

## ISSUES WITH SHARED OWNERSHIP

**What Shared Owners Want...**

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[www.sharedownershipresources.org](http://www.sharedownershipresources.org)

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## What Issues?

- Please make a note of what you personally consider to be the most significant issues(s) shared owners face.

## My Personal Story

In many respects I am one of the success stories.

I bought my 1<sup>st</sup> 50% share in 1999.

I subsequently staircased to 100% in 2013.

I was proud to have bought a property which would provide me with financial security going forward.



## FAST FORWARD to 2018

The year I discovered I didn't actually own my flat at all.

## 'Ownership' & Leasehold Extension

- In 2018 my flat was starting to go down in value, only 19 years after I'd bought the first 50% share, and only 5 years after I'd staircased to 100%.
- My flat was going down in value 6 years before the end of a 25-year mortgage term on the first 50%.
- It would keep going down in value unless I extended my lease.
- The lease extension premium plus fees could cost £25k-£30k.
- Zucconi meant I would be charged almost double the cost of my neighbours' lease extensions.



## A Life Changing Dilemma

I didn't have £25,000-£30,000 in the bank  
I wouldn't be able to save £25,000-£30,000 fast enough.  
The longer I waited to extend the more it would cost; £35,000, £40,000, £45,000..... and so on. The financial goalposts would keep moving.  
It made little financial sense to sell my flat.  
It made little financial sense to keep my flat.

## The Blame Game

- My housing association blamed my solicitors for not telling me about lease extension.
- LEASE (Leasehold Advisory Service) blamed my solicitors.
- My solicitors said it was not their job to tell me.
- The Solicitors Regulatory Authority (SRA) agreed with my solicitors.
- Following discussion, MTVH instructed their valuers to recalculate the premium by not taking advantage of Zucconi. It still cost me £16,000.

Map not to scale

SHARED OWNERSHIP  
OUR HELP-TALK HERE

METROPOLITAN Home Ownership

### Whose Home?

Was it really my home when I had to pay so much simply to maintain the market value? CCHPR research commissioned by MTVH, 2020: "Extending the lease is costly involving valuation and legal fees. In extending the lease the home-owner is, in essence, paying for the privilege of continuing to live in the home they've already substantially invested in."

## Shared Ownership Resources

- I was shocked by my experience.
- I wondered how many other shared ownership buyers were in similar situations?
- I wondered what other problems might exist?
- I started campaigning for greater transparency about potential long-term costs and risks under the moniker Shared Ownership Resources.

Metropolitan Thames Valley

Search results for: "lease extension"

**WHO SHOULD INFORM 1ST-TIME BUYERS ABOUT LEASE EXTENSION: HOUSING ASSOCIATIONS OR SOLICITORS?**

[www.sharedownershipresources.org](http://www.sharedownershipresources.org)

## Lease Extension isn't the Only Issue

- Marketing issues: A foot on the housing ladder?
- Outcomes: What constitutes success?
- Affordability: Over what timescale?
- Proportionality: When 'shared' doesn't mean shared
- Shared ownership: what's in a name?
- Cross-subsidy model

SHARED OWNERSHIP RESOURCES

Menu SIGN IN REGISTER

**BUYING THROUGH SHARED OWNERSHIP HAS GIVEN US A FOOT UP ON THE LADDER**

## A Foot on the Housing Ladder

What exactly is a foot on the housing ladder?

## A Foot on the Housing Ladder

- Please think about what 'a foot on the housing ladder' means to you?
- How does your own housing association measure success against this metric?

## The Housing Ladder – 1<sup>st</sup> interpretation

<p><b>Conservative Manifesto 1979</b></p> <p>'We shall encourage mortgage shared purchase schemes which will enable people to buy a house or flat on mortgage, on the basis initially of a part-payment which they complete later when their incomes are high enough'.</p>	<p><b>Housing sector 2020-21</b></p> <ul style="list-style-type: none"> <li>■ 'It's a sooner first step on the ladder. Usually, you can also carry on buying shares, to own it 100%'. (National Housing Federation)</li> <li>■ 'Staircasing is a term that refers to increasing the share of the property that you own. You can do it gradually over time to eventually own your home 100%'. (Sharedownership.net)</li> </ul>
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## Housing Ladder – 2<sup>nd</sup> Interpretation

- Alternatively, the housing ladder can be conceived as a progression from a starter home to a subsequent home or homes.
- Perhaps a family home. Or a home which is larger, in a better location, or otherwise more suitable, or more desirable.

