants, by reducing stigma.

There are messages here too for the Housing Corporation and LCHO suppliers. The shared ownership product, which works well for many, produces worse value for money for some home-seekers than the new Homebuy scheme.

Our task force would like to see housing associations building new Homebuy properties and it would help if the level of grant - currently fixed at 25% - which covers the interest-free equity loan, could be varied to suit different circumstances. Homebuy could also be used in combination with a variety of sources of money, and with planning gains to enable this product to reach further downmarket.

I hope, when we stand back from saving people from those alligators, we will remember to engage in the strategic task of draining the swamp - creating conditions in which alligators cannot flourish. LCHO initiatives are a central feature of any successful strategy to eradicate homelessness and bad housing.

Richard Best
Director, Joseph Rowntree Foundation

Summary

- There is substantial unmet demand for the various low cost home ownership (LCHO) products currently on offer. In 2000/01, London saw 41,000 applications for LCHO, but the Housing Corporation funded only 1,300 homes there

- Strategic use of LCHO 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. A high proportion of grant costs on new developments return to Government through increased tax take

- But local authority decision-makers often fail to take a strategic view when allocating capital resources for new housing provision. They can focus too narrowly on meeting urgent needs on a short term excluding a low cost home ownership dimension

- Current LCHO arrangements could be improved by more creative and flexible use of the Homebuy model (including allowing it to fund new developments) and a standard lease for shared ownership

- There is evidence of poor management performance by some providers of LCHO and unfair discrepancies in rents charged to shared owners. Some purchasers can end up paying less than half the amount paid by the least fortunate

10 main recommendations

1 The DTLR should send a clear message to local authorities emphasising their responsibility to meet the housing aspirations/needs of the wider community in their housing strategies. It should highlight the economic and social benefits that flow from a full use of low cost home ownership (see page xx)

2 All local authorities should have a published affordable home ownership strategy, and maintain an affordable home ownership register (see page xx)

3 All future social housing schemes should include some low cost home ownership. Active consideration should be given to introducing an element of owner occupation and flexible tenure on existing single tenure rented estates
(see page xx)

4 The current rules on grant funding should be relaxed to allow flexibility in determining the final tenure mix of a scheme. They should also allow for flexible tenure and reverse staircasing
(see page xx)

5 Much greater emphasis should be put on grant funding new (or refurbished) homes rather than existing properties
(see page xx)

6 Homebuy should be allowed to be used for newbuild and regeneration schemes in England as in Wales
(see page xx)

7 Greater flexibility should be allowed in the level of grant funding on Homebuy. An interest bearing equity loan in the Homebuy structure should be actively explored
(see page xx)

8 The Housing Corporation should introduce a CAT mark style performance standard for providers and managers of Low Cost Home Ownership. Subsidy should normally only be offered to those who meet these standards
(see page xx)

9 A standard form of shared ownership lease should be introduced along the lines of the Commercial Lease published by the Law Society. This would greatly reduce complications, misunderstandings and errors. It would also enable the production of a standard leaseholders handbook
(see page xx)

10 Tax law should be amended to encourage employer contributions to housing provision. It could also exempt categories of employee from tax liability on accommodation provided/supported by employers, along the lines of exemptions granted to low paid employees on company car tax
(see page xx)

For more detailed recommendations, see each main chapter

Quality checklist

Criteria	Checklist
Should be simple and easy to understand	
for LCHO purchaser	• Will it pass the media test? • Can the concept be easily described in a single paragraph? • Can the main points be described on a half page of A4? • Can a potential purchaser who has enquired about the product accurately describe it to their partner? • Conveyancing solicitor will readily understand documentation
for mortgage lender staff	• Front line staff should be able to quickly grasp and retain the concept
interested third parties(eg planners and local authority housing staff)	• Will interested third parties be quickly able to see the benefits?
Should be affordable	• Costs should not be more than 70% of full ownership
Should be readily available and accessible	
the product should be easily adaptable to meet the following different groups unable to afford full ownership of appropriate accommodation	• Key workers • Local and aspirant households seeking to own in regeneration areas • Local and aspiring households seeking to own in mixed tenure communities or high value schemes • Higher income social renting tenants in high value areas • Older people trading down • Lump sum income poor households such as divorcees, redundancy recipients, military leavers
eligible applicant easily obtains mortgage from participating lender	• A visit to a local branch of a participating lender should lead to an informed discussion/interview with no more than a single, quick referral by front line staff

Should offer good value for money

to purchasers

- Transaction costs comparable to normal first time purchase via a reputable solicitor
- Monthly outgoings not above 70% costs of full purchase
- Discount mortgages should be available on a 'value for value' basis with comparable borrowers in lower cost locations
- Monthly costs of the purchaser should be in proportion to the share of the property being purchased (Ideally a purchaser buying 50% of a property should pay 50% of the cost of purchasing the whole property)
- Disposal should be comparable in time, cost and effort to normal sale of fully owned property
- Staircasing costs (where staircasing permitted) should compare to cost of ordinary owner obtaining a further advance for property improvements
- Resale value and marketability to match fully-owned home. Appearance should be tenure-neutral
- Where property repossessed loss to former Low Cost Home Owner should not exceed that of conventional purchaser being repossessed

to funders (and local authority, if different)

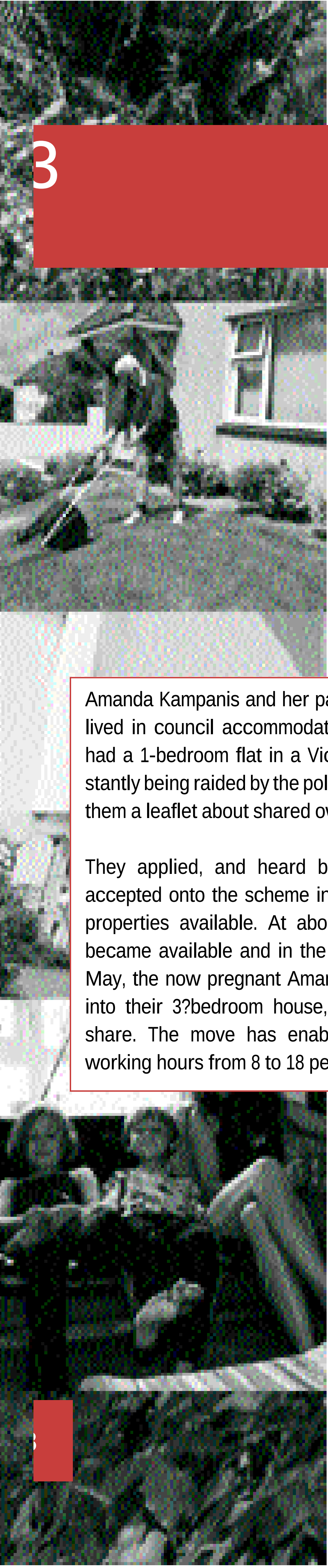
- First sale should always be to target client group
- High proportion (locally determinable) of subsequent sales should be to targeted client groups
- Opportunity to repurchase property for LCHO resale or stop full staircasing to retain as LCHO property
- Grant and social equity gains should be fully recyclable on staircasing
- Product should be able to be both property (scheme or locality) and applicant specific (either or both, according to local circumstances)

to lenders

- Product should have a simple core structure, and be clear and unambiguous regarding apportionment of risks and costs
- Where the borrower defaults repossession should be no slower or more costly than with a conventional purchaser
- Transaction costs and running costs should be sufficiently low to enable lender to make an adequate commercial return, comparable to other first time lending

Enhanced protection against repossession

- Either 'reverse staircasing'
- or insurance package
- or Fit to state benefits



3 What is low cost home ownership?

There are a number of low cost home ownership products. These include Homebuy, shared ownership and the Leasehold Scheme for the Elderly. Shared ownership and Homebuy each have their own advantages over one another

THE term low cost home ownership (LCHO) is used to describe any scheme which assists households of low to moderate incomes to acquire an equity share in a property in which they can live and regard as ‘theirs’. They have similar obligations and responsibilities to a conventional purchaser with a mortgage.

> Amanda Kampanis and her partner, who were both working, lived in council accommodation for homeless people. They had a 1-bedroom flat in a Victorian house, which was constantly being raided by the police. Their financial adviser gave them a leaflet about shared ownership.
>
> They applied, and heard back very quickly. They were accepted onto the scheme in November, but there were no properties available. At about Christmas time, a property became available and in the March, the process began. In May, the now pregnant Amanda, moved in with her partner into their 3?bedroom house, of which they owned a 50% share. The move has enabled Amanda to increase her working hours from 8 to 18 per week

Initially, the purpose of LCHO schemes was to assist households on lower incomes to gain a stake in home ownership which they could not otherwise afford. LCHO may be considered a form of ‘asset based welfare’.

THE TWO APPROACHES

There are two possible approaches to providing LCHO. The first is to allow the purchaser to acquire (and pay for) only part of the full equity in their property. The balance of the equity is funded and owned in some way by a third party (normally a housing association). The purchaser may have to pay a rental towards the costs of the owner of the remaining equity. In practice, most publicly subsidised schemes follow this approach in some form or another.

The second approach is to reduce the purchaser’s costs of buying. A number of commercial employers offer private schemes to their staff on this basis, normally through a low interest loan. Such schemes are normally subject to income tax on the saving made.

HISTORY

The 1964 Housing Act introduced the first LCHO initiative, a popular, fully mutual co-operative housing product known as co-ownership. Some 40,000 homes were built through this programme over the following 15 years. Unfortunately, the scheme was undermined by the Right to Buy provisions of the 1980 Housing Act which allowed the co-owners to buy out the full equity in their properties on the basis of the historic debt, ie at a fraction of the open market value.

A number of new forms of LCHO were pioneered in the late 1970s, including Community Leasehold, Leasehold Schemes for the Elderly and Improvement for Sale. An extended history of other LCHO products and innovations is provided at the end of the report.

The main LCHO products in current use are: Shared ownership, Homebuy, Leasehold Scheme for the Elderly and Shared Ownership for the Elderly. Two other products are Do-it-yourself Shared Ownership and Purchase and repair. These are described in detail below, with discussion on the various merits and benefits covered in later chapters.

There are in addition a range of different tenant purchase schemes which allow most tenants in social rented housing to buy their properties at a significant discount. Although a form of low cost home ownership, their policy implications fall outside the scope of this study.

SHARED OWNERSHIP

Under shared ownership, a housing association, local authority or similar organisation purchases (or develops) a home. A would-be owner then buys a share of a leasehold interest in that property. The most common share acquired is 50%, but shares of 25% and 75% are moderately common, with any proportion theoretically possible.[1]

The shared owner obtains a conventional mortgage to acquire their share of the property, and pays a rent to the housing association on the balance. The shared owner is usually responsible for all repair obligations on their property, despite owning only part of it.

David and Pamela Roberts were living in a council flat and had been waiting five years for an exchange or re-housing. The council had advised them that it was likely to take another 10 years. They had heard about Moat Home Ownership through Dover District Council and decided to apply.

They were accepted onto the Homebuy scheme, and David states: 'Throughout the process, Moat gave least trouble and most co-operation.' David and Pamela are pleased with their 2-bedroom house which has a 'lovely kitchen and bathroom'. Since moving in, David has redeveloped the front garden in between working for Customs and Excise on shifts. 'We'd still be in that flat without Homebuy,' David concludes.

From 1990/91 to 2000/01, the Housing Corporation funded nearly 70,000 LCHO - mainly shared ownership - homes in England. Local authorities have made further contributions, either by funding housing associations or by direct provision. In recent years, significant additional properties have been provided through planning gain through Section 106 and PPG3 Housing (2000) Agreements. This is of particular importance in high-value areas.

Most LCHO properties are able to progress to conventional ownership, with the owner purchasing the balance of equity from the housing association. Only about 10% of shared owners 'staircase' up in this way to full ownership and remain within their properties. A significant number combine staircasing up to full ownership with selling their property on the open market.

There are currently about 85,000 properties occupied on a shared ownership basis in England. This represents around 0.4% of all homes, though a significant additional number of properties were formerly occupied on a shared ownership basis. The majority of households who move on from a shared ownership property do so to become full owners, although a substantial minority move to other tenures

The housing association (or other landlord) funds their part of the cost by a mixture of grant or similar subsidy, and a loan, which is funded by the rent received.

An attraction to the mortgage lender is that should the property be re-possessed (subject to some safeguards) they can claim back any shortfall in the sale of 'their' share of the property from the housing association's share. An attraction for the purchaser is that should they fall on hard times, their rent payment is eligible for Housing Benefit. In extreme circumstances, the housing association can buy back part of their property.

> Retired teacher Ronald Hobbs lived alone in a 3?bedroom terraced house in Kingsdown. Wanting to be closer to his recently-widowed sister who lived at Johnson's Court in Seal, she told him about Moat Shared Ownership from a tenant's point of view. Johnson's Court is sheltered accommodation for the over 55s offering 24 self-contained shared ownership flats. Ronald joined his sister at Johnson's Court, and comments: 'I like the security this place provides with an intercom door system. You're not isolated here, plus there's a very good bus system in place, the views are nice and there's no fear of vandalism'

The shared owner can remain in their property in perpetuity. Once their mortgage is paid off, they pay only the rent on the part they do not own. Additionally, they usually have the option to buy out some or all of the remaining share, and always have the option to sell on their share of the property to another 'low cost home owner'. In this case, the housing association may be able to specify or approve the person to whom they sell. (This retains the benefit of the subsidy to target lower income households).

The typical resident is an older person or couple with capital from the sale of their family home, which may have become too difficult/expensive for them to manage

HOMEBUY

With Homebuy, the LCHO purchaser buys an approved property, which is part-funded by an interest-free equity loan provided by a housing association. In England, the owner pays for a 75% share with a conventional mortgage, and buys the remaining 25% with the interest free equity loan.

When the property is sold, the purchaser keeps 75% of the sale proceeds, and the housing association receives 25%. The initial loan from the housing association is 100% grant-funded (normally by the Housing Corporation). On sale, it is recycled to fund further Homebuy purchases.

LEASEHOLD SCHEME FOR THE ELDERLY (LSE)

The Leasehold Scheme for the Elderly allows older people who have capital to acquire a 70% share in a retirement property. The remaining 30% is provided by grant to the landlord housing association. The leaseholder pays no rent but is fully responsible for the cost of all repairs and maintenance. Often the landlord includes an element for current and future repairs in a service charge, and may also take a contribution from resales to fund future major repairs. When the leaseholder dies or wishes to move on, their share of the property is offered for sale at 70% of the full open market value.

The typical resident is an older person or couple with capital from the sale of their family home, which may have become too expensive or otherwise unsuitable for them to manage. These schemes are generally popular, though there are sometimes problems resulting from a lack of clarity or understanding of long-term repairing obligations in the lease.

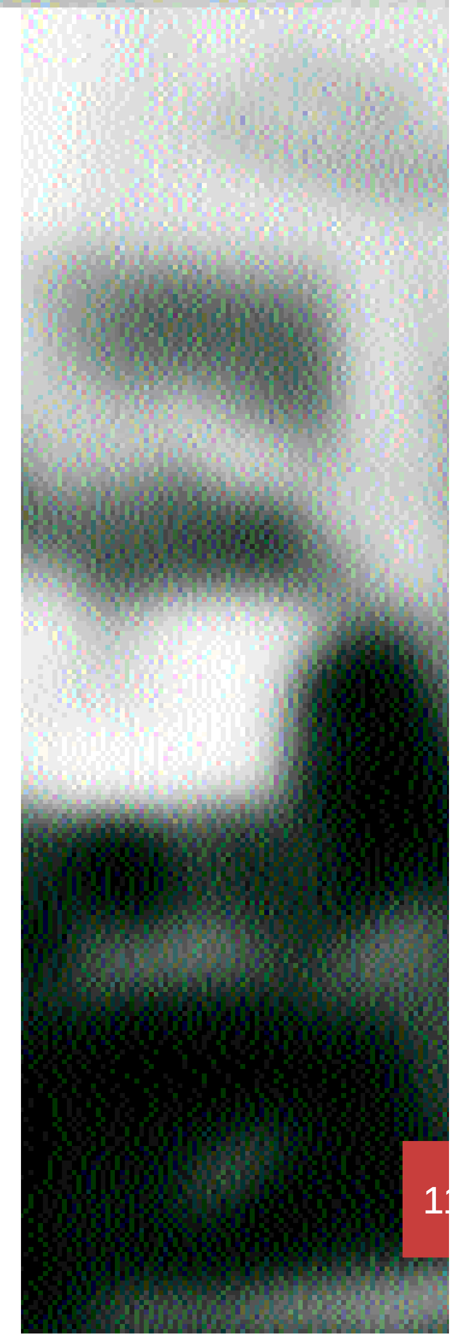
Comparison of English and Welsh versions of Homebuy

ENGLAND	WALES
The purchaser acquires a 75% share in the property	The purchaser normally acquires a 70% share in the property, but in some locations as little as 50% needs to be purchased
The grant is only available to existing tenants of councils or housing associations	The grant is more widely available to households in need of accommodation
The grant can only be used to buy existing properties which meet certain criteria. It cannot be used to develop new (or refurbished) property	The grant can be used to fund development of designated property

SHARED OWNERSHIP FOR THE ELDERLY (SHOE)

Shared Ownership for the Elderly works in a similar way to conventional shared ownership, except that the shared owners can purchase a maximum of 75% of their home, and would not normally have a mortgage. They may have to pay a rent but this is usually waived where the maximum 75% has been purchased.

SHOE is particularly appropriate for older people who have some capital, but not enough to buy into a LSE scheme, or whose other income is particularly low. For residents, the benefits of SHOE schemes over LSE is that both the rent and service charge are eligible for Housing Benefit. It is possible to structure SHOE schemes so that all repairs are the landlord's responsibility. This offers added support and protection to residents.



DO IT YOURSELF SHARED OWNERSHIP (DIYSO)
Shared ownership is normally made available on specific properties developed or acquired by the housing association. However, a variant is called ‘Do It Yourself Shared Ownership’ or DIYSO.

Here, the prospective owner - a tenant or waiting-list applicant - identifies a property of their choice (within guidelines). A housing association purchases the home and sells on a share to the DIYSO purchaser. The scheme is popular with, and funded by a number of local authorities, particularly in the south-east. Previously, it was a significant element in the Housing Corporation’s Annual Development Programme.

PURCHASE AND REPAIR
Under this arrangement, run-down properties are acquired by a housing association, repaired and sold on a shared ownership basis.Generally, LCHO schemes are intended to provide accommodation valued in the lower quartile of the relevant local housing market. However, a trend for offering higher value properties on a shared ownership basis appears to be developing, with schemes now offering properties valued at between £200,000-£250,000 (and occasionally higher) in London, and in the £100,000-£150,000 range in south Manchester.

This table shows average property values, the initial equity share, initial mortgage and purchaser's income of Shared Ownership properties recorded via the CORE2 system October 1999 to September 2000

Region (NHF/HC)	Average value (£)	Equity share (%)	Mortgage (£)	Purchase income (£pa)
East	73,700	47	35,500	18,200
East Midlands	55,500	50	26,500	15,700
London	103,300	49	47,600	23,300
Merseyside	48,900	60	26,700	15,500
North	55,200	51	26,200	16,300
North West	52,200	56	27,400	14,500
South East	76,000	45	32,000	18,500
South West	64,400	50	30,100	18,500
West Midlands	58,000	52	27,600	15,600
Yorkshire & Humberside	52,900	52	25,200	14,900
ALL	79,000	50	36,300	19,200

This example shows that for a very similar level of outgoings the household could purchase a £65,000 home with a conventional mortgage, an £86,666 home with Homebuy or a £90,000 home with shared ownership. All require the household to pay nearly 40% of their weekly income on housing costs.

In practice, the way in which lenders allocate mortgages may allow the household to buy a more expensive property using shared ownership than the £90,000 home in the example. However, this would raise the household's weekly outgoings above the level judged affordable by most mortgage lenders. With a net income of £165pw the household is just £33pw better off than if they were unemployed in social rented housing. This leaves very little for maintenance, luxuries or as a cushion for higher interest rates.[13]

LOOKING FORWARD

This chapter has described the main LCHO products, has illustrated how they work and pointed out some of the benefits to purchasers. The rest of this report considers the wider benefits of using LCHO as a strategic tool of social, economic and environmental policy and why it should be more widely deployed. It will also identify ways in which existing LCHO products can be improved and developed further.

