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# Shared Ownership: The Consumer Perspective

By Sue Phillips (FCCA)  
Shared Ownership Resources

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## About Sue Phillips

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## 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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# EXECUTIVE SUMMARY

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.

### Recommendation:

- 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.

**Recent reforms are not retrospective hence do not benefit circa 200,000 existing shared owners**





# 1. INTRODUCTION

**This is not the first review of the shared ownership scheme, but it is the first to focus exclusively on the shared owner perspective. The analysis draws upon the existing literature and on shared owner casework undertaken by Shared Ownership Resources.**

Shared ownership provides a cheaper option, initially, than open market home purchase or other government-backed low-cost home ownership initiatives; and an escape from the frequent moves, variable housing conditions and poor value for money that many experience in the private rented sector.

However, too much emphasis is placed on initial access and far too little on longer-term outcomes and impact for entrants to the scheme. This report is not the first to make this argument, but it addresses gaps in the literature on shared ownership in four key respects:

- by focusing primarily on the consumer perspective
- by interpreting published research through the consumer protection lens
- by drawing on open-ended, informal Shared Ownership Resources casework to explore – in shared owners' own words – issues underlying reported dissatisfaction with the scheme
- by exploring tensions between the potentially competing objectives of shared owners, government and its funding agents (Homes England and the Greater London Authority), and housing providers (primarily housing associations)

In order to do so, this report evaluates shared ownership in terms of the qualities that the Government claims characterise the scheme:

- affordable (Chapter 3)
- a realistic pathway to full ownership (Chapter 4)
- fair (Chapter 5)
- user-friendly (Chapter 6), and
- via the new model lease – a better product for the market to deliver (Chapter 7)

A key finding is that for many shared owners – albeit not all – the experience of shared ownership falls short of claims made for the scheme. Indeed, sector benchmarking data has determined that shared owner satisfaction is significantly lower than for social rented tenancies whilst academic research has identified a reduction in shared owner satisfaction over time.

The shared ownership scheme requires meaningful reform to deliver stated policy aspirations, long-term consumer satisfaction and compliance with consumer codes and consumer protection legislation.

To a significant extent, housing providers are as bound by existing funding arrangements and government model leases as are shared owners. The current government may lack enthusiasm for further reform, given the launch of a new model for shared ownership in 2021. However, despite some improvements, the new model does not resolve the most pressing consumer concerns about shared ownership. In fact, as this report demonstrates, recent reforms may even exacerbate some of the problematic legal and operational complexities that characterise the scheme.

This report makes recommendations for multi-agency reform. The primary focus is on the need for changes to:

- legislation
- regulation
- design and delivery
- marketing, and
- sources of information and advice for homebuyers and shared owners

The report is primarily for decision makers in government, its agencies, regulators and housing providers.

It is also intended as a key resource for the campaign for reform, a campaign that will only grow in momentum in coming years.



## 2. SHARED OWNERSHIP TODAY

This chapter begins with an overview of shared ownership, outlining government policy on its purpose and how it works. It looks at who provides shared ownership, who lives in shared ownership homes and why people become shared owners.

The chapter also provides brief summaries of variations to the ‘standard’ shared ownership scheme: (Older Persons Shared Ownership (OPSO), Home Ownership for People with Long-term Disabilities (HOLD), rural schemes and Designated Protected Area schemes), the new shared ownership model and the new Right to Shared Ownership (RtSO) scheme.

### 2.1 The purpose of shared ownership, and how it works

Shared ownership is a scheme offering access to the ‘property ladder’ at a lower cost entry point than other home ownership options. Homes England’s *Capital Funding Guide* (2022) explains how shared ownership works:

*‘Shared ownership is aimed at helping people in housing need who are unable to afford to purchase a suitable property for their needs on the open market.’*

*‘The buyer pays a percentage share of the market value of the property and enters into a lease agreement with the landlord. As they have paid for part of the value of the property, they then pay rent on the percentage share they have not paid for.’*

The ‘part share’ aspect of shared ownership distinguishes it from other Government Low-Cost Home Ownership (LCHO) initiatives – such as *Help to Buy* and its *First Homes* successor – which offer immediate access to full ownership, but at a higher entry cost. Instead, shared ownership is intended as an intermediate option (Wilson & Barton, 2022) offering: ‘a realistic pathway to full ownership’ (MHCLG, 2019).

### 2.2 Shared ownership provision

The Levelling Up, Housing and Communities (LUHC) Committee refers to: ‘increasingly complex financial and corporate structures proliferating in the social housing sector’ (LUHC, 2023). In this section we outline some key aspects of shared ownership provision.

#### Not-for-profit and for-profit housing providers

Shared ownership has traditionally been delivered by not-for-profit housing associations. However, when the Housing and Regeneration Act 2008 came into force profit-making organisations could register, for the first time, with the Regulator of Social Housing. All the regulatory standards that apply to not-for-profit providers apply equally to for-profit providers, although there are some differences in how these are applied (Kirby, 2020).

Some local authorities also now offer shared ownership homes.

#### Grant funding and Section 106 agreements

There are two primary development models for shared ownership:

- funded by government Affordable Housing Programme (AHP) grant, with Homes England and the Greater London Authority (GLA) being the primary grant funding agencies in England
- acquired as part of a Section 106 planning gain agreement between a developer and a local planning authority

Homes England provides grant funding to not-for-profit and for-profit housing providers, and both not-for-profit and for-profit providers could offer Section 106 homes.

Homes delivered using grant funding must comply with Homes England’s terms, whereas Section 106 homes must comply with Local Authority requirements. However, Section 106 shared ownership homes with planning agreed since 28 December 2021 (or 28 March 2022 if there was significant pre-application engagement) must use the new model for shared ownership.



Analysis by *Inside Housing* estimates that each development model delivers around half of total shared ownership output. Although they also point out that their analysis may under-estimate housing associations' Section 106 shared ownership developments in recent years (McCabe, 2022):

*'A total of 49% of the homes completed by housing associations in 2021-22 were acquired via Section 106... This is according to the full results of our Biggest Builders survey... Not every association responded to our question about how many homes were delivered through Section 106, so 49% could be an underestimate of the true figure.'*

Law firm, Trowers and Hamlin, (Kirby, 2020) reported that:

*'A number of the new for-profit providers have business models predicated on the acquisition of section 106 stock, or retaining the planning mandated affordable units on schemes which they are developing'.*

The firm noted that some for-profit housing providers outsource day-to-day management to not-for-profit providers, and that other interactions include joint ventures and sales of housing stock between traditional not-for-profits and for-profit registered providers.

Does it make a difference whether shared ownership homes are grant-funded or delivered via Section 106 agreements? One stakeholder (BSA, 2019) notes:

*'Commercialisation starting to creep in where housing associations are offering shared ownership on non- grant funded developments.'*

## Registered providers and unregistered bodies

The Housing and Regeneration Act 2008 (Section 31, subsection 2) creates a statutory obligation on Homes England and the GLA to ensure that any landlord of grant-funded low-cost rental homes is a 'registered provider of social housing'. But this statutory obligation does not extend to landlords of grant-funded shared ownership homes.

At present most housing providers in both the not-for-profit and for-profit categories are registered with the Regulator of Social Housing, but not all. Government opened up provision of affordable home ownership to unregistered bodies to increase delivery. Unregistered bodies have to sign up to the Homes England model for shared ownership and are subject to the same requirements as any other provider receiving grant.

However, whereas registered providers are automatically covered by the Housing Ombudsman scheme, unregistered providers can join as a voluntary member.

## Private providers

Private providers do not use grant funding or Section 106 agreements to deliver shared ownership homes. They are not subject to the restrictions outlined above, although mortgage lenders may require use of fundamental clauses from Homes England's model lease. Private providers are not automatically covered by the Housing Ombudsman scheme, although they can join as a voluntary member.

Private providers are outside the scope of this report. However, it is worth noting that concerns have been expressed about regulation of private shared ownership (BSA, 2019):

*'Existing shared ownership (SO) protections have evolved over decades, with changes to the standard lease, development of industry joint guidance for mortgage lenders and housing associations and regulation of the housing association sector by Homes England in its capacity as the Regulator of Social Housing. By contrast, since the rules around SO were relaxed and private shared ownership (PSO) providers allowed into the market, there has been no attempt to put a similar system of regulation in place for PSO providers.'*

## Ownership structures

The nature and complexity of ownership structures and, in particular, whether the housing provider is the freeholder or merely a sub-lessee can have a significant impact on shared owners' experiences of the scheme. This topic is discussed in more detail in Chapter 6.

## 2.3 Who lives in shared ownership homes?

### How many households live in shared ownership homes?

It is challenging to arrive at a precise figure for the number of households currently living in shared ownership homes. There is no single definitive source of data, and seeming disparity between key sources of information.

At the top of the range, the National Housing Federation (NHF) website refers to a total of '320,000 shared ownership homes that housing associations managed last year' adding that 42% had been fully purchased by their owners (2022).<sup>1</sup> This suggests that NHF members manage 188,000 homes where the household has a part-share and 132,000 homes which have been staircased to 100%. The NHF state that their housing association members manage 80% of shared ownership homes<sup>2</sup> suggesting around 235,000 shared ownership homes in total.

The Regulator of Social Housing (2022a) conflates shared ownership with several other tenures under the LCHO category.

*'Low-cost home ownership – LCHO accommodation is defined in the Housing and Regeneration Act 2008 as being that occupied or made available for occupation in accordance with shared ownership arrangements, shared equity arrangements, or shared ownership trusts; and it is made available to people whose needs are not adequately served by the commercial housing market.'*

Government data indicates that LCHO accounts for around 5% of the 4.4m social housing stock in England – around 220,000 homes.

It is quite possible that the vast majority of LCHO is shared ownership. However, the picture is complicated by the fact that providers are only required to report to the Regulator of Social Housing where they have over 1,000 LCHO units. Moreover, if other tenures in this category become more widespread it could become correspondingly inaccurate to rely on assumptions about the proportion of LCHO constituted by shared ownership.

A 2021 Parliamentary briefing, *Shared Ownership (England) the fourth tenure?*, cites the *English Housing Survey 2019-20* when calculating that 202,000 households live in shared ownership properties in England (Cromarty, 2021).

Williams (2022) puts the circa 200,000 figure into context:

*'A crude estimate would suggest around 400,000 shared-ownership homes have been built in England and around half remain as shared ownership.'*

Williams's statement flags up a crucial distinction between the number of shared ownership homes that have been built and those that continue to be available as shared ownership. Once staircased to 100%, shared ownership homes are no longer categorised by the Regulator of Social Housing as social housing.

National staircasing statistics fail to distinguish between homes staircased to 100% by shared owners who continue to live in those homes, and those sold on into the open market via a simultaneous sale and staircasing transaction, thereby conflating two very different outcomes. This topic is discussed in more detail in Chapter 4.

### Who is a shared owner?

This is also a difficult question to answer. In part because shared owner demographics vary depending, for example, on the year of entry to the scheme, over time and according to geographical location and, in part, because data is limited:

*'Shared ownership is not a widespread tenure and there is limited data available' (Cromarty, 2021).*

*'Research on shared ownership has typically focused on its functioning in London and the South East where most development is concentrated' (Wallace, 2019).*

*'The focus of most shared ownership schemes has been on younger households... Data on the market for shared ownership for older people is sparse' (All-Party Parliamentary Group on Housing and Care, 2023).*

<sup>1</sup> Undated webpage accessed in 2022.

<sup>2</sup> <https://www.housing.org.uk/news-and-blogs/news/rent-cap-press-statement/#:~:text=%E2%80%9CWith%20the%20certainty%20these%20decisions,matching%20the%20social%20rent%20cap.>



The following data is intended to provide a broad introduction to some typical characteristics of shared owners, whilst also emphasising the need to take adequate account of variety and complexity. Different cohorts have different needs and expectations of the scheme at the outset, and those needs and expectations may well change as time goes on.

According to a Parliamentary Briefing (Cromarty, 2021) the most common age group for buyers in 2019/20 was 30-39 (33% of the total). The remaining 67% comprised under 25-year-olds at 13%, 25-29-year-olds at 25%, 40-49-year-olds at 15%, 50-59-year-olds at 9% and those aged 60 and over at 5%.

A report from the University of York Housing Policy Unit (Wallace et al, 2022) found that shared ownership is an important route into home ownership for women, disabled people, those in routine occupations, single people, lone parents and people who have experienced relationship breakdown. Significantly, from a consumer protection perspective, this research found that 38% of shared owners have some indicators of financial vulnerability, with lower financial resilience (20%) and lower financial capability (27%) compared to other homeowners buying with a mortgage (11% and 13% respectively).

University of York research into shared ownership markets outside London and the South East (Wallace, 2019) found that household incomes of existing shared owners tend to be higher than for new entrants indicating that either shared ownership is now appealing to people on lower incomes than in the past or that, on an aggregated basis, shared owners' household incomes tend to rise during their time in shared ownership.

The research also found that: 'while a majority of new entrants to the sector are single, a proportion of shared owners' circumstances do change and, with career development, would explain some of upward shifts in household incomes observed between new entrants and existing shared owners. Nonetheless, almost half of shared owners remain single, or at least live in single adult households with accompanying lower household incomes'. A key finding of the University of York research was that:

*'The sector is therefore an important housing tenure for single income households... not necessarily or only – low-income households.'*

The University of York report concluded that:

*'Shared ownership is serving different market segments in different housing markets.'*



## Why do people become shared owners?

Drivers of demand are three-fold:

- dissatisfaction with private renting (Spratt, 2022; Timperley, 2020) and a desire for security and stability provides a motivation to buy
- shared ownership provides the cheapest entry point into home ownership (Savills Research, 2019)
- shared ownership provides an opportunity to purchase a more desirable property, or a property in a more desirable location, than would otherwise be possible

Wallace (2019) notes: ‘a positive desire for homeownership but also problems within the private rented sector, in terms of limited security of tenure, property conditions, and the value for money when paying high rents.’

Davis and Sinn (2016) estimate that the private rented sector is a driver for more than half of all entrants to the shared ownership scheme: ‘the private rented sector acts as the main ‘feeder tenure’ for shared ownership (running at more than 50 per cent)’.

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*“In 2012 shared ownership seemed like my only option to get on the property ladder. I’d spent a decade renting in London and was paying £750 a month with very little to show for it.”*

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Whilst dissatisfaction with the private rented sector is a driver for entry to the shared ownership scheme, shared owner satisfaction appears to decline significantly over time. Chapter 5 explores this topic in more detail.

## 2.4 Shared ownership variants

### Older Persons Shared Ownership (OPSO)

DLUHC introduced the Older People’s Shared Ownership (OPSO) in 2016 under the *Shared Ownership and Affordable Homes Programme 2016 to 2021* (SOAHP 2016-21). The Capital Funding Guide explains OPSO as below:

‘Older Persons Shared Ownership (OPSO) operates on the same Shared Ownership principles as the SOAHP 2016 to 2021 and AHP 2021 to 2026 programmes but with some differences as follows:

- It is only available for people aged 55 or over
- The maximum level of equity that can be purchased is 75%
- When the maximum level of equity has been purchased the leaseholder does not have to pay rent on the remaining 25% share of the property.’

In early 2023, the All-Party Parliamentary Group on Housing and Care for Older People published a report – *Making retirement living affordable: the role of shared ownership housing for older people* – posing the question whether the shared ownership model could offer a way of opening up high-quality retirement housing in England to a much larger market than the other options? Their report highlighted both opportunities and hazards for shared ownership buyers.





## Home Ownership for People with Long-term Disabilities (HOLD)

The Capital Funding Guide explains HOLD as below:

*‘HOLD is a variant form of Shared Ownership which operates in the same way as the Shared Ownership model. It is designed to assist people with a long-term disability to purchase a on the open market which is suitable for their needs. This can be offered where suitable properties are not being offered for Shared Ownership more generally near to where they need to live to provide access to their necessary support services and networks. Although HOLD is normally for the purchase of second-hand homes on the open market it is possible to purchase a newly built home’.*

## Rural schemes and Designated Protected Area schemes

Staircasing is limited to 80% in rural shared ownership schemes and Designated Protected Area schemes. The objective is to retain shared ownership stock in areas where affordable housing is hard to replace.

## 2.5 The new shared ownership model: reforms

In August 2019, the Government launched a consultation on a new national model for shared ownership (MHCLG, 2019) intended to make the scheme:

*‘fairer, more affordable, and more consumer-friendly as well as a better model for the market to deliver’.*

Subsequently, in May 2021, Homes England published a suite of new model shared ownership leases – applicable to property funded through its 2021/2026 AHP and entering the development pipeline from April 2021. Homes England has also updated related *Key Information Documents*.

The new shared ownership model introduces four fundamental reforms to the lease, summarised briefly below. The Government has also increased the minimum lease term for the new model. The new model lease is discussed in greater detail in Chapter 7.

## Minimum initial equity share

The minimum initial equity share that can be purchased falls to 10%. The previous model lease specified a minimum initial share of 25%.

## Staircasing

Staircasing can now proceed in minimum tranches of 1% for 15 years and 5% tranches thereafter. Larger shares can still be purchased during the 15-year window and by default after it expires – with the minimum larger share now reduced from 10% in the previous model lease to 5%.

## Initial Repair Period (IRP)

A new initial repair period (IRP) – applicable for a maximum of 10 years from the date of the shared ownership lease – is intended to ensure that, during this period, landlords rather than shared owners bear the cost of essential repair works to the external and structural parts of their building. During the IRP, shared owners can also apply for a £500 contribution from their landlord each year for the cost of specified categories of internal repairs.

## The nomination period

The nomination period allows a housing association exclusive marketing rights in respect of a home that a shared owner wishes to sell.<sup>3</sup> The previous model lease specified a nomination period of eight weeks. The new model reduces the nomination period to four weeks.

## Lease length

The new reforms grant the shared owner a minimum term of 990 years (999 years in GLA-funded schemes). This compares with the 99-year minimum lease length in previous iterations of the Homes England’ model lease and the 125-year minimum previously required by the GLA.

<sup>3</sup> There are certain limited circumstances where the landlord’s nomination period does not apply. These include the death of a leaseholder or if a court order requires a transfer of ownership.



## 2.6 The new shared ownership model: what has not changed

Some key aspects of shared ownership are the same under the new model lease as they were under the previous standard model lease.

### Rent

The annual rent increase determination continues to be calculated as RPI plus 0.5%, on an 'upwards only' basis (Homes England, 2022). (The approach is different from social rent where, since 2015-16, the annual rise has been determined as CPI plus 1%).

### Repairs liability

After the 10-year initial repair period (IRP) concludes, shared owners retain the same uncapped liability for all repair and maintenance costs as under the standard shared ownership model.

(Purchasers of shared ownership homes that do not qualify for the new model lease – whether resales or initial sales of properties in the current development pipeline offered under the previous version of the model lease – remain liable for all repair and maintenance costs via service charges.)

Reform of charges for repairs and maintenance does not necessarily constitute the 'repair-free period' the Government describes it as (MHCLG, 2021) as landlord obligations during the 10-year IRP are qualified and capped.

### Staircasing

The valuation for 1% staircasing transactions introduced in the new model lease is to be calculated using the Land Registry House Price Index. However, where shared owners elect to staircase in tranches of 5% or more, the price paid for further shares continues to be based on the full open market value of the property provided by an independent Royal Institution of Chartered Surveyors (RICS) valuer as under the standard model lease.

### Resale

Although the nomination period has been reduced from eight weeks to four weeks shared owners are still required to put their house on the market at the price determined by a RICS valuation unless they undertake a simultaneous sale and staircasing transaction (discussed in Chapter 4).

## 2.7 The Right to Shared Ownership (RtSO)

In 2020 the Government published its policy on a new Right to Shared Ownership (RtSO) scheme. This extends the new shared ownership model to social tenants renting new homes funded through the Affordable Homes Programme 2021-26 (and its successors).

Social tenants who meet RtSO eligibility criteria – including having lived in their current property for at least a year, and in social housing for at least three years – can apply to purchase an initial share of between 10% and 75%. Social tenants must satisfy standard eligibility criteria for the shared ownership scheme including income requirements and not already owning a property.

The RtSO will not apply to local authority-owned homes, homes in specified rural areas and specialist homes for older, disabled and vulnerable people.

Homes are also exempt from RtSO if the provider cannot offer a lease length of at least 99 years. (The standard 990-year term in the new model shared ownership lease does not apply to RtSO.)

The RtSO scheme has received a mixed reception. *Inside Housing* (Simpson, 2019) reports concerns in the sector as to whether the scheme would be financially disadvantageous both to social tenants and housing associations, and whether social tenants might find it difficult to secure a mortgage to take up the new Right to Shared Ownership.