## A Foot on the Housing Ladder: Monitoring and Evaluating Success

The conundrum at the heart of shared ownership

## Foot on the Housing Ladder: A Conundrum

- Shared ownership is pitched as the 'affordable' route into home ownership. Marketing generally implies that ALL buyers benefit from shared ownership as a foot on the housing ladder.
- Over-simplistic and misleading. Property markets inevitably create winners and losers.
- Rapidly rising property prices benefit shared owners who interpret a foot on the housing ladder as an investment, and disadvantage those who wish to staircase. And vice versa. Positive outcomes for these two different demographics are seemingly mutually incompatible.

## Staircasing: How is Success Monitored and Evaluated?

- The National Housing Federation doesn't hold consolidated data on staircasing to 100%.
- Homes England and the Regulator of Social Housing don't hold data on staircasing to 100%.
- '... little empirical confirmation of this process currently exists or what experiences there are of staircasing'. (Professors Parker and Nanda, 2015, pg.103)

**It seems odd that there is apparently such limited monitoring and evaluation of an outcome which appears so fundamental to the marketing promise.**

## Staircasing: An Empty Promise?

- '... it is currently fairly rare for shared owners to staircase to owning 100% of the equity in a property [...] Around 4,000 households staircased to 100% ownership in 2018/19, less than half of the number of households buying their initial stake in a home. The number staircasing was equivalent to 2.3% of all shared-equity homes owned by housing associations'. (CBP-8628 *Shared ownership (England): the fourth tenure? 2020*)
- '... the vast majority of shared ownership leaseholders will never staircase to 100%'. (Law Commission, *Leasehold Home Ownership*, 2020)
- CCHPR research in 2020, commissioned by MTVH, did not analyse between staircasing for 'full ownership' and staircasing as part of a selling transaction. So even the low estimates of 2.3% may overstate 'full ownership' (or long leasehold as opposed to assured tenancy) to be more exact).

**If staircasing is the desired outcome, as marketing strongly implies, how can shared ownership be deemed a success for shared owners given such apparently low rates of staircasing to 100%?**

## Does Staircasing Matter? Implications of Not Staircasing...

- Tied in to annual rent increases regardless of whether market rents are static or decreasing.
- Lack of flexibility to respond to changing life circumstances, due to restrictions on use of the property.
- Fewer statutory rights compared to other leaseholders, including formal routes to lease extension.
- Vulnerability of assured tenancy status; for example, to the risk of losing the lease via possession including the entire purchase price paid for it. (Worrying when research indicates arrears and repossessions are on the rise).

## Selling On: How is Success Monitored and Evaluated?

- CCHPR research for MTVH 2020: 'the majority of shared owners who are going to resell do so relatively early on, with a larger number remaining for the long term'.
- Underlying reasons? Don't want to resell, or can't?
- Some financial journalists report that the concept of climbing the housing ladder via selling on has been decoupled from the specific economic circumstances that enabled it to function in the 1970s and 1980s.
- Regardless "... The decontextualised idea of a ladder continues to be rhetorically deployed to encourage first-time buyers'. Thomas Hale, *Financial Times*, 1/1/2019

## Does Selling On Matter? Implications of Not Selling On

- A key risk for shared owners is that they end up trapped on the first rung of the housing ladder, in a starter home that is increasingly unsuitable to their needs, is increasingly expensive, yet unsellable. Or lose ALL equity via possession/bankruptcy.
- Unsuitability may arise from factors such as:
  - having children;
  - needing to provide care for family members elsewhere in the UK;
  - needing to move for work; and/or
  - trapped with 100% of unaffordable fire safety remediation costs despite part % share.
- Not being able to staircase or sell on is particularly problematic given restrictions on subletting and reverse staircasing.

## Interrogating Affordability

What's so affordable about affordable housing?