Comparing Homebuy and shared ownership

Homebuy and shared ownership have different advantages for purchasers. With Homebuy, the purchaser benefits from appreciation on 75% of the value of their property (£86,666 in the above example). The shared owner only benefits from 50% (£45,000 in the above example). Similarly after 25 years, the Homebuyer would have redeemed all of an £86,666 loan, while the shared owner would only have redeemed a £45,000 loan. Additionally, the rent on the shared ownership property can be expected to increase annually, and would continue after the mortgage is repaid.

Compared to Homebuy, shared ownership makes it possible to purchase a higher value property. In the event of the purchaser falling on hard times, the rent becomes eligible for Housing Benefit. If interest rates increase, the shared owner has a much greater degree of protection than the Homebuyer. This last point is illustrated below:

The above example, where the interest rate has now risen to 11%:

Couple, one child, single income of	£20,000pa
Weekly income after adjustments:	£272.37
Conventional purchase	
Can just obtain a mortgage of	£65,000
Weekly outgoings on mortgage:	£148.43
Net household income	£123.94
Homebuy purchase	
Same household could purchase:	
75% of an £86,666 property using Homebuy for the same outgoings	
Shared ownership purchase	
Same household could purchase:	
50% of a £90,000 property for mortgage of:	£102.76
and rent of:	£33.06
Total outgoings on shared ownership purchase	£135.82
Net household income	£136.55

While both households are hard hit, the full purchasers or Homebuyers are reduced to living on 45% of their weekly income, while the shared owner household is over £12 per week better off, having just over 50% of their weekly income to live off. It should be noted that, after they have paid council tax, both will have less disposable income than an equivalent unemployed renting household.[3]

Affordability

The main intention of LCHO is to provide accommodation that is more accessible and affordable to lower income households. The table below provides examples of households purchasing accommodation at a price above which they would not normally obtain a mortgage, and compares their net income, after purchase, with an equivalent household living in a lower house price area, who could just have afforde their mortgage. For simplicity it is assumed that all purchasers are buying at 100% of property value, and can borrow 3.25 times a single, annual income, or 3 times the higher plus the lower income, and that interest rates are 7% (APR), and mortgage term 25 years

Example

Couple, one child, single income of £20,000p

Weekly income after adjustments[1]: £272.3

Conventional purchase

Can just obtain a mortgage of £65,00

Weekly outgoings on mortgage £107.2

Net household income £165.11p

Homebuy purchase

Same household could purchase: 75% of an £86,666 property using Homebuy for the same outgoings

Shared ownership purchase

Same household could purchase: 50% of a £90,000 property for mortgage of: £74.2

and rent[2] of: £33.0

Total outgoings on shared ownership purchase £107.32p

Net household income £165.05p

1 Adjustments include tax, National Insurance, Chi benefit, Working Family tax credit

2 Calculated at 3.82% of value of housing associa tion's share in the property. This is the average figu for the SE of England. Rent will normally increa every year in line with inflation.

2 The benefits of LCHO

Low cost home ownership initiatives provide social housing for substantially less public subsidy than social rented housing. They also provide an entry to owner-occupation for households who otherwise could not have afforded it. This contributes to urban regeneration and meets the needs of specific groups like older people

Key benefits of LCHO

Central government
- increase in fiscal return
- more stable communities
- greater labour force mobility
- better fit between public employers and key workers
- greater investment efficiency (compared to 100% social renting)
- greater choice for home-seekers
- addition to regeneration and renewal toolkit
- frees up social rented housing

Local government
- more stable communities
- community renewal
- cost effective regeneration
- retains residents with higher incomes in the community
- retains/attracts key workers
- can free up, and reduce demand for, social rented properties
- major savings in cost of support and care provision (older people/extra care)

Housing Corporation
- low per unit cost
- recyclable grant
- strategic contribution

The public
- earlier access to the 'home ownership' ladder
- additional choice of tenure and location
- alternative to (and better value than) market renting
- retains capital for 'capital rich/income low' households such as the homemaker in relationship breakdowns and older owner-occupiers trading down

THE original arguments in favour of LCHO initiatives are that they provide social housing with substantially less public subsidy than social rented housing. LCHO also provides an entry to owner-occupation for households who otherwise could not have afforded it. The initiatives can also provide a degree of financial protection to low income shared owners should their income fall - through the rent portion of their payment being eligible for Housing Benefit. There is also evidence that LCHO schemes can free up social rented housing.

The 2000 Housing Green Paper identified additional benefits from expanding support for existing LCHO products as:

- ensuring that key workers can buy homes in areas of high demand so they are not priced out of urban and rural communities
- promoting a better mix of housing tenures, creating stable, mixed-income communities rather than single tenure estates with high concentrations of poor and vulnerable people.

The review and consultation process identified additional or derivative benefits. These included the use of LHCO as a highly cost-effective tool of urban renewal and how

LCHO can provide a greater degree of choice to home-seekers. The various schemes can also provide products for households or communities with specific needs, such as retirement accommodation for older owner-occupiers.

LOWER PUBLIC SUBSIDY

Costs are lower due to the fact that typically half the market value of the property is funded by the LCHO purchaser, normally via a mortgage. On final staircasing to 100% ownership, the full value of the landlord's share of the property is returned to the social landlord, and becomes available to be recycled to provide further LCHO homes.

For successful schemes this has the potential to cover costs fully and generate substantial surpluses. There are also savings if LCHO prevents families from becoming homeless. The landlord's exposure to long term major repairs and defects should also be lower.

ENTRY TO OWNER-OCCUPATION

Most LCHO schemes initially cost the purchaser between 65% and 75% of the cost of outright purchase.2 This can be lower where only a small share is purchased, or additional subsidy is provided. Additionally the requirement for a smaller mortgage enables lower income households to meet more easily lenders' 'income multiplier' criteria (ie that the amount lent is a stipulated multiple of the borrower's income).

FINANCIAL PROTECTION

A shared owner's rental contribution is eligible for housing benefit, which can be claimed immediately on loss of employment or when income falls below means-tested levels. This makes housing benefit a significantly more generous and accessible personal subsidy than the equivalent mortgage support, Income Support. In contrast, Income Support is only available if the borrower(s) have been completely unemployed for nine months. (NB The protection offered by housing benefit only applies to the 'shared ownership' form of LCHO.)

When a shared owner's income drops to the point that mortgage and rent payments become unaffordable, the landlord can step in and help. The landlord buys back a share of the property, increasing the occupier's rent accordingly. This reduces the occupier's outgoings, and increases the level of support available from Housing Benefit. In extreme circumstances a shared owner can revert to being a conventional tenant, with only rent to pay. This step back down the ownership ladder is known as 'reverse staircasing'.

An economic analysis of the impact of the various LCHO initiatives could identify direct financial benefits, and quantify additional saving and revenues achieved in terms of:

- reduced demand for social rented properties in high demand areas
- increased vacancies generated in social rented properties in high demand areas
- enhanced tax take and reduced benefits claimed to central government from additional construction work
- enhanced council tax take by local authorities on new properties built
- long-term equity return (via staircasing[1])
- reduction in capital regeneration expenditure required as part of urban renewal initiatives
- enhanced social stability resulting from mixed-tenure communities, and consequential benefits of greater social cohesion
- enhanced economic stability from the availability of locally-based key workers, and the more effective running of the schools, hospitals etc
- higher tax take from enhanced aspirations and employment prospects of residents
- savings to health and social services expenditure, arising from the extension of independent living for older owner-occupiers, for example

Flexible tenure is credited with saving families untold personal stress and disruption[3] by avoiding repossession and allowing households to remain in their home in the face of worsening personal financial circumstances. Flexible tenure also saves councils, housing associations and mortgage lenders the heavy costs associated with repossession and forced moves.

FREEING UP SOCIAL RENTED HOUSING

The justification for some of the higher value LCHO schemes in London is that they can be targeted at higher income residents in social housing as an alternative to Right to Buy, which, anyway, may not be affordable. By offering tenants LCHO accommodation which is both affordable and attractive, the council then benefits from a vacancy of a social rented property. This rationale was one of the deciding factors behind the decision of the London Borough of Hackney to support the Trowbridge redevelopment of 220 new homes, where three different sale tenures are used - outright sale, shared ownership and resale covenants (which is similar to Homebuy).

A strong case can be made for including full and low cost home ownership properties as an integral part of all social rented developments

KEY WORKERS IN AREAS OF HIGH DEMAND

This is a major issue in London and many adjacent areas, and has been a driving force behind the Government's current Starter Homes Initiative. It is also a smaller scale but equally critical issue for rural communities. Both areas have a two-tier housing and wealth structure, where the purchasing power of wealthy households wishing to live in the area raises property prices higher than can be afforded on local key worker incomes.

Two statistics usefully illustrate this point. The south-east NHS region employs 250,000 staff with annual incomes below £33,000. Recent house price data shows that in most relevant local authority areas the lower quartile of house prices approaches or exceeds £100,000 per property. In other words, at conventional borrowing ratios and current house prices, hardly any of these staff would be able to buy a home. Last year (2000-01) London saw 41,000 applications for LCHO, met by a supply of only 1,300 LCHO homes.

Tower Housing Association demonstrates the principle of mixed housing with their mixed-tenure development in Peckham, South London. This is a regeneration scheme developed in close consultation with Southwark council with 20 shared ownership homes pepper potted throughout 50 rented homes

Additionally, analysis released by the National Housing Federation4 shows that to buy an average priced home, an annual income of £30,000 is needed in half of all

English counties, rising to over £40,000 in all but four London Boroughs. Linked to this, employees who live close to their work are likely to be of greater value to their employers and the local community than long-distance commuters, while the environmental benefits of reduced commuting is clear.

The transformation of the St. Mary's Village site in Trowbridge, Hackney is a good example of a successful mixed-tenure regeneration project and partnership between two RSLs (Metropolitan and Notting hill Home Ownership) and the local council. As well as redeveloping one of London's most run down estates to provide attractive, stylish homes for local people, it claims to be the first development of its kind in the UK to offer residents the choice of where they wish to live regardless of tenure

PROMOTING A BETTER MIX OF HOUSING TENURES

Significant evidence now exists that housing large numbers of vulnerable or low-income households in the same locality generates additional problems of social deprivation and weakens social cohesion5. A strong case can be made for including full and low cost home ownership properties (and also market or sub-market renting) as an integral part of social rented developments[6]. Grounds for this include:

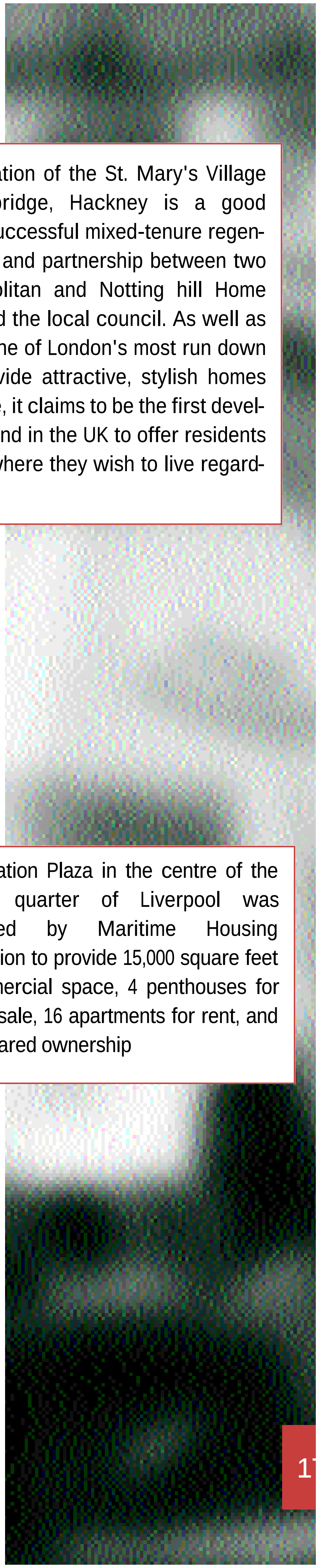
- households in full employment provide role models, networking opportunities and community leadership
- higher purchasing power can maintain existing neighbourhood shops, while mixed tenures may also prevent the ‘credit red-lining’ of an entire community
- LCHO (and full ownership) properties tend to have a lower level of occupancy, reducing a neighbourhood’s child density.

URBAN RENEWAL AND REGENERATION

Evidence is emerging of a number of valuable complementary contributions that LCHO initiatives can be made to urban renewal. Shared ownership (or other LCHO) can be used as a vehicle to attract grant to achieve essential renewal through conversion of derelict properties to residential use at relatively low rates of public subsidy. Successful schemes have recently been completed in both Manchester[7] and Liverpool[8] at relatively low or nil rates of public subsidy.

Commutation Plaza in the centre of the cultural quarter of Liverpool was developed by Maritime Housing Association to provide 15,000 square feet of commercial space, 4 penthouses for outright sale, 16 apartments for rent, and 29 for shared ownership

These schemes appear to have a beneficial social effect. In Liverpool it has been demonstrated that they retain local workers who would otherwise have moved out of the city. In Manchester they have attracted aspiring professionals who are establishing themselves in the city centre rather than commuting in from outside the city. A strong secondary gain has been the associated reduction in congestion and pollution from daily commuting. The schemes tend to have no or low car provision.



LCHO schemes can also be used as part of an urban renewal toolkit to kick-start the housing market when the general location is right but the immediate area is too derelict. The success of this has been demonstrated by some dramatic increases in value of schemes in central Liverpool. The equity-sharing nature of the investment can also generate a substantial return for the investing public or voluntary sector organisations involved, money then available for reinvestment.

From a different perspective, investment in LCHO provision may prove an essential ingredient in providing market stability in areas of wider regeneration investment. A recent study by CURS[9] indicated that housing market failure is most likely to occur in areas previously targeted by Government regeneration initiatives, specifically initiatives which have concentrated on improving health, education and training.

These lead to an increase in employment, which in the absence of affordable good quality property to purchase in the neighbourhood, can compel people to move away from the regeneration area, with self-defeating results. Increasing tenure diversity through LCHO can usefully add to market stability and the wider success of regeneration initiatives.

Other reasons for market failure can be changing patterns of demand which, at their worse, can lead to neighbourhood abandonment. The housing market is very unforgiving of an absolute level of over-supply of a particular type of property or tenure, due in part to the role that confidence plays in determining people's housing choices and aspirations. LCHO initiatives have the potential to play a significant role in addressing the problems which can arise either from excess amounts of 'monotenure' rented properties, or lower market owner-occupied properties, through increasing tenure diversity, and hence social diversity and demand.

Where clearance of residential properties with a proportion of owner-occupiers is necessary, the use of LCHO to provide new accommodation in the same locality for cleared home owners can be a useful part of the regeneration toolkit. In particular, it allows owners to retain the current (or an agreed) equity value in their property, and helps owners to stay in their community.

Mosscare Housing Association has carried out pioneering work in east Manchester. Here, a small number of owners of low value houses have been rehoused locally, ahead of demolition of their former homes. Use of shared ownership has enabled the owners to be rehoused locally, retaining their original equity, and at a price they can afford.

Meanwhile, in Stoke-on-Trent, the City Council hopes to make LCHO part of its toolkit for creating a rolling clearance programme of 500 properties a year with a high proportion of ownership. Similarly, Oldham MBC is seeking a mechanism to assist householders who have mortgages but little equity to take up better quality or larger homes. This approach has also been advocated as part of a mechanism for density reduction through clearance of obsolete older terraced property.

GREATER CHOICE FOR HOME-SEEKERS

This is particularly important for aspiring professionals and other key workers for whom quality and location of accommodation are as important as price. In areas of high house prices and high private sector rents, shared ownership or similar schemes can also be the only affordable alternative choice to market renting.

In many locations shared ownership now provides a choice between owning part of a new, well-designed property with low running costs, and - for the same headline level of outgoings - owning all of a older, possibly run-down property in a less desirable locality.

PEOPLE WITH SPECIFIC NEEDS

LCHO initiatives can provide highly valued accommodation to categories of households in genuine housing need, whose preference is for ownership. These are households whose needs would be far more expensive to provide for with social rented housing.

The most obvious target group are older people who may be living in homes that are now too large or unsuitable for their present circumstances, or who are in need of support which cannot easily be provided to their current home.

A range of LCHO products have been designed for older people. When well-designed and well-located, these schemes prove very popular. Apart from a significant increase in the quality of life of residents, a number of substantial economic and social benefits can flow from these schemes.

The release of family-sized accommodation back onto the market, apart from increasing the often short supply of these homes, can have a wider impact on communities from the refreshing effect associated with the influx of younger households and families.

Benefits range from the greater investment younger households are likely to make in maintaining their properties, to a better fit between schools and location of children. Guardian Retirement Housing reports the beneficial impact on Worley in Leeds arising from the arrival of younger households and families in the homes freed up by their new elderly shared ownership development.

From a public perspective, far less subsidy is required to provide a LCHO sheltered property than a rented property, yet substantial numbers of rented sheltered schemes contain significant numbers of former owner-occupiers. From a personal perspective, capital remains invested in property. This retains its long-term value and stops erosion through means testing and the need to pay ‘full’ rent.

There is a potential for substantial savings in service provision costs through supplying services to a single location, rather than in a dispersed community. For example, at Arena[10] Housing Association’s Extra Care Retirement Village in Warrington, Social Services estimates a saving of £40 a week per resident against the cost of providing equivalent services in their previous home.

TENANT EQUITY STAKES

The inclusion in the Government’s election manifesto of the concept of allowing tenants to acquire an equity stake in their property has generated significant interest and debate amongst housing professionals. This Task Force is supportive of the underlying concept of ‘asset based welfare’, and enthusiastic about anything that helps tenants build up a positive sense of identity and commitment to their community, while offering the prospect of more widely mixed tenure.

The CIH and IPPR have produced an excellent scoping paper[11] which outlines a number of approaches. Our observations at this stage are that for the scheme to work it is important for tenants to feel that the benefits they are acquiring are real and merited, and of significantly more substance than, say, a supermarket reward scheme.

One option as to how the scheme may work was put forward by the then housing minister Nick Raynsford: ‘People would be invited to contribute to a savings fund by paying a little bit above the actual rent. This amount would then be matched by a contribution from the Government, or the landlord, or both. That way a share would be built'[12].

Other statements indicate the desire that the equity built up should be portable, and not need to be cashed in when the tenant moved away from their home, and suggest that equity could be accumulated at 1% a year.

We support the principle of the equity being portable, and would caution against any scheme that provided a very small legal ownership stake in their property, as this would generate substantial administrative costs and could lead to serious management problems in cases of default.

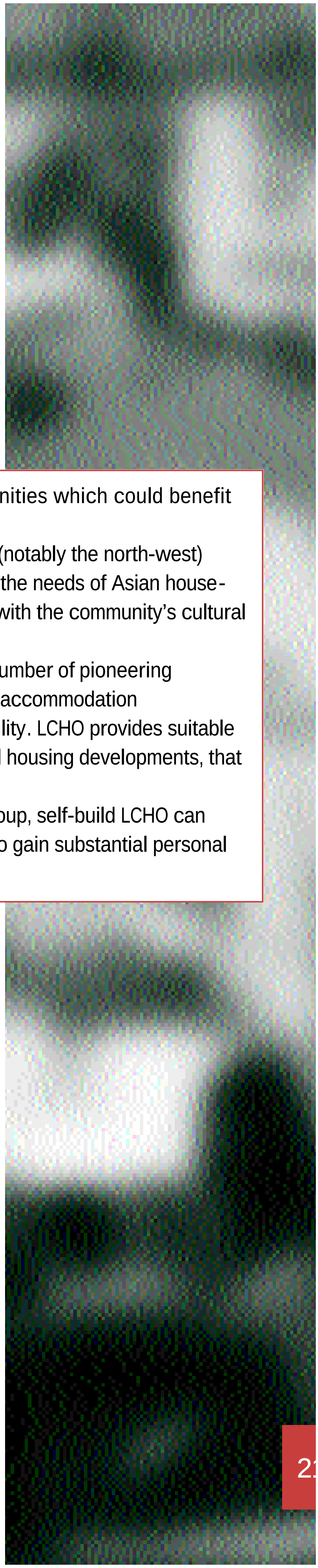
However, there is also merit in the scheme allowing for the equity to be transformed into 'real' ownership at a stage when its value has increased above a certain limit, and has been supplemented by the tenant. Where tenants wish to remain in their existing home it would seem harsh to reward them for taking up a minimum stake in their property by transferring full repairing obligations onto them.