## 2.8 Scope of this report

This report focuses on the national shared ownership scheme grant-funded via Homes England's Affordable Homes Programmes, on the model leases administered by Homes England, and on housing associations. GLA grant funding conditions are referred to only where any difference from Homes England's approach is significant.

The report examines the standard and new models of shared ownership. The Right to Shared Ownership (RtSO) scheme is not discussed (other than a comparison of the Department for Levelling Up, Housing and Communities RtSO guidance for tenants with Homes England's *Key Information Documents* for prospective shared owners) as it is currently unclear how much take up there will be by tenants, and what the outcomes will be for any who do take up this new right.

## 2.9 Summary – shared ownership today

Shared ownership is classified as 'affordable housing' in offering a relatively low-cost entry point to home ownership.

Shared ownership developments can be grant-funded, delivered via Section 106 planning gain arrangements or funded by other means by private providers. Shared ownership is delivered by a range of providers including not-for-profit housing associations, local authorities, registered providers, unregistered bodies, and private providers. Ownership arrangements can be complex. The freeholder is not necessarily the landlord, and the landlord may be a sub-lessee.

Around 400,000 shared ownership homes have been built; around 200,000 remain categorised as shared ownership.

Drivers for entry to the shared ownership scheme include dissatisfaction with the private rented sector alongside the attractions of stability, security, and relatively low-cost access to home ownership in a desired location. Shared owner demographics vary depending, for example, on the year of entry to the scheme, over time and according to geographical location. 38% of shared owners display some indicators of financial vulnerability.

A new model for shared ownership was launched in 2021, although the reforms are not retrospective. Some reforms are advantageous for future entrants to the scheme; others may prove disadvantageous. The new model may create a two-tier market.



**Around 400,000 shared ownership homes have been built; around 200,000 remain categorised as shared ownership.**

## 3. IS SHARED OWNERSHIP AFFORDABLE?

This chapter examines the degree to which shared ownership can meaningfully be described as ‘affordable housing’. This is important because government classifies the product as ‘affordable housing’, this is how it is marketed, and this is how it is usually reported in the media.

A key theme of this report is that affordability should be evaluated across the full life cycle of the shared owner’s experience. This chapter considers:

- financial eligibility criteria
- initial affordability assessments and metrics
- initial costs of entry
- costs of sustaining the purchase
- whether shared ownership is cheaper than renting privately
- whether shared ownership is cheaper than an open market purchase

A key underlying question is whether inherent aspects of the model – the new and the current versions – render long-term financial sustainability less rather than more likely for shared owners.

### 3.1 Financial eligibility criteria

For households to be eligible for shared ownership, their income must be below a specified upper threshold. Outside London, only households with a gross income of less than £80,000 can purchase a Homes England grant-funded shared ownership home (Homes England, 2022). The Greater London Authority (GLA) threshold is £90,000 (GLA, 2021).

However, there is no defined lower threshold for household income. Homes England sets their affordability benchmark as ‘between 25% and 45% of a household’s net annual household income’. The GLA, on the other hand, sets the benchmark at 40%.

### 3.2 Initial affordability assessments and metrics

#### Homes England’s Initial Eligibility and Affordability Calculator

Entrants to the shared ownership scheme are required to undertake an initial affordability assessment. This is based on Homes England’s requirement that applicants should be encouraged to purchase the maximum initial equity share that they can afford. Homes England’s *Shared Ownership Initial Eligibility and Affordability Calculator* is a key component of initial assessments (Homes England, 2020):

*‘The calculator has been created by Homes England to provide a tool for Help to Buy agents and Registered Providers to make an initial assessment of applicants’ eligibility for shared ownership, together with their ability to afford and sustain it over a period of time (our emphasis). In addition, it provides a tool to give an initial indication of the maximum contribution an applicant can make to purchase a shared ownership property using public funds, and an indication of the maximum share they could afford.’*

The calculator aims to ensure that housing costs are within the affordability parameters outlined in the previous section, after taking account of any debts. The calculator also establishes that mortgages do not exceed 4.5 times income.<sup>4</sup>

However, the final decision on affordability does not necessarily rest with housing providers (Homes England, 2020):

*‘The eligibility and affordability calculator is not intended to provide a definitive affordability assessment. It is expected that such an assessment would be undertaken by a mortgage lender and / or Independent Financial Advisor (IFA) following the initial check that this tool provides.’*

<sup>4</sup> In addition, monthly payments were previously stress-tested for mortgage interest rates 3% above the lender’s rate. Though the Financial Policy Committee of the Bank of England have recently removed the latter requirement with effect from 1 August 2022 (Bank of England, 2022).

## Independent financial advisors

A University of York report on affordable housing schemes and risk (Wallace et al, 2022) explains the significance of the mortgage intermediary's role:

*'Brokers or independent financial advisers (IFAs) have a central role to play in shared ownership. In addition to facilitating access to mortgage finance, IFAs must assess affordability and ensure the maximum affordable equity share is purchased at the outset.'*

Indeed, Homes England specifies that assessments by a mortgage intermediary take precedence over those carried out by housing providers (2020):

*'If more detailed affordability assessments (e.g. by a lender or IFA) produce a different outcome as regards the maximum thresholds indicated above then we would expect that these would take precedent over the Homes England calculator outcomes.'*

Homes England's guidance in this regard is presumably based on the specialist expertise of independent financial advisors. However, the University of York report suggests that this approach may prioritise risks to the lender over those to entrants to the scheme:

*'This IFA appraisal often takes precedence over the housing associations' assessments, despite lenders' assessment premised on their own not the borrowers' risks.'*

The researchers found that some housing providers have concerns in this regard:

*'Several providers thought that the model fails to account for long-term affordability, which has been compromised by stagnating incomes over the last decade. Some felt that the absence of rent and service charge increases over time from the Homes England model was remiss. A tension between lender and provider assessments occasionally therefore arose, with lenders granting loans that the provider deemed unsustainable.'*

## Year-one costs

Homes England's current initial affordability assessment framework is premised on year-one costs. In practice, independent financial advisors will may well take other factors into account, including longer-term risks to lenders and to entrants to the scheme. However, the emphasis of Homes England's calculator on short-term costs is unhelpful in assessing ongoing financial sustainability of the purchase, and potentially not consistent with the Financial Conduct Authority's new *Consumer Duty* requiring firms to focus on customer needs and good outcomes (Financial Conduct Authority, 2022).

There are two further problems with the current Homes England affordability assessment model:

- it does not explicitly take account of two very different pathways to full ownership: staircasing to 100% or making a gain on sale in order to transition to full ownership in a subsequent property
- it ignores other whole-life costs such as ground rent, estate charges and lease extension (where applicable)

In the case of a new build home, assuming a buyer intends to sell on relatively quickly, they may not need to plan for lease extension or staircasing. They may not be particularly concerned about future increases in rents and service charges.

However, the situation is different for households purchasing a 'forever' home. Maximising affordability over the long-term will require sufficient financial headroom to fund both staircasing and lease extension (assuming a 99-year or 125-year new build lease, or 'short' resale lease). Staircasing will be important to minimise exposure to the cumulative impact of inflation-linked annual rent reviews. Without, of course, losing sight of the 80-year threshold after which lease extension costs rise considerably.

Widening the formal focus of the initial affordability assessment from 'year-one' costs to whole-life costs – taking into account anticipated pathways through the scheme – would assist potential entrants to the scheme in better understanding risk, maximising opportunities for full ownership, and planning to minimise potential hazards. This could assist an informed decision whether or not to proceed with the shared ownership purchase and support subsequent planning and decision-making.



## Affordability metrics

Homes England's affordability assessment relies on a percentage of income to housing costs ratio. This raises two questions. First, is Homes England's upper limit of 45% (40% in London) too high? Second, is the income to housing costs ratio the most suitable measure, particularly for low-income households?

As regards the first question, the Affordable Housing Commission have determined a considerably lower threshold for affordability (2020):

*'When rents or purchase costs exceed a third of the net household income, housing costs can lead to financial difficulties, arrears, debts and consequent personal problems. And the position gets much worse if that percentage of income is a lot higher: we have taken the 40% of income figure as signalling a very serious affordability issue.'*

On the second question, different ratios could provide greater insight, particularly in the case of relatively low-income households. For example, whether households have sufficient income left after housing costs to cover basic needs (the 'residual income' measure).

The current requirement that prospective shared owners should be encouraged to purchase the maximum share that they can afford – combined with a high affordability threshold of up to 45% – leaves shared owners little headroom to absorb any subsequent increase in total housing costs, with potentially adverse consequences if wage inflation decouples from general inflation.

## 3.3 Initial purchase costs

In addition to standard conveyancing costs, affordability of the initial purchase rests on a combination of factors:

- funding the initial tranche
- mortgage deposit
- initial mortgage payments
- initial rent
- initial service charges

## Funding the initial tranche

Applicants to the shared ownership scheme can purchase their share in cash if they are unable to obtain a mortgage but have sufficient savings. This may, for example, be the case where they are former homeowners who have experienced housing debts or relationship breakdown. Typically, however, shared owners take out a mortgage to purchase their initial tranche of equity, and to fund any subsequent staircasing transactions.

In 2021 – before subsequent rises in interest rates – Savills modelled the income required to buy a £300,000 home as follows (Bowles & McLaren, 2021):

• Outright ownership (open market) –	£60,000
• Help to Buy (ending March 2023) –	£50,000
• First Homes 30% discount (starting 2024) –	£42,000
• Shared ownership 50% –	£38,600
• Shared ownership 25% –	£31,300
• Shared ownership 10% –	£27,000

Obtaining a mortgage for an initial 'part share' of a shared ownership home requires significantly less annual income than buying on the open market or via other government LCHO schemes.

## Mortgage deposit

Savills also modelled comparable minimum deposits on the same £300,000 home (above) as follows:

• Outright ownership (open market) –	£30,000
• Help to Buy (ending March 2023) –	£15,000
• First Homes 30% discount (starting 2024) –	£21,000
• Shared ownership 50% –	£7,500
• Shared ownership 25% –	£3,750
• Shared ownership 10% –	£1,500

An earlier report by Savills Research (2019) notes that:

*'One advantage of shared ownership is that it enables households to access home ownership with a much lower deposit: 5% of the share, which could be as low as 1.25% of the full property value.'*



## Initial mortgage payments

Initial monthly mortgage payments are determined by:

- the initial mortgage interest rate
- the length of the mortgage term

Mortgage affordability for first-time buyers in general is increasingly achieved by offering longer loan terms. However, these can increase future risks of non-payment (Wallace et al, 2022):

*‘Thirty-seven per cent of first-time buyers had mortgage terms longer than 25 years in 2006, rising to 66 per cent by 2018... Over half of new lending in 2021 had a mortgage term ending past the main borrower’s 65th birthday... [pushing] the mortgage commitment into later life when involuntarily exiting employment due to ill-health or retirement may increase payment risks.’*

All homebuyers will pay more interest on a longer loan term than on a shorter term. But shared owners face costs over and beyond those encountered by homebuyers generally.

Based on *English Housing Survey* data interest rates on shared ownership mortgages are higher, on average, than other mortgage products (Wallace et al, 2022):

*‘Shared owners had low initial housing costs, but recent shared owners’ mortgage interest rates cost more, 2.39% compared to 1.73% for open market buyers, meaning they pay more for their homeownership experience.’*

*A lender explained that they seek a premium on niche products, such as shared ownership... due to the more onerous administration involved. These loans are also influenced by typical ...shared ownership loan to values of typically 95% which represents a greater (price) risk for the lender. The Prudential Conduct Authority also requires lenders to set aside greater capital for shared ownership loans exerting an opportunity cost as those funds are not earning money for the lenders.*

*Adding in individual risk profiles, shared ownership loans are more expensive.’*





## Initial rent

The *Capital Funding Guide* (2022) states that:

*‘The total initial rent must not exceed 3% of the capital value of the unsold equity at the point of initial sale, but it can be less. In this respect ‘initial sale’ refers to the first sale of a new Shared Ownership home and does not refer to future resales to a new shared owner. Providers are encouraged to set total rents that average no more than 2.75% of the value of the unsold equity at the point of initial sale across their portfolio of new Shared Ownership homes’. (4.1.3)*

The notion that rent is subsidised features prominently in shared ownership marketing. For example, the Share to Buy website – an independent shared ownership marketing portal – refers to ‘subsidised rent’ on an FAQs page:<sup>5</sup>

*‘As a part-buy, part-rent scheme, you will pay a subsidised rent to the housing provider on the proportion of the property that you don’t own’.*

*‘The rent you pay on a shared ownership home is often referred to as ‘subsidised’ or ‘discounted’ because it’s lower than the market rent you would pay in the local area’.*

It sometimes recurs in research on shared ownership:

- ‘the shared owner pays a subsidised rent’ (Davis and Sinn, 2016)
- ‘below market rent on rented proportion of home’ (Whitehead and Williams, 2020) and
- ‘the subsidy on the rental element’ (Whitehead and Williams, 2020)

But the initial purchase is the only time that the shared owner’s rent links to any affordability methodology. And – as explained in Section 3.4 below – this link to an affordability threshold erodes over time.

Moreover, comparisons between shared ownership rent and open market rent do not compare like with like. The costs of repairs and maintenance are included in rent paid by private tenants but shared owners are treated as homeowners with full liabilities for repairs and maintenance (regardless of the size of their equity share).

The rent offer under the Older People’s Shared Ownership scheme is slightly different to the standard scheme; shared owners do not pay rent once they have staircased to 75% (the maximum allowable).

## Initial service charges

All forms of the shared ownership model lease which predate the new model lease contain provisions that liability for maintenance, repairs and any major remediation works falls fully on the shared owner from the outset. In the new model lease, this liability applies upon the expiry of the initial repair period.

Service charge calculations can vary from scheme to scheme. Some require all tenants to pay the same price while others base it, for example, on the floor area of a property.

Service charges typically include a contribution into a reserve or sinking fund towards future cyclical works, such as decoration of the exterior of the building. Estimated annual service charges are charged monthly. An annual adjustment is charged or reimbursed, as applicable, if actual expenditure differs from estimated expenditure.

When homebuyers purchase ‘off plan’ service charge estimates may not be available at the point of exchange. If the housing association is not the freeholder, they may be subject to service charges determined by a third party and simply pass these on to shared owners.

The *Capital Funding Guide* (2022) makes it clear that initial service charges should be affordable (after considering mortgage costs and rent):

*‘The level of service charge must be affordable for the intended client group.’*

However, service charges are uncapped in all the model leases (including the new model), so – as explained in the following section – there is no guarantee they will remain affordable.

<sup>5</sup> <https://www.shareto-buy.com/guides-and-faqs/shared-ownership-the-costs/> (accessed 27 February 2023).

### 3.4 Ongoing affordability

It has been suggested that the Government's affordability focus is largely short-term (Whitehead and Williams, 2020):

*'Government schemes put most of their emphasis on access to homeownership – with a general assumption that affordability will follow.'*

Yet Shared Ownership Resources' casework frequently demonstrates consumer concerns regarding ongoing affordability.

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*"I had to pass an affordability test with the housing association initially to see if I could afford to pay for the share of the flat and its associated costs. But now, nobody cares whether I still can afford it. If I could sell, I would... but I cannot. Absolute and utter madness."*

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The ongoing affordability of shared ownership rests on a combination of factors:

- mortgage payments
- rent
- service charges
- estate charges
- lease extension costs (for 'short' leases prior to the new model lease)
- ground rent

Exposure to specific costs will depend, in part, on a household's intended pathway through the scheme: whether transition to full home ownership via a gain on sale or staircasing to 100%.

#### Ongoing mortgage costs

There are three aspects to ongoing mortgage costs:

- mortgage interest rates
- mortgage terms
- re-mortgaging to staircase

#### Mortgage interest rates

As previously noted, shared ownership mortgages are likely to attract higher interest rates at the outset than other mortgage products. More favourable rates may become available as loan-to-value (LTV) ratios improve. Additionally, a smaller equity share than involved in an open market purchase may reduce risk (Whitehead, 2010):

*'Purchasers who use ...SO... hold a traditional mortgage only on the proportion they are purchasing, so the impact of changes in interest rates is smaller.'*

However, as the current cost of living crisis demonstrates, rapidly rising mortgage rates may be accompanied by high inflation meaning lower mortgage payments than would be the case for purchase on the open market can be counteracted by rapidly rising inflation-linked rents and uncapped increases in service charges.

#### Mortgage terms

As previously discussed, most shared owners (66% in 2018) have a mortgage term longer than 25-years. This can make staircasing even more challenging because households may be unable to extend their loan any further when re-mortgaging.

*"As with other first home buyers, there is a preponderance now of 30 or 35-year mortgages... That scope to take out additional loans later in their journey of home ownership has already been used. That joker, as it were, has already been used to make the initial purchase affordable, let alone later purchases" (Wallace giving evidence to a London Assembly meeting, 2020).*



## Re-mortgaging to staircase

Even if shared owners do staircase, the current market value model means they could pay considerably more in total than would have been the case had they purchased their home on the open market in the first place.

For example, assuming a shared owner purchased a 50% initial share of a property with a market value of £300,000, the first share would cost £150,000. Say, they staircased to 100% 15 years later, and the property had increased in value to £500,000, the second share would cost £250,000. The housing association would benefit from the uplift in value. But the shared owner would pay £400,000 for a property that could have been purchased for £300,000 at the outset, plus additional mortgage interest on the difference of £100,000.

Total mortgage interest on the difference of £100,000 will be significant (as will rent on the 50% share of the property still held by the landlord for 15 years) illustrating why research on whole-life costs, as opposed to affordability at the initial point of purchase, would be useful in understanding outcomes and impact of the scheme.

## Ongoing rent

The *Capital Funding Guide* (2022) establishes the basis for annual rent increases:

*‘Annual rent increases are to be limited to the Retail Price Index (RPI) plus 0.5%, using the RPI figure for a specified month which is published annually.’ (4.2.2)*

Adding:

*‘Once the method of setting increases has been decided on and written into the lease, then the provisions of the lease will be binding.’ (4.2.1)*

*‘Providers should note that the change introduced from April 2015 for calculating the target rent for rented homes incorporating the Consumer Price Index (CPI) does not apply to the annual rent increases for Shared Ownership.’ (4.2.2)*

As noted in Section 3.2, the initial affordability assessment ensures that total housing costs, including rent, do not initially exceed a specified ratio in relation to income.

However, an annual rent review policy requiring rent to increase annually at a premium to inflation, with no corresponding decrease if inflation falls, can result in total housing costs exceeding the original affordability threshold over time. At the inception of the shared ownership scheme, this would not have been anticipated as a problem (Cowan et al, 2015):

*‘The assumption of those who devised the scheme was that shared owners would staircase up to full purchase.... Rent rises, then, were set at levels that incentivise buyers to staircase.’*

But the model has not kept pace with the decoupling of average incomes and property market movements which has pushed staircasing out of reach for many shared ownership households. As discussed in Chapter 2, the shared ownership scheme is targeted at households who cannot afford to purchase on the open market, and who tend to display lower financial resilience and lower financial capability than other homebuyers buying with a mortgage. Yet, the lower the initial share they can afford in the first place the more exposed they are to the cumulative effect of annual rent increases in excess of inflation.

The annual rent review policy can create a vicious cycle:

- rising rents erode disposable income, making it harder to save for staircasing and/or lease extension
- rising rents can cause problems selling on if potential buyers can access otherwise comparable properties locally with lower rents (whether private rentals or new build shared ownership homes)
- at worst, a policy of ‘upwards only’ inflation-linked rent could contribute to financial hardship, or even poverty, if shared owners become effectively ‘trapped’ in the tenure

Ongoing affordability of the annual rent review policy has been tested by the cost of living crisis, with shared owners impacted by unprecedented rent increases at the same time that day-to-day living costs are rising.



## Ongoing service charges

As discussed in Chapter 2, under the new model lease shared owners retain an uncapped liability for all repair and maintenance costs once the 10-year initial repair period is over. Purchasers of shared ownership homes that do not qualify for the new model lease – whether resales or initial sales of properties in the current development pipeline offered under the previous version of the model lease – remain liable for all repair and maintenance costs via service charges.

The GLA (2021a) points out that:

*‘For affordable housing tenures such as shared ownership, service charges can be the difference between housing costs being affordable or not.’*

However, there is no attempt to link service charges to an affordability threshold following the initial affordability assessment.

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*“I had to undertake an affordability assessment in order to purchase my first share. But there wasn’t any mention that service charges could go up by so much, so quickly.”*

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Shared Ownership Resources’ casework demonstrates frequent concerns amongst shared owners about rapid rises in service charges.

