University of York
School for Business and Society

Do Affordable Homeownership Schemes Reduce Homeownership Risks for Lower Income Households in England?

By Alison Wallace, Julie Rugg and Jiaxin Liu

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abrdn Financial Fairness Trust

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Centre for Housing Policy
School of Business and Society
University of York
Heslington
York
YO10 5DD

alison.wallace@york.ac.uk

Abrdn Financial Fairness Trust

abrdn Financial Fairness Trust funds research, policy work and campaigning activities to tackle financial problems and improve living standards for people on low-to-middle incomes in the UK. It is an independent charitable trust registered in Scotland (SC040877).

Centre for Housing Policy

The Centre for Housing Policy (CHP) is an interdisciplinary research group in the School of Business and Society at the University of York. CHP focusses on increasing equality and quality of life in the built environment, and promote better housing, better neighbourhoods and better lives. Established in 1990 with support from the Joseph Rowntree Foundation. Our research in housing and environment is one of the main research themes for our Department. Our impact-driven research and research-led teaching are centred on reducing inequalities linked to housing markets, socially and environmentally degraded built environments, enabling regenerative housing policy and practice that creates fairer, healthier and more sustainable homes in the UK, Europe and beyond.

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Contents

Abrdn Financial Fairness Trust 2
Centre for Housing Policy 2
Acknowledgements 2
List of Tables 7
List of Figures 8
Executive Summary 9
Chapter 1: Introduction 12
Affordable homeownership schemes 14
Market and policy context to risk 18
Market information asymmetries 18
House-price risk 18
Welfare support 19
Mortgage arrears 20
Borrowing risk 21
Property conditions and the impact of the Grenfell Fire 21
Income and cost-of-living risks 22
Risks and homeownership schemes 22
Shared ownership 22
Help to Buy 23
Right to Buy 23
Research aims and methods 23
Quantitative analysis 24
Qualitative insight 25
Structure of the report 27
Chapter 2: The extent of risk in affordable homeownership 28
Summary 28
Introduction 28
Who buys a home with assisted purchase schemes? 29
Payment risks 31
Mortgage product features 31
Housing affordability 34
Non-payment of housing costs 37
Price Risks 38
Leasehold 39

Repair risks 39
Risk of financial harm 41
Impact of covid pandemic 43
Conclusion 46
Chapter 3: Anticipating homeownership and associated risks prior to purchase 48
Summary 48
Introduction 48
Identifying homeownership risk 49
Housing providers 49
The home purchasers 51
Buyer research into homeownership options 54
Generic home purchase information 54
Previous experience 55
Professional information and guidance 56
Mortgage brokers 56
Solicitors 57
Surveyors 58
Housing associations 58
Right to Buy administrators 59
Conclusion 61
Chapter 4: Payment risk 62
Introduction 62
Summary 62
Establishing affordability 63
Choosing a mortgage 65
Managing rent and mortgage arrears 67
Mitigating payment risks 67
Experience of mortgage and rent arrears 68
Shared owners' experience of housing association and benefit support 69
Working with lenders in shared ownership 70
Exiting unsustainable shared ownership 72
Subletting to provide breathing space 73
Right to Buy 74
Other housing costs 74
Service charges 74
Shared ownership rents 77

Mortgage safety nets 83
Conclusion 84
Chapter 5: Pricing risks 86
Summary 86
Introduction 86
House price change 86
House prices and flats 87
Perceptions of house price change 87
Increasing equity stakes 89
Shared ownership 90
Equity charge and repaying equity loan Help to Buy 91
Testing the impact of house price changes in different housing markets 92
Maintaining control and asset values in leasehold 96
Leasehold lengths 96
Conclusion 98
Chapter 6: Repair risks 100
Summary 100
Introduction 100
Existing homes 100
Right to Buy 101
New build defects 102
Shared ownership repairs 103
Building safety crisis 106
Conclusion 107
Chapter 7: Conclusions and recommendations 108
Shared ownership 111
Affordability 111
Affordability- Mortgage and rent arrears 112
Price risks 113
Repairing risks 114
Prospective shared owner information 114
Help to Buy 115
Right to Buy 116
Conclusion 117
References 119
Appendix 1: Additional notes on the research methods 126

English Housing Survey **126**
Homeownership type 126
Other variables 127
Financial Lives Survey **127**
Measuring potential financial vulnerability 134
Experienced one or more adverse life events 134
Financial capability is low 134
Health may indicate access or capacity issues 134
Appendix 2: Summary tables profiles of purchasers **128**
Appendix 3: Summary tables homeownership risk and affordable homeownership schemes **134**
Appendix 4: Data resources to estimate long-term housing costs and equity over time **138**
Appendix 5: Summary tables estimated housing costs and equity over time **139**

List of Tables

Table 1.1: Sample numbers of households using affordable homeownership schemes (2014/15-2018/19) 244
Table 1.2: Summary of respondents for each wave of the FLS 25
Table 1.3: Summary profile of key informants and housing professionals 26
Table 1.4: Summary profile of purchasers' interviews... 26

Table 2.1: Leasehold attributes by homeownership type (%) 39
Table 2.2: Non-decent homes by route to homeownership... 40
Table 2.3: Leaseholder dissatisfaction with freeholders' repairs and maintenance (%) ... 40
Table 2.4: Indicators of financial capability by tenure (%)... 13643
Table 2.5: Indicators of poor financial capability by age and tenure (%)............................ 43

Table 5.1: Property type per homeownership type 2020/2021* (%)…………………………….88

Table A1.1: Sample numbers of households using affordable homeownership schemes (2014/15-2018/19) 1275
Table A2.1: Profile all purchasers (%) 1317
Table A2.2: Profile of all purchasers bought between 2010 and 2019 (%)…………………129

Table A3.1: Characteristics of mortgage lending by type of homeownership 2013/14-2018/19 1351
Table A3.2: Indicators of Financial Vulnerability by housing tenure, 2017-2020 (%)……133
Table A3.3: Indicators of Financial Capability by tenure (%)……………………………….133

Table A5.1: Estimated housing costs and housing equity by scheme for two bed house purchase Reading 2007-2021 (Based on 2 year fixes 9% mortgages)……………………...1397
Table A5.2: Estimated housing costs and housing equity for open market and shared ownership two bed house purchase Wakefield 2007-2021 ….. 142

List of Figures

Figure 1.1: Sales of affordable homeownership, Right to Buy and Help to Buy, 2011-2021 14

Figure 1.2: Mortgage arrears and possessions, 2019-2022........ 20

Figure 2.1: Mortgage interest rates by pathway to homeownership and years bough (%)32

Figure 2.2: Fixed rate mortgages by period of entry and route to homeownership (%).... 33

Figure 2.3: Interest-only loans by period of entry and route to homeownership (%) 34

Figure 2.4: Affordability ratios by different homeowners........ 35

Figure 2.5: Proportion of homeowners with net housing affordability ratios 35 percent or more by geography (%)........ 36

Figure 2.6: Proportion of homeowners with net housing affordability ratios 35 percent or more by geography for homes purchased between 2010-2019 (%) 36

Figure 2.7: Mortgage and rent arrears by affordable homeownership scheme (%)........ 37

Figure 2.8: Self-reported equity accrued to homeowners by route to homeownership (£) 38

Figure 2.9: Summary financial vulnerability indicators by housing tenure (%)........ 42

Figure 2.10: MAPS Market segments of mortgaged homeowners and shared owners (October 2020)........ 45

Figure 2.11: MAPS submarket segments of mortgaged homeowners and share owners (October 2020)........ 46

Figure 4.1: Private sector rent rises and potential shared ownership rent rises 2012 to 2021 (%)........ 78

Figure 4.2: Estimated housing costs affordable homeownership schemes, Wakefield and Reading 2007-2021........ 81

Figure 5.1: Percentage annual house price change by property type, England, February 2012 to February 2022 (%)........87

Figure 5.2: Equity changes Wakefield 2007-2021 (£)........ 932

Figure 5.3: Equity changes Reading 2007-2021 (£) 93

Executive Summary

Affordable homeownership schemes are central to England's housing policy, but much focus has been on supporting entry to the tenure rather than the longer-term outcomes of households who use the schemes. This mixed methods study focused on shared ownership, the Right to Buy and Help to Buy and explored whether the risks associated with homeownership — paying the mortgage, maintaining the value of the home and the upkeep of home repairs — could be mitigated by using these schemes. The findings are increasingly relevant as the cost-of-living and mortgage interest rates are rising and a recession or housing market downturn are possible in the short term.