## What do Government and Housing Associations Mean by Affordability?

- Government defines shared ownership as an affordable housing scheme.
- Homes England and housing associations appear to define affordability over a very short timescale.
- But a home isn't just for Christmas!
- Once longer term costs are taken into account, the affordability premise starts to look shaky. For shared owners, of course. For lenders and investors it's "a relatively secure income stream". (CCHPR 2020)

## Hidden Costs of Shared Ownership

- **Staircasing**
  - Marketing implicitly encourages 1<sup>st</sup>-time buyers to believe likely. Stats indicate not.
  - People get priced out fairly quickly, or pay considerably more for future shares than original share. There are opportunity costs as well as rising expenditure implications.
- **Lease extension premium and fees**
  - Rarely mentioned by housing associations or conveyancing solicitors.
- **Timescale: impact on future life options**
  - Buying a home in instalments is more expensive over the long run than if 1<sup>st</sup>-time buyers simply purchased outright on the open market.
  - How does this align with claims for affordability?
  - What are the implications for disposable income interacting with future life options and financial health: eg. ability to pay into pension schemes or to fund health care?
- **Proportionality**
  - Fire safety remediation charges, whereby shared owners are charged 100% of costs regardless of % share purchased may bankrupt many, or at best result in severe financial distress.
  - This particular issue, whilst unforeseen, flags that the 100% expenditure liability model can utterly counteract the affordability premise.

## What's so Affordable about Affordable Housing?

- By defining affordability over a very short timescale, housing associations choose to ignore potentially unavoidable future costs.
  - CCHPR research 2007 claimed 'shared ownership has proved a very successful product' whilst assessing satisfaction over just 3-4 years.
  - CCHPR research 2020 ignores lease extension: 'The total cost of mortgage and rent is often found to be a cheaper option than renting on the open market'.
- A lower barrier to entry isn't the same thing as affordable.
- Once longer term costs and risks - such as staircasing at current value, lease extension and 100% liability for onerous costs - are taken into account, the affordability promise starts to look potentially misleading.
- Even pre-cladding, research by Savills found that: 'ultimately shared ownership becomes more expensive than full home ownership'.

## Shared Ownership

What's in a name? Does language matter?

## Shared Ownership: Does Language Matter?

- Yes.
- The chosen marketing terminology promises something the scheme doesn't deliver.
- Shared ownership isn't shared and it isn't ownership.

## Shared Ownership: What's in a Name?

- '... it is incorrect, and therefore misleading and potentially an offence in contravention of the Consumer Protection from Unfair Trading Regulations 2008... to advertise or refer to shared ownership as 'part buy, part rent''. *Law firm, Walker Morris*
- 'The very term "shared ownership" is something of a misnomer'. (*Law Commission, Leasehold Home Ownership, 2020*)
- 'Shared ownership, like the 'Emperor's New Clothes' in Hans Christian Anderson's short tale, turns out to be not really there at all'. (*Bright and Hopkins, 2011, pg. 3*)

## Who Is Shared Ownership For?

- Please ask yourself the question who is shared ownership for?
- Who benefits, and how exactly do they benefit?

## Who is Shared Ownership for? Robbing Peter to Pay Paul

- The cross-subsidy model comes as a shock to shared owners.
  - Shared ownership is presented as a Government affordable housing scheme.
  - Criticisms of shared ownership are often countered by housing associations with reference to charitable status or not-for-profit status.
  - First-time buyers and shared owners are led to believe they are the beneficiaries, not the benefactors, of affordable homes.
  - When shared owners, understandably, challenge the nature of the cross-subsidy model (shared ownership as a cash-cow strategy via a housing 'product' rather than an affordable homes scheme) responses can be unsympathetic and even aggressive.
- Caveat emptor is increasingly used to justify poor housing outcomes.
  - Shared owners are often blamed for 'not asking the right questions'.
  - This aligns with the tendency of housing associations to blame solicitors for gaps in first-time buyers' understanding of shared ownership.
  - There are unresolved tensions between definitions of shared owners as, respectively, home owners, social housing tenants/residents, and customers/consumers.

## Proposed Reforms

- I haven't touched on proposed reforms to the shared ownership model. I'd need a lot more time to do that topic justice. In brief...
- Some reforms – such as longer leases – will do nothing to help legacy owners, and may even worsen their situation leaving them stranded with an increasingly unsellable property.
- Other proposed reforms – such as reducing the entry % share – are not in the best interests of future buyers.