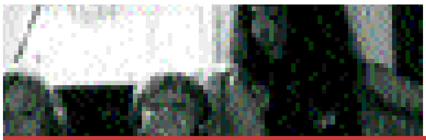
Examples of other specialised groups and communities which could benefit from LCHO include:

- Asian communities. In some parts of the country (notably the north-west) LCHO has provided accommodation designed for the needs of Asian households at an affordable price. There is a strong fit with the community's cultural preference to buy rather than rent
- Households with learning difficulties. In a small number of pioneering schemes, LCHO provides affordable independent accommodation
- Households with a member with a physical disability. LCHO provides suitable accommodation fully integrated into conventional housing developments, that is affordable to the household
- Self-builders. Whilst providing for a very small group, self-build LCHO can provide 'sweat equity' and enable a households to gain substantial personal esteem and wealth

This suggests a need to rethink some of the current boundaries of tenure, to allow a spectrum from full renting to full ownership, and acknowledging the need to integrate the current Right to Buy (or Acquire).

It is also noted that if the scheme is to be developed on a savings basis and to be portable then there will be a need for a depository fund linked to the value of property. This would act as both the savings vehicle for the tenant, and the offset arm for the landlord. We would note a potential synergy between the need to establish an equity-based fund, and the investment needs of LCHO schemes[13].





3 A crucial role for local authorities

Local authorities should play a central role enabling LCHO homes to be developed. But few, as yet, appear to realise the social and economic gains these initiatives can bring. A new local government agenda provides the framework for what should be a clearer central government message

LOCAL authorities are key gatekeepers and enablers for low cost home ownership properties. As yet, however, few authorities appear to realise the social and economic gains that are achievable through use of LCHO initiatives, and the benefits that can flow from having a clear perspective on their role in this area.

There is only limited communication and policy cohesion on LCHO between council housing and planning departments

In part, this perspective appears to be influenced by the view that 'money for LCHO is money lost to social renting'1, and in part by the understandable focus of information collection having been driven by the waiting list, the measurement of demand and need for rented homes alone. Until recently, there has been little collection of information on need and demand for accessible home ownership. Additionally there is evidence of limited communication and policy cohesion on LCHO between the housing and planning functions within local authorities.

> Reading Council is a notable example of an authority that has identified the housing needs of key workers and sought to act in a strategic way to address their needs. They have initiated a cross-sectoral Key Worker and Housing Group, and published a 'Key Workers and Housing' supplement to their Housing Investment Programme 2000

A few local authorities have clearly realised the importance of having a wider housing strategy, and benefits that can be gained from good practice. This includes setting up and maintaining low cost home ownership registers, actively seeking information from employers on their strategic housing needs, and having more than a token policy on provision of affordable home ownership.

The recent bidding exercise for the Government's Starter Home Initiative demonstrated the lack of data collection by local authorities, or even appreciation of the importance of being informed and having a relevant policy in this area. It has also demonstrated the speed with which authorities can become focused on an issue where real opportunities are identified.

It is clear that many local authorities have yet to reach a position where they feel able to buy in to LCHO, and that many councillors and senior officers in decision-making situations do not yet feel comfortable or able to champion LCHO.

While the benefits for a local authority vary according to local circumstances, a clear social and economic payback can be gained from judicious use of LCHO initiatives.

THE LOCAL ECONOMY
In high value areas it is essential for both the social fabric of the community and health of the local economy that staff of key employers have access to affordable home ownership within a reasonable travel to work distance. Failure to ensure adequate provision of affordable owner occupation opportunities is likely to have the following consequences:

- key public service institutions (police, schools, hospitals) will be unable to attract or retain appropriately skilled and experienced staff. This will result in poorer services to the local community
- private sector companies and service providers will suffer equivalent problems. In some circumstances this may lead in the medium term to relocation, and weakening of the local economy. In other circumstances (eg, bus companies, plumbing) it may lead to a reduced level and quality of service
- lack of local affordable housing will lead to increased congestion from long distance commuting, higher staff turnover and a distorted age and experience profile of staff
- a weakening of the local community because many service providers (such as teachers) are forced to live outside the communities in which they work

A well-structured LCHO strategy could address many of the these problems, bringing substantial long-term economic and service quality benefits for the local community. These would result from enabling local employees to buy property closer to their place of work, with substantial savings in staff turnover and congestion, and greater community cohesion.

Context

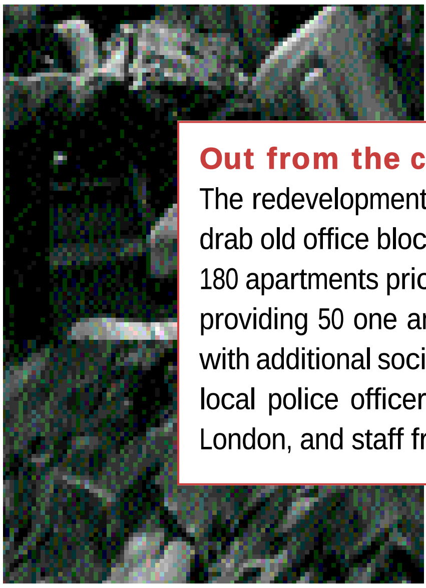
There is considerable evidence that local authorities and their residents could gain significantly from a wider recognition and application of the benefits of LCHO initiatives. An absence of informed knowledge, and lack of effective and empowered champions of LCHO within local authority decision-making structures, conspire to stifle a higher level of engagement.

There are a number of changes in terms of community engagement and regeneration initiatives which in the long term are likely to serve to identify demand and aspirations which can best be met through LCHO initiatives. However, the commitment to implement these initiatives, and to feed their findings into hard policies and actions, is as yet unconfirmed and uncertain

Recommendations

The DTLR should:

1. Identify and promote the role of LCHO in achieving Best Value and community sustainability and fulfilling the aspirations of community strategies and neighbourhood renewal action plans
2. Encourage local authorities to commission more research into the housing market and the level of demand locally for affordable home ownership to support development and planning policy
3. Highlight the benefits available to local authorities from improving their communities and meeting residents' aspirations from a much wider involvement in LCHO
4. Provide guidance on flexibility to allow relaxation of covenants applying to LCHO developments, making funding more attractive to lenders
5. Include some incentives for adopting larger LCHO programmes, for example by a rule linking increased performance to a relaxation in spending rules on other funding
6. Develop best practice guidance for local authorities on how to optimise the use of planning gain through Section 106 agreements, boosting the long term provision of mixed tenure affordable housing



Out from the cold

The redevelopment of Century House, the former MI6 Headquarters in Lambeth, is transforming a drab old office block into a mix of accommodation. The developers, Nicholas Estates are providing 180 apartments priced from £200,000 to £1,500,000 penthouses, with Metropolitan Home Ownership providing 50 one and two bedroom flats costing £160,000-£180,000 on a shared ownership basis, with additional social rented housing. Potential customers for the shared ownership homes include local police officers in their 20s and early 30s who would otherwise have had to move out of London, and staff from the local St. Thomas' Hospital

COMMUNITY STABILITY

Commentators increasingly agree that mixed tenure communities are likely to be more viable in the longer term2. In high demand areas, LCHO can bridge the polarisation between social rented, and market-rented or full owner-occupied communities.

A well-structured LCHO strategy could bring substantial long-term economic and service quality benefits

In low demand areas, LCHO can help rebalance the large estates of mono-tenure renting and offer local residents a choice of housing options. Recent studies3 along the M62 corridor have shown demand for social rented housing falling directly in line with increasing employment. LCHO initiatives offer one way to match the aspirations of households for affordable ownership in the location of their choice, and offer the potential to stabilise the substantial investment in existing rented properties.

INCREASE SUPPLY OF SOCIAL RENTED HOUSING

In high value, high demand locations, affordable LCHO schemes can reduce demand for social rented accommodation, and free up vacancies. In many local authorities this currently appears to be the most successful argument to win support for investment in LCHO schemes.

A partnership between Hackney Council and the developer Lovells has provided affordable accommodation linked to the regeneration of St. Mary's village, a former council estate. This has enabled local key workers such as nurses Robert and Jennifer Fox to move from a rented flat and buy a three bedroom home for £102,000, a 30% discount on the open market price. Under the scheme they were able to choose any of a range of properties offered for private sale

OLDER OWNER-OCCUPIERS

Specially designed LCHO schemes for older people can both free up family accommodation and reduce care costs to social services. Additional long-term benefits can arise from newer or younger owners investing more in their properties, and preventing the gradual decline in property condition associated with concentrations of older owners.

While a natural assumption may be to associate this issue with urban and inner city localities, it is equally relevant to rural locations. House prices tend to be higher in rural locations, and the shortage of affordable accommodation for the next generation of households is particularly stark.

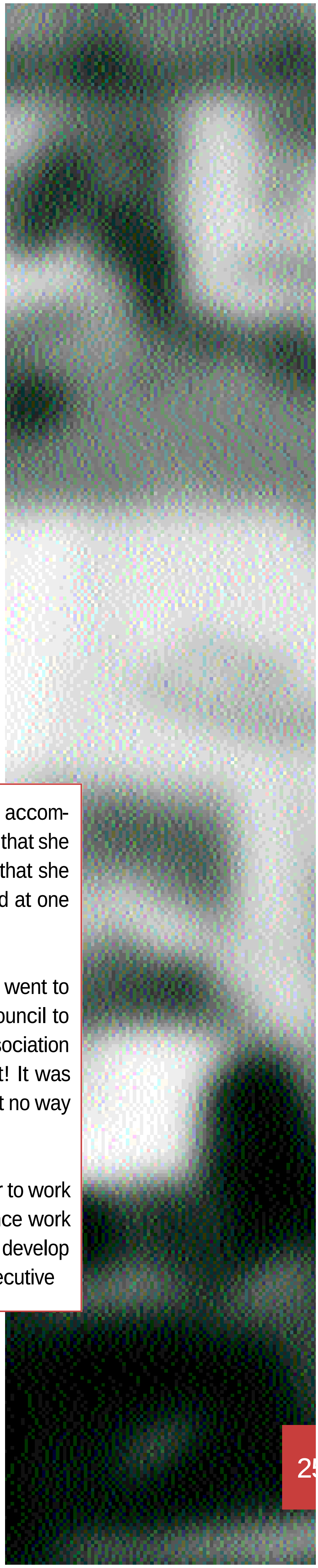
SOLUTIONS

A CLEARER CENTRAL GOVERNMENT MESSAGE

The Housing Green Paper, the Starter Home Initiative, the forthcoming DTLR research work into LCHO, and Housing Corporation guidance promoting the inclusion of LCHO in all social housing schemes exceeding 25 properties all stress the benefits of affordable home ownership.

There are additional ways in which central government could help local authorities become more focused and willing to accept the benefits of LCHO:

- a clear ministerial message on the 'acceptability' and wider benefits of LCHO in terms of meeting housing need and long term social benefits for local communities
- a requirement for all local authorities to have an affordable home ownership strategy, and to maintain a LCHO register
- a financial incentive to local authorities, for example linking discretionary expenditure funds to development of LCHO schemes. Such an incentive could well encourage a more positive consideration of LCHO options within the council decision-making process



Anna Christmas divorced eight years ago and moved into rented accommodation with her children, Marie and David. Because of the fact that she needed to claim benefits, this restricted the amount of overtime that she could actually work. She moved from rented house to house, and at one stage three times in 18 months!

In 1998, her landlord wanted the house back. Various paperwork went to the council from her current landlord, plus many offers by the council to house her and the children in a B&B! Approaching a housing association resulted in a shared ownership offer. Anna says: 'It was brilliant! It was the best thing that could happen for a single mum - there was just no way I could have met the mortgage payments on my own.'

But things didn't stop there. After moving in, it was possible for her to work more hours, with no need to claim benefits. Overtime and freelance work helped to pay for the families' upkeep and Anna has been able to develop her career. Her employers now sponsor her to train as a legal executive

THE NEW LOCAL GOVERNMENT AGENDA

There are a number of relatively new requirements placed on local authorities which, if properly applied, should open the door to significantly greater use of LCHO. Key developments include:

- the changing planning guidance from PPG 3 and PPG 13, with their focus on greater urban concentration, better use of scarce resources and more sustainable residential neighbourhoods. In the context of the Urban and Rural White Papers, these clearly require a different approach from local authorities in assessing the housing needs of their communities
- the introduction of Best Value, and changes in local authority governance which require local authorities to respond to the needs and aspirations of local people. Aspirations for affordable home ownership should emerge sufficiently forcefully to lever a change in councils' policies towards LCHO initiatives
- the Local Government Act 2000 built on a recognition that local plans were the way forward, and introduced the requirement for local authorities to develop community strategies. These will have to inform the council's Development Plan, Housing Strategy and Community Care Plan
- the Local Government Act (2000) allows local authorities new powers of community leadership, which encourage partnerships and joint working with, for example, house-builders, in an attempt to deliver the UK's sustainable development strategy

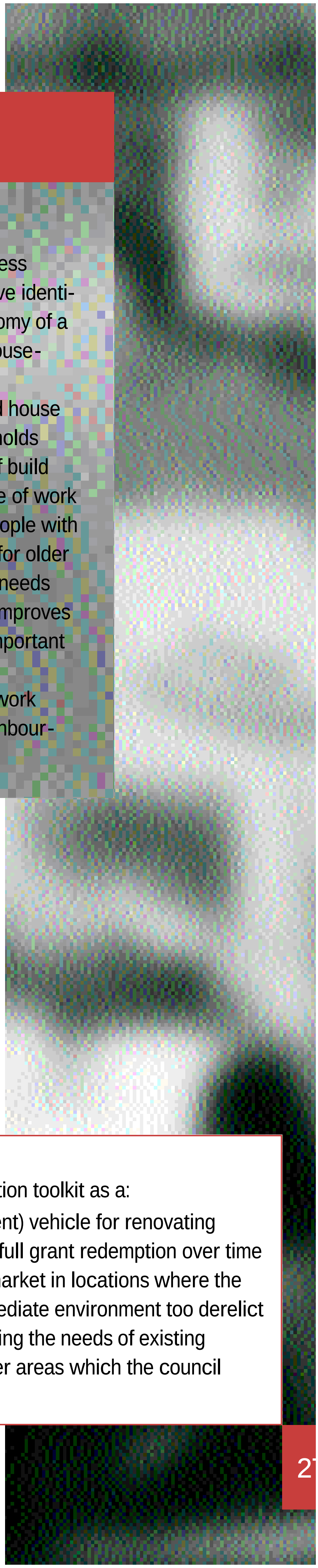
There is also a growing tendency to develop housing strategies that respond to housing markets across all tenures, allowing the introduction, for example, of housing registers for the intermediate housing market. In addition, there is a greater recognition of the need for local authority housing policy to make best use of the limited resources available.

Michelle owned a property before coming to Moat for help. Diagnosed with MS, she had to retire from work, so her mortgage lenders could not be paid as regularly as before. Moat offered her a shared ownership property and Michelle says: 'I was lucky I wanted a nicer house, and I got one.' If it hadn't been for Moat's help, Michelle would have had to move in with her parents.

More formally, the Government's *New Commitment to Neighbourhood Renewal: National Strategy Action Plan* identifies five strategic themes - including housing - within which its 105 commitments are structured. But all five themes require a distinct housing input that, in many cases, can be most economically and effectively be delivered through LCHO. The table opposite matches possible responses to the five streams:

New Commitment to Neighbourhood Renewal National Strategy Action Plan

Key theme	Possible LCHO responses
1. Employment and the economy	● Housing to respond to the needs of the business community and economy, eg London First have identified the negative impact on the London economy of a shortage of affordable accommodation for households earning £20,000-£27,000 pa
2. Crime/social inclusion	● Housing to diversify mono-tenure estates and house (attract & retain) economically active households
3. Education	● Housing to assist skills training, including self build ● Affordable housing for teachers near to place of work
4. Health	● Housing to promote independent living for people with learning difficulties, physical disabilities and for older capital rich households with care or support needs ● Upgrading or replacing older damp housing improves the health of occupants and is particularly important for people with respiratory problems ● Housing for health workers near to place of work
5. Poor housing and the physical environment	● Housing to encourage regeneration and neighbourhood renewal



One further aspect is a council's use of powers to achieve planning gain. When a council grants planning permission the value of the site can rise sharply. The council can access some of this increase in value by imposing conditions on the use of the site - such as the provision of affordable housing - or can receive a payment from the developer in lieu of such provision. Planning gain is a valuable potential source of additional affordable housing and may have contributed to the development of up to 30,000 affordable homes in the past two years[4]

LCHO and regeneration

LCHO can be a key part of the regeneration toolkit as a:

- low cost (in terms of grant requirement) vehicle for renovating older buildings, with the prospect of full grant redemption over time
- means of kick-starting the housing market in locations where the general location is good but the immediate environment too derelict
- means of retaining and accommodating the needs of existing owners in run-down terraces or wider areas which the council need to clear and rebuild

4 Improving the product

Shared ownership and Homebuy both have distinct advantages. Shared ownership has demonstrated its value over 20 years, and significant improvements and updating can now be identified which would substantially improve it. Homebuy is a simpler, more modern product but also has potential for improvement

SHARED OWNERSHIP relies on a lease structure. This adds a degree of complexity to the product, which can both add flexibility but equally can lead to mistakes being made in use. Shared ownership also retains a management link between the purchaser and housing association.

It can also generate significant surpluses for reinvestment, is more accessible and affordable in high value areas, and its flexibility allows developments to proceed in cases where the cost of a development exceeds its initial value. This can make it particularly suitable for regeneration initiatives.

HOMEBUY has the advantage of simplicity - the LCHO purchaser has full title to the property, subject to a conventional and an interest-free equity mortgage, which results in them being able to buy at 75% of value, and benefit from 75% of any appreciation (or loss!) on resale. Additionally, there is no significant link back to the housing association after the property is purchased.