Key messages

- Affordable homeownership schemes attract significant housing subsidies and provide access to homeownership for people on lower incomes relative to the costs of their local housing market.
- Greater proportions of single people, women, people in routine occupations, people with disabilities and lone parents use shared ownership and the Right to Buy than Help to Buy purchasers and those who bought unassisted on the open market.
- Homeownership comes with several risks relating to paying the mortgage, maintaining the value of the home, and keeping the home in good repair. These risks are not distributed equally, with households on lower incomes experiencing problems more frequently than more affluent households.
- Homeownership risks were weighed against the risks apparent in other housing tenure — notably private renting — but may be less understood. Homebuyers assessed risk in a period of low interest rates, low inflation and stable employment. This benign context is changing with rising mortgage costs and a possible market downturn and recession looming.
- Affordable homeownership schemes can limit the risks of non-payment of housing costs, price changes and maintaining their home, but may also exacerbate problems for some households.

Shared ownership (often described as part-rent part-buy)

- Shared owners had low initial housing costs but recent shared owners' mortgage interest rates cost more, 2.39 percent compared to 1.73 percent for open market buyers.
- Significant proportions experience high housing costs relative to incomes, with 31% of shared owners *outside* of London and the South East having housing costs over 35% of their incomes compared to 17% of other mortgagors. In contrast, shared ownership in London and the South East slightly lowered the incidence of high costs relative to incomes (26% compared to 30% of other mortgagors).

- The low initial entry costs of shared ownership are not maintained. Over inflationary rents mean shared owners' monthly costs converge with open market buyers' costs beyond year 15 while purchasers' accrued much less equity, challenging the products' value for money.
- Ongoing relationships with housing providers and access to housing benefit gave shared owners opportunities to sustain their homeownership beyond what lender forbearance and the limited access to the Government's Support for Mortgage Interest can often deliver.
- Equity sharing via shared ownership limits the impact of negative equity in housing market downturns, important if people need to sell up to avoid incurring mortgage arrears and shortfall debts.
- 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.
- Consumer misunderstanding about the responsibilities of shared ownership persists, particularly around repairing responsibilities. Providers must offer new sets of information about the purchase but key information about long term costs is omitted.
- Shared ownership is particularly entangled with the problems of the leasehold tenure. Awareness of short leases and diminishing assets was limited and the new model lease does not rebalance the risks for existing shared owners.
- Greater proportions of shared owners carry indicators of financially vulnerability compared to other mortgagors and are less confident consumers than other homebuyers, inferring that additional support to navigate the housing market and support to overcome economic hardships would be beneficial.

Right to Buy (social housing tenants buy their formerly rented home)

- RTB purchasers are older and predominantly in routine occupations.
- Long term RTB purchasers are still paying high interest rates and overall, are carrying greater proportions of mortgage arrears (3.2% RTB compared to 2.7% shared owners and 0.7% of all other mortgagors).
- Right to Buy owners had fewer resources and were often reliant on family and friends if experiencing payment or income shocks and for home maintenance.
- With fewer resources and limited Government support, these purchasers are more reliant on lender forbearance if struggling with payments, leaving them particularly vulnerable to default and poorer housing conditions.
- Large sums of gifted equity cushion buyers from price falls so market downturns present less of a risk.

Help to Buy (equity loan scheme)

- Equity sharing cushions the impact of housing market downturns and the risk of negative equity.
- Help to Buy owners had more secure finances than other affordable homeowners and expected to repay their equity loans. Many faced complex assessments of housing and

mortgage markets and their future incomes to decide the timing of repaying their equity loan.

- Repaying the loan in rising markets could mean short-term gain for higher long-term costs, making homeownership more expensive if alternative choices of property were available.

Key actions required

- **Providers and Homes England**- Cap rent increases below that allowable in leases for new and existing shared owners and control future cost increases by using CPI rather than RPI measures of inflation, with no additional uplift.
- **Providers, lenders, brokers and Homes** England - Review affordability assessment calculators to avoid high housing costs to incomes and include rent and service charge rises over time (for all schemes), not just rising mortgage interest rates.
- **Homes England and providers -** Highlight the long-term costs in key information documents, including rent and service charges, relative to open market purchases.
- **Homes England and providers -** Develop housing costs and equity charge calculators to support equity purchase/staircasing decision making in shared ownership and Help to Buy or subsequent equity loan schemes.
- **Providers -** Develop support for existing shared owners, by extending all lease terms to at least 250 years, provide proportionate repairs support over time, ensure appropriate advice mechanisms are available and provide greater opportunities for flexible tenure.
- **Central government** - Produce *How to Buy Affordable Homeownership* guide for prospective purchasers to rebalance information resources in sector, covering all existing and new affordable homeownership schemes and information on leasehold, based on Government *How to Buy* or *How to Rent* guides. Include guidance on what to consider when buying a home now and in the future, highlighting the range of possible risks and rewards.
- **Homes England and providers** - Develop shared ownership as a truly flexible tenure and strengthen homeownership safety nets for short term income loss.
- **All stakeholders** - If affordable homeownership is to be maintained, and the tenure expanded further, policymakers and housing providers require a continuing focus on long term customer outcomes, not only on provider interests and access to the tenure alone.

Chapter 1: Introduction

This report considers the risks apparent in homeownership and how these are managed within the main assisted purchase or affordable homeownership schemes in England. For ease of reference all schemes are here referred to as affordable homeownership schemes and those under consideration are:

- **Right to Buy,** where social housing tenants buy their existing home as sitting tenants,
- **Help to Buy**, the equity loan scheme, and
- **Shared Ownership**, often described as a ‘part rent-part buy’ option.

The experiences of home buyers using these schemes are contrasted with the experiences of purchasers who bought their homes on the open market without formal support. New forms of assisted purchase such as First Homes are not considered as they have yet to meaningfully reach the market.

The proportion of homeowners fell since the peak of 71 percent in 2003 and stood at 65 percent in 2020/21 (DHLUC, 2022, Live Table AT1.1). The rate has increased slightly in recent years, up from 63 percent in 2015/16 but is now only at the same rate as in 1987 (ibid.) As house prices no longer track household incomes, younger cohorts have found access to the tenure more challenging. While 67 percent of households headed by someone aged 25 to 34 years old were homeowners in 1991 only 47 percent were by 2020/21 (English Housing Survey Live Table FC2101). Moreover, each new cohort of homeowners is drawn increasingly from professional households with the proportion of homeowners from routine occupations and self-employment in decline (Wallace et al., 2016).

Successive governments have subsidised entry to homeownership using different mechanisms but have been less concerned about the sustainability of homeownership or the post-purchase experience. There is *“a general assumption that affordability will follow. Risk is seen as very much a lesser issue”* (Whitehead and Williams, 2020:8). This research concerns this risk, the longer-term homeownership experience and the management and distribution of risk by various parties within these schemes.

We have framed the report using three key homeownership risks: *Payment*, *Price* and *Repairs*. Teye et al. (2017) identify *payment* risks and *price risks* as the main threats facing homeowners: the ability to meet essential housing costs and the maintenance of the *price* of the housing asset. While Bramley and Dunmore (1996) identify four homeownership risks, drops in income, rises in mortgage interest rates – taken together these two echo Teye et al.’s *payment* risk -, *price* falls and *repairs*. This research therefore considers these three key homeownership risks.