## Summary of Issues

- SO isn't shared, it isn't ownership, and it may turn out to be far from affordable.
- Measures of success are mutually incompatible in practice: eg. staircasing model outcomes v starter home model outcomes.
- 'Clear messaging' is not the same thing as transparency and full disclosure. Marketing messaging diverges from legal actuality.
- SO exposes financially vulnerable 1st-time buyers to costs and risks not encountered in other tenures. A focus on demand, lower entry points and 'making it more attractive' to 1st-time buyers appears to be at expense of sufficient attention to long-term outcomes.
- Per housing sector's own statistics, SO is likely to trap buyers on the first rung of the housing ladder with adverse consequences for shared owners.
- The cross subsidy model creates conflicts of interest between housing associations' needs for income streams and shared owners' expectations of a home which is affordable over the long-term. Shared owners are disproportionately exposed to risk and cost, whilst housing associations benefit disproportionately from income streams at shared owners' expense.

## Improving SO: Shared Owners Want Genuine Affordability...

### Point of Sale

- **Full disclosure:** tenure (assured tenancy, not ownership), lease length and years remaining included in sales particulars.
- **Full disclosure:** transparency about statistical (un)likelihood of staircasing to 100%, and the financial implications of short leases.
- **Affordability assessments and Initial share %:** to take account of all foreseeable expenditure (including staircasing, lease extension and foreseeable increases in rent/service charge) and nature of anticipated customer journey (staircasing or starter home model).
- **Initial share %:** transparency re future marketability risks above 50%.

## Improving SO: Shared Owners Want Genuine Affordability...

### Post Purchase

- **Proportionality:** Fair charges, proportionate to % share held.
- **Staircasing:** Subsequent shares sold to shared owners at original market value.
- **Statutory rights:** same for shared owners as other long leaseholders, including subletting and formal route to lease extension.
- **Reverse staircasing:** Access in cases of severe financial distress.
- **Ongoing transparency:** Annual statement of years remaining on lease, and years till 80-year threshold.
- **Death and inheritance:** Good policies clearly communicated.

## Improving SO: Shared Owners Want Genuine Affordability...

### Lease Extension – 3 Key Proposals

- Shared owners to pay only their proportionate share of lease extension premium and related costs.
- Parity with future shared owners: lease extension to 990-years with ground rents reduced to peppercorn as standard for all shared owners; with retrospective application for legacy shared owners for an affordable, nominal, flat fee.
- Zucconi precedent not to be taken advantage of with immediate effect, and recompense to shared owners who've already paid a lease extension premium calculated taking advantage of the Zucconi precedent.

## Improving Shared Ownership: What Shared Owners Want...

- Additional, more detailed proposals regarding lease extension and staircasing are available in this report via: [www.sharedownershipresources.org](http://www.sharedownershipresources.org).

### Shared Ownership Lease Extension

A report on key themes and causes arising from shared owners' experiences of lease extension with recommendations

See Page 162-171  
Shared Ownership Resources  
Version 1.1, February 2021

## Shared Ownership Experiences

- "Some people might think everyone with cladding is in the same situation. But it's different for shared owners. We have to pay 100% of fire remediation costs even though we don't have a 100% share in our home. We don't have the same statutory rights as other leaseholders to lease extension, or to Right to Manage. We can't set the selling price for our flat when we do eventually sell. And if we get into financial difficulties and can't keep up with charges for waking watch and fire remediation costs the assured tenancy nature of shared ownership means we could lose everything; all the equity I've invested in our home."

## Shared Ownership Experiences

- "I am a retired nurse who bought a 'shared ownership' flat in London in 2007. 77 years on the lease left. In December 2020 my housing association charged me £420 for a valuation only to tell me the lease extension would cost £24,000+. As a pensioner paying 1,000 a month rent/mortgage this is way out of my reach".
- "The biggest shock to me was finding out that, as I do not own 100% of the flat, by law the housing association can refuse to extend my lease. I find this is truly shocking. It makes me feel very nervous about applying to extend the lease as I feel they have all the power and can ask for whatever amount they want without me being in a position to argue and negotiate with them."