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*“Naively I assumed service charge would remain at a reasonable level for the duration. Not increase from £100 to £300 in a few years.”*

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Research by the University of York reveals the scale of service charge increases (Wallace et al, 2022):

*‘Typically, shared owners saw charges of the magnitude of £48 per month to £180 per month or £50 to £250 per month over nine years, although some had much higher rises. For context, according to the Bank of England Inflation Calculator, £50 in 2012 by 2021 would be worth £62.82 if the service charge increase had reflected inflation.’*

Affordability problems may arise not simply from cost per se, but also from shared owners’ lack of control over occurrence, timing and specification of repairs. This is most likely to cause problems for households who have purchased shares in a flat where shared facilities such as lifts and common areas can incur repair costs over and above those that apply in the case of a house.

Homeowners who have purchased on the open market have the option to delay a repair if finances are restricted, or to carry out work themselves, get a friend or family member in, or to use a small firm operating under the VAT threshold in order to reduce the total cost. These are not options for shared owners as the provider decides what will be repaired, when, and at what cost.

The University of York report quotes a housing provider on remedies available to shared owners:

*“Most of our members – if not all of them, to be fair – would offer some sort of repayment schedule or an ability, if it was a large amount, to put that against the property so that it would stay there as a debt and would only be paid when they sold it on. There are different options available which can help.”*

The requirement to purchase the maximum initial share affordable limits the headroom available to address unanticipated financial contingencies. But repayment of a service charge debt at the point of sale could mitigate against the ‘gain on sale’ pathway to full ownership (see Chapter 4), particularly if the sum was material and if interest was applied on that debt.





## Shared ownership and the building safety crisis

The exposure of shared owners to uncapped, and potentially unaffordable, service charges has been thrown into stark relief by the building safety crisis. The campaign group End Our Cladding Scandal found that 83% of leaseholders surveyed for their report *Dereliction of Duty: How housing associations failed leaseholders trapped in the building safety crisis* were shared owners (End Our Cladding Scandal, 2022).

University of York research (Wallace et al, 2022) noted that:

*‘The building safety crisis exposed the imbalance of repairing responsibilities within shared ownership. This was acknowledged by the government after the fieldwork was undertaken, when they capped shared owners’ liabilities to reflect the equity share purchased.’*

But capping exposure to high expenditure may not be sufficient to make liabilities affordable. End Our Cladding Scandal report that some shared owners facing building safety issues are resorting to distressed sales, selling their homes at a loss to cash buyers (End Our Cladding Scandal, 2023).

Shared owners with building safety issues and short leases now face a new dilemma. Lease extension takes effect as a surrender and re-grant of a lease, which is not covered or exempted in the new Building Safety Act 2022.

In recognition of this flaw in the Act, the government subsequently announced (DLUHC, 2023) that it will legislate so that lease extensions are made subject to the same leaseholder protections which apply to a surrendered qualifying lease granted prior to 14 February 2022. However, this will happen only ‘as soon as Parliamentary time allows’, and changes may not be retrospective. Consequently, changes may not benefit those shared owners who have already extended their leases since 14 February 2022 or who need to do so before legislative change is enacted; perhaps in order to be able to sell their property. There is also no certainty that legislative change will apply to informal lease extensions (the only option available to shared owners as assured tenants).

Whilst landlords are being encouraged to co-operate in providing protections available under the Building Safety Act and to incorporate relevant provisions into lease extension, this does not constitute a guarantee for shared owners (and other affected leaseholders).

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*“I’m a 30% shared owner who extended my lease last year because it was on 81 years. I did this because I knew it would double the following year due to marriage value, so would become unaffordable. I never envisaged this could lead to no longer qualifying for leaseholder protections.”*

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### Estate charges

Estate charges cover the cost of maintaining any communal areas that are not covered by the service charge, such as private roads.

Estate charges are charges against the freehold. The cost of estate charges are set by third parties and passed on to the shared owner by the housing association. Unlike service charges there is no duty to consult before incurring major expenditure and there is no dispute resolution procedure available if estate charges appear unreasonable.

Not all shared owners will be liable for estate charges.

### Lease extension costs

Homes England’s *Capital Funding Guide* (2022) outlines the problems arising from ‘short’ leases:

*‘Homes England’s model Shared Ownership leases were first issued in the late 1970s / early 1980s. Many of these leases would have been issued for a term of 99 years, and the remaining term would now be significantly less than this.’*

*‘We are aware that this may create difficulties for those shared owners now wishing to sell their share. Lenders have requirements on the minimum lease term they will consider to be adequate security. This may make it difficult for purchasers or those re-mortgaging to obtain a mortgage.’*

Unfortunately, government, housing associations and solicitors (including panel solicitors recommended by housing associations) have – over many decades – largely failed to inform entrants to the shared ownership scheme about the cost implications of short leases, including the relationship between:

- a 99-year or 125-year lease
- the 80-year threshold (after which lease extension becomes more costly), and
- mortgage terms

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*“I bought my shared ownership flat in 2006, on a 99-year lease. There was no mention at the time from either my housing association, or from the solicitor I used on their recommendation, that I would need to extend the lease.... I have not budgeted for lease extension because until a couple of years ago I didn’t know I had to.”*

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The cost of lease extension may be unaffordable. As the Deputy Editor of *Inside Housing* explained to the London Assembly Housing Committee (London Assembly, 2020):

*“I just do not understand how people can go into this owning a 99-year lease on a property, or in many cases a 125-year lease on the property, without it being properly explained that you need to save now for the extension because it is going to cost an awful lot of money. It seems to come completely out of the blue and there seems to be a kind of residual expectation in the sector, not just among housing associations but among landlords of leaseholders full stop, that people just have that money lying around to extend a lease. People do not.”*

Whilst the new shared ownership model eliminates short leases for future shared owners, it does not address affordability problems facing many thousands of existing shared owners, plus future purchasers of resales with short leases.

Lack of standardisation across the sector creates a lottery in this regard. Some housing associations charge a lease extension premium based on the full value of the property; others on the equity share held by the shared owner.

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*“It’s not equitable to pay 100% costs of a lease extension when you have a 10 – 20 – 30 – 40% share”.*

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Lease extension may be particularly unaffordable for shared owners where the housing provider is not the freeholder. In such a situation, the housing association may be unable to offer the 90-year lease extension that would be available to leaseholders more generally under the statutory route.

If the housing association extends their own lease, current leasehold legislation makes the shared owner liable for the housing association’s costs. Consequently, depending on their housing association’s policy, a shared owner might be required to pay two sets of lease extension charges: the cost of extending their own shared ownership lease and the cost of the housing association’s lease extension.

### Ground rent

A ‘ground rent’ is a payment paid by residential leaseholders to their landlord. The landlord does not have to provide a clear service in return.

Historically shared ownership properties were offered with peppercorn ground rent (effectively zero). However, ground rent terms have been introduced into some shared ownership leases. This topic is discussed in greater detail in Chapter 5.

### Complexity and affordability

All in all, shared owners are required to undertake complex ongoing decision-making if they are to achieve affordability and other desired outcomes (Wallace et al, 2022):

*“Purchasers need to undertake complex assessments of the trajectories of household income, local house prices, inflation and mortgage rates to manage housing costs over time and increase shares or equity in the home.”*

### 3.5 Is shared ownership cheaper than renting or purchasing on the open market?

Shared ownership marketing materials frequently assert that shared ownership is cheaper than renting privately or purchasing on the open market. But what evidence exists to justify these claims?

#### Is shared ownership cheaper than renting on the open market?

Private rents can go up and down as the Office for National Statistics graph below illustrates (ONS, 2022), with a fall evident during the pandemic.

But even where initial shared ownership rents are lower than local open market rents they increase every year regardless of open market rent trends.

Analysis by the Joseph Rowntree Foundation shows that, between 2010 and 2021, shared ownership rents have risen faster than average rent increases seen for both social and private renters. Between

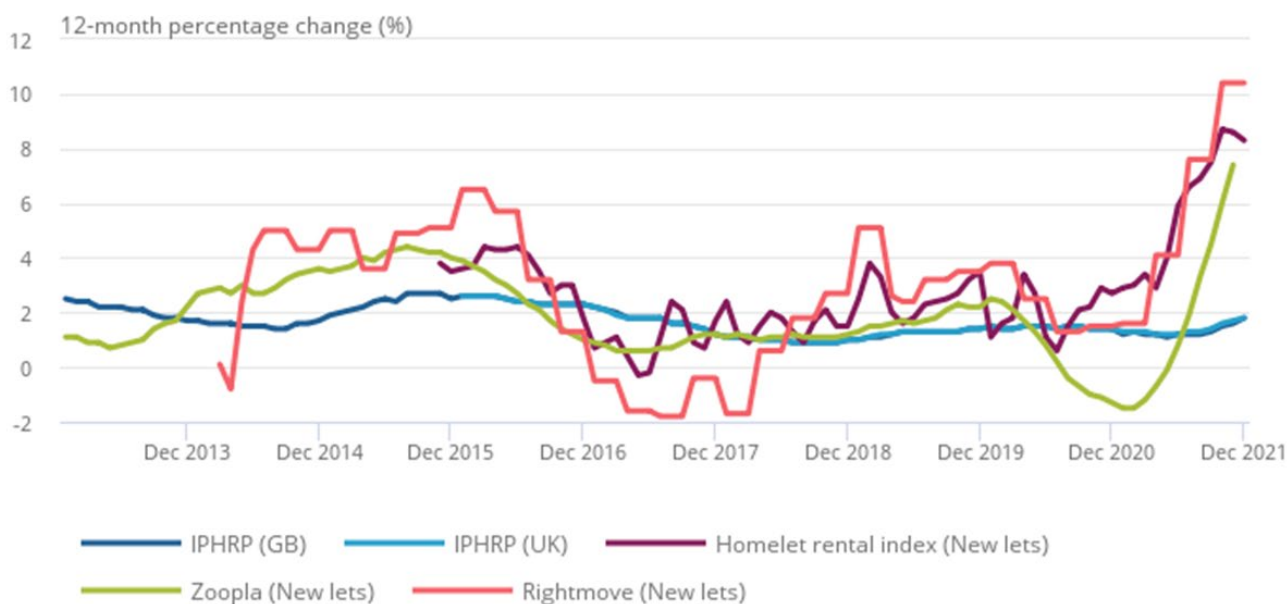
2016 and 2022, social rental tenants saw an average 3% increase in rent and private sector tenants saw an average 10% increase. Yet for shared owners the increase was 22% (Elliott and Phillips, 2022).

In *Shared Ownership: The heir apparent?* (Bowles and Buckle, 2019) Savills finds that shared ownership can become less competitive over time when compared to the private rented sector:

*‘While rental growth at a national level is roughly in line with RPI, this hides a great deal of regional variation. In many parts of England, private rents have shown little growth over the last decade. For example, rental growth in the North East was just 6.4 % between 2008 and 2018 according to the ONS. RPI over that period was 31.1%. Applying that inflation plus a premium to shared ownership rents results in rental growth far in excess of the market.’*

**Figure 1: Index of Private Housing Rental Prices (IPHRP) measure is more stable**

IPHRP and private sector measures of rents, percentage change over 12 months, January 2013 to December 2021, UK



Source: Zoopla, HomeLet, Rightmove and Office for National Statistics – IPHRP



A study by the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University (Green et al, 2016) assessed the affordability of affordable housing products in Essex, Suffolk, Norfolk and Cambridgeshire based on tenants' own perceptions of the affordability of their rent, their overall financial position, and whether they had full responsibility for their rent (i.e. were they in receipt of housing benefit paid directly to their landlord?). The researchers found that:

*'Shared ownership tenants were statistically more likely to have unaffordable rent compared to social and market rent tenants – 16 per cent of tenants in shared ownership had unaffordable rent compared to 9 per cent of tenants in market rent and five per cent in social/affordable/intermediate rent properties.'*

However, the study also found that:

*'Tenants on Housing Benefit were statistically less likely to have unaffordable rent compared to tenants who did not receive Housing Benefit.'*

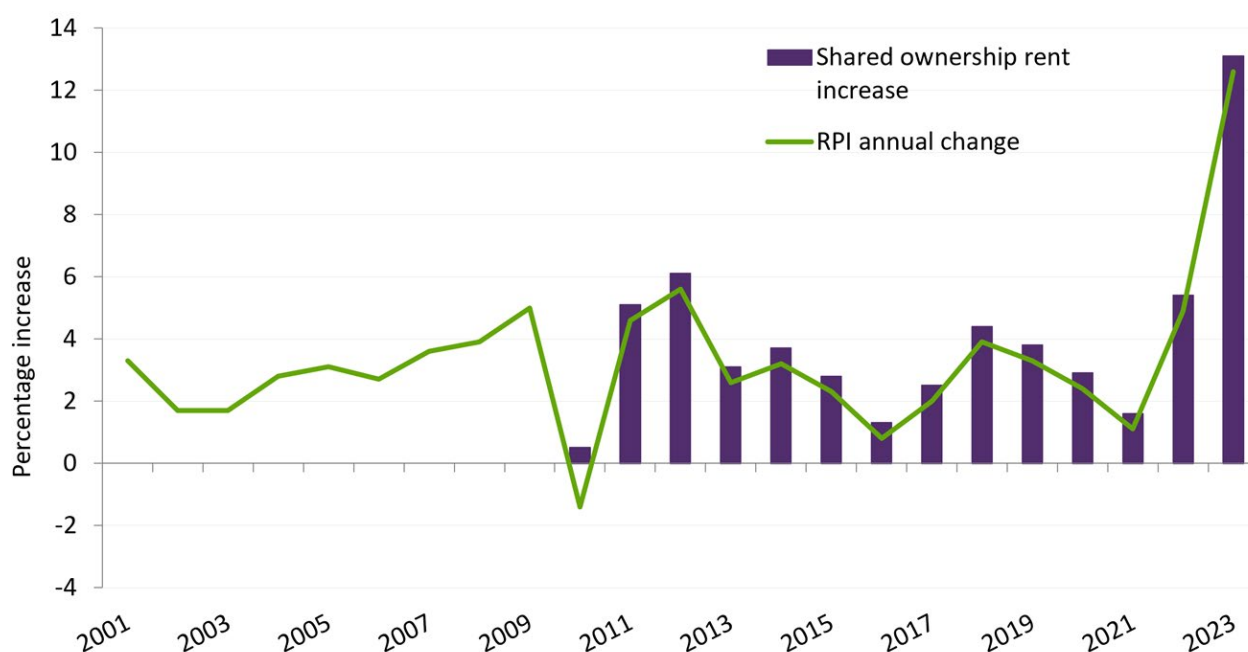
Are affordability pressures mitigated where shared owners are in receipt of Housing Benefit, Universal Credit and/or other financial assistance? The CRESR report did not analyse between shared owners reliant purely on earned income and shared owners in receipt of financial assistance. However, the authors noted that:

*'Further research is required to understand why a higher proportion of shared ownership tenants had unaffordable rent'.*

The social housing rent cap introduced by the Government in its Autumn Statement in response to the cost of living crisis does not apply to shared ownership. This led the Joseph Rowntree Foundation to express concerns about the adverse financial impact for shared owners if their rent were to increase in line with inflation – with RPI+0.5% resulting in an increase of 13.1% in 2023-24 (Elliott and Phillips, 2022).

In the meantime, the National Housing Federation (NHF) has made a commitment that its members will voluntarily cap shared ownership rent increases at 7% in 2023/24 to match the 7% rent cap imposed on social and affordable rented tenancies let by Registered Providers.

**Rents for shared owners could increase by 13%, the largest ever increase in rents for shared owners**



Notes: Shared Ownership Rents are theoretical increases based on RPI + 0.5% (or 0.5% if RPI is negative) as at the previous September, although in practice rate of RPI at other months may be used depending on agreements.

Initial shared owner reaction to the voluntary 7% cap is equivocal:

- relief that rents will not rise to the 13.1% (or 14.6%) expected if the RPI + 0.5% (or RPI + 2%) formula was strictly adhered to
- anxiety from shared owners whose landlord is not an NHF member and to whom the NHF initiative will not apply
- anxiety from shared owners for whom a 7% rent rise is unaffordable
- concern that housing providers might increase service charges to mitigate loss of revenue arising from the rent cap, and
- distress that a rent rise is being levied at all, if the cumulative impact of the rent setting formula has already made their homes unaffordable to occupy

As previously discussed, rental tenants have no liability for maintenance and repair costs, which are covered by their rent, whereas shared owners bear 100% liability for such costs regardless of the size of their equity share. Consequently, cost of living pressures faced by shared owners may be more problematic than direct comparison of rent levels across different tenures suggests.

### Is shared ownership cheaper than purchase on the open market?

Research suggests that the answer depends, to a large extent, on the assumed timescale. Savills (Bowles and Buckle, 2019) state that:

*‘Given the same initial deposit and the same property, the monthly costs for shared ownership are substantially cheaper than full ownership.’*

*‘However, as the rent portion of shared ownership costs rises at a premium to inflation, monthly costs will rise faster than for full ownership. This ultimately leads to shared ownership becoming more expensive than full home ownership by the end of the mortgage term.’*

Research carried out by the University of York (Wallace et al, 2022) also found that shared ownership becomes more expensive than purchase on the open market, although concluding that this occurs prior to the end of the mortgage term:

*‘Over-inflationary rents mean shared owners’ monthly costs converge with open market buyers’ costs beyond year 15 while accruing much less equity, challenging the products’ value for money.’*

However, the tipping point may come well before 15 years. The University of York analysis excludes service charges which, when added to mortgage costs and rent, may well push the total housing costs of shared ownership above market levels earlier than previously estimated.

### 3.6 Is shared ownership financially sustainable?

Researchers at the University of York (Wallace et al, 2022) point out that:

*‘Decisions made when buying a home frame much of the risk environment for homeowners’ subsequent experiences.’*

Yet initial affordability assessments do not stress test the future relationship between household income, anticipated pathways through the tenure and future housing costs despite mounting evidence (Wallace et al, 2022) that:

*‘The relatively low entry cost of shared ownership is not maintained.’*

### Shared ownership and financial hardship

The University of York research found that:

*‘In October 2020, shared owners had the highest proportion finding domestic bills and other credit commitments a heavy burden (23 per cent), and the lowest proportion of people reporting that these financial commitments are not a burden at all (33 per cent) compared to people in other housing tenures.’*

Analysis by the Joseph Rowntree Foundation (JRF) suggests that around a fifth of shared owners are in poverty (Elliott and Phillips, 2022). JRF found that in 2019/20 the poverty rate for households buying with a mortgage who also pay rent (most likely shared owners) is 21%, a rate which is double that found for households buying outright with a mortgage.

The housing costs ratio utilised by JRF to arrive at this assessment excludes the cost of mortgage principal payments. (For the purposes of calculating the ratio, loan repayments are treated as payments towards the purchase of a property asset – as wealth creation – rather than housing costs as such, although mortgage interest payments are included as housing costs).

A quirk of the measure utilised by JRF is that a household buying a home outright with a mortgage on the open market and one buying via shared ownership could have exactly the same disposable income after paying rent and mortgage (interest and principal). But only the shared ownership household would be classified as being in poverty because their rent is counted as 'housing costs'. Yet conflating these two demographics as having the same disposable income would overlook an essential distinction; the shared ownership scheme is publicly subsidised and marketed as 'affordable' housing, whereas open market purchases are not.

JRF emphasises that there is inadequate data to infer causal links between shared ownership and poverty rates, notwithstanding that half of shared owners defined as being in poverty fit that assessment only after housing costs have been factored in.

Nonetheless they suggest (Elliott and Phillips, 2022) that:

*'The Government should consider whether the model of shared ownership requires reform to ensure it is genuinely affordable for shared owners and is not a driver of poverty'.*

In previously unpublished analysis of their 2022 cost of living survey JRF found that low-income shared owners (defined as in the bottom 40% of incomes) were experiencing among the highest levels of hardship across all tenures.

The analysis identified that low-income shared owners experience the same levels of hardship as low-income private and social renters:

- 44% cited having gone without three or more essentials
- 45% cited having low or no savings (less than £200 in savings)

	Low-income shared owners	Low-income private renters	Low-income social renters	Average for all low-income households (including those buying with a mortgage or who own outright)
Food insecurity	76%	65%	61%	47%
Going without at least one essential	94%	93%	88%	81%
Behind on at least one household bill or payment	66%	61%	53%	40%
Behind on rent or mortgage payments, or both	24%	19%	18%	18% <sup>6</sup> (excludes outright owners)

Source: JRF analysis of *Cost of Living Survey May/June 2022* and *October/November 2022*.  
Methodology and definition of 'going without essentials' are outlined in the JRF report *Going under and without: JRF's cost of living tracker, winter 2022/23* (Earwaker, 2022).