There are five reasons that support an examination of these homeownership risks within assisted purchase or affordable home ownership schemes. Firstly, the *payment, price* and *repair* risks have financial impacts, but also have physical and mental health impacts, from unsustainable housing debt (Nettleton & Burrows, 2000; Pevalin, 2009; Taylor et al., 2007), poor quality homes (Baker et al., 2017) and building defects (Preece, 2021). Additionally, there are impacts of unsustainable homeownership on lenders (Stephens, 1998) and the wider market and macro economy (Stephens 2011; Hellebrandt et al., 2009).

The second issue is that homeownership risks are unevenly distributed, so there is a social gradient to those struggling with payment, price and repair risks. There are mortgage arrears of between 9 and11 percent amongst the lowest income homeowners compared with two percent for highest earners (MHCLG, 2021). Northern Ireland experienced widespread negative equity after the financial crisis 2008/9 when market values fell by half (Wallace et al., 2014). While negative equity was apparent across the market the size of the possible debt for the lowest income homeowners was double that of higher income homeowners (ibid.). Less affluent households also bear the burden of poor property conditions in homeownership (Centre for Ageing Better, 2020; Wallace et al., 2019).

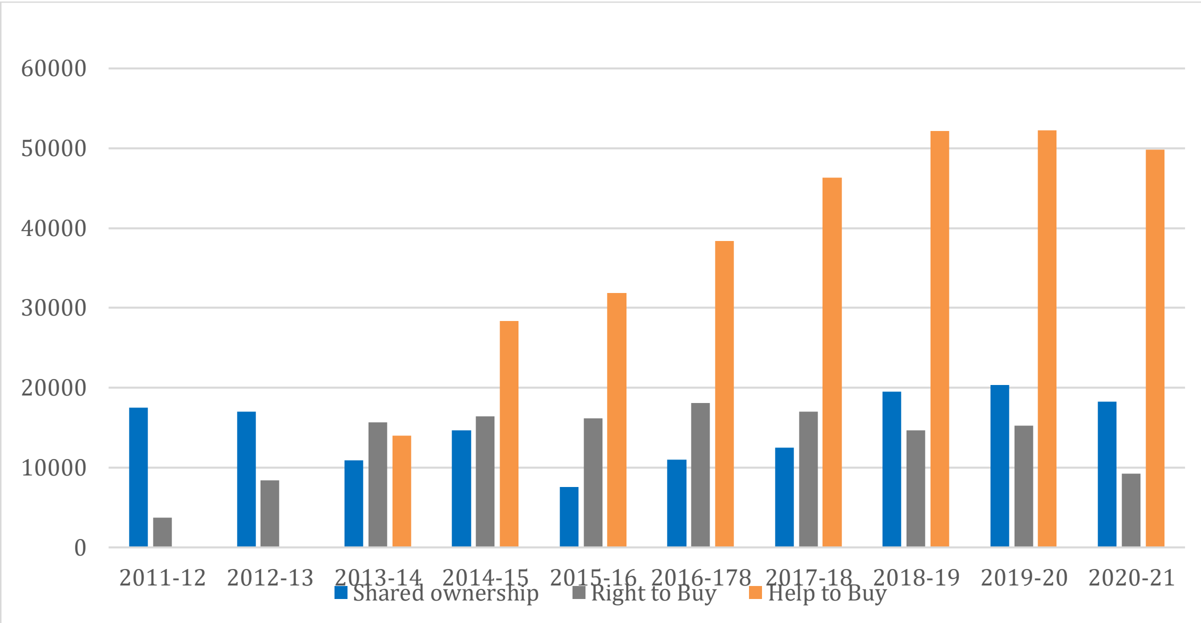
Thirdly, low- or moderate-income households are important users of assisted home purchase schemes as they have insufficient resources to access homeownership or manage these risks alone. Walker (2016) illustrates that the right to buy and shared ownership, especially when based on smaller shares or in lower value markets, are used by lower income groups compared to the higher incomes of Help to Buy purchasers.

The potential of these homeownership schemes to mitigate risk for home purchasers by reducing market exposure is the fourth reason for considering purchasers' lived experience (Whitehead and Yates, 2010). The schemes share equity or provide discounts that offset low entry points to the tenure against equity gains (shared ownership and Help to Buy) and can limit equity losses from market downturns. The schemes can also limit overexposure to the housing market, by reducing holdings in a single property.

The schemes are often small but are central to housing policy and attract substantial public subsidy. The importance of the schemes has changed over time but Help to Buy has made the most significant contribution to the contemporary housing market (Figure 1.1). Right to Buy *annual* sales reached a peak of 167,000 in 1982, but during the period 2013-2021 a total of 313,171 Help to Buy purchases were made compared to 122,629 Right to Buy sales and 114,713 shared ownership sales. Lloyds Banking Group estimate there were 409,370 first time buyers across the UK in 2021, so these English schemes comprised approximately 19 percent of all UK first time buyer sales (12 percent Help to Buy, two percent Right to Buy and four percent shared ownership).

Shared ownership comprises half of Homes England's Affordable Homes Programme allocation for the five year 2021-2026 totalling some £3.7 billion (DHLUC, 2020). Savills (2021) note that shared ownership's share of affordable housing subsidies has risen from 36 percent to 50 percent between 2017/8 to 2020/21. Right to Buy discounts were valued at almost £1 billion for 2019/20 (MHCLG, 2021a). Help to Buy is not formally counted as an affordable homeownership product under the public funding regime but attracted public subsidies totalling £5.3 billion for the period 2021-2026 (UK Housing Review, 2021 Table 2.4.1), equivalent to more than half the affordable housing programme.

Figure 1.1: Sales of affordable homeownership, Right to Buy and Help to Buy, 2011-2021



Source: MHCLG Table 678; Table 1000; MHCLG Help to Buy Tables table 1 (to end of calendar year)

This report explores provider and homebuyer perspectives on homeownership risk based on a mixed method study that included quantitative secondary analysis of publicly available datasets and qualitative in-depth interviews with key informants from policy networks, housing providers and home buyers using the key assisted purchase schemes and those who bought on the open market for comparison.

This report is set against a burgeoning cost of living crisis. The Resolution Foundation (Leslie and Holdsworth, 2022) report that prices have risen due to rising global energy costs, hitting those on lower incomes the hardest and resulting in the second largest fall in real disposable incomes since records began in 1964.

Affordable homeownership schemes

Affordable homeownership schemes aim to overcome affordability and deposit barriers to accessing homeownership by reducing deposits and/or ongoing costs largely through equity sharing mechanisms (Whitehead & Yates, 2010). First-time buyers and former homeowners who experience relationship breakdown or housing debts are the primary users of the schemes typically offered by housing associations and local authorities. For-profit providers are also emerging. Versions of these schemes are offered across the UK, but the focus of this study is England. There have been many incarnations of affordable homeownership schemes, but the most enduring have been shared ownership, often described as a part-rent part-buy scheme; the Right to Buy, which is a discounted sales scheme for former social housing tenants; and a shared equity scheme currently branded as Help to Buy.[1] The key attributes of each scheme are outlined in Boxes 1-3 below.[2]

Box 1: Right to Buy

- The scheme emerged from the 1980 Housing Act. Prior to this date, local authorities could operate discretionary sales schemes.
- Provides for secure council (or former council) tenants to purchase their existing home on a freehold basis for houses and leasehold for flats.
- Discounts from the open market value are available depending on the tenants' length of residence and property type. Tenants who have been a tenant between 3-5 years receive 35% discount for a house and 50% for a flat. After 5 years of tenancy the discount goes up 1% for each additional year of tenancy for houses and 2% per year for flats.
- The maximum discount is 70 percent of the market value or currently £87,200 outside London and £116,200 in London, whichever is the lower figure. Discounts increase annually in line with the percentage change in the Consumer Prices Index (CPI).
- The right to buy has been abolished in Scotland and Wales but continues in England and via the House Sales scheme in Northern Ireland.

The Right to Buy scheme has had a profound and well-rehearsed impact on the UK housing market bolstering the homeownership rate significantly in the period from 1980 onwards (Murie, 2016; Cole et al., 2015) but with associated issues of affordability, sustainability and repair problems for buyers. Murie (2022) considers Right to Buy to be a strategic failure, undermining social housing provision and often delivering subsidies greater than the total sums tenants have paid in rent. The economy, mortgage market structure and level of discount in any period have influenced sales levels, but sales rose after 2012 after the discounts were increased.

