EXECUTIVE SUMMARY

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Shared Ownership:
The Consumer Perspective

By Sue Phillips (FCCA)
Shared Ownership Resources

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About Sue Phillips

Sue Phillips (FCCA) is a writer, retired charity finance manager, and former shared owner. She launched Shared Ownership Resources in 2021.

About Shared Ownership Resources

Shared Ownership Resources champions the interests of shared owners and households considering shared ownership. The project publishes case studies; collaborates with housing, legal and financial experts to offer specialist information and advice; and campaigns for improved transparency and better outcomes and against mis-selling and other poor practices in the sector.

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Any errors and omissions are, of course, the responsibility of the author.

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FOREWORD

By Paula Higgins, CEO, HomeOwners Alliance

A great many people aspire to own their own home, and the current government wants to help them achieve this dream. In this context, shared ownership is designed to be an intermediate and affordable way to get one foot on the ladder – as a pathway to full homeownership. It's targeted at first time buyers who cannot afford the full market cost of a property. But the reality is that this type of tenure falls short of delivering these policy aspirations for a significant number of shared owners.

I know from the last 10 years at HomeOwners Alliance that the shared ownership proposition is a complex and confusing financial model that can be tricky to grasp – even for experienced property buyers and sellers. And yet, this is a scheme designed for first time buyers and marketed by [government-backed] housing associations as a stepping stone to full homeownership.

As one of the few organisations that first set out to consumers what to watch for when considering shared ownership, we know that full staircasing is rare, paying for the full maintenance and service costs when you only own a slice of the property is unfair, selling can be tricky and – as this report illustrates – there are many other flaws with the shared ownership model. That said, these shortcomings shouldn't be used as an excuse to kill shared ownership as we are in the middle of an affordable housing crisis. Our challenge is to get it right.

The Shared Ownership Resources project highlights the weaknesses in the shared ownership model and makes a number of recommendations. The project sheds light on key factors underlying dissatisfaction and highlights the lack of information about the outcomes of shared ownership as government statistics are predominantly focused on sales. It convincingly makes the case for an independent, dedicated information and advice service to assist shared ownership households in navigating their own particular pathway through the scheme.

Shared owners are in danger of being left behind as they are being largely excluded from reform and new deals promised to private sector renters and leaseholders. Excluding shared ownership from these reforms may result not only in poor outcomes for an increasing number of financially vulnerable households, but also questions the long term future of shared ownership.

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The shared ownership scheme aims to help people in housing need who cannot afford to purchase a property suitable for their needs on the open market. It provides an alternative option to the frequent moves, variable housing conditions and poor value for money that many experience in the private rented sector. Shared ownership has formed a small but significant component of England's affordable housing policy since the late 1970s.

Despite the benefits of the scheme there are also hazards. These arise from the characteristics of targeted homebuyers, the complexity of the model and of ownership structures, a lack of standardisation and consistency, inadequate information provision and weak regulation of marketing and delivery. However, monitoring and evaluation is almost exclusively focused on access rather than longer-term outcomes and impact for entrants to the scheme.

This report assesses claims made by government for shared ownership – that it is affordable, a pathway to full ownership, fair, user-friendly and a good product for the market to deliver. It finds that the experience of shared ownership can fall short of these claims. The findings are topical given government proposals to expand grant funding for shared ownership; an increased government and regulatory focus on consumer satisfaction, consumer outcomes and consumer protection; and forthcoming legislative reform.

KEY MESSAGES

Shared ownership today

Over 400,000 shared ownership homes have been built, and around half remain categorised as shared ownership. Shared owner demographics vary depending, for example, on the year of entry to the scheme, over time and according to geographical location. Different cohorts have different needs and expectations of the scheme at the outset, and those needs and expectations can change over time.

Dissatisfaction with the private rented sector is a driver for more than half of all entrants to the shared ownership scheme. Relatively low costs of entry also drive demand along with access to desired homes that would otherwise be unaffordable. Some shared owners transition back to the private rented sector but gaps in national monitoring data make it challenging to assess churn.

Over a third of shared owners display indicators of financial vulnerability, with lower financial resilience and lower financial capability compared to other homeowners buying with a mortgage.

Provision of shared ownership is characterised by increasingly complex financial and corporate structures, with implications both for regulation and for shared owners' experiences of the tenure.

This report assesses claims made by Government for shared ownership

Affordability and financial sustainability

Shared ownership is the cheapest entry point to home 'ownership' due to the relative affordability of a mortgage deposit on a part share. But the longer the shared owner remains in occupation the more likely the purchase will represent poor value for money. This is due, in large part, to 'upwards only' annual rent reviews at a premium to inflation and 100% liability for uncapped and poorly regulated service charges.

Over time, total housing costs may rise well above the level determined as affordable during the initial affordability assessment.