<sup>6</sup> For low-income households with a mortgage (excluding shared owners) the average behind on housing costs (i.e. their mortgage) was 15%.



### 3.7 Summary – is shared ownership affordable?

This chapter examined the degree to which shared ownership can meaningfully be described as ‘affordable housing.’ Government monitoring statistics (HM Treasury, 2021) focus exclusively on access (defined as ‘Total completions of affordable homes’), making it challenging to evaluate longer-term affordability and related impact for entrants to the scheme. But the issues discussed in this chapter underline the importance of a question posed by Nanda and Parker (2015):

*‘What evidence exists to support the assumption that shared ownership is affordable or progressive?’*

Although shared ownership is the cheapest entry point to home ownership, there are indications that it becomes increasingly costly – both in absolute terms and relative to other tenures – the longer the shared owner remains in occupation. If so, this inevitably creates a risk that shared ownership could represent poor value for money or become increasingly unaffordable over time.

Improved national monitoring data is urgently required to assist better understanding of the demographics for whom shared ownership remains affordable (and progressive), and those for whom it does not.



### 3.8 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.
- The 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.
- The 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.

Although shared ownership is the cheapest entry point to home ownership, there are indications that it becomes increasingly poor value for money

## 4. A PATHWAY TO FULL OWNERSHIP?

This chapter examines the extent to which shared ownership provides a realistic pathway to full ownership. This is important as it is one of the key claims made for the scheme by government and the housing sector.

The claim is examined with reference to the primary routes to full ownership:

- staircasing to a 100% equity share
- buying a home on the open market via a 'gain on sale' of a shared ownership property

### 4.1 Route 1: the staircasing pathway to full ownership

At its inception shared ownership was intended as a method for purchasing a home in instalments (Conservative Party, 1979):

*'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.'*

Decades later, staircasing to full ownership remains an important motivation for homebuyers to enter the shared ownership scheme, in part due to the nature of shared ownership marketing materials (Wallace giving evidence to the London Assembly, 2020):

*"The issue of staircasing is hugely important, and one of the reasons it is really important is the sales material ... the promise of full ownership hangs over the purchase."*

#### Extent of staircasing to 100%

How many shared owners achieve 'ownership' via staircasing to 100%? It is a surprisingly difficult question to answer, particularly given that it is one of the key planks of the shared ownership scheme. But there is a widespread consensus that the numbers are low.

*'In practice, most do not vary the initial share purchased: the Existing Tenants Survey 2008 found that 92% of shared owners had not increased their share since purchasing their property.'* (Bright and Hopkins, 2011)

*'During 2013/14, 1,558 shared owners staircased to 100 per cent ownership in London; this is equivalent to 3.6 per cent of the total shared ownership stock. The figures for 2012/13 and 2011/12 were even lower – 979 and 782 households respectively.'* (London Assembly Housing Group, 2015)

*'To date, evidence from shared ownership portfolios suggests staircasing is relatively rare.'* (Savills Research, 2019)

*'The principles of shared ownership were developed in a very different economic environment where the expectation was generally that people would initially buy around 50% and high inflation and growing incomes would make staircasing to 100% a reasonable aspiration for most employed households using that product... Now the situation is very different for many purchasers, with ...evidence that fewer households will ultimately move to owning 100% of the property.'* (Whitehead and Williams, 2020)

*The vast majority of shared ownership leaseholders will never staircase to 100%'. (Law Commission, 2020)*

Data compiled by Savills shows staircasing to 100% as a proportion of all homeowners falling from a peak of around 5% in 2002-03 to under 1% in 2008-09, and generally hovering around an average of 3% between 2001-02 and 2017-18 (Savills, 2019).

The most recent data held by the Regulator of Social Housing, as reported in a *Parliamentary Briefing* (Cromarty, 2021), suggests that in 2018/9 2.3% of shared ownership households staircased to 100%.



Unfortunately, these statistics overstate the number of shared owners achieving full ownership via staircasing to 100% by failing to analyse between:

- households who staircase to full ownership in a home they continue to live in
- households who undertake a simultaneous sale and staircasing transaction as part of the sale process

The London Assembly Housing Committee identified this issue, in making the following recommendations to the London Mayor (2015):

- ‘The Mayor should publish annual data on levels of staircasing in London, disaggregated by location, property size, household income and percentage share sales.
- The Mayor should publish annual data on resales in London, including a statement of whether the property remains within the shared ownership sector.’

### Simultaneous sale and staircasing transactions

Simultaneous sale and staircasing transactions are a legal mechanism to allow a homebuyer to purchase 100% of a resale shared ownership home where the seller has a part-share. In essence, the buyer purchases a share from the shared owner and the balance from the housing association. The shared owner makes a gain (or loss) on their part-share only.

The topic of simultaneous sale and staircasing transactions is discussed in more detail later in this chapter, and in Chapter 5.

### Barriers to 100% staircasing

Having established that staircasing numbers are relatively low, the following sections explain some of the underlying reasons.

#### Property markets

When shared owners purchase additional equity by ‘staircasing,’ they pay the open market value at the date of each transaction. It is widely accepted that the main barrier to full ownership via 100% staircasing is that property prices tend to rise faster than wages:

*‘Increases in house prices can make the acquisition of extra shares in the property unaffordable to buyers on marginal incomes.’ (Cowan et al, 2018)*

*‘In a rising housing market, it is more challenging to access and progress into full ownership as further shares become more expensive.’ (Cromarty, 2021)*

*‘Increasing house prices (relative to wages) have slowed staircasing.’ (Whitehead and Williams, 2020)*

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*“Staircasing was never really on the cards. The property value went up so quickly as did the service charge; I would have had to be earning a significant amount more than I was to afford staircasing.”*

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It might be assumed that staircasing is easier in a falling property market, but this is not necessarily the case. Staircasing in a falling market may reduce the value of existing equity shares, thus eroding loan-to-value ratios, and in some circumstances potentially making it difficult for some shared owners to obtain a mortgage for staircasing purposes.

### Rises in mortgage interest rates

In 2020 the Bank of England reported that mortgages with long-term fixed rates (five years or more) accounted for half of new mortgage lending (Bank of England, 2020). The University of York found that around two-thirds of shared owners used fixed rate deals which limit payment shocks from rising interest rates, leaving around a third vulnerable to bank base-rate rises being passed onto borrowers (Wallace et al, 2022). But even households who have fixed their rate are vulnerable to higher payments once their arrangement ends.

The Regulator of Social Housing (2022) has recently noted the potential impact of rising mortgage interest rates on staircasing transactions:

*‘The impact of rising interest rates on mortgages has the potential to impact sales prices and volumes, including staircasing of shared ownership properties.’*

### Costs associated with staircasing

Shared owners may be deterred by the costs associated with staircasing transactions, including:

- valuation fees
- mortgage arrangement fees
- stamp duty (SDLT) on transactions which leave the occupier owning 80% or more of the equity in their home (assuming a full market value election was not made at the point of purchase)
- legal fees
- any additional fees required (for example, to rectify legal defects via a Deed of Variation in order to obtain a mortgage)<sup>7</sup>

Incremental staircasing is available under the new model of shared ownership and is discussed in more detail in Chapter 7.

## 4.2 Route 2: using a gain on sale to transition to full ownership on the open market

Under this model a shared owner buys, say, 25% of a property valued at £400,000. Their share costs £100,000. Five years later, their home is valued by a RICS surveyor at £600,000. At the point of sale, their equity is worth £150,000. Having made a ‘gain on sale’ of £50,000, and after deducting the costs of sale, the shared owner can use the balance as a deposit to buy a comparable home on the open market.

It is reported that there is: ‘little data on the resale performance of shared ownership apartments generally’ (APPG on Housing and Care for Older People, 2023).

However, a Parliamentary report points out (Cromarty, 2021):

*‘The process for selling a shared ownership property is not straightforward.’*

It seems probable that shared owners face greater hurdles than homeowners more generally in making sufficient gain on sale to enable transition to full ownership in a subsequent property, as explained in the following sections.

### Barriers to ‘gain on sale’ for shared owners

#### New build premiums

The Financial Times (Hudson, 2021) reports that:

*‘Buyers of new build homes may not build up equity as quickly as their peers in a market with rising house prices — and would be more exposed to negative equity in the event of house price falls.’*

This is not, of course, a problem restricted to shared owners. However, the shared ownership scheme is characterised by new developments with new build premiums estimated to increase sales prices by around 15% (York, 2023).

Any reduction in the value of their property exposes shared owners to the risk of negative equity, thereby undermining the gain on sale pathway to full ownership and potentially rendering sale unviable as an exit route. Owning a part-share may limit – but not remove – shared owners’ exposure to falls in property value.

<sup>7</sup> As an example, if estate charges are payable to a third party management company (see Section 3.4) with no exclusion of s.121 of the Law of Property Act 1925 (meaning that the management company could repossess for non-payment of service charges!) the shared owner might need to pay for a Deed of Variation in order that the lender provide a mortgage.

## Overvaluation of initial shares

If the initial share was overvalued, it will be more challenging to achieve a gain on sale. In a *Times* feature on negative equity, Baker (a RICS surveyor) explains an underlying problem for valuation of shared ownership properties (York, 2023):

*“Surveyors use the Land Registry to look at recent sales, but shared ownership transactions are not recorded in the ‘price paid’ file on the government portal because it isn’t a full value sale.”*

In a feature for Shared Ownership Resources, Murphy (a RICS surveyor) expresses concerns that market mechanisms controlling sales prices for initial shares do not function as effectively for shared ownership homes as for other properties (Phillips, 2021):

*“The usual market mechanisms which help regulate property prices may not work as well in the case of shared ownership. Because the market is made up of buyers purchasing part shares, differences in value may have less effect than in the wider property market. For example, someone buying a 25% share in a flat worth £400,000 might be tempted to pay £20,000 extra. But in the open market buyers might never pay £480,000 for that property.”*

## Rising property prices

Making a desired gain on sale is dependent on the property market rising sufficiently. This can be particularly challenging for shared owners given sufficient gain has to be generated from only a part share in the total value of the property sold (perhaps as low as 10% under the new model for shared ownership).

Rising property values will not help shared owners wishing to buy a comparable property within their local housing market, as the next property they wish to purchase will likewise have risen in value. One option might be to relocate to a cheaper area, if personal and work circumstances permit. Of course, this option is not available if the property for sale is in a low value market.

## Full liability for costs of resale

Shared owners face 100% liability for the cost of resale – RICS valuation fees, their own legal fees and, in some cases, the housing association’s legal and administration fees, plus estate agent fees (if applicable) – whatever the size of their equity share.

They may have to pay a fee to their landlord (GOV.UK, 2022), regardless of whether the property is sold by the housing association or an estate agent, and other typical selling costs such as a leasehold information pack (also referred to as a management or freeholder pack) and EPC certification as applicable.

Full liability for selling costs is on the basis that the shared owner is selling their share, whilst the housing association is not selling its own share. However, depending on the size of the shared owner’s equity share, these costs may disproportionately erode any gain on sale.

## Shared owners bear the full impact of price reductions

During the nomination period shared owners are obliged to sell their share at the value established by a RICS valuer. If the housing association fails to find a buyer, the shared owner can then sell on the open market (GOV.UK, 2022), potentially at a higher price than the RICS valuation if they undertake a simultaneous sale and staircasing transaction.

If the shared owner sells on the open market and achieves a higher sale price than the RICS valuation, the housing association receives their share per the RICS valuation, and the shared owner keeps the balance. However, if the shared owner can only find a buyer at a lower price than the RICS valuation they may be required to take on the full shortfall, not just on the percentage share they hold.



## Short leases

Where a lease is approaching – or has already breached – the 80-year threshold, at which point it becomes considerably more expensive to extend a lease, shared owners may need to undertake lease extension to sell their home.

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*“I bought a 50% share in 2008. Lease length was 79 years at the time and both the HA and solicitor failed to advise me the implications of buying with a lease below 80 years. It was only when I sold it that the issue arose as my buyers couldn’t get a mortgage. It cost me £12,800 for the lease premium to add 90 years. I also had to pay: £600 survey costs, £950 for the HA’s solicitor and a £350 permission fee to the HA to extend, plus my own legal fees. It was a horrendous process. I lost best part of £17k in all to extend the lease and walked away with less for my share than I’d paid.”*

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## Stamp Duty Land Tax (SDLT)

Some shared owners are being incorrectly advised by their solicitors to pay Stamp Duty Land Tax (SDLT) on simultaneous sale and staircasing transactions. Owners can claim stamp duty ‘sub-sale relief’ but, unfortunately, HMRC’s online guidance manual does not cover this point – seemingly leading to misunderstandings and incorrect advice (Randall and Aullybocus, 2022).

If an error has been made shared owners can claim the relief from HMRC but only within one year of completion, leaving some sellers thousands of pounds out of pocket. Those affected have the option of bringing an action against their solicitor for professional negligence. However, there is no guarantee such an action would be successful.

## Weak market demand

Market demand for resale of part-shares will vary according to factors including type of property (house or flat), geographical location (urban/rural, region) and the overall desirability of a specific area. In some settings, there will be high localised demand. Nonetheless, a Parliamentary briefing (Cromarty, 2021) points out a fundamental difficulty for shared owners hoping to sell their share:

*‘Shared ownership resales are reported to be less attractive to homebuyers than new build homes.’*

It is not clear whether this is due to a pre-existing homebuyer preference for new builds per se, or to differences in marketing of resales as opposed to new builds (Wallace, 2008):

*‘Resales, and to a lesser degree new build shared ownership opportunities, are rarely advertised in the alternative ‘virtual marketplace’ of national home sales websites, which are increasingly important for buyers and sellers in the open market.’*

It is possible that online marketing of resales has improved since 2008. Further research would be helpful to understand resale performance, whether during the nomination period or thereafter.

Social media forums appear to suggest concerns on the part of some shared owners seeking to sell shares above 50%. The greater the equity share held in a property, the less affordable it may be for prospective buyers meeting Homes England’s eligibility criteria. If the property has increased in value potential purchasers may not meet Homes England’s affordability criteria. Or potential buyers may find purchase of a home on the open market more appealing than, say, purchase of an 85% share.



Sellers may find themselves obliged to undertake a simultaneous sale and staircasing transaction (also known as a back-to-back sale) to sell on the open market (Whitehead and Williams, 2020):

*‘There is no active/widespread resale market for shared ownership homes. Sellers mainly rely on back-to-back sales – buying out the housing association share and selling the home on the market as a 100% owner occupied home.’*

Various factors can underlie decisions to undertake simultaneous sale and staircasing transactions:

- to eliminate a short lease by obtaining the freehold (houses only)
- to obtain the freehold of a house in order to eliminate an onerous ground rent term (however, a simultaneous sale and staircasing transaction will not obtain the freehold of a flat, leasehold house, or a property where staircasing is capped below 100%)
- to eliminate rent that has risen higher than that on otherwise comparable privately rented properties
- where the combined total housing costs (rent, mortgage and service charges) are such that households who could afford the part share would not meet eligibility criteria

Chapter 2 discussed gaps in national monitoring data which make it difficult to know exactly how many shared owners have staircased to 100% in a home they continue living in. The corollary is that such gaps make it equally difficult to know how many shared owners have chosen, or been obliged, to sell their home via simultaneous sale and staircasing transactions.

### The building safety crisis

The campaign group, End Our Cladding Scandal, note that shared owners are particularly vulnerable to making a loss on the sale of a home impacted by the building safety crisis (End Our Cladding Scandal, 2023):

*‘We are concerned that neither government, local governments or housing associations are monitoring these developments. Responsible agencies are failing to join the vital dots between the building safety crisis and the housing crisis in the country. Data should be urgently collected on the number*

*of shared ownership properties trapped in the building safety crisis that are being sold to cash buyers, where there may be simultaneous staircasing and resale taking place, including at auction. The net loss of ‘affordable homes’ as a result of such distressed sales should be recorded.’*

### Sales risk

The increased visibility of risks and long-term costs associated with shared ownership can cause problems for shared owners hoping to sell.

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*“Shared ownership worked out for me in the sense that I lived somewhere nice for a number of years and I made a gain on the sale, which I used towards my deposit for my next property. Even so, I’d advise anyone considering shared ownership to be very cautious, particularly when it comes to service charges and ground rent. I wish the law would cap service charges; there are no controls. My former neighbours worry about problems with shared ownership being made public. They’re concerned it will make their own flats harder to sell in the future.”*

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### 4.3 A pathway or a destination?

Undoubtedly, shared ownership enables some shared owners to transition to full home ownership. However, a lack of national monitoring of outcomes and impact makes it difficult to assess the degree to which shared ownership provides a ‘realistic pathway to full ownership’, whether via staircasing to 100% or transition to full ownership via a gain on sale.

Research published 15 years ago found many shared owners unable to progress to full home ownership (Wallace, 2008):

*‘For many shared owners, the sector has become a permanent hybrid tenure between ownership and renting. A significant minority of shared owners wanted to move but could not and, although half of the moving owners did achieve full homeownership, many moved within the shared ownership sector, or, reluctantly to private or even social renting.’*

More recently, Williams (2022) referred to ‘increasing numbers of households becoming permanent partial owners’, adding:

*‘What is clear is that the partial-ownership sector as a whole has become overly focused on sales and getting people in, and insufficiently focused on their customers’ subsequent journeys through to full ownership. Too much attention has been focused on the receipts from sales and too little on the longer-term customer experience, or the journey to exit.’*

*‘I’m worried my family will still be in this two-bedroom flat when my three children are teenagers.’*

In early 2023, the CEO of a for-profit provider was quoted in an *Inside Housing* feature (Delahunty, 2023a) on challenges to both pathways to full home ownership:

*“The whole industry struggles with resales and staircasing”.*

In short, academic research, media articles and Shared Ownership Resources’ casework all suggest the possibility of a sizeable number of shared owners ‘trapped’ in a tenure that:

- is no longer affordable to them
- reduces mobility and places limitations on life choices such as employment, schooling and provision of care
- offers no viable exit route

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*“As a child from a low socio-economic background, I dreamed of having my own home. But, in fact, shared ownership does not allow this. Nothing is shared. Nothing is owned. I am a resident not a homeowner. Shared ownership isn’t even affordable given annual rises in rent and service charge.”*

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Which is exactly what Lord Greenhalgh, former Minister of State (Department for Levelling Up, Housing and Communities), states should not happen:

*“With outright ownership being the mission, shared ownership should [not] and must not be a destination.”<sup>8</sup>*

Even if shared owners do sell their share, it isn’t apparent how many successfully transition to full ownership. The *English Housing Survey* (DLUHC, 2021) shows considerable churn within the housing system generally. In 2020-21, 166,000 private renters moved into the ‘owner occupiers’ tenure (including shared ownership) and 66,000 moved in the opposite direction from ‘owner occupation’ to the private rented sector. But the report does not specify how many of the households transitioning backwards and forwards between ‘owner occupation’ and the private rented sector were shared owners.

<sup>8</sup> Correspondence with the author.

## 4.4 Summary – does shared ownership provide a realistic pathway to full ownership?

A key policy aspiration for shared ownership is to function as a ‘realistic pathway to full ownership’. Assessment of the degree to which the shared ownership scheme delivers full home ownership is hampered by the absence of national monitoring of full life cycle costs, outcomes and impact.

There are two potential pathways to full home ownership: staircasing and gain on sale. However, there are a number of barriers to both pathways. At worst, a shared ownership home can become an unplanned and, sometimes, increasingly unaffordable destination with no viable exit route. Other than, perhaps, back to the private rented sector which may have been a driver for entry to the shared ownership scheme in the first place.

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%. Conversely it is challenging to quantify the transfer of social housing stock to the open market via simultaneous sale and staircasing transactions.

There is evidence that some shared owners are being provided with incorrect advice on Stamp Duty Land Tax (SDLT) on simultaneous sale and staircasing transactions.

## 4.5 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.



## 5. IS SHARED OWNERSHIP FAIR?

Whether or not shared ownership is ‘fair’ is important for two reasons:

- the Government claims ‘fairness’ as one of the qualities of the scheme
- unfair commercial practices are prohibited under the Consumer Protection from Unfair Trading Regulations 2008

The topic of fairness as defined by consumer protection legislation is addressed in the next chapter.

This chapter commences by assessing why shared owners anticipate fairness. It goes on to examine whether – in practice – the cross-subsidy model creates conflicts of interest between shared owners and government, housing providers and their agents? And, if so, whether shared owners’ interests are largely subordinate to those of other stakeholders?