Homebuy appears to be the most popular product with purchasers[1], and fits many of the quality check list criteria (page 6), but is subject to a number of criticisms in terms of delivery, as follows:

Key criteria for LCHO products

- Should be simple and easy to understand, particularly for LCHO purchaser but also for lenders, funders, developers, planners and managers
- Should be affordable
- Should be readily available and accessible to a wide range of customers unable to afford full ownership of appropriate accommodation and easy to obtain a mortgage on
- Should offer good value for money, particularly to purchasers, but also funders and local authorities
- Should offer protection against repossession

- Homebuy (in England, not Wales) does not appear to be as affordable to lower (target) income households as shared ownership[2]
- Homebuy is inefficient from a policy perspective, as initial evidence is that many actual purchasers would have been able to purchase conventionally either immediately, or within a very short space of time[3]
- compared to shared ownership, Homebuy does not allow for any follow-up management support or intervention after purchase
- Homebuy is not sufficiently flexible to easily allow for a reduction in outgoings in the event of permanent income reduction or long-term affordability problems
- In England (though not Wales) Homebuy cannot be used to fund new developments, greatly limiting its strategic value for local authorities, and its development potential for housing associations

New product proposal

A key change suggested to the existing form of Homebuy is the introduction of an interest-carrying equity loan to supplement the current interest-free equity loan as illustrated below:

The structure of Homebuy is currently very simple

75% conventional loan

25% interest-free equity loan (funded by grant)

A proposed new product is based on an interest-bearing equity mortgage. If workable this would increase affordability while reducing grant requirement:

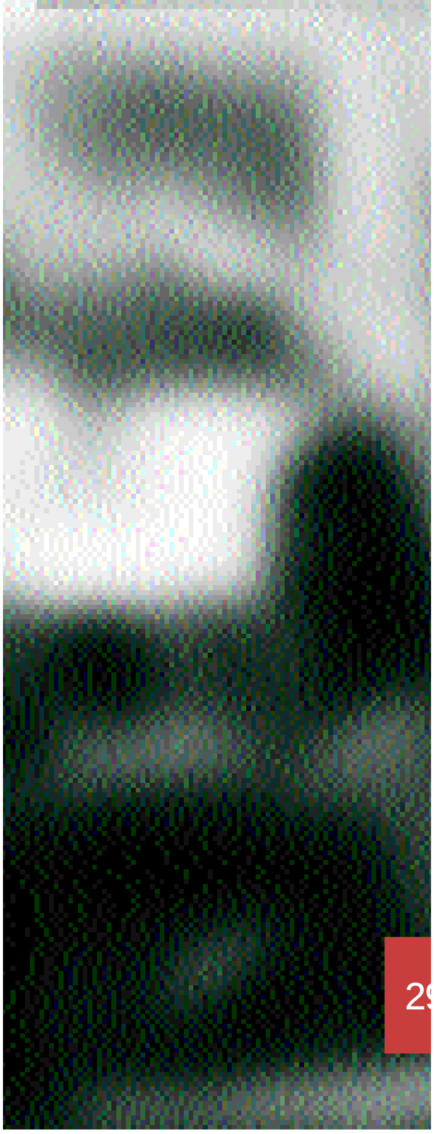
50% conventional loan

25% interest-bearing equity mortgage

25% interest-free equity loan (funded by grant)

Recommendations

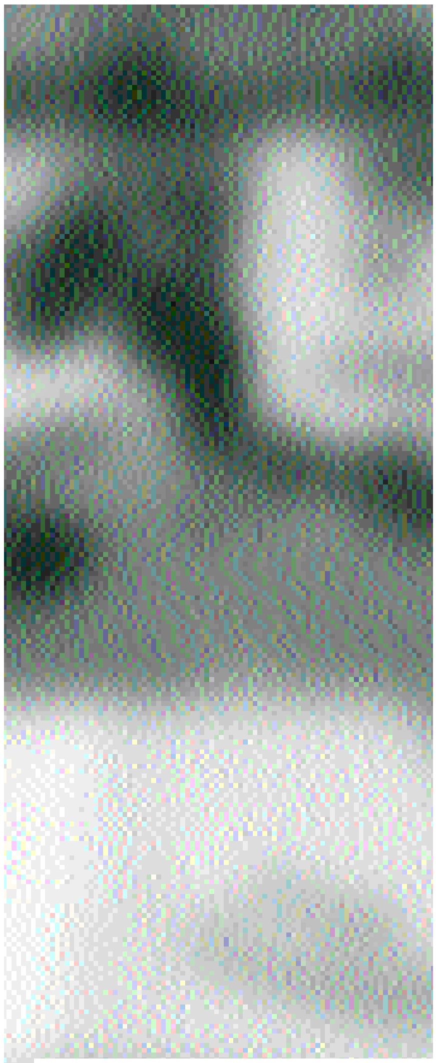
- The shared ownership lease should be redrafted into a standard modular document, variable only via an attached schedule, as a means of increasing understanding and readability, and avoiding opportunity for error and omission
- The existing Homebuy product should be amended to allow Homebuy to be used for new buildings and quality renovation or regeneration schemes (in England, as in Wales)
- Homebuy should permit housing associations to vary the level of grant (interest-free equity loan) given according to purchasers' needs, provided that the average level of grant remains at 75%
- The DTLR and Housing Corporation indicate support in principle for innovative home ownership products, and provide funding for a demonstration programme of schemes
- There should be further encouragement for local authorities in high-value locations to support demonstration programmes under Section 106/PPG3 Housing (2000) developments



Checklist comparison of Shared ownership and Homebuy

Criteria	Shared ownership	Homebuy
EASY TO UNDERSTAND		
● For purchaser	Basic concept simple Detail can be hard to grasp	Basic concept simple
● Conveyancing solicitor	Often not	Yes
● Mortgage lenders staff	Often not	Yes
● Interested third parties (planners, local authority housing staff)	Yes	Yes
● Affordability	Should be below 70% of full purchase costs	75% of full purchase costs(In England, less in Wales)
AVAILABLE AND ACCESSIBLE TO FOLLOWING GROUPS UNABLE TO AFFORD FULL PURCHASE		
● Key workers	Yes	Best value - where affordable
● In regeneration areas	Yes	Not linked to area*
● In high value areas	Yes	Potentially unaffordable
● Older people trading down	Yes	Unlikely
● Capital rich/ income poor households (eg divorcees[1])	Yes	Unlikely
Ease of obtaining a mortgage (assuming eligible)	Some purchasers experience problems[2]	Few problems
VALUE FOR MONEY - TO PURCHASERS		
● Discounted mortgage availability	Yes but restricted choice	Yes
● Monthly outgoings compared to full purchase	Higher on proportionate basis	Proportional to full purchase
● Protection against higher interest rates	Rental element provides useful cushion	Same exposure as conventional purchaser

● In case of difficulty	Housing benefit can pay rent Possibility of reverse staircasing	Same exposure as conventional purchaser* (Possibility of reverse staircasing in Wales)
● Disposal (compared to full purchase)	Mixed[3]	As full purchase
● Enhanced protection against eviction	Housing benefit on rent element Possibility of reverse staircasing Option for insurance package	Option for insurance package
● Staircasing costs	Significant	Comparable to re-mortgaging costs
VALUE FOR MONEY - TO FUNDERS (AND LOCAL AUTHORITY, IF DIFFERENT)		
● First sale always to target client group	Yes	Yes, but restricted in England to tenants of social landlords*, (and some evidence that not attracting lower income households)
● Resales to targeted client group?	High proportion achievable	Not at present*
● Retain property for permanent LCHO?	Sometimes	Not at present*
● Grant and social equity fully recyclable	Yes	Yes
● Can be property specific	Yes	Not at present*
● Can be applicant specific	Yes	Yes
VALUE FOR MONEY - TO LENDERS		
● Simple core structure	No	Yes
● Possession process compared to full purchase	More complex[4]	Little different(to full purchase)
● Transaction and running costs compared to full purchase	Higher	Little different(to full purchase)



NOTES

* Asterisked items under Homebuy are constraints imposed by regulation, rather than the structure of the product, and could be easily amended (as has been the case with downwards staircasing in Wales)

1 Or owner-occupiers retiring to more manageable accommodation

2 This seems more likely to happen in low value areas and areas where there is little existing Shared Ownership, and at times of mortgage shortage or economic downturn, and may also reflect the quality of advice available from the developing housing association

3 On the credit side, where there is high demand and a well run local authority nomination system substantial savings are made against the estate agency costs experienced by conventional vendors. On the debit side legal costs and disbursements may be higher, and local authority nomination requirements may cause delays

4 The final report of the GLA's Affordable Housing Scrutiny Committee 'Key issues for Key Workers' Feb 2001 observes :'Both the registered social landlords and the mortgage lenders noted that there were difficulties with the traditional form of Shared Ownership. It is seen as financially and legally complicated'

Both products clearly have comparative advantages and disadvantages. Some of the disadvantages of Homebuy - being unable to specify its use for particular properties or new-build projects - are related to regulation, rather than the structure of the product.

In the light of the relative merits of both products, the Task Force considered that both shared ownership and Homebuy should be supported and improved as major vehicles for Low Cost Home Ownership. Some members also wished to see Do It Yourself Shared Ownership again becoming available for Housing Corporation Funding as an alternative to Homebuy.

Homebuy appears to best suit lower to moderate income households in stable employment

Shared ownership showed particular benefits for certain groups of LCHO purchasers, particularly for capital-rich, low-income households who can afford to buy a significant share of a property, but cannot fund the remaining mortgage and maintenance.

Typically these households are older owners trading down to smaller (and possibly supported) homes, or divorcees or similar households who have received a one-off capital payment, but whose employment prospects are limited or unstable. An examination of raw CORE data indicated that approximately one in ten shared owners were purchasing a share of their property without requiring a mortgage.

Shared ownership's flexibility also allows the funding of developments in regeneration and high-value areas that would not be practical with Homebuy (as currently structured). It has a greater reach to lower income households. In contrast, Homebuy appears to fit better with lower- to moderate-income households in stable employment, but with few savings, whose incomes are insufficient to allow outright purchase.

The remainder of this chapter considers how both products can be improved to make them both more customer friendly and effective, and worthy products for housing provision in the 21st century.

SOLUTIONS

EVOLVING SHARED OWNERSHIP

Road safety campaigners work by both trying to improve the design of vehicles, and how they are looked after and driven. An older design of car can be driven well, but a more modern design can be much more forgiving of mistakes.

A similar approach is taken here, with this section considering how the shared ownership structure (as defined in the lease) can be modernised. This will reduce the possibility of mistakes being made or misunderstandings.

One of the Task Force members commented on the complexity of the current structure as follows: 'The leasehold concept is, in itself, complex enough for the average house purchaser. The added complexity of the current form of shared ownership lease adds to this, thereby making a product that is just too difficult for the majority of those whom it is intended to assist. From the outset, the form of lease used was not one that was readily understandable or even accessible to purchasers. It was not particularly easy for trained lawyers to deal with.

‘By and large, it was only fully understood by those lawyers acting for housing associations. Over the ensuing years, efforts were made to rationalise and simplify the lease, culminating in an attempt to solve the problem by the drafting of a plain English version of the lease. Regrettably, this has not really achieved its aim.' [4] This complexity can easily lead to mistakes and misunderstandings, many of which are linked to the conveyancing process.

A key element of most shared ownership schemes (and other LCHO products) is a mechanism for providing extra protection for the mortgagee who has lent to the LCHO purchaser.

This protection works by allowing the mortgagee, or lender, additional security against the housing association's equity in the property in the event of repossession or abandonment. It covers items such as up to 12 months' interest in the event of the original purchaser's share of the equity being insufficient to cover the lender's claims on resale.

In shared ownership schemes this protection is provided by a specific mortgagee protection clause. Since it was first introduced, a number of issues have been encountered with the working of this clause.

Some of these relate to the drafting of the lease (or incompetence of vendors' solicitors). This results in the correct protocols for activating the clause not being actioned, leading in turn to disputes between lenders and housing associations. Despite two warnings by the Law Society in its *Gazette*, the problem persists.

Other issues relate to the way that mortgage products have evolved since the original lease was drafted. A factor placing considerable strain on interpretation of the clause is the move from a near-standard mortgage product to ones that offer a wide range of incentives including cash backs, interest holidays, fixed rates, etc.

One example referred to the Task Force involves an owner who had been evicted 12 months after moving in for failing to pay his mortgage. Apart from reasonable costs, the lender was seeking to claim for a £6,000 cash back paid to the purchaser, plus substantial penalty interest.

From a housing association's perspective there is no clear duty of care from a repossessing lender to get the best price for the housing association. This contrasts with the rights of a repossessed owner-occupier to claim against the lender in cases where their former property has been sold significantly below the market price. With shared ownership repossessions the housing association will normally pick up the majority of any losses incurred by the lender in the transaction, but has no legal comeback in cases where properties are sold more slowly or at a lower price than reasonably obtainable. Evidence was received that this appears to be happening in a significant proportion of repossessions.

A further issue relates to the existence of many different versions of seemingly similar shared ownership leases, and the way in which variations and restrictive covenants are inserted into seemingly standard documents in a way which results in their importance being regularly missed. This leads both to unnecessary mistakes, and (as a precautionary reaction) excessive diligence and caution being applied.

ACHIEVING A BETTER LEASE

A number of attempts have been made to produce improved versions of the shared ownership lease. While many of these attempts have much individual merit, none has achieved any degree of universality. So they have unfortunately added to the complexity that has built up.

It is therefore proposed that a new lease should be drawn up which is 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 housing associations, regulators and lenders. Particular care should be taken with 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 housing association as well as repossessed owner.

Once adopted, the lease should be issued in a pre-printed modular form. The Housing Corporation could insist that all housing associations must use the standard form and only make amendments in the boxes provided at the end. Potentially this could be backed up further if:

- the Housing Corporation uses its powers under Section 9 of the Housing Act (1996) to limit the types of variation permitted without specific consent
- retail lenders insist that they will only lend on the (unchanged) modular form of lease (this would also greatly assist lenders' solicitors in spotting any changes or unusual variations)

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.

Once established, it would be sensible to establish a committee of key stakeholders to monitor the use of the lease, receive and consider suggested amendments, and issue revised versions on a moderately frequent basis.

The outcome of this process will be a greatly enhanced shared ownership product. This will help to provide customers, housing associations and lenders with substantially better accessibility and value for money.

EVOLVING HOMEBUY

The Homebuy product is very popular with purchasers and lenders. No major issues have yet been identified the product's structure5 , but it experiences a number of limitations which can be identified as follows:

- In England the product can only be used to purchase existing properties, and not to fund new developments. This greatly limits its strategic value to local authorities and regeneration agencies
- A study of the first 1,300 Homebuy purchasers in England found that their incomes were higher than those of shared ownership purchasers, A significant number of Homebuy purchasers would have been able to purchase conventionally at the time or within three years[6] [7]
- Homebuy does not appear to be as affordable to lower (target) income households as shared ownership
- In England no procedures exist to achieve a reduction in outgoings in case of permanent income reduction or long-term affordability problems

The restriction on Homebuy being used to develop new properties (or being made property specific) is purely regulatory. Relaxing this restriction would remove many of the reservations that local authorities currently have about Homebuy, and would increase the choice of LCHO products available for new provision and regeneration initiatives.

INCREASING AFFORDABILITY

The issue of affordability and ability to target lower-income households has been addressed in Wales by allowing Homebuy to provide an interest-free equity loan of 50% of the value of the property. This is clearly very affordable, and excellent value for the purchaser . However, it draws heavily on public subsidy, and careful consideration should be given to balancing the consequences of the reduced size of programme available for any given increase in grant before widely adopting this approach.

Aside from any limited increases in grant levels, a number of other ideas can be considered for increasing affordability using a Homebuy product structure.

Customising the grant level to the needs of the purchaser[8] retains the existing structure of Homebuy but customises - or means tests - the level of grant required to make purchase affordable to each eligible purchaser. Thus a purchaser who could afford a mortgage (plus any deposit) of £80,000 and wished to purchase a £100,000 home would receive an interest-free equity loan of £20,000, and acquire an 80% interest in the property. Meanwhile a purchaser who could only afford a £70,000 mortgage for a similar property would receive a £30,000 equity loan and acquire a 70% interest in the property.

Combined, these two transactions require an average 25% grant-funded equity loan, per the current arrangement. However, a family unable to afford Homebuy at the currently fixed rate of 75% would have been housed. Modelling this approach for JRF, Alastair Jackson found that allowing a band of equity loans from 15% to 35% would result in Homebuy being used by purchasers with earnings averaging 4% lower than at present. This approach seems worthy of further consideration, but carries a significant burden of extra administration for only a modest gain.

A different approach is for an additional equity contribution to be made. The basic structure of Homebuy is retained, but an employer (or housing association) could top up the 25% social housing grant funding with an interest-free equity loan. This would allow the purchaser to be able to buy a lower share of the property. When the purchaser moves on, the employer's equity would be repaid, reflecting any change in the value of the property. Peabody Trust is currently demonstrating this principle with its Royle House development in Hackney. (See also more radical proposals in Chapter 8).

5

Funding and subsidies

There are three types of funding required for LCHO. These are conventional retail mortgages, 'wholesale' loans by housing associations and subsidy/grant to reduce the overall cost to the purchaser. Each has different benefits for suppliers and customers

Recommendations

- Greater regard should be shown for the fiscal benefits (increased tax take, etc) that flow from LCHO where the grant funds new developments (or major refurbishment)
- Far greater emphasis should be placed on LCHO schemes which provide new accommodation (or major refurbishment)
- There is a clear need for a much more informed understanding of the planning gain process by many local authorities, and for best practice guidance
- There should be clear guidance on how councils can protect the future use of development sites while avoiding restrictive covenants that damage the ability to obtain competitive mortgages on the property
- Procedures are needed to guard against the potential for impropriety and to ensure that the locked-in equity will be properly recycled into further affordable housing provision
- Payment in lieu charges on commercial developments where there is evidence that the developer may be choosing commercial development to avoid the cost of providing affordable housing provision
- The Housing Corporation and DTLR should build on the experience of the Starter Home Initiative and test how existing LCHO products can be enhanced, or improved products developed
- Increased regard should be had of the potential and willingness of employers to contribute to the costs of housing provision for their key workers
- A substantial redrafting of tax guidance (or legislation) is needed to clearly allow employers to contribute to the costs of employees' accommodation, without tax penalty1
- The adoption of the 'Affordable Housing Unified Grant' proposal would allow housing associations, and their customers, greater flexibility and choice in determining the tenure mix of new developments

THERE are up to three types of funding required for LCHO initiatives:

- conventional retail mortgage to fund the pur chasers equity share
- wholesale loan required by the housing associa tion (or other body) supporting and jointly owning or standing behind the LCHO development
- subsidy or grant to reduce the overall cost to the LCHO purchaser

Each of these has a supplier and customer perspective, and is subject to both statute and regulation.[2]

CONVENTIONAL RETAIL MORTGAGE - WHAT LENDERS WANT

Taking the lender's perspective first, there are some reasonable requirements that there is an adequate total market to justify investment and targeting, and there is a borrower who can maintain the mortgage and repay when necessary. If the mortgage fails, there is a need for security to fall back on so that the debt can be cleared.

Additionally, lenders want borrowers who:

- genuinely aspire to home ownership
- are committed to their property
- are not breaking their finances to achieve purchase

In practice, loans on LCHO properties (particularly shared ownership) are less attractive than other forms of retail lending, due to:

- their smaller size, particularly in lower value localities
- the fact that most of the overhead costs of a loan are fixed, so take up a disproportionate amount of the profit on smaller loans
- higher arrears and failure rates, and associated administration costs, on LCHO properties
- specialist nature of the product, leading to higher staff training, administration and system costs
- variation in detail between different leases
- disputes that can arise over required procedures and the legal small print between lenders and housing associations at times of repossession

They prefer properties which:

- are not at the bottom end of the market, and so most vulnerable to any market down-turn
- have a lease and legal structure that is clear and unambiguous (and not prone to hide problems within subtle variations of wording or required procedure)
- require a transaction that involves minimal changes to staff training, procedures or information systems

Conceptually and administratively Homebuy type structures are much easier to manage and service.

CONVENTIONAL RETAIL MORTGAGE - WHAT BORROWERS WANT
From a borrower's perspective the key criteria are:

- ability to find a willing lender
- ability of lender to easily provide an informed 'point of contact'
- ability of lender to administer mortgage competently on LCHO property
- procedures comparable to those for conventional first-time buyer
- competitive loan terms comparable to those for equivalent-sized loan for outright purchase
- no promotion by lender of inappropriate products

Context

Further help should be provided for customers by both lenders and housing associations. Housing associations should obtain either adequate FSA approval to enable them to fully support potential purchasers in finding mortgages, or register under the appropriate sections of the Consumer Credit Act.

They might also ensure they have a very close referral relationship with one or more independent financial advisers who can provide appropriate advice and support on a one stop shop basis.

Lenders willing to lend on LCHO products (and particularly on shared ownership) should ensure that they either have a dedicated central team to handle LCHO mortgage applications, or have central back-up so that fully informed advice is only a single telephone call away from the branch counter.

Off the High Street

Only a small proportion of high street lenders lend on LCHO products, and, of these, a handful of lenders fund the majority of loans. There is evidence that some lenders are seeking to reduce their exposure to shared ownership. Lenders' main requirements for future LCHO lending appear to be:

- more volume
- a simpler product
- consistent and transparent rules
- adequate (NB but not unlimited) security on which to fall back

There would seem a good fit with both Homebuy and similarly structured products

Some lenders offer specialist centralised support for LCHO purchasers. This appears to work well, and would seem to be commendable good practice. At the very least, lenders should offer direct hotline support from an internal expert to front-line staff likely to be approached for loans on LCHO properties. An increase in volume and value of LCHO products would greatly assist lenders to offer better and more competitive products, as would a simplification of the existing products, as already proposed.

Further help for customers could - and should - be provided by housing associations. Options available include providing advice directly to potential customers through obtaining adequate Financial Services Agency approval or registering under the Consumer Credit Act. Housing associations could also ensure they have a very close referral relationship with one or more independent financial advisers able to give advice on a one stop shop basis.