Box 2: Help to Buy

- The current scheme emerged in 2013 but was preceded by other publicly funded equity

[1] Similar equity loan schemes have previously been available under the moniker Homebuy (see Jackson, 2001).

[2] Other schemes involve discounted sales of new build homes, now called First Home which is incorporated into planning policy as an affordable housing option and Rent to Buy where associations offer an intermediate rent (80 percent of market value) for a fixed period to enable the tenant to save a deposit and buy the home at the close of the tenancy. There is also a new Right to Shared Ownership scheme for all newly funded social or affordable rented homes funded under the 2021 -2026 Affordable Homes Programme, like that previously offered under Social Homebuy (Rowlands and Murie, 2008). There are few properties built under these schemes and they are not the focus of the study.

loan schemes like Homebuy with different qualifying criteria.

- Purchasers buy a new-build home with a minimum 5 percent deposit and a mortgage for 75 percent of the open market value, with Homes England providing the remaining 20 percent as an equity loan.
- In London, the deposit would be 5 percent, the equity loan 40 percent, requiring a mortgage of 55 percent.
- 24 percent of Help to Buy purchases are leasehold, including up to 15 percent of all Help to Buy sales in 2016 and 2017 were leasehold houses.
- The equity loan attracts no interest in the first five years but is then subject to a 1.75 percent charge that rises by inflation (CPI) plus two percent annually.
- Unless the equity loan is repaid, it sits as a charge on the property title, so Homes England are reimbursed 20 percent of the property's new value at the point of sale.
- The Help to Buy scheme is now closed in Scotland, but a similar scheme is available in Wales until March 2023. An equity loan scheme is unavailable in Northern Ireland.
- In England, between 2013 and 2021 any buyers were eligible to buy new homes up to £600,000, but from 2021 the scheme is restricted to first-time buyers with much lower regional price caps in place.
- The Help to Buy scheme is expected to close to new entrants from October 2022.

Government sponsored shared equity loan schemes emerged in Wales with Homebuy and was followed by Homebuy Direct in England from 1999 (Jackson, 2001; Martin, 2001). From 2013 the new equity loan model, Help to Buy, emerged, not as an affordable subsidised product but was designed to reduce deposit constraints on new buyers, boost demand and incentivise new supply after the financial crisis 2008/9 (Whitehead and Williams, 2020). Help to Buy has had a significant impact on the market with 339,347 homes were built and purchased between 2013 and December 2021 (DLUHC, 2021). This is greater than shared ownership or Right to Buy sales during this period (Figure 1 below). Help to Buy supported significant proportions of all new homes sold, underpinning 42 percent of new home sales in the North East, 29 percent in the South East and 12 percent in London where affordability is more constrained (National Audit Office, 2019). The scheme enables some to enter homeownership when otherwise they could not but has also helped others to bring forward purchase and buy further up the market in terms of size and quality (Finlay et al., 2016). Despite the closure of Help to Buy the scheme is included in the study as equity loans have been an enduring feature of the affordable homeownership offers for some time and could emerge again in the future.

Box 3: Shared ownership

- Emerged in the 1960s/70s but took its present form in the 1980 Housing Act.
- The scheme provides for a home to be bought (using a mortgage or existing cash) at a portion of the market value (currently starting at 25 percent), with rent charged based on the value of the unsold equity share.
- The rent charged is roughly 3 percent of the unsold equity and increases by RPI plus 0.5

percent annually.

- Buyers can increase their shares of the property incrementally until they own 100 percent by a system called 'staircasing', although maximum shares are restricted to less than 100 percent in some rural schemes to preserve affordable housing.
- Buyers are responsible for 100 percent of the costs of repairs and maintenance, although recent leases include some limited support with repair costs for the initial ten years.
- Typically, shared ownership homes for sale have been new build, but older versions of the scheme were based on open market sales, and a resale market for second-hand shared ownership homes is developing.
- All homes are bought on a leasehold basis, that in law also comprises an assured tenancy.
- Buyers currently must earn below £60,000 (£80,000 in London) and be a first-time buyer, former homeowner who cannot afford to buy now or an existing shared owner.
- Similar schemes are offered in Scotland, Wales and Northern Ireland.

Williams (2021) notes that shared ownership forms around one percent of the total housing stock, perhaps fewer than 250,000 properties. Burgess (2021) notes that demand for shared ownership properties for sale can be up to ten times oversubscribed, although the data that supports this is uncertain. Nonetheless, shared ownership has become a small but important offer in many pressured markets. There are also other niche shared ownership products for older people and people with disabilities, but these are not included in this study.

Risk will be unevenly distributed between participating purchasers depending on their own circumstances or location. Previous reviews have identified that expanding homeownership involves drawing in more financially marginal households on lower household incomes, more exposed to labour market fluctuations, like single people (Brook Lyndhurst, 2007). Purchaser risk profiles may alter by scheme (Walker, 2016) but there is also a geographic dimension to homeownership risks (Wallace, 2019).

How the characteristics of buyers will change when Help to Buy closes is uncertain, but Savills (2019) suggest that demand will largely shift to shared ownership, but the new 30 percent discounted sale First Homes scheme seems likely to capture higher end displacement from Help to Buy. Social landlords' express concerns about First Homes as it favours those on higher incomes with larger deposits, compared to shared ownership, serving households who may otherwise be able to buy, and because First Homes threaten the viability of other affordable homeownership options on development sites (Bailes, 2022). As First Homes are beginning to come to market there are indications that shared ownership delivery is being squeezed (Heath, 2022). Providers may also be concerned about the loss of rental and staircasing revenues derived from shared ownership used to cross-subsidise other activities. How this new product may reconfigure the affordable homeownership landscape is uncertain but highlighting the current balance of risk and reward can inform future discussions in the sector and emphasise the need to consider long-term buyer outcomes.

Market and policy context to risk

Market information asymmetries

The Government identified home buying as risky and sought to reform the process and overcome information asymmetries in the market (MHCLG, 2018). Enhancing market information to prospective home buyers can also reduce risk (Teye et al., 2017); especially for young or marginal borrowers (Peck et al., 2019; Smith et al., 2014; Wallace, 2016). Evidence indicates that inexperienced first-time buyers limited their home search to compete in pressured markets (BEIS, 2017), often misjudged the costs of owning a home (Mustard, 2014) and misunderstand who market agents are acting for (OFT, 2010). Government- backed schemes need to be cognisant of the heightened risk of much of their customer base.

Understanding leasehold as a legal form of occupation and the associated terms and conditions is important to maintain equity in the home and reduce the impact of the home being a diminishing asset. The EHS illustrates public confusion about the tenure, with 62 percent of shared owners reporting that they have leasehold properties, compared to 13 percent of Help to Buy, 10 percent of Right to Buy and 11 percent of other mortgaged purchasers. Only one percent of EHS respondents who live in flats indicate that their tenure is freehold, and this may be the case in terms of shared freehold arrangements. However, eight percent of shared owners of flats reported that they have a freehold and 55 percent of shared owners of houses reported that they had a freehold. These data indicate that not all respondents have understood the terms of their occupation as *all* shared owners are leaseholders (100 percent), whether they have a house or a flat. Issues concerning shared ownership are, therefore, entangled with issues surrounding the leasehold tenure but often poorly understood.

House-price risk

The UK housing market displays significant volatility, with four significant housing market downturns where house prices have fallen (Stephens, 2008). Households are not always challenged by falling markets, as even if the loan exceeds the property value households can maintain their mortgage payments through the down turn without issue if they do not need to sell. Should the purchaser need to sell when they are in negative equity then shortfall debts can occur Where the sale price was insufficient to repay the loan. Voluntarily selling the home is a frequent exit route from unsustainable housing debt (Ford et al., 2010), but unless people declare bankruptcy or similar, shortfall debts are recoverable by lenders (Wilcox et al., 2010). Being unable to sell into the market voluntarily because of falling demand and prices, can also therefore exacerbate problematic mortgage arrears and amplify payment risks. The distribution of price falls can also be important if certain locations, property types or market segments are disproportionately impacted by declining markets. The lowest income homeowners experienced negative equity less frequently than higher income purchasers in Northern Ireland's falling market after the financial crisis, but the value of the shortfall debt was twice that of higher income homeowners (Wallace et al., 2014). Equity sharing reduces initial entry costs to homeownership but while it limits any capital gains, critically, sharing equity also minimises these price risks in falling markets by reducing the absolute amounts of negative equity.