The chapter takes a closer look at some specific aspects of the shared ownership scheme often perceived as unfair by shared owners: the impact of short leases in later life, subletting and ‘shared ownership’ terminology. It also examines incompatible shared owner needs, and conflicts of interest between existing shared owners and new entrants to the scheme.

It concludes by examining satisfaction rates.



### 5.1 How do shared owners’ expectations of fairness arise?

Homebuyers may initially infer that shared ownership is ‘fair’ because it is a government policy delivered by housing associations.

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*“I thought, it’s a government Affordable Home scheme. It must be a safe proposition, the leases must be standardised or verified. They are a housing association, a semi-public company; they must be fair and honest. I felt reassured by all of this, and the glossy brochure quickly lured me back in.”*

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At least some homebuyers are under the impression that housing associations are charities. This is understandable. Senior executives in the housing association sector regularly make reference to being ‘not-for-profit’ and ‘charitable’.

*“Shared ownership is a not-for-profit programme, run by charitable organisations and backed by government”. (National Housing Federation CEO, Kate Henderson, interviewed for the BBC’s Panorama documentary *The Home I Can’t Afford*, 2020).*

Some housing associations were registered charities in the past and a few still are. It is likely that many members of the public are unaware that not-for-profits and charities are not necessarily the same thing, or of differences between registered charities and exempt charities.

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*“The idea that I could buy a part share was appealing. At least I wouldn’t be renting, I thought. Shared ownership is a government scheme run by a housing charity. What could go wrong?”*

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The shared ownership scheme is targeted at people who cannot afford to purchase a home on the open market. The requirement to meet eligibility criteria may contribute to an expectation of being a ‘beneficiary’ of a ‘charitable’ service. However, that initial trust in the fairness of the shared ownership scheme can dissipate.



## 5.2 The cross-subsidy model: stakeholder objectives

The Housing, Communities and Local Government Committee outlined the cross-subsidy development model in their report *Building More Social Housing* (2020):

*‘Since 2011... housing associations have relied significantly on the ‘cross-subsidy’ model, whereby they develop homes for sale and use those profits to develop and fund their social and affordable housing.’*

Shared ownership occupies a far from straightforward role in this development model. It is delivered under an Affordable Homes Programme yet must provide financial returns to enable the development of further affordable housing development.

In order to explore whether the cross-subsidy model creates conflicts of interest between government, housing providers and their agents and shared owners we start by outlining their respective objectives for the scheme.

### Government objectives

Shared ownership provision meets two key government objectives – increasing housing supply (Wilson et al, 2021) and access to home ownership.

Shared ownership plays a central role in the cross-subsidy model under which much social housing is developed. According to the UK Housing Review (Stephens et al, 2022) grant for the AHP 2021-26 is set at an average of £64,000 per unit. The balance of the cost of shared ownership new build is met by the housing provider through borrowing and the application of shared ownership sale and staircasing receipts, with the borrowing being serviced by rent charged to shared owners.

*‘Grant can be thought of as the balancing item in a scheme appraisal – the amount of subsidy required for an affordable housing development to “stack up” financially’ (Pickles, 2021).*

Effectively, government has locked housing associations into a development model where grant is minimised and housing associations take all the sales risk and fund most of the overall development cost. This, in turn, forces housing associations to adopt a commercial approach to their shared ownership portfolio, maximising capital receipts and the rental yield.

### Housing association objectives

If housing associations seek government grant for development, they work in an environment where (currently) 50% of available grant is earmarked for affordable home ownership provision. This means that even if a housing association were to agree the need for shared ownership reform, it may need to continue with the scheme if it intends to meet the objective of increasing housing supply.

### Shared owner objectives

Individual shared ownership households will have different and varying aspirations for their home. Regardless, it is reasonable to assume that they expect it to live up to policy and marketing claims to be affordable and offer a realistic pathway to full ownership. They may also anticipate the same benefits that are available to homeowners generally including security of tenure, control over their home environment and investment in a property asset.



## 5.3 The cross-subsidy model: value extraction and conflicts of interest

From the housing association perspective, there are six stages in the life cycle of shared ownership where 'value' can be extracted:

- developer's margin on new build
- the initial equity purchase
- specified rent payable
- subsequent staircasing transactions
- ground rent
- lease extension

The following sections assess potential conflicts of interests arising in each of these six stages.

### Developer's margin on new build

The housing association will hope that property value rises between the date of construction and the date of initial sale. This is a standard expectation for any developer.

### Initial equity purchase

Chapter 4 discussed some reasons why overvaluations might occur: failures in market mechanisms and gaps in Land Registry records making it harder to find the most appropriate comparables.

Shared Ownership Resources' casework shows that some shared owners suspect their initial share was overvalued.

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*"The sales price of the flat appeared to be over inflated. Within less than a year, I discovered you could buy the same property in the same block for over £100,000 less."*

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*The Times* has reported similar claims of overvaluation (York, 2023):

*'Jessie fears her one-bedroom flat in Islington, central London, was overvalued to start with and that's why she's struggling to break even now. Six years ago, she bought 30 per cent of her home, valued at £590,000... Jessie says: "There are other one-bedroom private sale flats in my building that I've since found out were valued around the £550,000 mark, so I don't know how they came to my price.'*

The cross-subsidy system encourages sale at optimised values to maximise receipts and by linking the initial rent to sales value. But pressure on housing associations to optimise sale prices conflicts with the interest of prospective buyers in the value for money of the product.

In mitigation, housing associations point out limitations on their ability to inflate sales prices.

First, associations bear all the sales risk. If they overprice, they may struggle to sell. Accordingly, projected valuations reflect sales agent advice on likely demand at potential price points.

Second, in determining point-of-sale values, providers are required to meet the requirements of the Capital Funding Guide (2022):

*'Providers must obtain valuations from a Royal Institution of Chartered Surveyors (RICS) qualified and registered valuer at the point of initial sale of a Shared Ownership home. The valuation must be carried out by an external valuer as defined in the RICS Red Book to ensure that the RICS valuer commissioned is an individual or organisation separate from the grant recipient.'*

However, the RICS valuation merely sets a minimum benchmark for the point-of-sale price. Further research into actual sales pricing, relative to open market sales, is required if the impact of prices on entrants to the scheme is to be properly understood.

### Rent

A policy of annual rent increases at a premium to inflation creates a clear conflict of interest. Whilst high RPI can result in unaffordable rent increases for shared owners, any cap on rents creates reduces housing provider rental income and affects the base level for future rent increases. The recent debate on social rent and shared ownership rent caps highlighted the negative impact on housing association's income streams and development capacity (Booth, 2022):

*'About 4.4 million households live in social housing in England, including many who have shared ownership arrangements that will not be covered by the rent cap. The G15 landlords say they do not want to apply the maximum possible rent increases to shared ownership tenants, but that position will be tested if their rental income from other forms of social housing is not protected or reimbursed.'*



The *Capital Funding Guide* states that variations to rent terms *can* be agreed.

*‘For the avoidance of doubt, increases may (i) be set below the RPI plus 0.5% limit; (ii) a rent increase not applied; or (iii) where considered appropriate by the landlord, a rent reduction may be applied.’*

Homes England explain<sup>9</sup> that this guidance gives providers flexibility to consider not applying rent increases (or reducing rent) if they consider circumstances require this and if it doesn’t impact their financial viability. They provide an example: where historic leases with high rent increases (e.g., 5% or RPI + 2%) make resale challenging.

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*“I didn’t really grasp the implication of annual rent increases of RPI + up to 2% buried in the 3rd schedule of the contract. I don’t think it ever occurred to me that rent increases could be an onerous clause, so I never queried it.”*

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But the above example provided by Homes England suggests that flexibility to reduce rent was intended to enable mitigation of unfavourable terms in earlier iterations of the model lease at the point of sale and on a case-by-case basis without breaching grant-funding conditions, not to address rent affordability for shared owners as a whole.

Following the 2022 Autumn Statement, and the Government’s announcement that social housing rent increases would be capped at 7% in 2022-23, the National Housing Federation (NHF) committed its members – representing 80% of shared ownership homes – to cap rent increases at the same level. In order to provide consent for this arrangement where schemes are grant funded, Homes England have varied their guidance at Section 4.2 of the *Capital Funding Guide* (Cox, 2022):

*‘Homes England’s permission is not required should a landlord wish to charge a lower annual rent increase than is set out in the lease for a given year. This means that, for example, an increase can be applied that is less than RPI + 0.5%’.*

However, not all NHF members are abiding by the trade body’s pledge. The i newspaper reports that at least one NHF member is increasing 2023-24 rents by 13.1% (Heath, 2023). In the same article, a not-for-profit provider (not listed as an NHF member) provides a rationale for the full rent increase as follows:

*‘Whilst social rents have been capped by the Government, shared ownership rents have not. This is, in part, a recognition that the value of the equity the customer has in the property is likely to continue to increase.’*

This assertion fails to recognise that any increase in the value of the property, whilst benefitting shared owners seeking a gain on sale, will disadvantage shared owners hoping to staircase. Increases in value are also of little or no benefit to shared owners not intending to sell.

Another NHF member has: ‘decided to apply a cost-of-living credit, to subsidise rents for shared owners and reduce the increase to 7% for the coming year’ (Cottsway, 2023). However, this approach delays rather than addresses the cumulative impact of RPI-linked rent increases and is contrary to NHF recommendations (Cox, 2022):

*‘The shared ownership rent cap reflects the outcome of the discussions between the NHF and the government. There is a clear expectation that shared ownership rents will be capped in the same way as social rents.’*



<sup>9</sup> Correspondence with the author.

*There is no expectation on the part of government that housing associations will seek to limit rent of shared owners in another manner – by example, through waivers, hardship funds, or another method. The government is expecting the sector to cap shared owners' rent increases at 7%, in the same way general needs social housing rents are being capped'.*

In late January 2023 for-profit providers owning thousands of shared ownership homes were yet to make a decision on rent levels (Delahunty, 2023). Consequently, there is potential for divergence between the approach of NHF members and that of non-members (Apps, 2023), or between different housing providers in the for-profit sector:

*'How [for-profit providers] approach this will be instructive about the true nature of their operating model.'*

### Staircasing

Staircasing is one of the two main sources of shared ownership revenue for housing providers (National Housing Federation, 2022a):

*'The value of shared ownership properties involves an assessment of the amount, timing and security of the future income streams, which come from two sources – the rent, and any receipts from staircasing.'*

Housing associations benefit from equity purchases via staircasing to the degree that shared owners can and do staircase (National Housing Federation, 2022a):

*'Rent is easy to predict, being set out explicitly in the lease, whereas staircasing receipts are more variable, driven by the inclination and ability of shared owners to buy further tranches of equity at a time and price that is viable for them.'*

Staircasing creates a potential conflict of interest in that the shared owner will benefit from a lower valuation, and the housing association will benefit from a higher valuation. Claims of unfairness can arise, for example, where the housing association appoints the valuer and there is no formal process for resolving valuation disputes (Housing Ombudsman, 2021).

### Ground rent

At least some housing associations have taken advantage of the opportunity to increase revenue via the imposition of ground rent:

*'Homes England model shared ownership leases suggest that shared ownership leases should not generally contain a more than nominal ground rent, in addition to the rent payable on the unacquired "share". However, responses to the leaseholder survey which we carried out as part of our Enfranchisement consultation suggest that a number of shared ownership providers do charge a significant annual ground rent' (The Law Commission reported in Burgess, 2021a).*

*'Not all RPs charge ground rent, but for those that do, it can be a vital source of income that helps to fund future social housing projects' (Drew, 2021).*

*The Times* recently reported a case of a shared owner with a 25 per cent share in a three-bedroom flat who discovered a "minimum rent" clause for £750 a year that increases in line with RPI every five years only after he staircased to 100 per cent ownership in 2019 (York, 2022)

Whilst housing associations maintain a *caveat emptor* (buyer beware) approach arguing that conveyancing solicitors should flag up such issues to buyers, this merely deflects attention from the question why charging ground rent to shared owners is seen as a valid source of income to fund future housing development.

The ground rent issue overlaps with the problems of assured tenancy. As assured tenants, shared owners do not have access to the statutory route to lease extension, which would reduce any ground rent to a peppercorn.



However, some housing associations are reviewing their ground rent policy as reported in research by the University of York (Wallace et al, 2022):

*“We’ve... taken a view that we’re removing ground rents from all of our stock where we’re the landholder, from April next year. Now that comes at a considerable cost. However, when we weigh up the purpose of why we’re here and what we we’re here to operate, ultimately, we’re seeing that ground rent position as something which creates tension and difficulty for our customers. It’s within our gift to remove it, and we’re happy to do so. So, they’re two policy changes that we’re making currently.”*

The ground rent issue can be harder to resolve where the housing association is not the freeholder. The issue of complex ownership structures is discussed in greater detail in Chapter 6.

### Lease extension

The greater the premium charged to the shared owner, the greater the financial benefit to the housing association. But the sooner a premium is payable, the more beneficial in terms of cash flow. Shared owners are perhaps more likely to encounter short leases than other leaseholders. *Inside Housing* (Heath, 2021) report that they heard:

*‘Multiple examples of shared owners being given 99-year leases by housing associations, while market sale buyers on the same development were given 125-year or 999-year leases’.*

Recent reforms requiring 990-year leases (999-years under GLA funding criteria) indicate acknowledgement of the unfairness of the current system.

The University of York (Wallace et al, 2022) found that:

*‘A minority of providers were pre-empting the publication of the new model lease and possible outputs of the Law Commission’s leasehold reform by moving all leases on to a 990-year basis, solving the short lease issues for existing shared owners as well.’*

However, the majority of providers are not moving existing short leases onto a longer basis thereby creating concerns for existing shared owners – particularly those whose leases are rapidly approaching, or have already breached, the 80-year threshold – given uncertainty as to what reform will look like and whether it will be enacted at all.

The issue is complicated by a lack of standardisation within the sector with lease extension policies varying from one housing association to another. *Inside Housing* report that some housing associations charge shared owners a premium based on 100% of their home’s value, while others charge a premium based on the shared owner’s percentage share of equity (Heath, 2021).

Some providers who charge 100% of the lease extension premium then treat it as a home improvement and allow the shared owner to get a valuation disregarding this at staircasing.<sup>10</sup> But this approach provides more benefit to the housing association than the shared owner. It is of little value to a shared owner who extends their lease but does not proceed to staircasing.

Some shared owners query why, where the housing provider is the freeholder, a premium for lease extension needs to be levied at all.

The situation can be most bleak for those shared owners where the housing association is not the freeholder. *Shared Ownership Resources* casework includes a shared owner whose housing association has just a 125-year interest in the lease, so can only offer a 25-year lease extension. The housing association’s proposal that the shared owner sell their share to resolve the issue shows scant regard for the interests of any prospective purchaser.

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*“It turns out there are four parties on the Land Registry title for my home: the freeholder, the head leaseholder, my housing association, and me. The head leaseholder has a 999-year interest in the lease. But my housing association only has a 125-year interest in the lease. Which means that if I go down the informal lease extension route they can only offer me an additional 25 years*

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<sup>10</sup> Per the author’s correspondence with Homes England.

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*The only way I can extend my lease by more than 25 years is to staircase to 100%. Then I could extend my lease under the statutory route, which would give me the right to a 90-year extension and a peppercorn ground rent. But, because my housing association isn't my freeholder, this is complicated and expensive."*

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This is an issue acknowledged by Homes England in the new *Key Information Document* for shared owners:

*'2.5.5 Your landlord may not own the freehold which may limit the lease extension length they can provide you with.'*

The Law Commission (2020) sought views on: 'issues which arise where the provider of a shared ownership lease is themselves a lessee.' One respondent explained that housing associations are unlikely to extend their own lease in order to enable lease extension to their shared owners:

*'It is common for shared ownership providers simply to grant their leaseholders a lease extension with a term as long as they are able to grant, given the costs and complications involved in applying to the competent landlord'.*

The Law Commission concluded:

*'Further engagement with the social housing sector is needed to explore the extent of the issues in more detail and to establish whether it is desirable for housing providers to be entitled – or obliged – to extend their head leases (whether in the context of shared ownership or otherwise). We also consider that this question raises wider considerations about the role of the social housing sector in the provision and management of housing stock.'*

## Conflicts of interest

In 2019, Savills (Bowles and Buckle, 2019a) reported that:

*'Shared ownership is big money for housing associations (HAs). Shared ownership sales have added a total of £5.9 billion to HA turnover since 2016.*

*First tranche shared ownership sales delivered over £1.2 billion to HA turnover in 2018 alone.*

*On top of that, the unsold equity on these shared ownership homes delivers a rental income. While the initial yield may appear low at up to 2.75%, it looks more attractive considering this is net income, residents being responsible for any repair and maintenance costs, and that this rent grows at or above RPI.*

*These sources of income come with relatively little risk. The repossession rate for shared ownership properties was just 0.02%, less than half the level for general owner occupation at 0.05%, according to UK Finance.'*

In the above analysis, risk is assessed solely from the housing association perspective. Rents that grow 'at or above RPI' may create attractive income streams for investors, but can undermine affordability for shared owners, as does 100% responsibility for all repair and maintenance costs regardless of the size of the equity stake.

The cross-subsidy model diverts attention away from longer-term outcomes and impacts for shared owners themselves (Whitehead and Williams, 2020):

*'Business plans in this area often seemed to be dominated by sales and marketing departments, who saw it as a source of cash and potential cross subsidy without taking much account of longer-term issues.'*

They summarise this approach this in blunt terms:

*'Too many housing associations still see SO simply as a cash 'cow' to underwrite their mainstream rental businesses.'*

However, there are indications that the cross-subsidy model may be increasingly under pressure (LUHC Committee, 2023):

*'Does the cross-subsidy model, by which market housing helps pay for social and affordable housing, have any continuing viability?'*

The next section explores conflicts of interest arising from short leases in the context of shared owners who have retired or are approaching retirement.

## 5.4 Short leases: the long view

As previously discussed, leasehold reforms resolve short lease issues for future entrants to the scheme. Nonetheless, short leases continue to pose difficult problems for existing shared owners.

This section explores the topic of short leases in more detail for three reasons. First, to demonstrate why it is essential to take a whole-life cost approach to assessing risks and opportunities for entrants to the scheme, with a focus on long-term outcomes rather than year-one benefits. Second, to show how problems arising from short leases interact with other inherent aspects of the shared ownership scheme, rendering win-win scenarios unlikely. And, third, to illustrate why it is essential to include shared owners with expertise arising from lived experience of complex situations in discussions on how to address problems and improve outcomes.

If shared owners discover the hazards of a short lease in later life, the financial challenges to extending a lease with fewer than 80 years remaining may be insurmountable due to reduced income. Shared owners who have already retired, or are close to retirement, may face particularly tough decisions on whether, and how, to extend a lease to avoid ownership of a wasting asset. This is a source of considerable dissatisfaction for shared owners who considered their home to be a valuable investment, perhaps as a source of funds for health care or as inheritance for their dependents.

It is an issue has attracted media attention, including the following account published by a national newspaper (The Times, 2021):

*‘Catherine bought a 25 per cent share in her flat in Surrey in 1987. She was offered a 99-year lease, a standard length at the time, and told that it wouldn’t become a problem until it wound down to 50 years. She staircased to 100 per cent ownership in six years using her inheritance but did not think she had to save to extend her lease. There are 66 years left on it and the extension will cost her £20,000. Now retired and in her mid-sixties, she has no income and is considering raiding her pension to stop her property becoming worthless.’*

Shared Ownership Resources’ casework has identified similar stories.

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*“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.”*

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Whilst the problem of short leases is not confined to shared ownership, the interplay of a short lease and a part-share in equity can create problems unique to the tenure for older shared owners.

A part-share with relatively few years remaining on the lease may generate only a small gain, or even a loss, making sale unviable at perhaps precisely the point when the shared owner may wish to relocate to be closer to family or other sources of support. The prohibition on subletting, discussed below, restricts options even further.

## 5.5 Subletting

Shared owners are prohibited from subletting their home, although Homes England’s guidance permits housing associations to apply discretion in ‘exceptional circumstances’.

This restriction can have a major impact on shared owners by denying them the mobility available to homeowners more generally to relocate to find work, progress their career or take up caring responsibilities.