WHOLESALE LENDING

Wholesale lending to housing associations on LCHO developments does not appear to be a major issue, provided the loan is of the conventional repayment type, and provided the housing association has adequate additional security (as required) and healthy financial ratios.

In terms of immediate return, LCHO is one of the most effective investments the Government can make

There is however a direct link between both the cost and shape of the wholesale funding, and overall affordability of the package that can be offered to the LCHO purchaser.

SUBSIDIES

There are a number of ways in which the subsidy required to fill the funding gap can be provided. These are considered below, and can often be combined for greater effectiveness or affordability.

Social Housing Grant is well established as the core funding mechanism for LCHO schemes, and the Government has indicated a significant increase in expenditure over the next three years.

The case for investing in LCHO has been clearly stated in the first three chapters. However, it is worth revisiting a couple of the key arguments. Firstly, in some high-value areas investment in LCHO generates more social rented lets than investment of equivalent grant in housing for rent. This must be a compelling reason for increasing selectively the amount of SHG allocated to LCHO schemes.

Where investment is in new provision, the high gearing of private to public money will mean that the likely financial return to the Government, from taxation (PAYE, etc) and reduction in benefits is likely to approach the cost of the initial subsidy in the first year. There follows subsequent payback as the grant is recycled, as LCHO owners staircase upwards.

Should the ways of stretching Homebuy with interest bearing equity loans explored in Chapter 8 prove viable then it is quite possible that the first year's financial return to the Government will exceed the grant required. The message is therefore that investment in LCHO is one of the most effective (in terms of immediate return) that the Government can make.

STARTER HOME INITIATIVE

Similar arguments to those made for SHG apply here. Benefits in terms of supply, market stability and fiscal return would flow from an emphasis on new provision rather than competing for existing property.

The relaxation of many of the normal SHG rules for LCHO provision should have assisted innovation, as should the innovation of allowing private sector developers to bid directly to the DTLR, while housing associations bid to the Housing Corporation.

As structured, the bidding process appears to have stimulated innovation at the scheme level, but the requirement for approval of bids by individual local authorities may have restricted the opportunities for developing new products. There could be merit in future bidding rounds in setting aside a tranche of funds for genuinely innovative new concepts. For example it is quite possible that institutional investors could have powerfully enhanced the funding now allocated as 'interest-free loans' if a clear opportunity to bid had been offered.

A major issue that has been highlighted with the Starter Home Initiative is the danger of properties being deemed a taxable benefit where employers in any way play a part in identifying potential purchasers, or where employers in any way facilitate the provision of the accommodation.

It is clearly counter-productive for a Government Initiative of this type to be a taxable benefit, and it is hoped that this issue will have been fully resolved by the time the first purchasers under this scheme are able to move in.

RECYCLED SOCIAL HOUSING GRANT

This is a small but useful additional source of funding, and current relaxation in rules would appear to make this easier to spend on LCHO schemes.

AFFORDABLE HOUSING UNIFIED GRANT

This is the name given to a proposed change to the nature of Social Housing Grant. At present, bidding for SHG has to state the type of scheme and tenure that the grant is intended to fund. When grant is approved, assumptions are made as to the proportion of LCHO and rented property, as well as the average equity share of LCHO properties that will be sold. Each tenure is then funded from separate pots.

Considerable time elapses between bid and hand-over, and during this time a change in the desirable tenure mix - or designation of properties by tenure - is likely to occur, reflecting customer choice and immediate need and demand. Current rules make it difficult to vary the tenure mix at a late stage, and normally penalise the housing association financially.

The AHUG proposal would make it possible to bid for an indicative tenure mix for a new scheme, with grant awarded accordingly. Grant entitlement is then recalculated according to the final mix achieved. Associations would use their own Recycled Capital Grant Fund (RCGF) to make necessary adjustments, protecting the Housing Corporation from any financial turbulence. The ability to use an association's RCGF monies in this way would add substantial flexibility and allow greater customer choice to be built into new developments.

Some of the inadequacies of the Planning and Affordable Housing Circular 6/98 include:

- the lack of clarity in definition. As a result, low cost market homes are sometimes sold at full market prices at resale, losing the benefit of any discount and control over future occupants
- the lack of consistency in approach to assessments, which has led to developers being able to play one authority off against another
- the lack of shared corporate objectives, leading to conflicting messages about affordable housing between planning and housing departments within local authorities
- the lack of guidance on the negotiation framework in Circular 6/98, limited expertise and unclear and inconsistent development policies, leading to ineffective negotiations between players
- the lack of understanding of housing associations' joint commissioning arrangements with local authorities to deliver affordable housing, which has led to inappropriate competitions
- the lack of consistent interpretation in Circular 6/98 has led to lost opportunities for developing mixed communities

PLANNING GAIN

A community's need for affordable housing is a material planning consideration. PPG3 requires local planning authorities to take this material planning consideration into account when formulating development plans and determining planning applications. This in effect allows a council to obtain a subsidy for social housing by accessing a share of the increase in site value that often flows from the granting of planning permission for a new development

The shortage of development land, particularly in areas of high demand, has led to a growing reliance by housing associations on subsidised affordable housing schemes being secured through the planning system. This growing pressure on the planning system to deliver an increasing percentage of the overall supply of affordable housing has led to tensions between developers, housing associations, local planners and housing departments. These tensions have emphasised the inadequacies of the Planning and Affordable Housing Circular 6/98 and its failure to balance the interests of the different players and deliver a proper balance of affordable housing.

Evidence from the Housing Corporation, on the number of homes secured through the planning system, would suggest that the current arrangements are preventing local authorities from achieving the full potential to supply a range of different forms of affordable housing and deliver fully integrated mixed communities. The Government's long awaited range of Best Practice Guidance available later this year will hopefully go some way towards disseminating the good practice to less well-performing authorities. However, correcting the deficiencies in the current arrangements can only be achieved through new planning guidance or legislation.

The Government's proposals to revise PPG 1 and consult on the reform of the planning system gives a significant opportunity to change the way that affordable housing is secured through the planning system. All the major players should be seeking a new planning framework that provides an open transparent and inclusive planning system that is more likely to lead to an improved negotiating environment based on open book transactions and trust. The use of planning gain to fund social housing, including LCHO, has been a notable feature of recent years. There is considerable current research in this area, little of which, unfortunately, is yet in the public domain[3].

A number of further observations on the process can also be made. At local authority level this is clearly still an area of emerging skill, and it is notable that expertise in negotiating planning gain, and expectations of developers, vary considerably between different local authorities. It is very common for there to be conflicting objectives between the planning and housing departments of local authorities, and a tension between provision of affordable rented and LCHO accommodation.

The reasonable desire of local authorities to protect the long-term availability of social housing within a development can result in the imposition of protective covenants or planning requirements. These can be so restrictive as to seriously restrict the ability of housing associations to obtain loan funding for the development, and can also often affect the ability of potential LCHO purchasers to obtain competitive mortgages.

Where properties are offered for sale as ‘affordable’, although they may be at a discount compared to other new properties, they are often priced above existing sound second-hand properties in the locality. Examples exist where inappropriate competitions set up by local authorities between housing associations have clearly bid out much of the benefit obtainable through planning gain.

A few local authorities appear to have no long-term interest in what happens to the planning gain after the initial sale of properties. Ways of preserving the low cost element for future purchasers are often disregarded. Surprisingly little attention can be paid to what happens to the realised gain when initial occupiers move on (or staircase). On occasions this can revert to the developer as windfall profit, or to the developing housing association on an unencumbered basis. The amount of some of the funds generated, and seemingly arbitrarily apportioned, raises significant issues of proprietary, or at least presents an easy opportunity for impropriety.

Where a local authority has entered a joint commissioning arrangement with a small number of local housing associations, problems can arise where none of these associations have expertise in provision and management of LCHO properties.

On occasions, builders buy out the planning gain, in effect funding affordable housing elsewhere in the local authority. This process is not conducive to developing mixed communities, and is a serious missed opportunity for the local authority in areas where there is a shortage of suitable development sites. However, this could be addressed by relaxing the rules on payment in lieu to allow out of borough development[4] Similarly where affordable housing is developed, it is often segregated or badged in a way that unflatteringly distinguishes the properties and residents.

Excessive claims by local authorities for planning gain to provide affordable housing can lead to site owners choosing to go for alternative developments such as office blocks or retail premises. This could be addressed in part by an equivalent financial planning gain charge being made on commercial developments.

Covenant amendments

Many present problems would be addressed with simple amendments to covenants. These would allow a relaxation for a lender in possession to allow re-sale at the level of their debt, perhaps after the lender has demonstrated the lack of a willing buyer within the covenanted restrictions and reasonable timeframe. At present the increase in mortgage repayments can offset many of the benefits of the subsidy.

EMPLOYER CONTRIBUTIONS

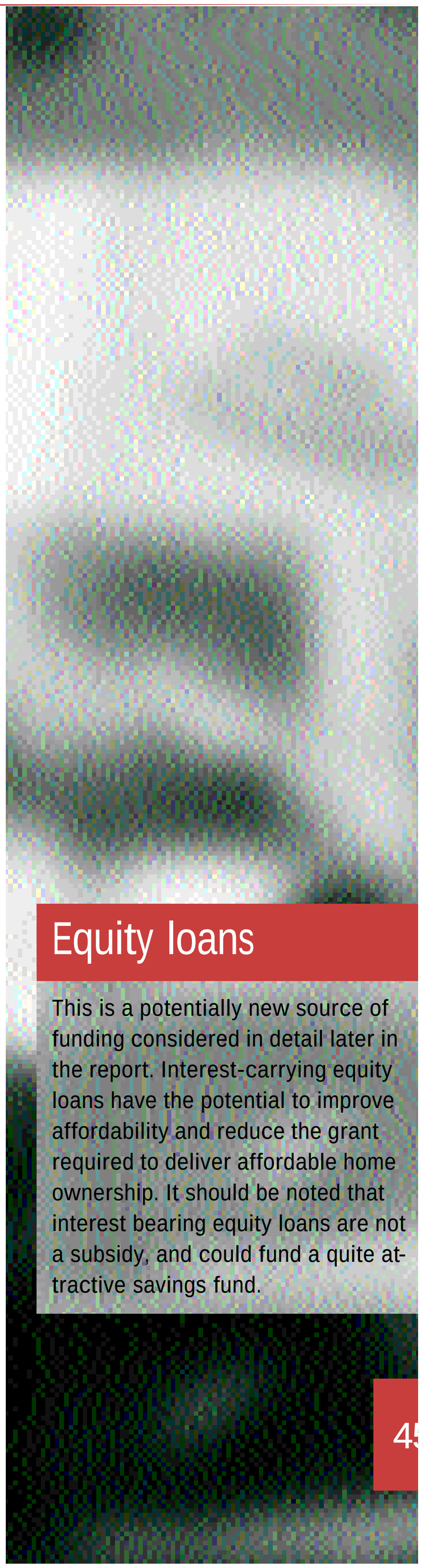
Aside from a one-off grant or loan of £5,000, all employer contributions to providing affordable home ownership are taxable. The exception is where there is a genuine requirement of employment for the staff to reside in the property.

At one level this is justifiable. Part of many banking staff's employment package is the provision of sub-market mortgages, and tax here would seem quite reasonable (certainly for higher salaries). A blanket exception from tax would lead to wide-scale abuse.

However, it seems equally wrong that where (for example) a hospital trust provides cheap land for affordable homes for its staff, that the staff become subject to taxation on the benefit.

A clear case exists for a set of rules that would allow employers to seek exemption from the tax liability on their staff, where the employer has contributed to providing affordable accommodation. Appropriate rules for exemption may be based on maximum salary level (vs family size?), minimum prices of local open market accommodation, or designation of categories of 'key' worker eligible for the scheme. This tax barrier is unfortunate as there is increasing evidence that both public and private sector employers would be willing to contribute to provision of affordable accommodation for key staff[5].

There would seem to be a preference for revenue-based schemes (except where public employers have their own land to contribute), which can be switched off if the employee leaves, or gets promoted above a threshold level. The Option Renting proposal[6] fits particularly well with employer subsidy, in that it allows the employee to remain in their home (albeit at an unsubsidised rate) when switching employers.



Equity loans

This is a potentially new source of funding considered in detail later in the report. Interest-carrying equity loans have the potential to improve affordability and reduce the grant required to deliver affordable home ownership. It should be noted that interest bearing equity loans are not a subsidy, and could fund a quite attractive savings fund.

6 Good practice

Unsatisfactory performance can occur. There are a number of areas where this can be addressed and practice can be improved. Improvements to the structure of shared ownership leases would make things easier. But many problems can also be prevented with better management and procedures

THE best LCHO providers demonstrate some excellent performance figures, have very high levels of customer satisfaction, and can be passionate about the contribution they are making to the communities they serve. A number of LCHO practitioner groups and benchmarking clubs

Recommendations

There should be a change in emphasis in the Housing Corporation's monitoring practice from monitoring sales performance to monitoring management performance. Subsidy should only be directed to housing associations demonstrating they can meet the key management performance benchmarks. The Corporation should only support housing associations' involvement in new LCHO initiatives where it is satisfied that:

- The housing association has sufficient expertise and accountability for LCHO at Board and management team level
- New LCHO developments are market-driven, and supported by a robust business plan
- Good procedures are in place for advising, supporting and engaging applicants for, and new and existing purchasers of, LCHO properties
- Good procedures are in place for liaising with lenders and responding positively to cases of threatened/actual repossession
- Associations are honouring the spirit of the mortgagee protection clause, and actively considering reverse staircasing and repurchase of the lease and re-marketing the property
- Housing associations' LCHO products demonstrate value for money in terms of charges on the unsold equity. The initial proportional cost of unpurchased equity should be at least 50% less than the cost of purchased equity
- Performance thresholds regarding evictions and abandonments, rent arrears, time to process re-sales, and market value of schemes following first sale are all adequately achieved
- Associations meet performance thresholds for evictions and abandonments as a proportion of LCHO stock, rent arrears, time to process resales, market value of schemes following first sale, compared to the appropriate local market

There is a case for a relaxation of some of the above criteria where housing associations are operating in high risk areas as part of, say, an urban renewal strategy developed in partnership with a local authority

- Greater flexibility should be allowed when agreeing reverse staircasing, to allow for inclusion of essential repairs and adaptations, and priority debt, in any package
- The proposals for modifying the shared ownership lease identified in Chapter 4 are adopted
- Guidance should be issued to councils to allow flexibility in restrictive covenants on LCHO schemes in cases where repossession/abandonment has occurred and appropriate buyers cannot be found within three months of the property being marketed

exist which provide support and a forum for sharing information and reinforce good practice and strategic approaches.

Key reasons for the level of variation observed appear to be a lack of monitoring and regulation of LCHO management by the Housing Corporation, combined with a perceived willingness by many housing associations to have LCHO strategies that are 'development-led'. These strategies place insufficient emphasis on management and service delivery issues, and long-term scheme viability.

Context

A feature of this study has been the range observed between the practice and performance of the best and the worst providers of Low Cost Home Ownership. Historically there has been undue emphasis on production of new LCHO developments at the expense of appropriateness and quality of management. Urgent attention should now be given by the Housing Corporation to introducing effective monitoring of management performance and strategic oversight of LCHO initiatives.

UNDERSTANDING THE PRODUCT

While the concept of shared ownership is very simple, the way in which it is structured and managed can lead to misunderstanding and mistakes being made.

LEASE STRUCTURE AND CONVEYANCING

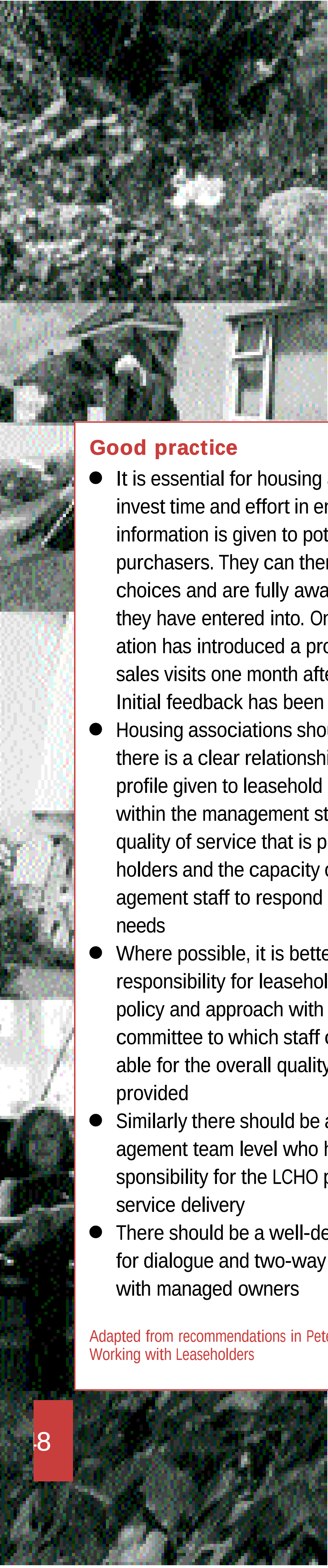
A shared ownership conveyance is more complex than a simple property purchase. When handled by competent solicitors who understand the product the transactions are carried out properly. However, there is a natural tendency for purchasers to shop around for the cheapest or most convenient solicitor, who will often agree a fee for the conveyance prior to realising the more complex nature of the transaction.[1]

The conveyancing staff in many solicitors are, quite understandably, not familiar with the LCHO lease structure, and do not have the time to study it properly. This can result in both inappropriate advice being given to the purchaser, and errors and omissions in completing the conveyance.

This can lead to situations where purchasers suffer from having been incorrectly advised, and unnecessary conflict generated between the lender and housing association if the loan defaults.[2]

Solutions

- Recommendations for improvements to the structure of the shared ownership lease are made in Chapter 4. These should greatly reduce the problems arising from faulty conveyancing
- The Task Force also recommends establishing a panel of solicitors familiar with shared ownership (and other LCHO products), which could be publicised to potential purchasers
- Consideration could also be given to following practice in Northern Ireland. The Northern Ireland Co-ownership Housing Association has obtained the necessary regulatory permission to share valuations and solicitors with shared ownership purchasers (NB Obtaining Law Society consent for this approach would be difficult, and would probably require a supportive investigation by a third party consumer representative organisation)



RELATIONSHIP WITH LANDLORD

Most shared owners and other leaseholders are either first-time households, or have previously lived in rented accommodation. The presence of a landlord vendor and continued part-owner of their property can lead to confusion in a number of areas.

On the housing association side, issues can arise where generic housing management staff are responsible for services to both leaseholders and tenants. This can arise from staff simply failing to recognise the status of a leaseholder, and responding to their enquiry as if they were a tenant, and from staff not fully understanding the service relationship with leaseholders.

Peter Robinson's *Working with Leaseholders* study concluded that: 'Leaseholders often felt that staff were not adequately equipped or informed to respond effectively to their queries. This underlines the need for clarity of policies, procedures and service standards as well as appropriate training for all staff dealing with leasehold matters.'

On the leaseholder side there can be 'a lack of understanding amongst leaseholders about leasehold tenure and their own responsibilities'.[3] This can express itself in misunderstanding over perceived responsibilities for repairs, and addressing neighbour disputes and nuisance issues. During interviews held in preparing this report a number of housing association staff noted a particular issue with former council and housing association tenants finding it hard to accept that they were now responsible for some or all of the repairs to their property.