Price risks also occur with equity sharing products in rising markets. If house prices rise more rapidly than incomes the ability to repay the equity loan under Help to Buy or purchase further shares by staircasing in shared ownership is harder. The framing of the hybrid tenure as ownership and the ability to scale up to full ownership were important feature of the products, introduced from the Housing Act 1980 that shaped the product as we now know it today (Cowan et al., 2017). However, full ownership may only be achieved if people have rapidly rising salaries, move to lower value housing markets, or increase the household income in other ways by becoming a couple (Wallace, 2008), or have a windfall inheritance (Cowan et al., 2015). Staircasing, as buying more equity is termed, is estimated to be around three percent per annum, constrained by rapid house price inflation (Savills, 2019).

There is also a geography to price risks with housing market prices moving at different rates with different expectations of capital gains, negative equity or values of the unpurchased equity to buy in some places. House price recovery after the financial crisis of 2008/9 was uneven with some regions not reaching pre-crisis levels until nearly 10 years later, as in Yorkshire and Humber and the Northern regions compared to London where house prices rapidly recovered (ONS UK House Price Index). Conversely in areas of high price growth the ability to purchase outright may be severely constrained. Policy and practice therefore need to be sensitive to how local housing market context interacts with household attributes to produce varying experiences.

Welfare support

The UK social security system support to purchasers with housing costs has reduced over time (Grover, 2018). Since 2008/9 lender forbearance for struggling borrowers has been key but is dependent on the economic context and not guaranteed (Ford and Wallace, 2011). Williams and Whitehead (2017) note that in previous decades state action was justified on the basis of the wider repercussions of the unfettered housing market downturn where a lot of homeowners lost their homes, now the system relies heavily on individual behaviour and lender forbearance, and for homeowners expected to sell and receive support in the rental market.

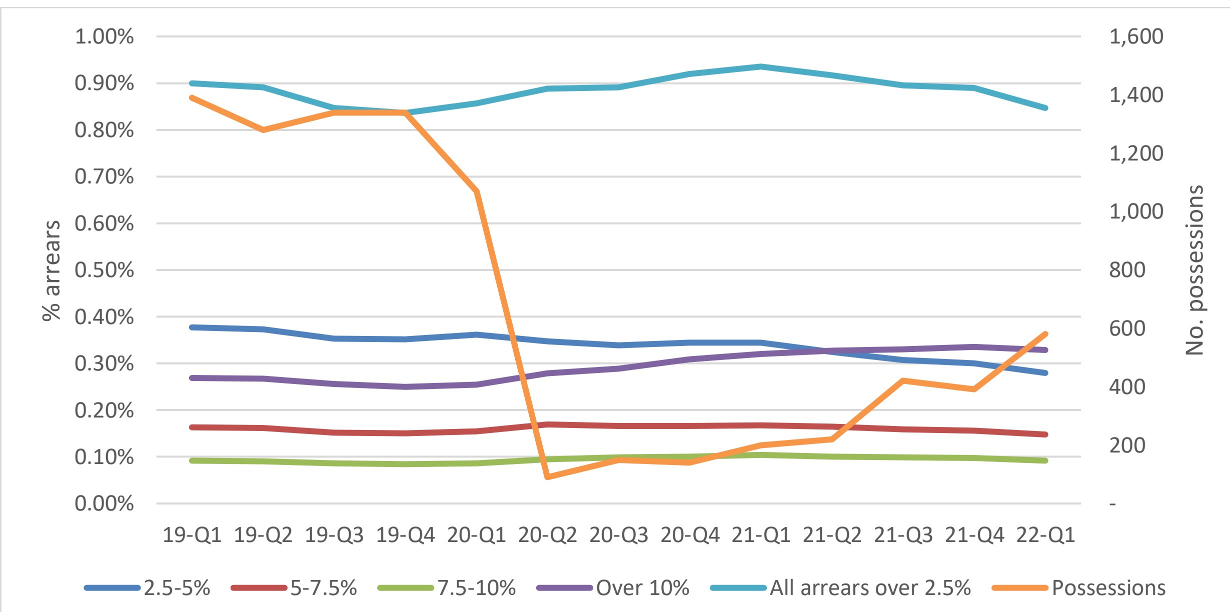
The Covid-19 pandemic prompted calls for reforms to homeowner support, including reforms to Support for Mortgage Interest (SMI) by reducing the waiting times, making payments a loan instead of a grant and changes to the zero hours rule that limits entitlement to SMI under Universal Credit (Affordable Housing Commission, 2020; JRF, 2020; Corfe et al., 2021; UK Finance, 2021). Corfe et al. (2021) looked for additional support for soft exits from unsustainable homeownership where people can transition from homeownership to renting or shared ownership via flexible tenure schemes (see JRF, 2007; Wilcox et al., 2010) or assisted voluntary sales (see Wallace et al., 2011).

Mortgage arrears

The pandemic has not invoked a market downturn and arrears have been contained. The Coronavirus Job Retention Scheme, or furlough scheme, replaced lost income to 80 percent of earnings between March 2020 to September 2021 and mitigated the most profound impacts of the pandemic's economic shock (Clark, 2021). Other interventions included a moratorium on mortgage repossessions from April 2020 to April 2021 and a time-limited mortgage deferral/lender forbearance scheme, a stamp duty holiday and a temporary reduction of interest base rates to 0.15 percent, a benefit to those on tracker mortgages. A total of 1.8 million people used the mortgage deferral scheme by June 2020, many in a precautionary fashion, but only 130,000 homeowners were using the scheme by December 2020 (UK Finance, 2020).

Figure 1.2 shows mortgage arrears by the proportion of the mortgage balance outstanding and possessions between 2019 and 2022. Mortgage arrears did rise during the pandemic but have reduced steadily since, although there has been a modest increase with a hardening of some borrowers' positions but nothing of the magnitude of the arrears seen after the financial crisis 2008/9. Possessions were rising prior to the pandemic when the government introduced a moratorium on possessions in early 2020, producing a backlog of court applications that the courts are now slowly working through.

Figure 1.2: Mortgage arrears and possessions, 2019-2022



Source: UK Finance Table AP2

The labour market is currently tight, and the stamp duty holiday and reassessed residential preferences mean the housing market has been buoyant. Indeed, average house prices in the UK increased by 12.8% in the year to May 2022 (ONS, 2022). However, the scenario may be less benign in the coming period with inflation and energy prices in particular exerting pressure on household finances. How these issues impact on households' ability to meet their mortgage commitments and other housing costs in the coming period of continuing economic instability is uncertain.