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*“At that time, my father was terminally ill. It was a complicated situation but, in a nutshell, I sent an email to my housing association where I tried to explain that I needed some flexibility with my flat. They just sent back a generic response – saying they only sublet in exceptional circumstances – which completely let me down. How much more exceptional could my circumstances have been? After that I just felt like the whole policy was not instrumental to living a life.... Shared owners shouldn’t be prohibited from subletting. Otherwise, to me, you are just a hostage in one city.”*

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What is the government's rationale for prohibiting subletting? The *Capital Funding Guide* (2022) explains that:

*'Shared ownership leases must prohibit sub-letting by the leaseholder to protect public funds and ensure applicants are not entering shared ownership potentially for commercial gain.'*

But this policy is a blunt tool that causes shared owners emotional and financial distress, potentially trapping households who are not in a position to sell, for whatever reason, in a home that may be increasingly unsuitable for their needs. The prohibition also removes a potentially valuable safety net for shared owners experiencing financial difficulties (Wallace et al, 2022):

*'Having requests to sublet declined frustrated some shared owners as it is seen as a sensible option to resolve problems relating to immobility due to building safety issues or temporarily managing mortgage and rent arrears.'*

Even where permission is granted, 'no gain' rules can make subletting financially risky.

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*"I have finally been granted permission to sublet. However, there are various strings attached – a one year limit for renting (they've been adamant about that), the need to use a certain estate agent, and so on. Unfortunately, I'm finding it hard to make the figures for subletting add up."*

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It is challenging to break even on subletting due to the inevitability of unanticipated costs (such as void periods, or repairs and maintenance not covered under landlord insurance provisions), increases in rent and service charges and other future costs (including exposure to Capital Gains Tax when the shared owner comes to sell).

A Homes England representative states that: 'Once the shared owner has staircased to 100% grant has been recovered which is why the restrictions no longer apply'.<sup>11</sup> But this explanation offers little comfort to shared owners themselves.

The prohibition on subletting generally falls away if a shared owner staircases to 100%, effectively penalising shared owners who cannot afford to transition to full 'ownership' via staircasing.

(As previously noted, dissatisfaction with renting privately is one of the key drivers for shared ownership. It is somewhat paradoxical that restrictions imposed on subletting – for example, time limitations – could create insecurity and instability for tenants of shared owner 'accidental landlords').

## 5.6 'Shared ownership' terminology

This section explores whether the term 'shared ownership' is 'fair' or whether it contributes to confusion and unrealistic expectations, which may be frustrated in practice.

### Is shared ownership 'shared'?

As the Law Commission (2020) states, ownership of a shared ownership home is not shared between the shared owner and the housing provider:

*'It is not actually the case that the provider of the shared ownership property and the purchaser "share" ownership of the property. There is no jointly-owned asset.'*

Nor are the associated costs shared. As outlined in previous chapters, excepting the initial repair period under the new model lease, shared owners are contractually liable for 100% of all costs relating to their home regardless of the size of their equity stake. A recurring complaint by shared owners is that costs are *not* fairly shared between housing providers and shared owners.

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*"It costs a landlord nothing to maintain their share because the tenants pay for everything."*

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<sup>11</sup> Correspondence with the author.

The building safety crisis has thrown a stark spotlight on the uncapped nature of this risk.

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*“I was not clearly advised that my responsibility will be 100% for the major building works rather than actual share of the approved 25% affordability. That’s the whole reason shared owners would enter the agreement, to have the protection cap of what they can actually afford.”*

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Many shared owners report that they were unaware, at the point of purchase, of their liability for all the costs of maintenance and repairs.

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*“The name ‘shared ownership’ is a misnomer; it’s mis-advertising. You’re liable for all the costs whether you’ve staircased to 100% or not.”*

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## Does shared ownership constitute meaningful ‘ownership’?

The legal status of the shared ownership tenure is complex and not necessarily clear to prospective buyers. The authors of a book exploring understandings of shared ownership *Narrative, Ownership, Things* (Cowan et al, 2018) observe that:

*‘Shared ownership provides an interesting subject because it is itself characterised by a lack of formal, specific law; there are general principles of law, to be sure, but there is no such thing recognised in property law as ‘shared ownership.’*

If shared ownership is not recognised in property law, how is the legal status of shared ownership determined? The Capital Funding Guide (2022) states that:

*‘The term ‘Shared Ownership’ has a legal meaning and is used in this context.’ (1.3.1)*

This assertion refers to the following definition in the Housing and Regeneration Act 2008.

<b>70</b>	<p><b>Low cost home ownership</b></p> <p>(1) Accommodation is low cost home ownership accommodation if the following conditions are satisfied.</p> <p>(2) Condition 1 is that the accommodation is occupied, or made available for occupation, in accordance with—</p> <ul style="list-style-type: none"> <li>(a) shared ownership arrangements,</li> <li>(b) equity percentage arrangements, or</li> <li>(c) shared ownership trusts.</li> </ul> <p>(3) Condition 2 is that the accommodation is made available in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market.</p> <p>(4) “Shared ownership arrangements” means arrangements under a lease which—</p> <ul style="list-style-type: none"> <li>(a) is granted on payment of a premium calculated by reference to a percentage of either the value of the accommodation or the cost of providing it, and</li> <li>(b) provides that the tenant (or the tenant’s personal representatives) will or may be entitled to a sum calculated by reference to the value of the accommodation.</li> </ul>
<b>71</b>	<p><b>Shared ownership low cost rental</b></p> <p>Accommodation which is both low cost rental accommodation and low cost home ownership accommodation is to be treated as the latter and not as the former.</p>

These excerpts illustrate the complexity and ambiguity at play. Section 71 explains that shared ownership is to be treated as low-cost home ownership accommodation and not as low-cost rental accommodation. Yet Section 70 refers to shared owners as ‘tenants’.

Homes England’s model leases imply that the terms ‘tenant’ and ‘leaseholder’ are interchangeable.

<b>Tenant:</b>	(insert as applicable) and in this lease referred to as the “the Leaseholder”
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But this is an over-simplification, with significant implications for shared owners.

A shared owner is a leaseholder. But shared ownership takes the legal form of an assured tenancy (or assured shorthold tenancy depending on ground rent terms) until the shared owner staircases up to 100% equity, whereupon they become a standard leaseholder (if occupying a flat) and may also be able to obtain the freehold (if occupying a house).

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*“After I moved in, I also found out that it’s not actually ownership either. The case of Richardson v Midland Heart (2007) proved that shared ownership is just an assured tenancy... This was not explained to me at the point of sale.”*

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Assured tenancies and assured shorthold tenancies have fewer rights and more burdens than ‘conventional’ leasehold. For example:

- shared owners face a risk of mandatory possession with no legal right to reimbursement of equity in the event of rent arrears
- shared owners have no statutory right to enfranchise or extend a lease, unless and until they staircase to 100% (and have owned the property for two years), and
- shared owners living in flats do not have the right to first refusal on the disposition of a freehold

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*“I recently agreed to buy a 35% share in a shared ownership house. Shortly afterwards I received a copy of the lease to sign. I was surprised to find it contained a strongly worded warning that the property could be repossessed by the housing association if the terms of the lease were breached or rent payments were missed. In such an event there would be no recompense for the ‘mortgaged’ amount and I would be homeless with a mortgage to repay. I can’t imagine such a clause being acceptable by anyone in any other walk of life, but I am told it is nothing to worry about and that it’s ‘standard’.*

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*My solicitor refuses to make any comment on the matter.*

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*I will need to carry on paying the rent into retirement after the mortgage is paid. The lease contains a mortgage protection clause that protects the lender’s interest but, once the mortgage is repaid, what protection do I have? I will be reliant on a state pension and I could stand to lose over £100,000 and be made homeless for a minor transgression or debt. It seems grossly unfair and even immoral. After several years renting in the private sector, all I want is some security and a permanent home.”*

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Yet the English Housing Survey (DLUHC, 2021) categorises shared owners as ‘owner occupiers’ (along with households in accommodation they own outright or are purchasing in full with a mortgage) as distinct from ‘renters’ (whether ‘social renters’ or ‘private renters’).

### The Emperor’s New Clothes

This report is not the first to find ‘shared ownership’ terminology problematic. In their report *Leasehold*



*Home Ownership*, the Law Commission (2020) state:

*‘Shared ownership is often described as “part-buy, part-rent”. It is marketed as enabling a purchaser to buy a “share” of a house or flat (usually between 25% and 75%), while paying rent on the remainder of the property.... However, this is not an accurate description of how shared ownership actually works. In fact, the very term ‘shared ownership’ is something of a misnomer.’*

Bright and Hopkins (2011) compared shared ownership to ‘the ‘Emperor’s New Clothes’ in Hans Christian Anderson’s short tale’ finding that: ‘it turns out to be not really there at all’. They conclude:

*‘Shared ownership...provides a forceful illustration of how the legal reality of housing products may not match the policy rhetoric used to promote them. It is clear that the label ‘shared ownership’ is intended to tap into the dream of home ownership but we conclude that the reality does not live up to the dream’.*

### Addressing disconnects between ‘rhetoric’ and ‘legal reality’

Should disconnects between ‘rhetoric’ and ‘legal reality’ be addressed via reform of terminology or legislation? Almost certainly both given the two are so interconnected. Whilst it is outside the scope of this report to determine the precise nature of required legislative reform, forthcoming Bills to drive up standards for private renters and social renters may offer a vehicle for meaningful reform of the shared ownership scheme. Any such project should not only take account of opportunities offered by forthcoming legislation but also review applicable current law (including the Housing Act 1988 Act which first established that long leases could become assured tenancies).

## 5.7 Shared owners – mutually incompatible interests

### Pathways and property markets

The two pathways to ‘full ownership’ – staircasing to 100% and transition to ‘full ownership’ via a gain on sale – create mutually incompatible needs of the property market for shared owners. Shared owners intending to staircase to 100% hope that property prices will not rise substantially. Shared owners hoping to make a gain on sale depend on them doing so. The shared ownership model cannot deliver optimum outcomes for one group other than at the expense of the other.

### Buying and selling resales

Buyers and sellers of shared ownership resales have mutually incompatible interests. Shared owners hoping to transition to full ownership in a subsequent property will hope for a RICS valuation which is higher rather than lower in order to maximise their gain on sale. Purchasers will hope for a sales price which is lower rather than higher, not least because the lower the sales price, the larger the share they can afford reducing their exposure to rent payments. Buyer and/or seller may seek additional evidence to negotiate a higher or lower valuation.

### Moral hazard

In some cases – say where a shared owner discovers an onerous ground term, or their housing association has only a short interest in the lease making extension of a short lease unviable – shared owners may feel they have no option but to withhold information about their resale home to potential buyers. This creates moral hazard and distress for shared owners who have no desire to put anyone else in a difficult position, yet are desperate to sell.

### Loss of affordable housing stock

A simultaneous sale and staircasing transaction may allow a shared owner to negotiate a more favourable sales price on the open market than via a RICS valuation for sale of a part-share. As the buyer will, by definition, not be a shared owner this does not create a direct conflict of interest between shared owners.

However, there are wider ramifications. Simultaneous sale and staircasing transactions transition shared ownership homes to the open market, depleting affordable housing stock. If a landlord acquires the property it transitions to the private rented sector which – as discussed in Chapter 2 – is one of the key drivers for the shared ownership scheme. This, in turn, raises questions about the value for money of the scheme from a taxpayer perspective.

As discussed in Chapter 2, the National Housing Federation (2022) state that:

*‘Of the 320,000 shared ownership homes that housing associations managed last year, 42% had been fully purchased by their owners.’*

This figure seems high compared with staircasing rates described by researchers and other commentators. It is possible that this is because the NHF conflate staircasing to 100% by shared owners who continue to live in that home (a measure of success in transitioning to full ownership) and simultaneous sale and staircasing transactions (which transition social housing to the open market via a mechanism that conveys full ownership to the purchaser not the shared owner seller).

It is worth noting that achievement of 100% staircasing – by whatever means – could be argued to be counterproductive in transitioning social housing stock to the open market:

*“How high would you want those figures to be because what you’re doing is you’re losing affordable stock if people staircase out to 100% all the time.” (Nettleton interviewed on BBC Radio 4’s Money Box, 2020)*

## 5.8 Shared ownership satisfaction rates

### Monitoring data

There is currently no publicly available national monitoring data on shared owner satisfaction rates.

In a survey of 2021-22 risk registers *Inside Housing* (Youde, 2023) found that:

*‘customer/service/satisfaction/expectation/experience’ ranked – on average – ninth out of the top ten strategic risks for the 100 largest housing associations.’*

### Shared ownership satisfaction relative to other tenures

Housemark – a data and insight company for the UK housing sector, which is jointly owned by the National Housing Federation and the Chartered Institute for Housing – collects satisfaction data for the UK housing sector. In December 2021 Housemark published analysis revealing that shared owners are less satisfied than social rented tenants.

*‘The average percentage of shared owners satisfied with their landlord overall was just 57% last year, 26 percentage points lower than the equivalent figure for social rented tenancies.’*

Adding:

*‘Shared owners are social housing tenants but are responsible for most repairs. This means landlords have less contact and provide fewer services compared to full tenants with perception of value for money and satisfaction rates suffering as a result.’*

### Long-term shared ownership satisfaction

Interviews with housing professionals carried out by the Cambridge Centre for Housing & Planning Research (Burgess, 2021) indicates that shared ownership satisfaction declines over time.

*“As our number of shared owners have grown, it’s inevitable that you are going to come across a greater number of people for whom it just didn’t work out for whatever reason and their criticism now needs to be listened to.”*

*“Lots of people say shared ownership is a great product, but people become increasingly dissatisfied with it over time.”*

*“People come to shared ownership wanting to own 100% of their home but however good the customer feedback there was still a sense of dissatisfaction with the systems for buying further shares.”*

## The Social Housing (Regulation) Bill 2022-23: tenant satisfaction measures

The Government has recognised that satisfaction is an area of concern in the social housing sector. In 2020 it published a social housing white paper with the intention of strengthening the formal standards against which landlords are regulated (MHCLG 2021b). A new Social Housing (Regulation) Bill 2022-23 is currently passing through Parliament, and will enhance the powers of the Regulator of Social Housing.

Under the new regime the Regulator of Social Housing has developed new tenant satisfaction measures (TSMs) for rented social housing where the landlord is a registered provider (Regulator of Social Housing, 2022b):

*‘Tenant satisfaction measures are intended to make landlords’ performance more visible to tenants, and help tenants hold their landlords to account.’*

Landlords will need to report and publish performance against these measures annually, starting with the 2023/24 financial year.

However, whilst it is clearly welcome that registered providers will be required to assess and publicly report on tenant satisfaction rates, significant gaps in identifying and monitoring underlying causes of shared owner dissatisfaction remain.

The new 22 TSMs cover five themes:

- keeping properties in good repair
- maintaining building safety
- respectful and helpful engagement
- effective handling of complaints
- responsible neighbourhood management

Of the 22 TSMs, 10 will be measured by landlords directly and 12 will be measured via tenant perception surveys. Some, but not all, of the tenant satisfaction measures will also cover shared ownership homes. Specifically, shared ownership homes are excluded from the five tenant satisfaction measures relating to ‘keeping properties in good repair’. These five TSMs relate to emergency and non-emergency repairs requested by tenants (repairs planned by the landlord will not be included).

The rationale is that equivalent repairs under the shared ownership scheme are the shared owner’s responsibility, not the landlord’s. However, as previously discussed, service charges are a significant cause of discontent for shared owners. The current set of TSMs does not provide for data collection to assist monitoring and assessment of shared owners’ experiences of repairs and maintenance, and related costs charged on as service charges.

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*“I’m worried my housing association could be overcharging lots of people like me. I think this could stem from incompetence or because they do not have the right level of property management skill for their vast portfolio. The service charge team for our estate exported the wrong Microsoft Excel file this year, meaning we were sent last year’s bill by mistake.”*

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It is noteworthy that there are no TSMs assessing satisfaction against the key shared ownership aspirations of affordability and transition to full home ownership.

The satisfaction measures that apply to shared owners only need to be reported by landlords with over 1,000 shared ownership units. Based on latest published figures, this means 56 landlords will need to report on shared ownership satisfaction – representing a total of around 180,000 shared owners across England (RSH, 2023)

There are a further 271 landlords who have some shared ownership units but fewer than one thousand. Between them these landlords manage around 54,000 shared owners – meaning almost a quarter of shared owners will not be included in the figures – although many landlords are choosing to include them in their surveys anyway to gather richer feedback.



## 5.9 Summary – is shared ownership fair?

This chapter discussed shared owners' initial expectations of the shared ownership scheme, stakeholder objectives, and rising levels of shared owner dissatisfaction. There is a strong case that consumer expectations for fairness are understandable and reasonable, particularly given that the shared ownership scheme is government-backed and explicitly described by it as 'fair'.

In practice, the cross-subsidy model creates disconnects between the objectives of different stakeholders: government, housing providers and shared owners. At worst, it creates conflicts of interests where the interests of shared owners are often subservient to those of other stakeholders. Shared owners, and prospective shared owners, may also have mutually incompatible needs.

Some common underlying causes of shared owner dissatisfaction include: short leases, the imposition of ground rent, exclusion from the statutory right to lease extension arising from the assured tenancy nature of shared ownership and restrictions on subletting – both individually and as these issues interact.

'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 hazards and costs arising from the nature of the tenure.

Shared owner satisfaction is lower than other tenures, and dissatisfaction appears to increase over time. The Regulator of Social Housing has introduced new tenant satisfaction measures (TSMs). But not all the TSMs apply to shared ownership, and none relate to the policy aspirations of affordability and a realistic pathway to shared ownership.

## 5.10 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 GLA 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 to any shared ownership lease, with retrospective application.
- Government, Homes England and the GLA 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.

## 6. IS SHARED OWNERSHIP CONSUMER-FRIENDLY?

This chapter continues to explore the theme of fairness, asking whether shared ownership is user-friendly (consumer-friendly) as the Government intends.

Fairness is explicitly required under the Consumer Protection from Unfair Trading Regulations 2008. The Consumer Protection from Unfair Trading Regulations 2008 prohibit:

- omission of material information
- provision of material information in a manner which is unclear, unintelligible, ambiguous or untimely, and
- misleading omissions which cause the average consumer to take a transactional decision they would not have taken otherwise

The Consumer Protection from Unfair Trading Regulations 2008 define material information as:

*‘Information which the average consumer needs, according to the context, to take an informed transactional decision’.*

This definition of material information raises the following questions:

- Is the legal status of shared ownership clear?
- Are the financial implications of shared ownership clear?
- Do marketing materials support informed purchase decisions?
- Does government information provision support informed purchase decisions?
- Is shared ownership managed in a consumer-friendly manner?
- Are consumer protection mechanisms effective?

### 6.1 Is the legal status of shared ownership clear?

The Law Commission state that members of the public do not necessarily understand the legal implications of shared ownership (Burgess, 2021a):

*‘Members of the public do not always understand exactly how shared ownership schemes operate, or the precise nature of the legal arrangement which the purchaser of a shared ownership property is entering into.’*

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*“Not so much that we didn’t know... more that we didn’t understand.”*

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The previous chapter discussed how ‘shared ownership’ and ‘part buy, part rent’ terminology affects understanding of the tenure. This section explores two further issues which affect shared owners’ and prospective buyers’ understanding of the legal status of shared ownership:

- public understanding of the leasehold tenure
- complex ownership structures

#### Public understanding of the leasehold tenure

Research by the University of York (Wallace et al, 2022) found that 38% of shared owners did not understand that they were leaseholders (let alone that they have an assured tenancy as the basis for their lease). Analysis of *English Housing Survey* responses indicated that 8% of shared owners with a flat reported that they were freeholders and 55% of shared owners with a house reported the same.

*‘These data indicate that not all respondents have understood the terms of their occupation as all shared owners are leaseholders (100%) whether they have a house or a flat.’*

#### Complex ownership structures

Complex ownership structures can create increased risk and cost for entrants to the shared ownership scheme (as explained in the previous chapter, using lease extension as an example). Shared owners may be adversely impacted by terms in superior leases creating costs (for example, ground rent) which can be passed down to the shared owner even if those liabilities aren’t mentioned in their own shared ownership lease.

Whilst some such problems are common to leasehold more generally, they can intersect with risks and restrictions that are unique to shared ownership: for example, the inability to eliminate an onerous ground rent via a statutory lease extension.

Consequently, complex ownership structures can make it more challenging for shared owners to understand the legal nature of the arrangement, including *all* the costs and risks arising.

### **Complex ownership arrangements**

These arise, albeit not exclusively, where a housing provider acquires properties via a Section 106 planning gain arrangement and then sells that property as a shared ownership product.