Tensions can also arise where defects occur in new developments that are legally the responsibility of the contractor. Conventional purchasers have a direct relationship with the developer from whom they purchase their new home, and normally hold the appropriate warrantees themselves. Where a housing association stands between the developer and the occupiers residents can clearly find it frustrating and difficult to properly negotiate a satisfactory conclusion via the housing association as a third party intermediary.[4]

Good practice

- It is essential for housing associations to invest time and effort in ensuring adequate information is given to potential and new purchasers. They can then make informed choices and are fully aware of the contract they have entered into. One housing association has introduced a programme of post-sales visits one month after occupation. Initial feedback has been very positive
- Housing associations should ensure that there is a clear relationship between the profile given to leasehold management within the management structure and the quality of service that is provided to leaseholders and the capacity of leasehold management staff to respond to leaseholders' needs
- Where possible, it is better to locate overall responsibility for leasehold management policy and approach with a single committee to which staff can be accountable for the overall quality of service provided
- Similarly there should be a director at management team level who has overall responsibility for the LCHO programme and service delivery
- There should be a well-developed structure for dialogue and two-way communication with managed owners

Adapted from recommendations in Peter Robinson's Working with Leaseholders

VALUE FOR MONEY

RENTS

Costs of shared ownership do not always compare well to the costs of outright purchase. Shared ownership costs are split between the costs of the mortgage repayments and rent. Once obtained, the mortgage is repaid in the conventional manner, normally from a high street lender. The rent level is set by the housing association and is subject to an annual increase, normally of inflation or slightly above. Over time, the costs of shared ownership purchase will increase as a proportion of the costs of outright purchase.

For a 50% purchase, the best performing housing associations can deliver schemes where the initial costs of rent and mortgage (excluding any service charges) are between 65% and 75% of the cost of full ownership, and in some cases better. The costs of maintenance, plus any service charge, are fully borne by the purchaser.

For this the purchaser gets an ownership stake in a home they have chosen, benefits from 50% of any rise in value, at a cost significantly lower than outright purchase, and which may compare favourably to the local private rented market.

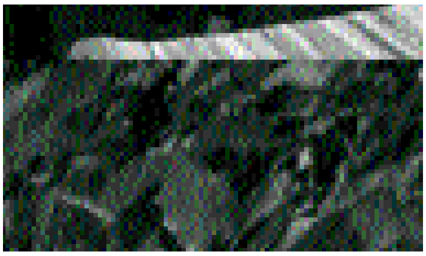
However, there is a very sharp variation between the performance of different landlords, and between different localities in terms of the rent charged on shared ownership properties. It is common to express (and set) the rent charged on shared ownership properties in terms of a percentage of the unsold equity. The table below shows regional variations in the average rents (excluding service charges) charged for first sales, and costs compared to full ownership.

Cost of shared ownership by region

Region	Annual rent as % of unsold equity	Cost compared to full purchase[1]	Sample	Standard deviation (v rent)
London	3.67	73%	1619	0.77
South east	3.82	74%	602	0.62
East midlands	4.27	77%	380	0.73
West midlands	4.49	78%	357	0.67
North west	4.93	81%	366	1.42
England	4.05	75%	4039	1.02

Data from CORE sales returns October 1999-September 2000, Regions with under 300 valid returns not shown separately

1 Calculated on basis of 50% ownership. Costs will increase over time in line with annual rent rises



From a provider's perspective the variation in rents can be partly justified by the higher element of fixed management costs in lower priced areas, and possibly by differences in grant levels.

From a purchaser's perspective the variation would seem unreasonable. Over one in six properties nationally cost over 80% of full purchase, while rent levels on a quarter of shared ownership properties in the north-west push costs over 90% of full purchase costs.

From a public policy perspective the range in rent levels appears unreasonable, particularly given the ability of some housing associations to deliver 50% shared ownership at costs as low as 65% of full purchase.

Properties are easier to sell in areas where there is a well-established understanding of LCHO

OTHER COSTS

While the rental charge is the main determinant of value for money, other issues impacting on LCHO owners include:

- legal costs for acquisition and sale. The recommendations above for either a panel of approved solicitors, or ideally sharing a solicitor with the housing association, would help, as would use of dedicated staff to handle sales administration
- marketing their property for re-sale. Where housing associations and the local authority collaborate to manage a well-run affordable home ownership register and nomination scheme, this can lead to both savings on estate agents fees, and a faster sale.

Properties are also easy to sell in areas where there is a well-established understanding of LCHO, and an established market in such properties. Difficulties can however arise in lower demand areas, and in areas where local authorities are ineffective in providing appropriate applicants through the agreed nomination system.

Good practice

- The establishment of an affordable home ownership register by the local authority, combined with an efficient nomination system
- The establishment of an estate agency dedicated to handling LCHO sales (as in Milton Keynes), and active maintenance of a waiting list of eligible applicants for properties

UNDER-PERFORMING PROPERTIES
Evidence for this is mixed, but extreme at the margins. The worst example identified by the author relates to a development (generally popular with its residents) where the resale value was lower in 1999 than when built in 1989. This was due to a combination of location and ill-advised covenants on the scheme. In contrast, in high-demand areas there are examples of premiums being paid for some low equity shares in property.[5]

Poor performance seems most likely to occur in developments situated in, or adjacent to, large council estates, and also where a high proportion of purchasers have bought low (25%) equity shares in lower valued properties. It is likely that such schemes have been 'development-led', being built due to the availability of grant money, rather than following a detailed housing market survey.

Good practice

- New developments of LCHO properties should only be approved where they are market-driven, and developed as part of a coherent business plan
- Care should be taken in imposing restrictive covenants. A mechanism should be inserted in the lease to allow for the subsequent removal or amendment of covenants that prove counter-productive to the well being of the development without requiring unanimous formal written agreement of all residents

MORTGAGEABILITY

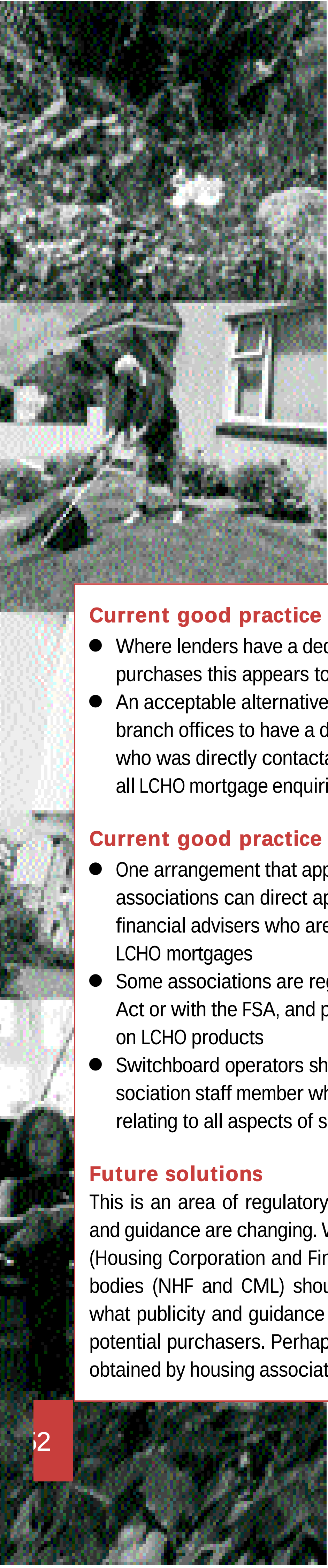
There are a number of issues including a restricted and reducing number of lenders willing to lend on shared ownership, restricted access to best lending deals and lack of understanding of LCHO products at branch level. There is also a lack of certainty on behalf of housing association staff as to what advice they can give potential purchasers.

The market for home loans to shared owners is specialised and relatively small. It is therefore not surprising that only a relatively small number of lenders provide mortgages to shared owners.

On a broad front the number of lenders willing to lend - and hence access to mortgages - would be increased by either:

- a significant uplift in the number of new LCHO properties funded by the Housing Corporation's Annual Development Programme, or similar source. This would increase the size of the business, and attract further lenders
- amending some of the existing features of LCHO products which cause lenders either concern or additional administration. This would reduce the level of specialism required to operate in the market, making it easier for other lenders to compete.

It is evident that significant problems can exist at front office level for



both housing association and mortgage lender staff. The Task Force heard evidence from one purchaser who had had to approach 15 lenders before receiving an acceptable loan offer.

The reasons for this are the unusual nature of the product (from a lenders' perspective) resulting in a lack of awareness among front-line staff as to whether they can lend, and the appropriate procedures to follow.

On the housing association side, staff often have genuine concerns as to the extent of advice they can properly give to potential purchasers under the Financial Services Acts. Similarly there was evidence of a communications gap where lenders' staff require housing association staff to be able to provide information. One identified weak link is where housing association switchboards are unable to identify a staff member able to handle enquiries from lenders on behalf of potential (or actual) purchasers.

The difficulty in finding a willing lender can make it harder for applicants to access discounted mortgages, and particularly for them to change mortgages at the end of discount periods to take advantage of new offers on the market. An examination of the initial lending rate obtained by shared owner purchasers of new property revealed they were obtaining loans at an average initial rate of between 6.1% and 6.2% (in the 12 months to September 2000).

These rates were competitive but did not reflect the more attractive offers available in the market. One feature of note is that, contrary to expectations, there was some evidence that purchasers of higher value property in London and the south-east were paying a marginally higher rate than borrowers in lower value areas.

Current good practice for lenders

- Where lenders have a dedicated central team handling LCHO purchases this appears to work well
- An acceptable alternative would be for all (participating) branch offices to have a dedicated person in the branch, or who was directly contactable on the phone, who could handle all LCHO mortgage enquiries

Current good practice for housing associations

- One arrangement that appears to work well is where housing associations can direct applicants to local independent financial advisers who are familiar with lenders who handle LCHO mortgages
- Some associations are registered under the Consumer Credit Act or with the FSA, and provide a list of lenders willing to lend on LCHO products
- Switchboard operators should know a designated housing association staff member who can answer incoming questions relating to all aspects of shared ownership

Future solutions

This is an area of regulatory uncertainty, and one where the law and guidance are changing. We would recommend that Regulators (Housing Corporation and Financial Services Agency) or the trade bodies (NHF and CML) should provide definitive guidance as to what publicity and guidance housing association staff can give to potential purchasers. Perhaps there might be a restricted licence, obtained by housing associations, to provide basic mortgage

GROWING FAMILY

Where family size grows (and family income may be lost) problems may arise because of a lack of affordable move-on. The perceived trend for more LCHO schemes to be flats rather than houses is likely to increase entrapment in the future.

Good practice

- To the extent that they work, the HOMES transfer system, housing associations own exchange lists and dedicated LCHO sales shops can assist move-on within affordable housing
- One excellent concept pioneered by Notting Hill Home Ownership is a package for shared owners whereby they sell their property (fully staircased) and identify an alternative (larger) property for the association to buy. The association uses the original grant (recycled), the owner's appreciation and their own appreciation to purchase the new property, with an increased rent (or mortgage) funding the shortfall. This scheme has worked well for three families, but is unduly complex due to Housing Corporation insistence that the properties are purchased through the purchase and repair procedures rather than the much simpler DIYSO protocol

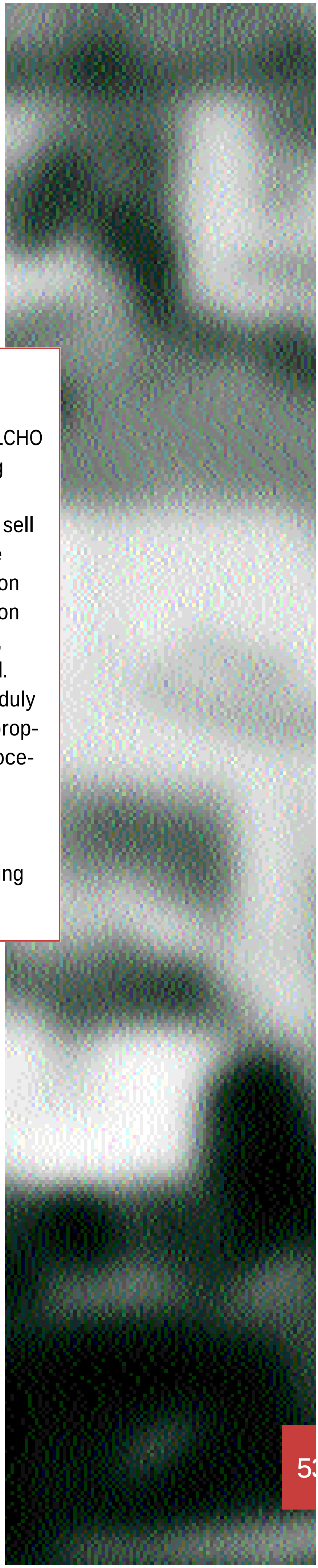
Recommendation

In cases where there is no additional call on Social Housing Grant, as above, the Housing Corporation should allow housing associations to use the well-established DIYSO procedures

INABILITY TO SELL OR LET

Most LCHO leases have a clause preventing any form of subletting. This is for management reasons and to prevent profiteering. In contrast, most conventional owners who are unable to sell their property, but are faced with a need to move, will let their home, using the rent taken to offset their new housing costs. In practice, a significant number of LCHO owners illegally sub-let, often generating management problems, and equally often being quietly ignored.

A number of housing associations now chose to ignore the 'no sub-letting' clause, and grant permission for owners to sub-let under certain circumstances, and by certain rules. This is a practical solution but also probably illegal, and leaves the housing association open to



formal complaint or legal redress from other aggrieved leaseholders. Some housing associations feel obliged to take a hard stand on this issue due to fear of the consequences, or from adverse experience.

NB: Under current legislation it is necessary to obtain the written consent of every leaseholder on a scheme to amend the no-subletting rule. (The author has experience on three separate occasions of trying to relax this rule by getting all leaseholders on a scheme to agree to an amendment. On two occasions one or more leaseholders blocked the change, on the third scheme every leaseholder signed the waiver clause).

Possible ways forward

- Use a lease that includes a clause allowing the landlord to approve sub-letting, but only under specific circumstances, on clear terms, and only at the absolute discretion of the landlord
- Development of a common set of principles as to when sub-letting should be allowed, and under what terms

Recommendation

The inclusion of a clause in the Homes Bill (or similar legislation) which would allow landlords to vary terms of lease provided they had the written support of two thirds of all affected leaseholders

REDUCING REPOSSESSIONS AND SUPPORTING OWNERS

It would be reasonable to anticipate a marginally higher rate of failure with a product aimed at lower-income, first-time buyers. However, one would also expect that the experience that housing associations have in managing low-income rented housing would assist them in providing appropriate advice and support for lower income owners, and that effective procedures would be in place to intervene in cases of difficulty.

This is demonstrated by the best performing housing associations achieving a high level of management performance, with impressively low levels of repossession and arrears.

Regrettably the performance and application of the best housing associations is not universal, with serious consequences for all stakeholders. The CML observed that many lenders have concerns about the efficiency and effectiveness of housing management of shared ownership and the Affordable Housing Scrutiny Committee of the Greater London Authority observes: 'There is a poor history of arrears on shared ownership in particular' [6]

While there is a dearth of published data on comparative housing asso-

ciation performance, such figures as are available show that rent arrears can vary from below 1.5% to approaching 10%. Over the period 1996-997 an average of 10.3% of shared owners had rent or mortgage arrears, compared to 3% of full purchasers. Similarly the repossession rate for shared owners is approximately four times that of conventional purchasers[8]. Arrears are not evenly spread. A major building society reports shared ownership arrears as being below those for conventional lending in Central London, an average of 6.4% across Greater London, and 11.4% in the north-west.

Discussions with housing association staff and lenders reveal that in many cases there is at best an awkward relationship between the housing association staff responsible for arrears, and their equivalent colleagues in lending institutions (at worst the relationship was clearly adversarial). It is clearly in the interests of all parties to share information, and many housing associations have clearly developed very good information-sharing relationships with the lenders.

Two main reasons are suggested for unacceptable levels of repossession:

- some properties are being sold to households who cannot afford them
- a number of housing associations are failing to intervene effectively at an early enough stage when purchasers get into difficulties. Features of the better performing housing associations are that they are either dedicated LCHO organisations, or that they employ specialist LCHO management staff

COSTS OF REPOSSESSIONS

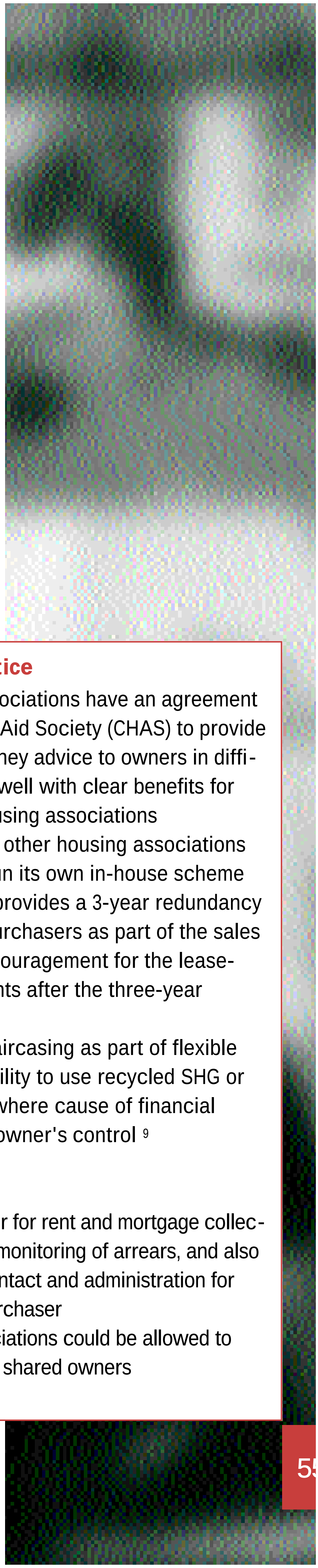
An unfortunate feature of shared ownership is that when eviction or abandonment occurs the costs of repossession, and opportunities for conflict, can be significantly higher than with conventional purchase. The Council for Mortgage Lenders, and several individual lenders, have expressed concern at the way that default action works with shared ownership.

Examples of good practice

- Some London housing associations have an agreement with the Catholic Housing Aid Society (CHAS) to provide debt management and money advice to owners in difficulty. This seems to work well with clear benefits for both leaseholders and housing associations
- An alternative adopted by other housing associations is for the association to run its own in-house scheme
- One housing association provides a 3-year redundancy protection insurance to purchasers as part of the sales package, (with strong encouragement for the leaseholder to continue payments after the three-year period expires)
- Greater use of reverse staircasing as part of flexible tenure (with greater flexibility to use recycled SHG or similar funding) in cases where cause of financial problems are outside the owner's control [9]

Other ways forward

- The use of a single manager for rent and mortgage collection would greatly simplify monitoring of arrears, and also provide a single point of contact and administration for payment matters for the purchaser
- Alternatively housing associations could be allowed to grant mortgages directly to shared owners



Repossession of shared ownership property would appear to average nearly twice the time (from court order to completion of resale) of conventional ownership. This delay is expensive to all parties, and in part can be linked to the structure of the shared ownership lease (particularly where procedural mistakes have been made during conveyancing). Other factors are the natural tendency for the housing association and lender's staff involved to take a defensive stance, and the need to ensure compliance with resale covenants, nomination agreements and similar arrangements which are attached to many LCHO properties.

In theory, shared ownership should be a particularly attractive product for lenders to fund purchasers. This is due to a unique mortgagee protection clause inserted into most shared ownership leases which provides the lender with enhanced security against the total value of the property, against the interest of the housing association and grant funder. In practice this arrangement does not always work as envisaged, and can be a cause for conflict, and abuse by both parties.

Some lenders attempt to make some extravagant claims against the mortgagee protection clause, for example of cash-back incentives paid to the purchaser or penalty interest triggered by default clauses. On the housing association side, a number of associations seek to avoid liability due to failure of the lender to obtain appropriate approval of the mortgage from the housing association (often due to mistakes made by the purchaser's solicitor).

Further problems can occur due to the effect of restrictive covenants on the re-sale value or process. The NHF and Housing Corporation have each recently issued guidance to housing associations encouraging them to comply with the spirit of the mortgagee protection clause.

The changes recommended in this report for revising the standard LCHO lease should avoid many of the above problems for future sales. The best solution however is for housing associations to ensure they invest the time and resources in preventative action and early intervention to avoid repossession, and where more drastic action becomes necessary to show a creative approach through reverse staircasing where appropriate, and repurchasing the lease (and remarketing the property directly) in cases where eviction is unavoidable.

FLEXIBLE TENURE

Housing associations are now able to use Social Housing Grant from their Capital Grant Retention Fund to allow 'reverse staircasing' for shared owners in financial difficulties[10] providing a (fairly restrictive) range of conditions is met. Individual examples exist of housing associations allowing reverse staircasing in other circumstances, using their own funds.