Borrowing risk

Homeownership risks must be viewed in the wider context of tighter mortgage market regulation imposed in 2014, and the historically low central bank base rates introduced in 2009 after the financial crisis. The types of exuberant lending that characterised some of the pre-2008/9 run up to the financial crisis, like low deposit loans, high income ratios and lending where affordability had not been established, is much reduced. The proportion of lending over 90 percent loan to value was 1.36 percent in 2021, the lowest proportion since the Financial Conduct Authority recorded these data in 2007 when the figure was 15.46 percent (FCA MLAR statistics 2021). If markets were to fall, then many recent borrowers will therefore have some cushion from the risk of negative equity. Similarly, high-value loan -to-incomes lending has risen but only for those applicants displaying less risk, with fewer first-time buyers being offered this high loan to income loans (FCA Insight, 2020). Affordability assessments are now robust, and new loans have typically enhanced affordability by lengthening the mortgage terms as traditional 25-year mortgage terms have given way to 30 years or more. Thirty-seven percent of first-time buyers had mortgage terms longer than 25 years in 2006, rising to 66 percent by 2018. Across all mortgage sales, longer mortgage terms increased from 14 percent to 41 percent over the same period (FCA Insight, 2019). Over half of new lending in 2021 had a mortgage term ending past the main borrowers 65th birthday (Bielbe, 2021). Borrowers are also now more likely to manage payment shocks by taking out fixed-rate mortgage products with 30 percent of borrowers taking fixed rate loans in 2014 rising to over 50 percent in 2020 (Bank of England, 2020). However, although these features of contemporary lending can limit risks for borrowers and lenders, there are some downsides. Longer mortgage terms at the outset prevent borrowers extending terms later in their homeownership careers, to manage additional borrowing to cover mortgage arrears added to the loan or when moving house, for example, and push the mortgage commitment into later life when involuntary exiting employment due to ill-health or retirement may increase payment risks.

Property conditions and the impact of the Grenfell Fire

Due to the size of the tenure, the most non-decent homes (2.5 million) are found in homeownership, raising concerns about the link between poor property conditions and health (Centre for Ageing Better, 2021). Older people and those on lower incomes experience the poorest conditions in homeownership, and the costs and inability to find trusted tradespeople to undertake the work are the key barriers to remediation (Centre for Ageing Better, 2022a). Construction quality has led to problems in new homes where owners struggle to get adequate resolutions leading to the introduction of a New Homes Ombudsman to improve access to consumer redress (Wilson, 2022). The building safety crisis following the Grenfell Tower fire in 2017 involved problems of building quality beyond specific external wall cladding products and including fire safety and other defects. The impact of the Grenfell Tower fire has been profound: apartment owners, including shared owners and Help to Buy purchasers, are still seeking remedies to their buildings, leaving people's lives in stasis, with mental and physical ill health problems, indebtedness and inability to sell or rent their homes (Preece, 2021). Homeowners, therefore, also face considerable risks in existing and new homes and face challenges to achieve improvements.

Income and cost-of-living risks

The Resolution Foundation (Corlett et al., 2022) note that prior to the pandemic and the current cost of living crisis that the UK had weak economic growth matched by weak growth in household incomes that undermined people's financial resilience. Younger people and minority groups were the most financially vulnerable and bore the burden of economic disruption due to the pandemic to date (FCA, 2021). The extent to which the housing market has excluded these groups means the homeownership impacts may be muted, although, these are often the groups found within affordable homeownership schemes. Post pandemic, concerns have turned to declining living standards, an energy crisis and rising bank rates are exerting significant pressure on household finances, especially for those on lower incomes (Lesley and Holdsworth, 2022). To emphasise the scale of changes households are currently experiencing, energy bills rose 54 percent in April 2022 and forecasts of a further 68 percent rise in October 2022 were expected (Bolton and Stewart, 2022). This last increase may be muted by Government intervention but energy bills remain double that of a year ago. Other prices are rising and inflation has risen substantially. At the time of writing the Consumer Price Index inflation (CPI) reached 10.1 percent in July 2022 and the Retail Price Index (RPI) reached 12.3 percent, compared to a CPI of 1.5 percent in April 2021 and an RPI of 2.9 in April 2021 (ONS, 2022).

Over the last decade or more low interest rates have protected mortgage borrowers and become normalised for recent borrowers. At the time of writing the Bank of England base rate has been steadily raised to 2.25 percent, the highest for 14 years, and compares to just 0.1 percent in April 2020 and these rates are forecast to rise further after an extended period of extremely lower rates offset by lower unemployment and rising wages (Bank of England, 2022). Combined with the war in Ukraine impacting supply chains and food supplies, the Office of Budget Responsibility (OBR, 2022) forecast that 2022/2023 will see the largest fall in real household disposable incomes since records began in 19656/7.

Risks and homeownership schemes

Shared ownership

There are some suggestions that shared ownership has higher mortgage arrears compared with the market average, and high rent arrears, among shared owners (Clarke et al., 2006, 2016; Burgess, 2021). However, repossessions are at a lower rate than across the market (Savills, 2019). Shared ownership is most often based on new build homes that frequently attract a price premium compared to existing properties in the market which can erode any price gains in the early years of purchase. The equity sharing arrangement reduces entry costs in return for limits on price gains, but also reduces any exposure to negative equity in market downturns. Rising prices relative to incomes also represents a risk in these circumstances as shared owners are limited in advancing to full ownership. The imbalance of repairing responsibilities has been the subject of much disquiet as regardless of the size of the equity share the shared owner bears all repairs costs (Cowan et al., 2015). A new model shared ownership lease is being used on new sales from 2021 that restricts repairing costs in the first ten years, extends the length of the leases and provides supporting Key Information Documents that clarify the terms of the purchase.

Help to Buy

There is mixed evidence on the relationship between Help to Buy and house prices. Weak evidence of price rises was found in the second Help to Buy evaluation (Whitehead et al., 2018), but modelling found that Help to Buy had inflated house prices to a degree that exceeded the equity loans available to the new buyers (Carozzi et al., 2020). The scheme is based on new build that attracts a price premium and so as with shared ownership any capital gains may be muted in the early years. Should prices fall, negative equity is also shared proportionately with Homes England, so the exposure to negative equity is also limited. Repair risks should be minimal in new build homes, although building defects in new homes have been the subject of scrutiny and are now subject to a separate Ombudsman to resolve complaints (Wilson, 2022). Little is known about non-payment of mortgages among Help to Buy purchasers,' but their profile is similar to other first-time buyers so are likely to differ little from the wider market. A minority of Help to Buy purchasers are now subject to the equity charge payable after five years in residence and in 2018 five percent of purchasers were in arrears, although this may have been a result of administrative problems (NAO, 2019).

Right to Buy

Right to Buy purchasers were associated with increased mortgage arrears, due to their lower incomes (Ford et al., 2000) and there are indications of some very low incomes supported by families in new housing association pilots (Clarke et al., 2021; Cole et al., 2017). There were problems of property conditions, repair costs and sustainability for early entrants (Cole et al., 2015; Murie, 2016), and the Centre for Ageing Better (2020) posit that Right to Buy has contributed to poor housing conditions for people in later life. These large discounts shelter purchasers from price falls and even if they sell within the first five years purchasers need only repay the discount and not any capital uplift on that gifted equity. Undoubtedly for individual households the scheme has been popular and supported entry to homeownership for many.

This study looks beyond entry to homeownership and further examines how these risks described above are mitigated or amplified for buyers using affordable homeownership schemes in England.

Research aims and methods

The research was designed to meet the following objectives:

1. To identify the extent of affordable homeownership scheme purchasers' payment, price and disrepair risk in comparison with other LMI homeowners.
2. To examine the management of rent and mortgage payments, equity loss and disrepair by comparing Right to Buy owners, shared owners, shared equity purchasers and considering the views of, local authorities, housing associations and lenders; and
3. To examine the understanding and experience of homeownership risks among shared owners, shared equity purchasers, Right to Buy purchasers and purchasers on the open market.

The study combined quantitative analysis of large-scale data sets and qualitative insight from housing professionals and home purchasers themselves.

Quantitative analysis

Two datasets were used to understand the circumstances of households and individuals that have used the homeownership schemes.

The English Housing Survey was used to provide insight on the differential risks and experiences of people who used the homeownership schemes and open market buyers. The EHS is a national survey that collects information such as housing circumstances and the condition of housing in England. It comprises a household survey of around 13,000 respondents and a smaller surveyor led physical inspection of a subset of around 6,000 homes. In this study, five waves of the EHS Household Datasets 2014/15 to 2018/19 were combined with the corresponding physical property inspection datasets over the period from April 2014 to March 2019 and pooled for analysis. This provided enough respondents that covered the various homeownership schemes (Table 1.1). The dataset was obtained under Special License from the UK Data Service.