If a developer sells an entire block of flats to a housing association, they may transfer the freehold. But if only a few flats in a block are designated as shared ownership, the developer may sell the housing association a head lease specifically for those flats. Where there are a number of parties with an interest in the lease the housing association may simply hold an underlease, despite being landlord to the shared owner.

Potential pitfalls arising from complex ownership structures include the following.

#### **Liability for all the landlord's costs**

Where a head lease exists, there is normally a 'catch all' clause within the shared ownership lease requiring the shared owner to repay the landlord (i.e. the housing association) for any and all expenses they incur. These could potentially include service charges, ground rent, costs relating to the landlord extending their own head lease, and/or the costs of any legal action undertaken by the landlord.

#### **Weak accountability for repairs and maintenance, and multiple management fees**

If the housing association does not own the building, they may not deal with its day-to-day management, including repairs and maintenance. Some shared owners report paying management fees to both housing associations and third-party management companies and have issues with knowing who is accountable for what.

#### **Landlord's interest in the lease too short to offer meaningful lease extension to shared owners**

Shared owners do not have the same right as other leaseholders to lease extension via the statutory route. If a shared owner wants, or needs, to extend their lease they are obliged to undertake an informal lease extension. This is the same for any shared owner.

If the housing association has a short lease, say 125-years, and has sold a shared owner a 99-year lease, the housing association will be unable to offer the 90-year extension that would be available via a statutory lease extension. This is because the difference between the housing association's interest in the lease and the shared owner's interest in the lease is only 26 years.

Where both the housing association's interest in the lease, and the shared owner's interest in the lease, are extended together leasehold legislation allows the housing association to charge BOTH sets of fees to the shared owner: legal fees, valuation fees and lease extension premiums. Worse, shared owners may be required to pay a premium based on the total value of the property, even if their share is as low as 25% (see Section 2.4.4).



## 6.2 Are the financial implications of shared ownership clear?

A home is one of the most expensive purchases most people will ever make. Home purchase decisions have significant ramifications for future life chances and financial security.

Yet (as discussed in Chapter 2) – despite being a complex housing product with little empirical evidence for ongoing financial sustainability – shared ownership is largely targeted at demographics with indicators of financial vulnerability, and typically with lower financial resilience and lower financial capability than other homebuyers buying with a mortgage (Wallace et al, 2022). It is therefore particularly vital that long-term financial implications of the purchase are clear to prospective entrants to the scheme.

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*“Only the very financially savvy would understand what they were getting into, not your average 20-something.”*

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A number of stakeholders have expressed concerns about the quality, transparency and completeness of information regarding the financial implications of shared ownership. These include: the Chartered Institute of Housing, the All-Party Parliamentary Group (APPG) for Housing Market and Housing Delivery, the All-Party Parliamentary Group (APPG) on Housing and Care for Older People, the London Assembly and the Law Society,

As the Chartered Institute of Housing (2020) points out:

*‘People may have accessed a home that, whilst more affordable to enter, still involves ongoing and increasing costs in terms of service charges, and after ten years, full repairing responsibility. This needs to be clear for them to make the appropriate decisions not only to purchase but to plan for future responsibilities’.*

In its report *A Fair Housing Market for All* (2021) the APPG for Housing Market and Housing Delivery makes a recommendation that:

*‘The Government should consider mandating better information on leases, service charges and enfranchisement for shared ownership purchases’.*

In its report *Making retirement living affordable: the role of shared ownership housing for older people* (2023) the APPG on Housing and Care for Older People makes a recommendation that:

*‘Information on the likely trajectory of service charges and repair costs should be provided to prospective shared owners to build confidence and awareness of future costs.’*

The London Assembly Housing Committee (2020a) suggests that prospective buyers should receive:

- a five-year estimate of service charges and maintenance fees, as well as information on historic charges
- information on the practical reality of the shared ownership model (a ‘complex legal structure’)

The Law Society (2020) suggests homebuyers should receive information on:

- lending options and interest rates payable
- ground rent and service charges
- financing arrangements on incremental shares
- possible resale difficulties
- statistics on ownership and evidence indicating that only a limited numbers of buyers have vastly increased their shared holding since their initial purchase.

Where do homebuyers and shared owners currently obtain information on the financial implications of shared ownership, and what information do they receive? Initial affordability assessments have already been discussed in Chapter 3. Materials produced by government and housing associations are discussed in this chapter (in Sections 6.3 and 6.4 respectively) and the role of other information sources is examined in Chapter 8.

The following section briefly explores the conveyancing process.

## Conveyancing

The conveyancing process plays a vital role in increasing shared owners' understanding of their home purchase and lease contract. In fact, providers rely to a large extent on solicitors to explain the terms of the product (Cowan et al, 2015). However, problems arise from over-reliance by the housing sector on solicitors to provide material information required for informed decision-making.

First, as the Conveyancing Association's Director of Delivery stated when giving evidence to the Housing, Communities and Local Government Committee in December 2018 on proposals for leasehold reform, relevant information needs to be made available to home buyers at the point of sale, *before* they engage a solicitor (HCLGC, 2018):

*'The problem is that, by the time the buyer gets [the paperwork], with 14 days to exchange contracts or lose their deposits or lose their incentives, they are not in a position to absorb any of it. The time they should have been told was the point when they viewed the property.'*

Second, it is not the role of conveyancing solicitors to explain pros and cons of shared ownership other than as these relate to the scope of their assignment. To give an indicative example, a firm might not provide advice on lease extension until shared owners staircase to 100% (thereby gaining access to the statutory route), or unless the critical 80-year threshold is imminent. However, the implications of a short lease are essential for potential homebuyers to understand at the outset in order to make an informed purchase decision.

There are also indications that conveyancing solicitors are not always in a position to provide the level of detail required for informed purchase decisions on this complex housing product (Cowan et al, 2015):

*'Modern conveyancing practice is not equipped to provide information to buyers about the specifics of shared ownership leases. [...] That increases the onus on providers to provide relevant, simple and clear information to buyers.'*

Whilst this indicates potential for improvements to conveyancing best practice there are limits to the volume of information that can be communicated during the conveyancing process given fee constraints and related time constraints.



## 6.3 Do marketing materials support informed purchase decisions?

### Benefits and hazards

As discussed in Chapter 5, there are conflicts of interest between the needs of housing associations, as sellers, and those of homebuyers and shared owners. It is in the commercial interests of shared ownership providers to promote the benefits of the scheme and to downplay the complexity and hazards involved.

A quote from a Director of Sales and Marketing illustrates the prioritisation of benefits in shared ownership marketing strategy (Sims, 2023):

*“Marketing is an incredibly valuable tool for informing, educating and supporting people about the benefits of affordable schemes. I’m determined to change the way that shared ownership is perceived within the industry, and by first time buyers, many of whom don’t understand the benefits that the product can offer.”*

### The national marketing campaign

The housing association sector’s trade body, the National Housing Federation (NHF), develops marketing content that is utilised not only by its own members but also by partners – such as the media and lenders – via articles, advertorials, buyers’ events and online seminars. In 2019 the NHF announced a new shared ownership campaign including the launch of a website: *sharedownership.net*. In a 2020 update the NHF claimed the campaign would:

*‘Boost the public’s understanding of shared ownership on a scale that has never been done before.’*

However, in some significant respects the marketing campaign conflates ‘understanding’ (as discussed above, consumers have a legal right to material information) with ‘awareness’ (a marketing objective). Whilst understanding clearly requires awareness, the reverse does not always hold true.

### The ASA ruling on the national marketing campaign

The national marketing campaign places heavy reliance on the slogan ‘part buy, part rent’. But legal experts have advised that this terminology is potentially non-complaint with consumer protection regulations (Power and Anders, 2017):

*‘It is incorrect, and therefore misleading and potentially an offence in contravention of the Consumer Protection from Unfair Trading Regulations 2008 (the CPRs) for housing associations, landlords, developers or lenders to advertise or refer to shared ownership schemes as “part buy, part rent”, or indeed by using any other terminology or slogan which suggests that the customer purchases anything other than an assured tenancy leasehold interest at any time prior to the 100% staircasing stage.’*

In 2022 the Advertising Standards Authority (ASA) upheld a complaint about the website *sharedownership.net*. The ASA ruled that:

- the claims ‘part buy, part rent’ and ‘it’s yours’ were misleading because they exaggerated the level of ownership attained by omitting material information on risks pertaining to the assured tenancy nature of shared ownership compared to full home ownership
- the campaign misleadingly omitted information related to the costs of extending a lease, particularly once there were under 80 years remaining

The ASA ruling concluded their ruling with a clear benchmark for transparency in advertisements:

*‘The ad must not appear again in the form complained of. We told Keaze Ltd not to mislead by omitting information that was likely to be material to consumers from their ads, such as information related to the potential risks and costs involved in participating in shared ownership schemes’ (our emphasis).*

(The website was transferred from the NHF to Keaze Ltd during their course of the ASA investigation).



One potential response to the ASA ruling is to replace the ‘part buy, part rent’ slogan with a new slogan which captures the legal actuality of the scheme. Or to continue to use the same ‘part buy, part rent’ slogan but to add reference to risks of shared ownership as an assured tenancy in advertisements.

However, both responses tackle a symptom rather than the underlying problem. If shared ownership were not an assured tenancy (as recommended in the previous chapter), there would be no need to communicate hazards arising in this regard. Were such legislative reform retrospective in application it would ensure that both new and existing shared owners benefit equally from aspects such as a statutory right to lease extension, and protection from possession with no entitlement to equity invested.

Retrospective extension of the statutory right to lease extension could pose practical problems for housing associations, particularly where they are also merely a lessee with only a short interest in the lease. The impact might be lessened if this recommendation were enacted as part of wider leasehold reforms.

### ‘Black Friday’ shared ownership promotion

The ASA is currently investigating a complaint that a ‘Black Friday’ shared ownership promotion is not compliant with the CAP Code.

### Caveat emptor

Earlier chapters touched on a housing sector culture of *caveat emptor* (buyer beware) specifically in relation to lease extension and ground rent. However, the Conveyancing Association point out that *caveat emptor* is more limited in scope than some may assume (Reynolds, 2023):

*‘Caveat emptor only applies to specific information relative to the individual’s planned use and enjoyment of the property, as opposed to the information that would be material to the average consumer’s transaction decision. Buyer beware is therefore applicable to much less than we might have thought.’*

## 6.4 Does government information provision support informed purchase decisions?

In their response to the ASA’s investigation, Keaze Ltd said (Advertising Standards Authority, 2022):

*‘The language and terminology used on sharedownership.net closely mirrored phrases used by the Ministry of Housing, Communities and Local Government (MHCLG), the Greater London Authority (GLA) and Homes England to ensure alignment with the government’s own approach.... They believed that describing shared ownership as ‘part buy’ and stating ‘it’s yours was not misleading, was in line with how the Government referred to the product, and was legally correct.’*

This assertion raises an interesting question for the Government and its agencies. Does the Government’s information provision on shared ownership meet benchmarks established by consumer protection regulation?

The following sections provide observations on the model shared ownership lease, Homes England’s *Key Information Documents* and the Gov.uk website.

### Homes England’s model shared ownership lease

The model shared ownership lease is a vital source of information for shared owners and potential entrants to the scheme. In fact, this is often highlighted in ‘caveat emptor’ responses to shared owner dissatisfaction and critique. Interviewed in 2020 on the Panorama documentary, *The Home I Can’t Afford*, National Housing Federation Chief Executive, Kate Henderson, said:

*“It is essential that anyone buying a home – whether through shared ownership or not – hires a solicitor. The solicitor is responsible for helping people understand the lease they’re buying, including its length and all associated costs.”*

However, the model lease would benefit from improved precision and completeness. As previously discussed, whilst it is not inaccurate to refer to the shared owner as a ‘leaseholder’ it is, nonetheless, an oversimplification. The omission of reference to ‘assured tenancy’ in the model lease does not assist consumer understanding and informed decision-making.



The model lease is also silent on lease extension and on 100% liability for service charges and other costs regardless of the size of the equity share held by the shared owner.

Whilst it is not realistic to expect the average consumer to have full understanding of the arcane language of a lease contract, nonetheless inclusion of these matters in the lease could help ensure they were discussed and explained during the conveyancing process.

### Homes England's Key Information Documents

Homes England has undertaken a review and updating of its suite of *Key Information Documents* for the shared ownership scheme.

Shared Ownership Resources was invited to participate in this review and evaluated Homes England's model *Key Information Document 2016-21* against the statement:

*'This Key Information Document is to help you decide if shared ownership is right for you.'*

A total of 34 recommendations were made to Homes England.<sup>12</sup> The recommendations listed below are those with particular relevance to the content of this report:

- **Eligibility criteria** – Explain the timescale and assumptions used to assess financial sustainability in applying eligibility criteria.
- **A pathway to full ownership** – Include information on different pathways to 'full ownership' (staircasing and/or gain on sale) explaining factors to consider on each pathway.
- **Risk** – Include information on the significance of the purchase decision for future life opportunities, and explanations of risks.<sup>13</sup>
- **Staircasing** – Explain the time period taken into account for affordability assessments ('year-one' income and expenditure) and that affordability of additional shares in the future is not guaranteed.
- **Rent** – Explain 'upwards only' RPI plus a percentage annual rent reviews
- **Monthly payments to the landlord** – Explain 100% liability for all repair and maintenance costs, and the uncapped nature of service charges. Provide more detailed information about reserve fund payments and future liabilities.
- **Tenure** – Specify whether an assured tenancy, or an assured shorthold tenancy, and why (with reference to ground rent terms).

- **Lease type** – Signpost to information on house and flat leases. Provide information on any head lease/superior lease arrangements (if applicable) or any other relevant complexities.

- **Lease term** – Explain implications arising if there are fewer than 90 years remaining on the lease. Signpost to information on the 80-year threshold and marriage value.

The new 19-page *Key Information Document* for the new shared ownership model is considerably more detailed and informative than the previous iteration for the standard model (a three-page document entitled *Key information for shared owners*). Nonetheless, Homes England's *Key Information Document* still has weaknesses, including:

- a focus on costs in the first year or so with little attention paid to ongoing financial sustainability
- no mention of the statistical likelihood (or not) of staircasing
- no mention of the assured tenancy nature of the tenure, albeit the new *Key Information Document* does explain that:

*'If the landlord terminates the lease, you may lose any equity in the home you had bought. You could also lose any deposit or monies you have contributed towards the purchase of your home.'*

The Department for Levelling Up, Housing and Communities guidance, *The Right to Shared Ownership: a guide for tenants*, (DLUHC 2022) offers an instructive comparison with Homes England's suite of *Key Information Documents*. There are several key points of difference in content and emphasis. Neither document directly refers to 'risk' (other than in a contents insurance context in the case of the DLUHC document).

<sup>12</sup> Available for download via: <https://www.sharedownershipresources.org/campaigning-and-reform/research-and-reports/homes-england-key-info-document/>.

<sup>13</sup> The *Key Information Document* states: 'Failure to pay your rent or service charge or your mortgage could mean your house is at risk of repossession'. This is an essential risk to be aware of. But it is far from the only risk associated with the shared ownership scheme. Yet this is the only reference to risk in the *Key Information Document 2016-21*.

	Homes England <i>Key Information Document (new shared ownership model)</i>	DLUHC <i>The Right to Shared Ownership: a guide for tenants</i>
Timing and availability	<p>'This document is intended for initial sales and resales. It's for prospective homebuyers:</p> <ul style="list-style-type: none"> <li>• after they have registered with a Help to Buy agent</li> <li>• after they have gone through a financial assessment</li> <li>• before they pay the reservation fee to secure a shared ownership home'</li> </ul>	Publicly available on <a href="http://www.gov.uk">www.gov.uk</a> .
Purpose and understanding	'This key information document is to help you decide if shared ownership is right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference.'	<p>'This guide describes the Right to Shared Ownership as it works today. We have tried to make it easy to understand, but it is not a substitute for professional or legal advice.'</p> <p>'Before beginning the Right to Shared Ownership application process, it is important to take time to consider the costs involved, whether it is affordable and the choices available to you.'</p>
Role/scope of legal and financial advice	'Before committing to buy a shared ownership property, you should ensure you take independent legal and financial advice.'	'As part of the Right to Shared Ownership application process, you will receive independent financial advice including about the types of mortgages that are available. You will also need to engage a solicitor and/or licenced conveyancer to complete the purchase of your equity stake.'
The purchase decision	'Before committing to buy a shared ownership property, you should ensure you take independent legal and financial advice.'	<p>'Using the Right to Shared Ownership to buy an equity stake in your home is a big decision.</p> <p>Your home can become an asset for you and your family in the future. But owning an equity stake in a home on Shared Ownership terms also brings some added responsibilities and you need to be sure this is the right choice for you and your family.'</p>
Tenure	<p>'You are buying a long leasehold interest in the home but only paying for part of the market value.'</p> <p>(No mention of assured tenancy).</p>	'Shared Ownership leases are assured tenancies until you acquire a 100% equity stake, at which point you will have a full lease (if your home is a flat) or you will become the freeholder (if your home is a house).'

## Gov.uk – Shared ownership homes: buying, improving and selling

The Gov.uk website has a section on buying, improving and selling shared ownership homes. The text is clear and easy to understand. However, there is no reference to risk or long-term costs.

## 6.5 Is shared ownership managed in a consumer-friendly manner?

To make informed purchase decisions, prospective shared owners need to be aware of material differences in the management and administration of the scheme across different housing associations; not least because, in some areas of the country, there is sufficient provision to enable applicants to have a degree of choice over their housing provider.

Variation in management and administration of shared ownership portfolios includes: the resale process, staircasing transaction costs, administration charges, marketing, lease extensions, head leases on s106 schemes, minimum lease length extensions, and reverse staircasing and buyback.

There are trade-offs to be made between choice and standardisation. In the marketplace, choice is generally seen to be beneficial. However, as publicly subsidised social housing, there is a persuasive argument for standardisation of the shared ownership scheme to improve consumer understanding and to ensure consistent quality standards.

## 6.6 Are consumer protection mechanisms effective?

Regulators are increasingly focused on consumer satisfaction, consumer outcomes and consumer protection. But shared owners, or at least those who encounter problems, sometimes perceive consumer protection mechanisms to be weak.

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*“One of the problems we have experienced with housing associations is that there isn’t effective regulation.”*

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The following sections offer some brief observations on key regulators in the shared ownership context.

### Advertising Standards Authority (ASA)

The Advertising Standards Authority (ASA) is the UK’s regulator of advertising.

In 2019 the ASA published a ruling that a Notting Hill Genesis advertisement was misleading in not making clear that the advertised service was a shared ownership scheme. The ASA: ‘told Notting Hill Genesis to ensure that their future advertising of Shared Ownership properties made clear the nature of the scheme’ (Advertising Standards Authority, 2019).

The 2022 ASA ruling on the national shared ownership marketing campaign was discussed in Section 6.3. Keaze has not implemented the ASA ruling as at the date of publication of this report. ‘Part buy, part rent’ terminology continues to be pervasive in shared ownership advertisements (and elsewhere).



## Competition and Markets Authority (CMA)

The Competition and Markets Authority (CMA) works to promote competition for the benefit of consumers, both within and outside the UK. In 2019, the Competition and Markets Authority opened an ongoing investigation into the leasehold housing market, focused on potential breaches of consumer protection law. Some shared owners query why the CMA did not include shared ownership in the scope of its investigation.

## District Valuer Services

The Valuation Office Agency (VOA) is an executive agency of HM Revenue and Customs (HMRC). Property Services (also known as District Valuer Services) is one of the services provided by the VOA. It provides a range of independent property advice and valuations right across the public sector, in cases where there is a public function or public money is involved. It is not clear whether valuation disputes between shared owners and housing providers are within the scope of the DVS.<sup>14</sup>

## The Financial Conduct Authority (FCA)

The Financial Conduct Authority (FCA) regulates financial services firms and financial markets in the UK. The body is developing rules and guidance for a new Consumer Duty ('the Duty'), setting higher expectations for the standard of care within the financial services industry in the UK (Financial Conduct Authority, 2022):

*'Setting higher standards and putting consumers' needs first is central to our strategy.... Firms need to understand their customers' needs and to have the flexibility to support them with certainty of our expectations, so they get good outcomes.'*

The new Duty will apply to mortgage intermediaries offering initial affordability assessments.

There is some inconsistency between the FCA Code's expectation of 'good outcomes' for consumers and the short-term timescale of Homes England's initial affordability assessment model discussed in Chapter 3.

## Housing Ombudsman Service

The Housing Ombudsman Service is an executive non-departmental public body, sponsored by the Department for Levelling Up, Housing and Communities (DLUHC). Its work is governed by the Housing Ombudsman Scheme, which establishes matters that the Housing Ombudsman Service can and cannot consider within their role.