In some cases, shared ownership will become financially unsustainable over time, leaving households vulnerable to risks of financial hardship, poverty or even repossession. Improved national monitoring data is urgently required to assist better understanding of the demographics for whom shared ownership remains affordable and those for whom it does not.

Shared owners impacted by the building safety crisis are in a particularly pernicious situation, many facing unaffordable costs with no viable exit route other than, perhaps, a distressed sale. The Building Safety Act 2022 has exacerbated the challenges they face by removing protections from shared owners (and other leaseholders) who undertake lease extension after 14 February 2022. Whilst further reform is anticipated to address this flaw in the Act, it is possible – and perhaps likely – that gaps will remain in the protections afforded to shared owners.

Recommendations:

- Government, Homes England and the Greater London Authority should undertake a review of initial affordability assessments, to inform reforms to facilitate ongoing financial sustainability for shared owners.
- Government should consult with housing providers, sector trade and professional bodies, lenders and representatives of shared owners to determine a new 'affordable rent' formula for the shared ownership scheme.
- Government should support an independent review of the performance and regulation of service charges over time and implement reform to ensure that service charges are more likely to remain affordable for shared owners. The review should consider the option to apportion liability according to the respective equity shares held by the shared owner and the landlord, plus an overall financial cap on total shared owner liability.
- Government and the Regulator of Social Housing should undertake robust data collection, evaluation and reporting on the ongoing financial sustainability of shared ownership.
- As a matter of urgency, the Government and the Law Commission should resolve the problem that lease extension – which takes effect as a surrender and re-grant of a lease – is not covered or exempted in the new Building Safety Act 2022 meaning that any shared owner who potentially qualifies for leasehold protections will now lose those protections on extension of a short lease. Action should be taken to ensure no leaseholder loses protections as a result of lease extension undertaken after 14 February 2022.

A realistic pathway to full ownership

There is limited national monitoring data available to assess and evaluate long-term outcomes including: full life cycle costs, exit routes and transition to full home ownership. However, research suggests that a significant number of households are unable either to staircase to 100% or to transition to full ownership via a gain on sale.

National monitoring statistics conflate households who staircase to full ownership in a home they continue to live in with households who undertake a simultaneous sale and staircasing transaction as part of the sale process. This makes it challenging to assess how many shared owners transition to full ownership via staircasing to 100%, and to quantify the transfer of social housing stock to the open market via simultaneous sale and staircasing transactions.

Some shared owners have been provided with incorrect advice on Stamp Duty Land Tax (SDLT) on simultaneous sale and staircasing transactions, leaving them out of pocket.

Some shared owners – for example, households who paid an excessive new build premium, who have a short lease, have onerous ground rent terms, whose rent has risen to levels higher than private sector rents, who face liability for building safety costs, or whose total housing costs to income ratio has risen above the maximum specified in initial affordability assessments – can end up trapped in a home that may no longer be suitable for their needs and is increasingly unaffordable, with no viable exit route.

Recommendations:

- Government and the Regulator of Social Housing should undertake robust data collection, evaluation and reporting on the extent of shared owner transition to full ownership.
- Government and the Regulator of Social Housing should undertake robust data collection, evaluation and reporting on transfer of shared ownership properties from social housing stock to the open market, analysing between 100% staircasing by a shared owner who continues to live in that home and simultaneous sale and staircasing transactions.
- Government should support an independent review of current criteria for buyback to provide earlier and greater support for households where total housing costs (including current and future liabilities related to building safety) are financially unsustainable and/or ground rent is higher than a peppercorn and/or where ground rent is triggered by staircasing to 100% and/or shared owners are unable to sell their share at the price established by a RICS valuation.
- HMRC should update existing guidance on sub-relief of Stamp Duty Land Tax (SDLT) on simultaneous sale and staircasing transactions as soon as possible, and publish widely a clear position on this matter outlining options for those who have overpaid as a consequence of incorrect advice. HMRC should consider extending the one-year deadline in such cases.

Fairness and satisfaction

Testimonials published by housing associations and their agencies suggest high initial satisfaction levels. However, shared owner satisfaction rates are considerably lower than for social renting tenants. Moreover, satisfaction declines over time. Gaps in national monitoring data compromise effective monitoring and evaluation of satisfaction levels.

Recent initiatives, such as the Regulator of Social Housing's new tenant satisfaction measures (TSMs), are welcome but do not fully address the problem of inadequate data on declining satisfaction rates. Not all the TSMs apply to shared ownership, and none relate to the policy aspirations of affordability and a realistic pathway to shared ownership.

Competing objectives for shared ownership between consumers, providers and government – arising from the cross-subsidy model – inevitably lead to conflicts of interest. The need of shared owners for ongoing financial sustainability is frequently subservient to the financial needs of housing providers under the Government's development funding model. This is a key factor underlying claims of unfairness by shared owners.