Table 1.1: Sample numbers of households using affordable homeownership schemes (2014/15-2018/19)

Shared ownership	Help to Buy	Right to Buy	Other low- or moderate-income households
420	301	2161	2374

Source: English Housing Survey

The Financial Lives Survey is a cross-sectional survey of random UK adults undertaken by the Financial Conduct Authority (FCA), in 2017 and in late 2019/early-2020, with an additional shorter survey undertaken in late-2020 during the Covid-19 pandemic. The FCA used the Financial Lives Survey to explore people's financial confidence and capability, as well as people's financial circumstances and how they have fared over the last few years, including the short-term impact of the pandemic. For this study's purposes, the survey includes a flag for a ‘part rent-part buy’ housing tenure (shared ownership)[3], and provides insight into any financial vulnerability among shared owners and households in other housing tenure, and the short-term impacts of Covid-19. Table 1.2 shows the number of shared ownership (‘Part rent-part buy’ respondents for each wave of the FLS. The dataset was obtained under license from the Consumer Data Research Centre.

Table 1.2: Summary of respondents for each wave of the FLS

Survey	Survey period	Total survey respondents	Shared owners (‘part rent-part buy’)
2017	Dec 2016-April 2017 (wave 1)	12,865	145
Early 2020	Aug 2019- Feb 2020 (wave 2)	16,190	220
Late 2020	Oct 2020 (wave 3)	22,267	173
Combined dataset total		**51,322**	**538**

Further information about how these datasets were used is provided in Appendix 1.

Qualitative insight

A large qualitative dataset of 95 interviews was constructed to capture the perceptions and experiences of housing professionals, those in policy networks and practitioners, and purchasers who have used homeownership schemes or bought on the open market for comparison. Key informants from policy networks were recruited directly from government agencies, trade bodies, and third sector organisations. Housing providers were recruited in two contrasting housing markets in the North West and South East and included public and private registered providers and local authorities. Purchasers who used Help to Buy, Right to Buy, shared ownership and who bought on the open market were mostly drawn from Yorkshire and the South East but included people from the other English regions. Participants were recruited via social media (local community Facebook groups, Twitter), internet forums (*moneysavingexpert.com*), invitations to Homeownership Alliance members, and finally a recruitment agency. Recruitment originally centred on low to moderate income households with single incomes up to £30,000, but to facilitate recruitment this income ceiling was extended up the income ladder and comprised households ranging from very low income and benefit dependent households to those who held joint incomes of around £80,000. In practice this provided a useful counterpoint to the lower income households. Summary profiles of the housing and professional and homebuyer interviewees are shown in Table 1.3 and Table 1.4 below.

[3] Housing is a devolved matter, and the constituent governments of the United Kingdom all have a part-rent part-buy affordable homeownership scheme, which may be constructed slightly differently with a different name. For example, Co-ownership is Northern Ireland’s part-rent part-buy scheme. For ease, however, all variants are called part-rent part-buy.

Table 1.3: Summary profile of key informants and housing professionals

	North	South	National	Total
Key informants			14	**14**
Housing providers - Housing associations	5	9		**14**
Housing providers - Local authorities	2	1		**3**
Total	**7**	**10**	**14**	**31**

Table 1.4: Summary profile of purchasers' interviews

	Help to buy	Shared ownership	Right to Buy	Open market	Total
South	6	12	5	8	31
Midlands		5			5
North	8	3	8	9	28
Totals	**14**	**20**	**13**	**17**	**64**
- Women	*11*	*9*	*10*	*14*	*44*
- Men	*3*	*11*	*3*	*3*	*20*
- White	*10*	*16*	*9*	*12*	*47*
- BAME	*4*	*4*	*4*	*5*	*17*

The key informant interviews discussed homeownership policies in general, how policy actors think about risks within the tenure, how risk can be managed and limited for users of affordable homeownership schemes and the Government support for purchasers. Housing providers were asked about their motivation for involvement with various homeownership schemes (where appropriate), the purchasing process, post-purchase experiences of payments, price changes and repairs, as well as new policy developments. Purchasers were asked about their perceptions of risk within homeownership, any buying advice and guidance sought and/or offered during their home purchase, post-purchase experiences of managing mortgage payments and other housing costs, price changes and implications and managing repairs and defects. Providers varied in relation to their seniority, length of time in post, their position on the customer journey, and the extent of their organisation’s involvement in the various affordable homeownership schemes. The system wide shock of the Covid-19 pandemic was discussed with all participants.

Housing providers were interviewed between May and July 2021, key informant interviews between June and August 2021, and purchasers between September 2021 and January 2022. Shopping vouchers of £20 and £30 were offered to purchasers as a thank you for their participation. Purchasers were recruited via a combination of online forums, social media and a recruitment company employed in the latter stages to ensure a geographical spread of participants across the schemes used. The increased incentive was required for this end stage of recruitment. As the research was undertaken during the Covid-19 pandemic, all interviews were undertaken on the telephone or on Zoom, and audio-recorded with professional transcriptions produced. These data were anonymised and thematically analysed using a mixture of grid analysis on Excel and NVivo, a software program used to undertake thematic analysis of qualitative research data. Ethical approval was provided by the University of York.

Structure of the report

The report continues with providing an overview of the attributes and circumstances of affordable homeowners and the extent of the homeownership risks they face, based on analysis of the English Housing Survey and the Financial Lives Survey (Chapter 2). Chapter 3 explores how purchasers and housing providers identified and mitigated risk in homebuying at the time of purchase. The following chapters examine the key homeownership risks in turn, payment risk (Chapter 4), price risk (Chapter 5) and repair risk (Chapter 6). These chapters draw out similarities and differences between the various routes to homeownership. Finally, Chapter 7 discusses this new evidence, drawing some learning points for policy and practice.

Chapter 2: The extent of risk in affordable homeownership

Summary

- Shared ownership and Right to Buy are important routes to homeownership for women, disabled people, those in routine occupations, single people and lone parents.
- Shared ownership and Help to Buy are more concentrated in the southern parts of England compared to Right to Buy which is more evenly distributed.
- Older Right to Buy purchasers pay the highest estimated mortgage interest rates (7.49 percent) but among the entrants since 2010 shared owners paid the most for their mortgages (2.39 percent).
- The average affordability ratio of household income to housing costs was highest among shared owners (27 percent), compared to 19 percent for the Help to Buy and eight percent for the older Right to Buy.
- Among recent entrants, shared ownership limited the proportions of households with high housing costs relative to incomes (26 percent) compared to 30 percent for all homeowners in London and the South East, but in the rest of England increases the rate of high housing costs for shared owners (31 percent) compared to other homeowners (17 percent).
- Greater proportions of Right to Buy purchasers were behind with their mortgage (3.2 percent) compared to 2.7 percent of shared owners and no Help to Buy purchasers to report.
- Only 59 percent of shared owners indicated that they were leaseholders, despite all being leaseholders showing a limited appreciation of the tenure.
- Purchasers using affordable homeownership products had lower rates of non-decent homes compared to other homeowners and especially lower income open market buyers.
- Shared owners had the greatest proportions of dissatisfaction with freeholders' repairs and maintenance (41 percent) compared other homeowners (32 percent) although for more recent entrants, Help to Buy purchasers had the greatest levels of dissatisfaction (36 percent) compared to 28 percent for other homeowners.
- 53 percent of shared owners have some indicators of financial vulnerability, as they have lower financial resilience (20 percent) and lower financial capability (27 percent) compared to other homeowners buying with a mortgage (11 percent and 13 percent respectively).
- 44 percent of shared owners said they were less financially savvy and confident consumers than other mortgaged homeowners (64 percent).
- During the pandemic in 2020, 29 percent of shared owners were classified as struggling financially compared to 18 percent of mortgaged homeowners.

Introduction

This chapter provides an overview of the attributes and circumstances of purchasers according to their route into homeownership, contrasting purchasers who used the affordable homeownership schemes with all mortgagors and low to moderate income (LMI) purchasers in the wider market. Firstly, recent entrants are considered to remove the differences in age and circumstances of purchasers who entered the tenure under different economic, policy and regulatory circumstances, with a brief comparison of the stock of all purchasers to the flow of more recent buyers. Secondly, the extent of payment, price and repair risks are examined for each route to homeownership. Finally, the financial vulnerability of the different purchasers is considered.