Additionally the Joseph Rowntree Housing Trust has piloted a programme of flexible tenure since 1986 and found it to work well. During this time a total of 115 households have staircased upwards, and 55 downwards from a total of 650 LCHO properties. Households tend to staircase down at times of lower house prices and staircase up in rising markets. Therefore the experience of the Trust is that flexible tenure is at worst financially neutral. The following table shows the overall cash movement from staircasing in the years 1994-2000:

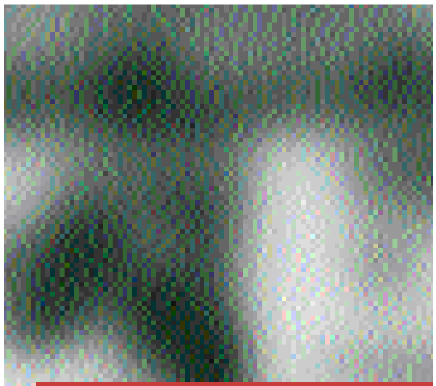
(£000s)	1994	1995	1996	1997	1998	1999	2000
UP	15	176	139	499	969	1,416	514
DOWN	182	21	145	90	130	143	105

A feature of the Trust's approach is that they are willing to consider circumstances wider than the threat of immediate repossession. This allows sensitive and compassionate responses to be made to households who have a compelling need to spend money (for example on essential improvements or adaptations), but are just able to afford their current mortgage repayments.

FLEXIBLE STAIRCASING

Current Housing Corporation procedures appear to restrict staircasing options to allow only four movements, with an apparent emphasis on 25% increments. This imposes unnecessary restrictions on shared owners.

Aside from not being a particularly customer friendly approach, there is a strong case to make that in areas of higher value it can put an excessive strain on household budgets to find funding for an extra 25% mortgage. In two locations, Northern Ireland and Milton Keynes, lower tranches (12.5% and 10% respectively) are available and appear to work well. They also offer households much greater opportunity to match their circumstances to the level of equity they opt to fund.



JHRT staircasing 1986-2000

Upwards	
Part to full ownership	39
Rent to full ownership	24
Rent to part ownership	14
Intermediate staircasing	38
Total upwards	115
Downwards	
Part ownership to rent	35
Intermediate staircasing	19
Full ownership to rent	1
Total downwards	55

The way forward

One way of ensuring progress may be for the Housing Corporation to introduce an equivalent of the CAT Mark, which could be awarded to providers and managers of LCHO schemes whose management structure and performance meet defined standards.

Greater publicity should be given to the benefits of flexible tenure and reverse staircasing, and that the rules allowing reverse staircasing should be relaxed to allow for factors such as the need for major repairs and adaptations, and settlement of priority debts to be taken into account.

Guidance should be issued to local authorities to allow flexibility in restrictive covenants on LCHO schemes in cases where repossession or abandonment has occurred, and a buyer cannot be found within three months of the property being marketed.

7 Roles for DTLR and Housing Corporation

The DTLR and Housing Corporation could have three key roles in developing low cost home ownership - advocacy of good practice and for further resources, regulation and performance monitoring, and flexibility in the use of their own budgets

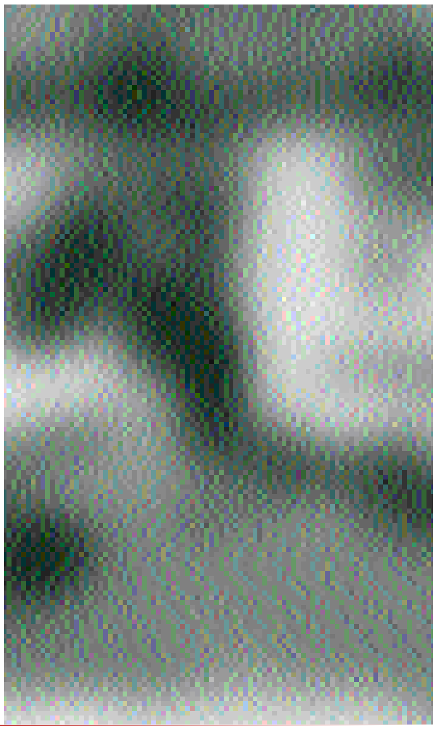
IN TERMS of arguing for extra resources from the Treasury, a case can be made that the fiscal benefits (from increased tax take, etc) will compare well to the level of grant required, and that continued fiscal returns will accrue as grant is recycled following sale and staircasing.

Similarly the link between collapsing housing markets and regeneration schemes which fail to address housing issues makes a powerful case for housing to be a key factor in future regeneration programmes.

Building on the experience of the bidding process for the Starter Home Initiative, there could be merit in the Housing Corporation (or DTLR) setting aside ring-fenced funding in future bidding rounds. This would be explicitly aimed at the development of innovative products, rather than predominantly scheme-based as appears to be the case with the first round.

Active support by way of encouraging bids for a demonstration programme of innovative LCHO products as part of the annual Housing Corporation's ADP bidding round could assist development of enhanced products, as could active encouragement for local authorities in high value locations to support demonstration programmes with PPG3 Housing (2000) developments.

Were the Corporation to be particularly bold, it may be possible to negotiate a substantial investment plus guaranteed grant package with a major pension fund. A grant base of £25m could potentially attract investment of £75m or more of attractively shaped funding, with the potential to generate £150m-£200m (plus) total investment in LCHO.



Additionally there may be benefits from exploring a possible linkage between the proposed equity scheme for existing social tenants and the loan funding structure for LCHO, as a route to efficient use of public investment.

GOOD PRACTICE

Three clear areas are identified where advocacy and best practice guidance from the DTLR could have a substantial impact on local authority practice and perception.

There is considerable evidence, not least from the recent SHI bidding round, that many local authorities are unduly focused on the demands for social renting at the expense of the wider housing needs and aspirations of their residents. Similarly it appears that most local authorities have yet to fully appreciate the role and consequences of the changes in local governance resulting from Best Value, the development of Community Strategies and other developments mapped out in Chapter 3. They may also be slow to act on the linked requirement to develop strategies that reflect all the housing in the local authority area.

While a framework for change is in place, it needs activating and directing. Some clear guidance, training and advocacy on the likely outcomes of the process, and ways to prepare, could yield substantial longer-term benefits (and not just for the enhanced role of LCHO initiatives). Most immediately the need for local authorities to collect adequate data and develop wider housing strategies could usefully be emphasised.

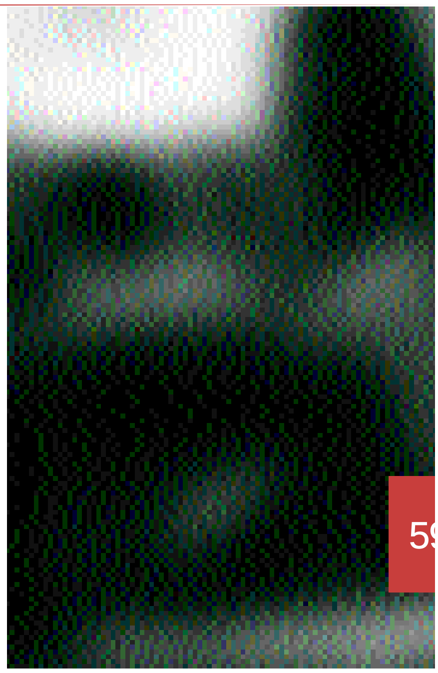
There is clearly a need for a much better understanding of how best to use planning gain. A well written good practice note could greatly assist many local authorities in obtaining better and more appropriate deals, would help avoid mistakes from for example using inappropriate competitions between housing associations (resulting in much of the potential planning gain being bid out of the system) and would also highlight the need to have mechanisms to be able to ‘track and account for’ planning gain after first disposal.

Wider benefits

There are a large number of contributions where LCHO can make a very positive contribution to improving the economy and quality of life within local authority areas:

- more stable communities
- community renewal
- cost effective regeneration
- retains upwardly mobile residents in their community
- retains/attracts key workers
- can free up social rented properties and avoid demand from ‘capital rich, income poor’ households
- major savings in cost of support and care provision (older people/ extra care)

Profiled publicity for these benefits, and their inclusion in good practice guidance would greatly assist potential champions of LCHO and key decision makers.



EMPLOYER SUBSIDY AND TAX ISSUES

The Starter Home Initiative has focused attention on the tax implications of affordable housing schemes linked to employment. Aside from the issues directly impacting on the SHI, it would be timely to lobby the Treasury and Inland Revenue for a change in the rules on taxation of the benefit of employer subsidised housing.

The Task Force's recommendation is for clear criteria to be agreed which define and exempt certain categories of staff. Definitions could be in terms of annual income, local house prices, or general eligibility for LCHO home ownership. Additionally regard should be paid to the US approach of tax breaks to organisations investing in the communities in which they are based to provide housing and other public amenities.

REGULATION AND PERFORMANCE MONITORING

This is primarily the responsibility of the Housing Corporation. A notable feature of the Task Force has been the degree of mutual self-criticism from the housing association representatives of the sector's performance in development and management of LCHO products.

Concern was expressed over the grant-led nature of many LCHO developments, and the lack of high level champions or experts on home ownership at board and management team level of many housing associations.

A strong case can be made for the Corporation to act to restrict future involvement in LCHO schemes to housing associations which can demonstrate a clear Home Ownership business strategy and customer focus, and have a good performance in terms of arrears and evictions. One practical step could be the introduction of the equivalent of a CAT Mark for associations achieving agreed standards of performance and management structure.

There is also a role here for the DTLR and Government Offices to ensure councils are sensitive to the issue that their preferred housing associations for delivering social rented programmes may not be the best for delivering home ownership initiatives.

Significant, and unnecessary, variations in levels of performance are observed in a number of key areas of LCHO management. Rapid adoption of appropriate performance measures, and effective action to improve weaker performers, should be implemented. Key areas to address include:

- variations in rent levels charged on shared ownership;
- level of repossessions and abandonments
- level of arrears (rent and mortgage)
- level of service charge (by age and property type)
- increases in level of service charge (from initial letting)
- overall customer satisfaction with service levels
- resale values (compared to the wider local market)

A revised form of shared ownership lease should be introduced and made virtually obligatory for all future schemes as recommended in Chapter 4. This should be redrafted into a standard modular document, variable only via an attached schedule. The rights of a lender when activating the mortgagee protection clause should be clearly defined but constrained. This would greatly assist understanding of the main lease terms, would allow the production of a standard leaseholders' handbook, and greatly assist solicitors and lenders to rapidly approve and administer leases in an error free manner.

One small contribution the DTLR could make would be to devise a mechanism for initially rewarding local authorities that invest in mixed tenure initiatives with some additional discretionary funds to be used for housing but to meet priorities which do not easily fit the standard approval definitions.

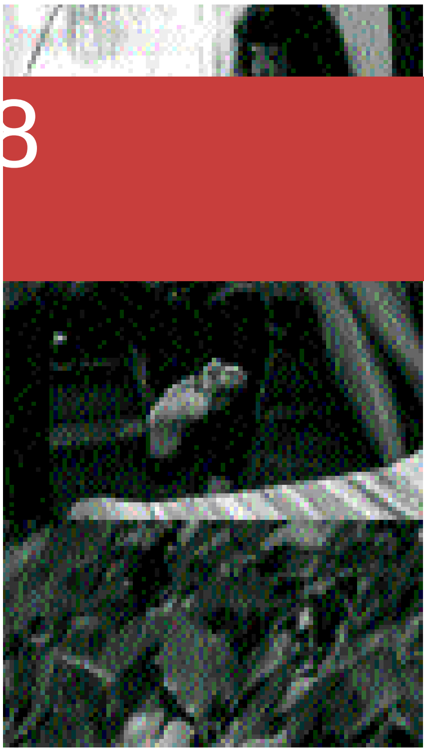
GRANT REGULATION

The Task Force would welcome confirmation of the ability to use Recycled Capital Grant Fund (RCGF) as a flexible buffer, and prior to scheme completion, to allow late changes in tenure mix or ownership share of new developments. (The Affordable Housing Unified Grant - AHUG - concept).

The rules on Homebuy (and any successor product) should be changed to allow Homebuy to be used for new buildings and quality renovation or regeneration schemes (in England, as in Wales). Changes would also allow housing associations to vary the grant level according to an applicant's financial circumstances, provided average levels of grant remained constant.

Should the enhancements identified to Homebuy in Chapter 8 prove to be achievable, support should be given to fund a demonstration programme. This would explore how the revised form would work in practice, as innovations of this nature have the potential to greatly improve the quality and accessibility of LCHO initiatives.

Increasing emphasis should be placed on the need for balanced and mixed communities, and initiatives encouraged and supported which allow for flexibility of tenure. Ultimately an objective should exist of developing a totally flexible LCHO product along the fully flexible shared purchase structure mapped out elsewhere in this report.



8 Homebuy - a radical improvement

‘Affordable Home Equity’ is a proposal to modify the Homebuy scheme, dramatically improving its flexibility and affordability. It could also produce more properties for any given level of subsidy

THE new product is tentatively named Affordable Home Equity (AHE). The driver for AHE is the equity mortgage, as with Homebuy, but the structure is designed to be more flexible, and accessible to households on lower incomes. The key ‘new ingredient’ is the concept of the LCHO purchaser paying interest on the (unsubsidised) equity element of the mortgage.In terms of affordability, flexibility and access the implications of including an interest element on the equity mortgage element are profound. The following table demonstrates the level of affordability assuming a 25% grant (or interest free state equity loan), assuming the LCHO purchaser chooses to take a 75%, 50% or 25% equity exposure (ownership) in the property.

The table below assumes a mortgage interest rate of 7%, and equity mortgage interest rate of 4%. In practice it is likely that the proposed structure will enable discounted mortgage rates to be obtained, and surprisingly the affordability is only slightly effected if the equity loan element requires say a 5% rate. A full property value of £100,000 is assumed.

Affordable Home Equity

The key change to the existing form of Homebuy is the introduction of an interest carrying equity loan to supplement the current interest free equity loan, as illustrated below:

The structure of Homebuy is currently very simple

75% conventional loan

25% interest-free equity loan funded by grant)

New Product - Affordable Home Equity

50% conventional loan

25% interest-bearing equity mortgage

25% interest-free equity loan (funded by grant)

Equity mortgage of £100,000 property
Assuming 7% interest on purchasers share, 4% interest on equity mortgage25% of value covered by grant/interest free equity loan (as Homebuy)

LCHO purchaser’s share	Monthly cost	Cost compared to 100% purchase
100%	£715	100%
75%	£536	75%
50%	£440	62%
25%	£345	48%

NB Costs will rise slightly over time (as with shared ownership), reflecting the increasing value of the equity loan

Even with no direct subsidy affordability looks almost acceptable:

Affordable Home Equity mortgage of £100,000 property
Assuming 7% interest on purchasers share, 4% interest on equity mortgage No direct subsidy*

LCHO purchaser's share	Monthly cost	Cost compared to 100% purchase
100%	£715	100%
75%	£620	87%
50%	£524	73%
25%	£429	60%

*in practice a small degree of subsidy would be necessary by way of insurance, to protect the interests of the equity lender against the needs of the conventional mortgage lender, in the event of repossession or forced sale

The implication here is that a very affordable product can be constructed with very little grant (say 10-15%), greatly stretching the benefits of available funding, and fitting very well to provision of affordable housing through planning gain. The following table compares the affordability and cost of Homebuy, shared ownership and AHE. An interest rate of 7% is assumed on the purchaser's conventional mortgage. The shared ownership calculation assumes that the rent is calculated a rate of 3.69% on the (full amount) of the unsold equity retained by the housing association. This is the average rate for shared ownership sales in London for year ending September 2000[1]. The AHE calculation assumes an initial interest rate of 4% on the interest bearing equity loan (but cf shared ownership, not on the grant funded interest free element).

£100,000 property, 7% mortgage over 25 years, 4% equity loan***

	Conventional shared ownership		Affordable Equity 25% interest free (grant funded)		Affordable Equity 10% interest free (grant funded)		Affordable Equity 0% interest free (No grant input)****	
Purchase %	Cost £pm*	% of full purchase s costs	Cost £pm	% of full purchase s costs	Cost £pm	% of full purchase s costs	Cost £pm	% of full purchase s costs
100	£715	100%	£715	100%	£715	100%	£715	100%
90	N/a	N/a	N/a	N/a	£644	90%	N/a	N/a
75	£613	86%	£536	75%**	£586	82%	£620	87%
50	£511	72%	£441	62%	£491	69%	£524	73%
25	£409	57%	£345	48%	£395	55%	£429	60%

Based on an average rent charge of 3.69% of unsold equity - for first sales in London (from CORE data)
** As Homebuy *** The 4% Equity Loan funds the difference between the Equity Purchased (first column) and the grant funded 'Interest Free' Equity loan (per Homebuy)(Comparison with UK Treasury Bonds and the US market indicate that a yield to the lender of around 4% is where the market should settle). **** Very similar to the Shared Appreciation Mortgage available in the US, but would (in practice) require either a deposit of 5%-20%, or some form of default guarantee

The table on the previous page demonstrates the affordability and economy of the AHE concept, provided of course that commercially funding for the interest bearing equity loans is available, and that the appropriate regulatory and structural issues relating to the product can be addressed.

A key feature of AHE is that no further grant (interest free loan) appears necessary for the purchaser to have a 25% equity share than for a 75% equity share. This contrasts strongly with the both Homebuy and Shared ownership.

Similarly its apparent viability at 10%-15% of free equity would seem to make it an ideal product for planning gain LCHO developments (see Chapter 5). This is partly because available subsidy would go further, and partly because properties could be sold at full value avoiding demarcation lines between social and commercial developments.

An alternative way of viewing the benefits of the AHE product is to consider the worked example in chapter one. This showed a household earning £20,000 a year (with no deposit) just able to afford a £65,000 home, or a 75% share in a £86,666 home with Homebuy, or a 50% share in a £90,000 home with shared ownership. For the same level of outgoing (£107.32 a week) the household could afford a 50% share in a £94,000 home with 10% subsidy, or a 50% share in a £105,000 home with the 25% subsidy afforded to Homebuy.

FUNDING AVAILABILITY

The fundamental issue is the potential availability of interest bearing equity loans at an affordable rate of interest. There are three methods in which loan funding could be made available.

The first of these is on a retail mortgage basis, most probably linked to a conventional mortgage for the purchaser's own equity share. A comparable retail product, the Shared Appreciation Mortgage, has been developed in the United States of America.

The second is via a wholesale loan to housing associations, who would then 'on lend' to the purchaser (as they currently do with the current interest free equity loan with Homebuy). Preliminary discussions with some major lenders indicate that either route is potentially viable, and that the indicated yield (equity uplift plus 4% indexed) is realistic.

Evidence that the market rate for the equity loan settling at around 4% comes from:

- comparison with government index linked gilts (with appropriate added margin)
- comparison with investment returns on new commercial property
- availability of comparable equity release loans
- a comparable American (US) product, the Shared Appreciation Mortgage

A third route may flow from a need to establish a savings fund to support the government's proposals to encourage tenants in social housing to acquire an equity interest in their properties[2].

There are two main barriers to commercial loan products becoming available:

- need for the lenders to be persuaded of the size and potential demand for the product
- a need for lenders and housing association providers to have clear procedural and regulatory guidance on the use of the product

The first is a prerequisite for the second, and the Joseph Rowntree Foundation have commissioned some preliminary legal and regulatory work to minimise practical obstacles.

To demonstrate a demand for the product we would recommend the development of a pilot programme of projects, supported by either Social Housing Grant or planning gain. Our expectation is that slightly higher rates of return would be required by the lenders on the first wave of properties to cover the greater perceived risk, a situation which could be addressed by use of slightly more grant.

The retail version of the above product would be for lenders themselves to devise and market in dialogue with LCHO providers. The wholesale version would need to be jointly developed between lenders, housing associations and the Housing Corporation. and the following section details the core structure.