Individual shared ownership households, and prospective shared ownership households, may also have mutually incompatible needs of the shared ownership scheme.

Some specific causes of shared owner dissatisfaction include: short leases, the imposition of ground rent, exclusion from the statutory right to lease extension and restrictions on subletting – both individually and as these issues interact. Recent reforms regarding lease length and ground rent do not benefit existing shared owners.

'Shared ownership' and 'part buy, part rent' terminology contributes to confusion and unrealistic expectations. Not least in failing to make clear the assured tenancy nature of shared ownership, and associated hazards and costs.

Recommendations:

- As a matter of urgency, the Government and the Law Commission should consider options to change the legal status of shared ownership from an assured tenancy to 'conventional' leasehold in order to afford shared owners the same rights and protections as any other leaseholder.
- Government, Homes England, the Greater London Authority and housing associations should consider options to fund lease extension to at least 250-years at an affordable flat fee for all shared owners whose lease term was originally 125-years or less.
- Government should make peppercorn ground rent a requirement for all parties with an interest in any shared ownership lease, with retrospective application.
- Government, Homes England and the Greater London Authority should remove the prohibition on subletting, with proportionate safeguards to ensure commercial landlords do not purchase an interest in shared ownership properties prior to 100% staircasing.
- The Regulator of Social Housing should disaggregate data collection and reporting on shared ownership from the Low-Cost Home Ownership category currently employed, and review tenant satisfaction measures for shared ownership as a distinct category.

Consumer protection

The shared ownership model is not widely understood by the general public. This can be explained, in part, by the complexity of the shared ownership model and ownership structures; in part, by poor information provision which often over-simplifies complexity and promotes benefits while understating risk; and, in part, by a lack of standardisation across the sector.

Homes England's new *Key Information Document* for the new shared ownership model, and the Government's guidance for social renting tenants on the new Right to Shared Ownership (RtSO), are a considerable improvement on previous information materials. But gaps and weaknesses in information provision remain.

The housing association sector frequently presents shared ownership marketing as a source of education about the product. However, the Advertising Standards Authority (ASA) recently upheld a complaint about a national shared ownership marketing campaign, which suggests that consumers should not depend on marketing content for information. The ASA is currently investigating a complaint that a 'Black Friday' shared ownership promotion is not compliant with the CAP Code.

Housing associations may place undue reliance on solicitors to explain potential hazards and liabilities. There is evidence that some professionals, on whom homebuyers and shared owners rely for advice, are providing inadequate and even incorrect advice on matters including Stamp Duty Land Tax (SDLT), lease length, and the implications of complex ownership structures. Moreover, any failure on the part of housing providers to provide the material information necessary for informed transactional decisions creates a risk of non-compliance with consumer protection requirements.

Shared owners, or at least those who encounter problems, may perceive consumer protection mechanisms to be weak.

There is no single specialist, independent and impartial source of information and advice for shared owners, and for those considering shared ownership.

Recommendations:

- Government should fund a specialist, independent and impartial shared ownership website including online guides and resources, alongside an impartial, free telephone advice service.
- Government, Homes England and the Greater London Authority should undertake a benchmarking exercise with other sectors engaged in provision of complex information to lay people about products involving potentially high levels of risk, to drive further improvement of both the content and presentation of the *Key Information Document*, and other information provided by Homes England and their agents.
- Government, Homes England, the Greater London Authority, the Competition and Markets Authority, the Advertising Standards Authority and the Committees of Advertising Practice should support an independent review into shared ownership marketing, consult on options to prevent mis-selling and deliver an enforceable Code of Practice for shared ownership marketing and promotion.

New model shared ownership

Concerns about shared ownership are increasingly widespread and visible. Yet the new model for shared ownership introduced by government largely fails to address the most pressing issues.

Recent reforms are not retrospective hence do not benefit circa 200,000 existing shared owners. In fact, the introduction of the new model lease could create a two-tier market in shared ownership. Negative impact on demand for resales of the current model is possible given the new shared ownership model benefits from a 990-year term and a ten-year 'initial repair period' during which the provider is responsible for structural repairs.

As regards future shared owners, the new model fails to remedy problems such as long-term affordability or restrictions on subletting. Moreover, by lowering barriers to entry, the new model exposes more financially vulnerable households to risks associated with the scheme.

Recommendations:

- Government, Homes England and the Greater London Authority should support a review to establish safeguards to ensure no household is likely to be financially disadvantaged as a result of entry into shared ownership via recent reforms, whether a lower initial share than under the current model or the new Right to Shared Ownership.

The full report is available at:
https://www.sharedownershipresources.org/campaigning/reports/consumer-perspective

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