Membership is mandatory for social landlords (primarily housing associations who are or have been registered with the Regulator of Social Housing and local authority landlords). Additionally, some private landlords are voluntary members.

The Housing Ombudsman can consider complaints made by tenants, shared owners and leaseholders about their landlords, and is actively engaged in protecting the interests of individual shared owners (for example, Housing Ombudsman, 2021, 2022a, 2022b and 2022c). The scope of the Housing Ombudsman extends to new-build shared ownership sales and defects (Housing Ombudsman, 2020).

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*"At the moment, the Housing Ombudsman is reviewing five complaints on how [my] housing association dealt with us. [They] originally said that any defects would be fixed within 28 days. But the builder told us they have no obligation to rectify anything up until the one year defect period is up, so we were mis-sold in that respect."*

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However, there are some limitations on the scope of the Housing Ombudsman's ability to intervene in disputes: for example, disputes about valuations for the purposes of staircasing (Housing Ombudsman Service, 2021).

The Housing Ombudsman is empowered to look beyond individual disputes and consider wider and potentially systemic issues responsible for generating complaints – where appropriate, referring issues to the Regulator of Social Housing to take further action.

## National Trading Standards (NTS)

National Trading Standards (NTS) serves to protect consumers and safeguard businesses in England and Wales. The National Trading Standards Estate and Letting Agency Team (NTSELAT) protects consumers and businesses by enforcing the Estate Agents Act 1979 and the Tenant Fees Act 2019.

In May 2022, NTSELAT issued new guidance to help agents ensure they meet requirements under Part A of its new process to improve material information in property listings.

<sup>14</sup> The author contacted the DVS to ask whether shared ownership valuation disputes are within the scope of their service but had not received a response at the time of publication of this report.



The guidance, which includes a category *Leasehold, including shared ownership*, is intended to ensure that information on tenure is ‘clear and unambiguous’. However, by conflating shared ownership with leasehold more generally, NTSELAT guidance is inconsistent with the 2022 ASA ruling discussed in Section 6.3 which requires risks associated with shared ownership as an assured tenancy to be clearly identified.

### Regulator of Social Housing (RSH)

The Regulator of Social Housing (RSH) is an executive non-departmental public body, sponsored by the Department for Levelling Up, Housing and Communities (DLUHC).

RSH undertakes economic regulation of registered providers of social housing with a focus on governance, financial viability and value for money in order to maintain lender confidence and protect the taxpayer. RSH also sets consumer standards and may take action if standards are breached and there is a significant risk of serious detriment to tenants or potential tenants.

RSH cannot help to resolve individual tenant complaints but can consider whether individual complaints are evidence of systemic failings by the landlord. This is supported by its close working with the Housing Ombudsman, who can refer issues to the Regulator when it finds evidence to suggest individual cases are indicative of wider failings.

The RSH publishes and monitors registered provider performance in respect of consumer standards. These standards apply to shared owners, although the wording of the standards refers solely to ‘tenants’.

There are concerns that RSH data collection in respect of shared ownership is inadequate to fulfil the Regulator’s monitoring responsibilities. For example:

- resident satisfaction data is collected for ‘Low-Cost Home Ownership (LCHO)’ homes conflating shared owners with other categories and thus undermining the specific visibility of shared owner satisfaction
- data on the number of shared owners achieving full ownership via staircasing to 100% does not distinguish between:
  - households who staircase to full ownership in a home they continue to live in
  - households who undertake simultaneous sale and staircasing transactions in order to sell

## 6.7 Summary – is shared ownership consumer-friendly?

This chapter has discussed whether shared ownership is consumer-friendly, concluding that it is *not* for three reasons. First, the complexity of the scheme often results in poor understanding. In particular, consumers may fail to understand hazards associated with the legal nature of the tenure as leasehold and, specifically, an assured tenancy, and the long-term financial implications of their purchase. Second, a lack of standardisation in management and administration exacerbates challenges for understanding and decision-making. Third, information provision is often unhelpful and even misleading in taking an overly short-term focus, over-simplifying complex matters and promoting benefits while understating risk.

Shared ownership marketing is not always compliant with consumer protection requirements. Rulings by the Advertising Standards Authority (ASA) are not necessarily complied with.

All in all, a higher standard of consumer-friendliness would require simplification and standardisation of the model, and strengthened regulation of marketing and delivery.

### 6.8 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 GLA 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 Documents, and other information provided by Homes England and their agents.
- Government, Homes England, the GLA, the CMA, the ASA and CAP 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.

## 7. A BETTER PRODUCT FOR THE MARKET TO DELIVER?

One of the Government's key aims for the shared ownership model is to create a better product for the market to deliver. This, in itself, is worthy of note given (Wallace, 2008):

*'a tension between whether shared ownership is market or social housing.'*

Regardless of the implications of this crucial observation, for the purposes of this report it is reasonable to assume that most markets require satisfied consumers. Conversely, it is inevitable that consumers and the market sometimes have competing interests (a topic discussed in Chapter 5).

This chapter commences by offering some brief observations on potential reputational, sales and regulatory risks arising for housing providers from provision of shared ownership schemes. It goes on to consider whether the new model could exacerbate such risks.

### 7.1 Reputational risk

There is little doubt that public perception of housing associations has become more negative in recent years, in large part due to activism by social housing tenant, Kwajo Tweneboa, and reports on poor housing conditions by journalist, Daniel Hewitt.

In 2022, the Social Housing Action Campaign (SHAC) launched a campaign to freeze rents and service charges rises for social rented tenants and shared owners. The organisation recently teamed up with new online platform *Find Others* to campaign to "end service charge abuse by housing associations".

Media commentary on shared ownership has contributed to reputational risk. A BBC Panorama documentary on shared ownership, *The Home I Can't Afford*, aired in 2020. The ongoing cost of living crisis, combined with the threat of high service charges arising from the building safety crisis, and the risk of exclusion from rent caps proposed for other social housing tenants reignited national media interest in shared ownership. The Guardian (Booth, 2022), The

Independent (Fearne, 2022) and The Times (York, 2022; Nixon, 2022; York, 2023) were among those publishing critical features between October 2022 and January 2023.

In a rapidly changing economic environment where risks for shared owners appear more likely to crystallise, there is a correspondingly increased risk of reputational damage for housing associations.

*'Housing associations today are real estate businesses to whom consumer protection and property promotion laws and good practice guidance apply. If a housing association falls foul of its consumer protection responsibilities, it can face serious legal, commercial and reputational consequences.'* (Anders and Power, 2018)

### 7.2 Sales risk

Any loss of public confidence in shared ownership could increase new build sales risk for housing associations, with corresponding impacts on development plans.

### 7.3 Regulatory risk

As discussed in Chapter 6, the Regulator of Social Housing has announced a new set of tenant satisfaction measures (TSMs) that housing associations will be required to report on each year from 2023/24.

The Regulator requires that satisfaction data be shown separately for:

- Low-Cost Rental Accommodation (LCRA) including general needs, supported housing, intermediate rent and temporary social housing
- Low-Cost Home Ownership (LCHO) including shared ownership properties (which have not been fully staircased)

Performance against these KPIs will be a key factor that the Regulator will consider when making its annual determination of the governance and viability of each association. Low levels of low-cost homeowner satisfaction, or marked dips in that satisfaction, may lead to regulatory scrutiny, intervention and – potentially – suspension of grant funding.

## 7.4 Delivering the new model for shared ownership

This section focuses initially on the following aspects of the new model:

- smaller 10% initial tranches and 1% staircasing increments
- the initial repair period
- a two tier-market

It concludes by discussing the potential impact of the new model on shared owner risk profiles, shared owner outcomes, complexity and understanding.

### Smaller 10% initial tranches and 1% staircasing increments

Consumer demand for smaller initial tranches and an option to staircase in smaller 1% increments is currently unclear; especially in the context of the ongoing cost-of-living crisis, which drives increased uncertainty in markets generally.

However, a market review carried out by the Cambridge Centre for Housing & Planning Research (CCHPR) found no market appetite for the reduction in the minimum initial share (Burgess, 2021):

*‘None of the participants in this research were very positive about, or supportive of, the introduction of 10% minimum share.’*

The CCHPR research found that:

*‘Providers noted that the sale of 10% shares changes the overall business model for shared ownership and would reduce capital receipts currently used to cross subsidise rented homes.’*

On the lender side, the CCHPR research found:

*‘Whilst lenders were aware that government would expect lending to be made available to prospective purchasers of a 10% share, none interviewed felt that this was a good option for customers.’*

The CCHPR also found scepticism as to whether 10% shares would be purchased in practice for two reasons: first, due to the requirement to purchase the maximum share possible, most entrants to the scheme would be found to be able to afford more than 10%; and second, because it was likely – in many parts of the country – that the mortgage on a 10% share would be below the minimum amount a lender would offer.

There was similar doubt expressed as to whether 1% incremental staircasing would be taken up by shared owners. In the CCHPR report, providers expressed a view that shared owners frequently tended to staircase to 100% or not staircase at all.

The Chief Executive of the Building Societies Association expressed concerns about borrower profiles (Fieth, 2020):

*‘A 10% share in a property changes the risk profile of the borrower. Shared ownership lending has historically been perceived as higher risk as the applicants were assumed to be more stretched financially. Lowering the minimum initial share reduces the amount of ‘skin in the game’ on the borrower’s part.’*

Adding:

*‘In a falling market, there is a much greater risk of the whole of the buyer’s (10%) equity stake being wiped out.’*

Savills offers analysis from an investment perspective (Bowles and McLaren, 2021):

*‘Smaller first tranche sales are a double-edged sword. The larger the rented portion, the greater the discount and the greater the impact on development value. On the other hand, this leaves more equity that FPRPs and other private investors could acquire.’*

*‘These staircasing reforms come with challenges. But agreeing prices through a streamlined valuation mechanism for smaller staircasing steps could help minimise costs. And provisions written into the lease can streamline the legal process of staircasing.’*

*‘The changes to staircasing will make it more common – it is a lot easier to save up 1% of your property’s value than 10%. A smoother, more predictable stream of staircasing receipts is likely to be more attractive to private investors.’*

From a shared owner perspective, reform offering staircasing in 1% increments further exacerbates the need for complex decision-making. If a shared owner has the cash available to staircase by 1%, are they better off doing so, or using the cash to pay down the capital on their mortgage? If they decide on the latter option in large numbers, this may reduce income streams for housing associations.

The current economic environment increases uncertainty for delivery of the new model. Will shared owners potentially facing steep rises in mortgage payments and unprecedented cumulative rent increases see any benefit in 1% staircasing, or be able to afford to do so?

### The initial repair period

During the 10-year initial repair period, the shared owner can apply to the landlord for a contribution of up to £500 towards “essential and genuine works” to certain parts of the interior of the property which are the shared owner’s responsibility under the lease.

This offer, and the new 10-year landlord responsibility for major structural works, may create challenges for housing associations’ business plans. The extent of the fiscal impact will depend upon the nature and frequency of structural issues, and the extent that they are covered by contractor warranties and insurance policies.

Regardless, the reform will create a greater administration burden for management of mixed-tenure blocks of flats, and associated reputational risk if errors occur (Devonshires, 2021):

*‘With the introduction of the IRP, long leasehold owners will be liable to pay service charge towards external and structural repairs, but shared owners will not for the first 10 years (or until 100% staircasing if sooner). This means such mixed tenure blocks will require strict and effective service charge budgeting / accounting to ensure that the right residents are being charged for the right elements of service charge. This will be difficult to get right and will inevitably lead to challenges from both shared owners and long leaseholders if RPs get it wrong.’*

The Housing Ombudsman has identified inaccurate record keeping as a systemic issue for the housing sector, with 67% of investigations upheld in 2021-22 involving poor records (Housing Ombudsman, 2022):

*‘Poor record keeping has been repeatedly identified as a driver of poor service. This can result in residents experiencing inadequate responses, delays and things not being put right. It is a systemic, sector-wide issue and that’s why we’re focusing on it as the subject of our next investigation.’*

### A two-tier market

The National Housing Federation (2020a) has observed that reforms could adversely impact sales:

*‘Introducing the new model of shared ownership alongside the existing shared ownership model will see two different products in the market, maybe even within the same scheme. This could impact on price and on housing associations’ ability to sell.’*

A two-tier market creates also increases complexity and cost for housing associations in administering shared ownership portfolios. The previous section discussed the administrative burden and reputational risk associated with managing the initial repair period in mixed-tenure developments.

Co-existence of the old and new model lease could also increase the administrative burden in other respects. For example, subject to demand, the new lower initial equity purchase and staircasing thresholds may encourage greater take-up of shared ownership by ‘marginal’ owners. This will increase the risk of rent arrears and/or loan default by shared owners; in turn incurring additional costs for providers in liaising with lenders, managing arrears and seeking repossession.

### Complexity and understanding

The new model may exacerbate the existing problems associated with complexity and poor public understanding of the shared ownership scheme discussed in the previous chapter. In their response to the Government’s consultation on the new model for shared ownership the Chartered Institute of Housing (CIH, 2020) explained:

*‘The new model... adds further complexity for applicants in understanding what the shared ownership model is and what it means for them practically in the short and medium term, in weighing up whether home ownership generally and the model in particular is right for them. These factors have the potential to increase lack of awareness and understanding of the model.’*



## 7.5 Summary – is the new model a better product for the market to deliver?

The existing shared ownership scheme creates reputational, sales and regulatory risks for shared ownership providers, their partners and agents.

The new shared ownership model, despite offering some benefits to new entrants under the Affordable Homes Programme 2021-26 (AHP), is problematic for both housing associations and shared owners. It therefore has potential to exacerbate reputational, sales and regulatory risks.

## 7.6 Recommendation

- 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 via the new Right to Shared Ownership.

The new shared ownership model, despite offering some benefits to new entrants, is problematic for both housing associations and shared owners



## 8. THE CASE FOR AN INDEPENDENT ADVICE SERVICE

The roles – and limitations – of government and its agencies (Homes England and the GLA), independent financial advisors and conveyancing solicitors in providing advice and information to shared owners and homebuyers were discussed in previous chapters

This chapter provides a brief overview of other key sources of information about shared ownership, concluding by making the case for a new independent, impartial and specialist source of information and advice.

### 8.1 Sources of information and advice

Where do homebuyers and shared owners currently obtain information and advice on shared ownership? Some key sources of information and advice include:

- Citizens Advice Bureau (CAB)
- HomeOwners Alliance
- The Leasehold Advisory Service (LEASE)
- Leasehold Knowledge Partnership (LKP)
- National media
- Shared Ownership Resources
- Shelter
- Social media

#### Citizens Advice Bureau (CAB)

Housing associations sometimes signpost shared owners to Citizens Advice Bureau (CAB) for legal information and advice. The CAB website does not have a dedicated section on shared ownership.

#### HomeOwners Alliance

The HomeOwners Alliance is a property advice website which: ‘champions the interests of Britain’s homeowners and aspiring homeowners’. Their website includes content on shared ownership, including:

- Shared ownership mortgages
- Shared ownership changes (2021) – What do they mean for homebuyers?
- Shared ownership – What to watch out for
- Shared ownership – Is it worth it?

- Staircasing your shared ownership home
- Selling your shared ownership home

However, although the organisation often responds online to queries about shared ownership, it does not offer an individualised advice service for shared owners.

#### The Leasehold Advisory Service (LEASE)

The Leasehold Advisory Service (LEASE) is a government-funded source of advice for residential leaseholders and park home residents. The site publishes useful basic information on shared ownership – such as differences between a shared ownership lease and a standard lease (LEASE, 2022) – and responds to written/emailed requests for advice within ten days.

However, LEASE does not provide a comprehensive and easily navigable guide for shared owners and those considering the scheme. It offers a 15-minute (maximum) telephone appointment to leaseholders seeking further advice and therefore – although follow-up 15-minute appointments can be scheduled – this service is unlikely to offer consumers the depth of support required to navigate the complex issues set out in this report.

#### Leasehold Knowledge Partnership (LKP)

The Leasehold Knowledge Partnership (LKP) is a registered charity and the secretariat of the All-Party Parliamentary Group on Leasehold and Commonhold Reform. LKP provides information on leasehold issues, including shared ownership, and campaigns for legislative and regulatory changes

#### National and local media

The national media publishes a range of content on shared ownership from critical articles to advertorials. Some content is behind pay walls. Some content contains misleadingly inaccurate technical information (for example, on Stamp Duty Land Tax). Content partnerships promote the benefits of the shared ownership scheme, although the increased sophistication of marketing campaigns – which offer to ‘educate’ homebuyers – means advertorials may not always be easily identifiable as such.

All in all, the national media is a patchwork of information some of which may be useful for informed decision-making and some less so.

## Shared Ownership Resources

The Shared Ownership Resources website publishes content on shared ownership topics ranging from valuation to Stamp Duty Land Tax (SDLT) to annual rent reviews, in collaboration with experts including RICS surveyors, solicitors and tax experts.

The project is voluntary and hampered in scope by funding and resource constraints.

## Shelter

Shelter is a charity whose mission is to ‘defend the right to a safe home’. The charity publishes information on shared ownership on its website, and offers help with housing issues and homelessness. Legal advice is available to people who’ve lost their homes or are facing eviction.

## Social media

A significant number of people join self-help groups on social media for peer information and advice on shared ownership. For example, one shared ownership group on Facebook has over 14,000 members and another has over 9,000 members.

Such groups may be established and moderated by professionals, such as mortgage brokers, on a private basis (only approved members can see and respond to posts). Peer advice based on peoples’ own experiences can be useful and beneficial. But there is a risk is that incorrect peer information and poor advice may go unchallenged.

## 8.2 The need for a specialised shared ownership advice service

The National Housing Federation (NHF) poses a pertinent question (2022):

*‘How, if you are paying both a mortgage for a part of the property and rent for the rest, could anyone ever get themselves into the position to eventually buy the place outright?’*

Their response:

*‘Ultimately the decision is for the shared owner to assess their own financial position in terms of buying more shares.’*

The NHF assessment demonstrates the onus is placed firmly on shared owners and, implicitly, prospective entrants to the scheme to undertake their own assessments of their own financial situation.

However, as demonstrated in this report, shared ownership is extremely complex. Consequently, informed decision-making – whether the initial purchase decision; buying more shares; transitioning to full ownership in a subsequent property, or to a part-share in a different property or to a different housing tenure; or simply weighing up the future costs and risks of a part-share – relies on a meaningful understanding of the available options including benefits, risks and related probabilities.

Research by the University of York (Wallace et al, 2022) found that shared owners showed greater proportions of financial vulnerability than other homeowners concluding that they would benefit from targeted support:

*‘Greater proportions of shared owners are likely to require additional support to navigate the homebuying process and, as they have less resilient finances than other homeowners, would be more price sensitive to ongoing costs.’*

Our assessment suggests that shared owners should place limited reliance on housing providers as a source of information and advice; partly because marketing and sales teams should not be expected to understand and explain the model in all its complexity and partly due to conflicts of interest outlined in earlier chapters. As one respondent to the University of York research explained:

*“I think the problem is that you’re dealing directly with the housing association that are making money off you: there is no third party, there’s no independent body that you can speak to.”*

The scope of independent financial advisors and solicitors is subject to time and fee constraints and may not always adequately address the needs of shared owners in making informed initial purchase decisions. There is even less support available to assist subsequent decisions relating to the ongoing journey through the scheme and viable exit routes.



But a dedicated specialist website could offer online guides and tools, and an impartial, free advice service on issues – including but not limited to:

- client-specific advice on the long-term affordability of their proposed purchase
- client-specific advice on benefits and risks
- client-specific advice on staircasing, lease extension and sale
- client-specific advice on eligibility for government support with housing costs

The provision of a client-centred specialised advice service requires certain assets and competencies – including but not limited to:

- staff resources
- research capability
- legal skills
- money advice skills
- publishing and marketing resources

As a government-funded consumer-facing service, Money Helper may offer a useful example and benchmark for this proposal. For example, Money Helper provides free impartial advice on pensions via a dedicated website and support service under the banner Pension Wise.

Indeed, the Department for Levelling Up, Housing and Communities signpost to Money Helper as a ‘free and impartial service set up by government to help people make informed choices about managing their money’ in their guidance on the new Right to Shared Ownership.<sup>15</sup> However, Money Helper currently has limited information on shared ownership on its website.

**A dedicated specialist website could offer online guides and tools and impartial, free advice**

<sup>15</sup> <https://www.gov.uk/government/publications/right-to-shared-ownership-a-guide-for-tenants/the-right-to-shared-ownership-a-guide-for-tenants>





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