THE PRODUCT

This section is a detailed technical commentary on the product and key practical issues that need to be resolved. It is based on a briefing prepared by Michael Gaskell of Cobbetts Solicitors

The concept

LCHO Purchaser purchases the freehold (house) or leasehold (flat) interest in the same way as in a traditional house purchase. The financing of that purchase is slightly different:

- Purchaser obtains first mortgage from high street sources on usual terms
- Purchaser obtains second (equity) mortgage from housing association (or linked to first mortgage) on 'softer' terms, supported by SHG, planning gain or similar subsidy
- Second mortgage enables housing association (and thus the lender) to share in property value increases to compensate for lower headline rate of interest.
- A Deed of Priority governs the relationship between the first and the second mortgagee

THE SECOND MORTGAGE

The document to be signed would be a simple one page mortgage deed in similar format to that which purchasers currently sign with regard to Bank of Building Society mortgage borrowing. It would refer to standard mortgage conditions. Suggested drafts for both of these documents are available on request[3]. Detailed further work will be needed on the equity share mortgage conditions, if the product were to be further developed, after discussions with the Council of Mortgage Lenders and Housing Corporation/DTLR

The limitation on the first mortgagee's priority is crucial to protect the housing association's investment

The interest rate payable by the purchaser under the second mortgage would be lower than the prevailing market rate payable under the first mortgage as:

- the housing association should be able to pass on wholesale money savings
- part of the housing association's return could be in the participation in anticipated increases in value of the property
- part of the sum being loaned would be the grant element which would be interest free to the housing association and should therefore be interest free to the purchaser.

DEED OF PRIORITY

The relationship between the first mortgagee (bank or building society) and the second mortgagee (housing association) will be regulated by a deed of priority.[4]

The purpose and effect of the deed of priority is to ensure that the first mortgagees loan is repaid first, in the event of sale, up to the agreed level of priority. As with shared ownership, this would be the initial loan plus any further advances agreed to in writing by the housing association - plus up to 12 months' unpaid interest together with the first

mortgagee's security protection and forced sale costs. The limitation on the first mortgagee's priority is crucial to protect the housing association's investment. Without it there would be no real incentive for the first mortgagee to do anything about a non-paying purchaser or mortgagor. The unpaid interest would simply attach to the first mortgage.

REGULATION

It will probably be necessary to extend the permitted objects and purposes of housing associations. Under the Housing Act 1996, most would not have power to enter into the second mortgage arrangements proposed. It should however be possible for the Corporation to get the necessary statutory instrument approved. It is possible that some associations will already have power but the majority, who follow existing model constitutions, will not. Each housing association would need to consult its own rules/memorandum and articles of association.

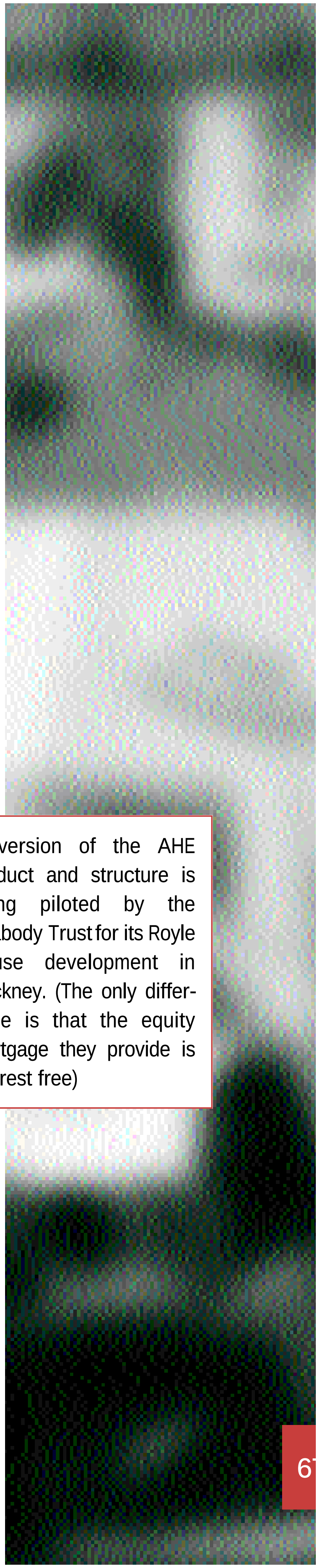
For second mortgages under the current Consumer Credit Act threshold (£25,000) it will be necessary for housing associations to obtain a Consumer Credit Act Licence in order to promote and advise upon the product. Given past experience in other areas, it should be possible to arrange for a streamlined procedure for this limited purpose.

OTHER BENEFITS

Some of the difficulties currently identified with the AHE product, from the banks and building societies point of view, are resolved:

- the question of consent under the shared ownership Mortgagee Protection Clause disappears
- in the event of a repossession the first mortgagee is clearly in control, whilst giving the second mortgagee the benefit of the substantial existing case law on the relationship between first and second mortgagees and the obligations of the first mortgagee to the second mortgagee. Delays and complexities are thereby reduced
- the position of product mortgages (eg cash backs and reduced interest rates) should be more transparent.

A simple way to provide the equivalent of reverse staircasing and mortgage rescue is to alter the balance between the amount outstanding on the first and the second mortgages and enter a new deed of priority. In theory it would be simple to make further advances under the second mortgage for purpose of paying off the first mortgage completely or reducing it to more manageable proportions.



A version of the AHE product and structure is being piloted by the Peabody Trust for its Royle House development in Hackney. (The only difference is that the equity mortgage they provide is interest free)

TOWARDS TOTAL FLEXIBILITY

The AHE product marries together many of the advantages of shared ownership and Homebuy, with the potential to produce more affordable properties for a given level of grant. Its main limitation is that it is not an appropriate product for households with low, erratic or uncertain incomes.

A shared purchase approach

This could work as an extension to the AHE concept, based on a more radical idea of the LCHO purchaser and the housing association sharing the same mortgage - broadly in the way that any two people can jointly buy a property.

Assuming the regulatory requirements could be resolved and lenders were willing to fund such a scheme, there could be a number of advantages. A simple schedule of mutual responsibilities between housing association and purchaser could be established. This would include the rules for sharing the profits/losses from resale, and allow the housing association to buy out the shared purchaser on equivalent terms to a sale (retaining the property for LCHO in perpetuity).

It would be possible for the association to collect all mortgage payments from the purchaser. This would resolve issues of joint accountability. Such an approach would make reverse staircasing much more practical.

Developing the approach still further could allow the purchaser to relinquish their responsibility for contributing to the mortgage and defaulting to being a tenant (probably at a sub-market rather than social rent). Such provision could include 'option renting'5. A cash rich/income poor or 'unreliable' would be purchaser could enter at this stage.

This would generate a truly seamless product which would account for most circumstances likely to arise at the property. But there would be significant regulatory barriers to overcome and the issue of housing benefit eligibility would be crucial.

The customer and social benefits of introducing a fully flexible shared purchase product would appear substantial, with the product gaining ticks in all the right boxes in the ideal product schedule. However in practice the conceptual and regulatory barriers to introducing a fully flexible shared purchase product appear too high, compared to the relatively quick gains that can be achieved with the AHE product.

A brief history of low cost home ownership

by Tony Shephard of Tony Shephard and Associates, housing consultants and software designers

SUBSIDY for affordable owner occupation, or low cost home ownership, has had a chequered history. Looking back, we can see that the objectives of the programmes were often at best unclear and at worst contradictory. Causes and effects, potential markets and demand often had less of a bearing on decisions than wider political directives on tenure. Nevertheless, despite or because of its history, LCHO has matured into a sophisticated business, and has now established itself as a key player in the provision of affordable housing

1961 The Housing Act introduced funding for cost rent housing, administered by the National Federation of Housing Societies

1964 The Housing Act created the Housing Corporation to extend this activity and introduced a new fully mutual co?operative housing product known as co-ownership: approximately 40,000 co-ownership homes were built over the following 15 years

1977 The Campbell Committee supported community leasehold housing for part?subsidised home ownership. The Housing Corporation also introduced a variant of co-ownership known as co-ownership (equity sharing). Similar equity sharing schemes were piloted by local authorities. Leasehold schemes for the elderly (LSE), with a fixed 70 per cent equity sale, 30 per cent grant?aid and no rent, extended low cost home ownership to housing for older people. Pilot schemes for Improvement for Sale (IFS) were introduced in York and Merseyside

1980 The Housing Act introduced Shared ownership (SO) as a replacement for community leasehold and co-ownership. Grant-funded IFS (outright sale only) was introduced but restricted to existing residential buildings. LSE was extended but remained as a fixed 70 per cent equity tenure. The Housing Corporation allocated increasing resources for these initiatives. All home ownership initiatives were considered to be non-charitable. Many charitable associations created non-charitable satellites

1981 Co-ownership societies were allowed to sell homes outright to members. Most of the 40,000 co-ownership properties in England were sold off

1982 The Court ruled that LSE was a charitable activity (Joseph Rowntree Housing Trust v. Charity Commissioners). The Government launched a Shared Ownership off?the?shelf (SOOTS) programme in response to a slump in the home ownership market. IFS became the first mixed funded tenure with development loan finance provided by Barclays Bank under cover of a Treasury Guarantee

1983 SO was subsequently extended to property not built/converted by a social landlord through Do-it-yourself Shared Ownership (DIYSO). Homes selected by households in need were purchased off the shelf by a social landlord and then leased to the applicants

1984 The Housing Corporation stopped funding DIYSO as it was proving too popular and outstripping limited resources. SO Value Limits were introduced to control the type, size and location of dwellings being produced. The Housing & Building Control Act introduced the home ownership scheme for tenants of charitable housing associations (HOTCHA) to enable tenants who did not have the right to buy to purchase a home on the open market with a discount. Right to Buy Shared Ownership was introduced. A major cut in the Housing Corporation's ADP led to the introduction of measures to bolster the housing for rent programme. 'Open Door' Indexed Linked Shared Ownership funded by the Nationwide Anglia Building Society was launched. The indexed linked loan replaced the Corporation's residual loan finance and initial sales were restricted to 90 per cent equity (75 per cent in London). The surpluses from initial sales receipts were used to fund housing for rent

1985 1985 determined that Shared ownership rents were subject to registration under the Rent Act 1977. Associations were given the flexibility to sell IFS schemes on an SO basis

1986 The Joseph Rowntree Housing Trust completed its Mixed and Flexible Tenure (MFT) project enabling tenants to purchase shares to full ownership, and owners/shared owners to sell shares back down to full renting if financial circumstances necessitated it

1987 A Statutory Instrument under the Housing and Planning Act 1986 made it possible for SO leases to be excluded from both the Rent Act 1977 and the Leasehold Reform Act 1967. However, the regulations prevented an SO scheme being provided for special client groups, eg elderly people

1988 SO was used to pioneer the mixed funded and fixed Housing Association Grant (HAG) framework which became standard from April 1989. The Housing Act established all new SO leases as assured tenancies. This ended the need for SO to comply with regulations to be excluded from the Rent Act 1977

1989 Shared Ownership for the Elderly (SOE) replaced LSE. Stair-casing on SOE schemes was restricted to 75 per cent equity with no rent payable at the maximum equity level. Rehabilitation Shared Ownership replaced IFS. Tai Cymru introduced flexible tenure for all future HAG-funded housing for elderly people in Wales

1990 The Tenants' Incentive Scheme (TIS) was introduced for tenants of housing associations who did not wish to buy their existing home but were interested in buying an alternative property on the open market with a fixed cash contribution. The objective was to create vacant homes for letting to a homeless family. The Cash Incentive Scheme (CIS) was also introduced for council tenants. The Rural Shared Ownership repurchase scheme was launched as Government recognised the need for low cost homes to remain available for local people. The need for grant funded stair-casing down was first recognised

1992 Rural SO was extended to settlements with populations of up to 3,000. The Housing Corporation issued a General Consent for housing associations to fund mortgage rescue schemes. Housing-Corporation-funded DIYSO was reintroduced but this time principally to enable social housing tenants to move into owner-occupation. This restriction on purchasers had the same objective as TIS

1993 This was the peak year for LCHO. The Housing Corporation approved funds for over 18,000 homes. It also introduced a new Housing for Sale grant framework using the same cost criteria and grant rates as Housing for Rent. Grant was now based on costs and unrelated to initial equity sales. Higher grant payments were introduced for schemes in the Corporation's Priority Investment Areas. SO schemes were no longer subject to Value Limits.

1994 The Charity Commissioners confirmed that charitable housing associations could lawfully provide SO and DIYSO:

- for persons who were proper beneficiaries within the association's objectives
- for persons who were not proper beneficiaries if it procured vacant dwellings for renting to those who were proper beneficiaries
- as part of a larger rented scheme and it was necessary in order to achieve financial viability

1998 The Government introduced proposals for flexible tenure for shared owners and Homebuy as a new LCHO option (TIS was to be abolished and DIYSO was to be phased out)

3 References

1: WHAT IS LOW COST HOME OWNERSHIP?

1 In Milton Keynes the former New Town Commission sold shares in 10% tranches from 10% to 90%

2 CORE - the continuous recording system which records basic information about all LCHO purchases and purchasers

3 If they were unemployed tenants the household would have a net income of £129, with benefit paying for their rent and council tax (assumed to be £13pw)

2: THE BENEFITS OF LHCO

1 Staircasing is the term used to describe the process where a LCHO owner moves up the purchase ladder to acquire all or more of the equity in their home. This returns the original grant for recycling, and where the property has increased in value the housing association or local authority landlord will also generate a surplus

2 Precisely 75% for Homebuy. Analysis of Shared Ownership CORE data for 12 months to October 2000, (sample base 4039 properties) showed costs for a 50% purchase to average 75% across England, with Regional variations from an average of 73% in London to 81% in the North West. (See also chapter 6)

3 For a detailed examination of the costs of mortgage repossession see *Losing the family home - understanding the social consequences of repossession* Nettleton, Burrows, England and Seavers YPS 1999

4 *Homes for the rich alone* NHF news release 21 August 2001

5 eg *Building for communities - a study of new housing association estates* D Page 1993. *Poverty, housing tenure and social exclusion*, Lee and Murie 1997

6 *Inclusive housing, the role of low cost home ownership* Julie Cowans (Ed) JRF 1999. *Mixed tenure housing estates*, Page and Boughton 1997. *Tenure mix and neighbourhood regeneration*, Scottish Homes March 2001

7 Riverside Housing Association's Oldham Street development in Manchester
8 eg Maritime Housing Association's Old Hay Market development in Liverpool
9 *Failing housing markets - the case for a new approach to area regeneration*, Leather, Murie, Nevin, NHF 2000
10 Formerly Grosvenor Housing Association
11 *Tenant equity stakes - a scoping paper* by CIH and IPPR July 2001
12 'Renting could Reap Equity Rewards' *Guardian Society*, 21 May 2001
13 This yields an equity return when their owners sell on (Homebuy) or staircase (Shared Ownership)

3: A CRUCIAL ROLE FOR LOCAL AUTHORITIES

1 A recurrent theme in local authorities' responses to the Housing Green paper was support for the Starter Home Initiative only if this was at no detriment to funding for social rented housing
2 As note 6, above
3 *Changing housing markets and urban regeneration in the M62 corridor,* Nevin, Lee, Goodson, Murie and Phillimore, CURS 2000
4 Speech by Lord Falconer, Minister of State, at the NHF Conference, Birmingham, 20 September 2001
See also: *The provision of affordable housing through the planning system*: A joint research project at the University of Sheffield and the University of Cambridge, the Cambridge Centre for Housing and Planning Research, Department of Land Economy, University of Cambridge November 2001

4: IMPROVING THE PRODUCT

1 Feedback from Wales, where both Homebuy and Shared Ownership could be used to fund new developments, has been that customers clearly preferred to purchase available Homebuy Properties ahead of equivalent properties offered on a Shared Ownership basis.
2 From a research project carried out by Alastair Jackson for JRF, *An evaluation of the Homebuy scheme in England*. This studied the 1,300 Homebuy purchases which took place in England from April 1999-June 2000
3 As above
4 Michael Gaskell, Cobbetts Solicitors
See also the comments of the Association of Residential Managing Agents who claim that over 50% of leaseholders do not understand the nature of their tenure (ARMA Press Release August 2001)

IMPROVING THE PRODUCT cont

5 The only negative comment of which the author is aware relates to problems Homebuy lenders experience if they wish to extend their initial mortgage after purchase. The presence of the second charge (particularly one that is equity linked) can restrict the ability to take out a further secured loan. However this is also likely to apply to shared owners, and a case can also be made that purchasers able to afford a further loan, should perhaps be concentrating on purchasing the remaining equity in their property

6 *An evaluation of the Homebuy scheme in England*, Jackson, see above

7 Though Metropolitan Home Ownership have observed that their Homebuy purchasers have incomes slightly below their shared owners, reflecting in part the location and age of Homebuy properties compared to newer shared ownership developments

8 Suggested by Alastair Jackson

5: FUNDING

1 In a similar way to the exemption of low income workers for tax on company car benefits

2 There is also the option to direct subsidy (or enhanced affordability) via the retail lender. In the UK some lenders have raised the suggestion that subsidy could be directed to themselves, rather than RSLs. However an explanation of the likely regulatory implications has tapered this enthusiasm. In the USA some lenders offered a Shared Appreciation Mortgage to assist affordability. Some preliminary interest has been expressed by some UK lenders in a mortgage including an element of equity sharing, thus reducing the purchaser's outgoings

3 Though see *Affordable housing in London*, Cousins, Dunmore, Oxley and Golland, GLA July 2001. This quantifies some of the potential value that can be transferred to social housing through the planning process in Greater London and *The provision of affordable housing through the planning system* (see above)

4 A recommendation of *Affordable housing in London*, see above

5 See eg *Housing to underpin economic success*, Surrey LGA 2001

6 An explanation of Option Renting is given in *Low cost home ownership & further support for people on the threshold of home ownership*, a response by the Joseph Rowntree Foundation to the Housing Green Paper and available via www.jrf.org.uk

1 Informal discussions with solicitors familiar with conveyancing Shared Ownership leases indicates that they would need to charge around £150 extra for a SO conveyance to provide the same level of service as for a normal house purchase.

2 This has ultimately led to many claims against solicitors professional indemnity insurance policies

3 From *Working with leaseholders*, Peter Robinson, PRHC (55 Farnaby Road, Bromley, Kent BR1 4BN) December 1998

4 This was well illustrated by a resident member of the Task Force, and is supported by both Peter Robinson's study and from individual interviews with RSL staff. However the point can also be made that in serious cases the expertise and additional clout of a housing association can bring pressure to bear far more effectively than can an individual homeowner

5 This has been particularly noticeable with former Development Corporation properties in Milton Keynes

6 *Key issues for key workers -affordable housing in London*, the final report of the Affordable Housing Scrutiny Committee GLA February 2001

7 Data presented by Professor Janet Ford to the Task Force, and derived from the Survey of English Housing

8 Data from a major building society

9 The author's experience of establishing and running mortgage rescue schemes was that flexibility was often needed to be able to address wider areas than just mortgage (rent) arrears to achieve a viable package for the occupier. Flexibility was needed to be able to address major repairs expenditure, funding for adaptations, and for priority debts. A 'priority debt' is one which can be enforced through the courts (eg council tax), or has disastrous consequences (eg service disconnection) if not paid

10 Housing Corporation Circular F2-39/98

8: HOMEBUY - A RADICAL IMPROVEMENT

1 From CORE data
2 See the 2001 Labour manifesto commitment to find a way to allow council (and possibly HA) tenants to acquire an equity interest in their property, as discussed at end of chapter 2. If it is assumed that the scheme is developed along this basis then there will be a need for a depository fund linked to the value of property, to act as both the savings vehicle for the tenant, and the offset arm for the landlord. The repayment requirements of such a fund would appear to closely match the income generated from investment in an 'Affordable Home Equity' scheme.
3 Copies are available free of charge from Michael Gaskell, Cobbetts Solicitors, Ship Canal House, King Street, Manchester M2 4WD
4 As above
5 Option renting is used to describe an arrangement where by a tenant purchases (or is awarded) the option to purchase their property at a discount to market value (similar to a purchased right to buy). This concept is explained further in the JRF response to the Housing Green Paper. It is designed to have the feel and form of shared ownership, allowing access to housing benefit support if needed, but with the occupier able to convert to outright purchase and access the equity that has accumulated during their occupancy of the property. While working well with capital subsidy, there is a particularly good fit with revenue subsidy, and potentially the PFI