Who buys a home with assisted purchase schemes?

Homebuyer profiles are influenced by the market context at the time of entry and the products available at that point. Appendix 2 comprises two tables, the first Table A2.1 provides summary profiles of all affordable homeownership purchasers and all mortgagors and the second Table A2.2 the summary profiles only for those who bought during the period 2010-2019 to limit the influence of market and policy shifts over time. The socio-demographic profiles of the stock of different homebuying households reflects the attributes of the Household Reference Person, who is the oldest or highest earning household member. This analysis compares all recent mortgagors; lower and moderate income (LMI) mortgagors, where the household income is 50 percent of median income or below; shared owners; Right to Buy purchasers; and Help to Buy purchasers and focuses on the most recent entrants. The bullet points below provide highlights from the above-mentioned tables in the appendices.

- The schemes have slightly different age profiles, suggesting that shared ownership and Help to Buy bring forward purchases, slightly, compared to the wider market, and the Right to Buy purchasers are being made later in life. A total of 63 percent of shared owners and 66 per cent of Help to Buy owners were aged between 25 and 44 years old. This contrasts with 54 percent of new mortgagors and 37 percent of Right to Buy owners.

- Shared ownership and the Right to Buy especially are important to enable people in routine occupations, as defined by the NS-SEC definitions[4], to enter homeownership. Ten percent of all recent mortgagors being drawn from routine occupations compared to 19 percent of shared owners and 70 percent among Right to Buy purchasers. In contrast, eight percent of Help to Buy purchasers were drawn from people in routine occupations.

- Shared ownership and the Right to Buy are important routes into homeownership for women-led households. While around a third of all mortgagors (31 percent) and Help to Buy (30 percent) purchasers have women household reference persons, women comprise 44 percent of shared owner HRPS and 43 percent of Right to Buy HRPs. Women are highly represented among the older low to moderate income purchasers (47 percent).

[4] The National Statistics Socio-Economic Classification (NS-Sec) system groups adult employees based the employment relations and conditions of occupation across the labour market. There are multiple categories, but this analysis is based on five occupational clusters: Managerial and professional, Intermediate, small employers and own account holders, lower supervisory and technical, and routine or semi-routine occupations.

- Shared ownership and Help to Buy have been more important in the southern regions, than Right to Buy which is more evenly distributed. A total of 69 percent of shared owners resided in London, the South East, South West and eastern regions, compared to 12 percent across the North West, North East and Yorkshire and Humber. A total of 37 percent of Right to Buy sales were in the northern regions compared to 46 percent across the southern regions. A higher proportion of Help to Buy purchasers were in the southern regions (37 percent) compared to the northern regions (26 percent). Low to moderate income homeowners were only slightly higher in the southern regions (36 percent) than the northern regions (30 percent).

- Households from minority ethnic backgrounds enter shared ownership and Help to Buy at similar rates to the wider market but are under-represented among Right to Buy purchasers. Slightly greater proportions of minority ethnic groups are found among low to moderate income buyers (14 percent) compared to 11 percent of wider mortgagors and underrepresented in the Right to Buy group (eight percent). Minority ethnic purchasers are found among shared owners and Help to Buy purchasers at a similar rate to other recent mortgagors (11 percent and 10 percent respectively).

- Heads of household with a disability or life-limiting illness were over-represented in the lower-income home purchase options. Fifteen per cent of all mortgagors between 2010 and 2019 fell into that category. This compares with 31 per cent in the Right to Buy group and 37 per cent amongst LMI purchasers and 21 per cent of shared owners. The proportion of Help to Buy purchasers with a disability or long-term illness (14 percent) was like other mortgagors in the wider market (15 percent).

- Shared ownership is an important route to homeownership for single people 60 years old or younger (26 percent) compared to between 14 and 16 percent across the other routes to homeownership. Older single people are found in greater proportions in low to moderate full homeownership (26 percent), again suggesting that shared ownership can bring forward purchases for lower income people.

- Shared ownership also has greater proportions of lone parents (10 percent) than other routes to ownership, slightly higher than the eight percent among LMI homeowners and five percent among Right to Buy purchasers. Much lower proportions of lone parents are among the wider market of mortgagors (three percent) and among Help to Buy (two percent).

The profiles of the total stock of homeowners, rather than just those who entered the tenure between 2010 and 2019, is slightly different. The Right to Buy and low and moderate-income buyers remain slightly older, reflecting previously more permissive routes into mortgaged homeownership. As with an older profile there are more people with disabilities among these purchasers. There are slightly fewer women and single people in shared ownership when taking all homeowners into account, possibly as people have formed partnerships over time. There are also slightly fewer people in routine occupations, again as people's circumstances or employment may have changed from their initial entry point.

Overall, the affordable homeownership schemes (especially shared ownership and the Right to Buy) enable entry to homeownership for people who are otherwise disadvantaged in the labour and housing market. These purchasers have attributes often associated with lower and/or single incomes rendering those households at greater risk during their homeownership tenure, although for some their circumstances will improve over time, lowering some exposure to homeownership risks.

The following sections consider the stock of existing purchasers not just recent entrants.

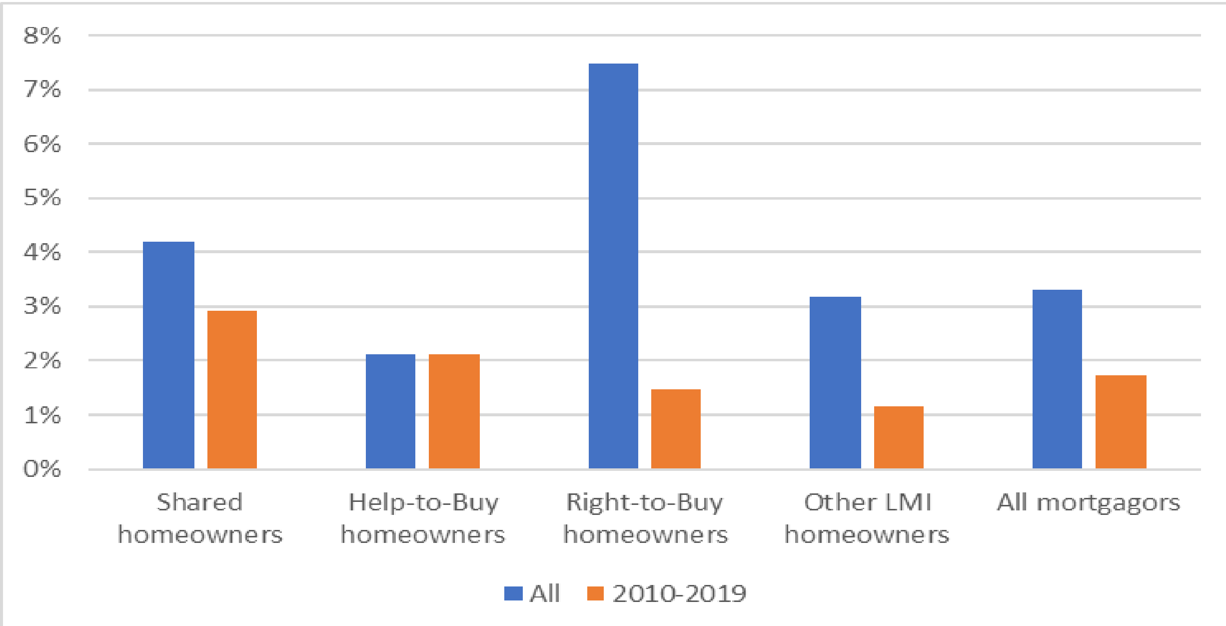
Payment risks

The proportion of homeowners who have mortgages has been reducing in recent years as the rate of new entrants slows and homeowners who bought several years ago have paid down their loans. During 2020/21, 46 percent of all homeowners retain a mortgage (DHLUC, 2022), compared to 59 percent in 2001/2 and 51 percent in 2011/12 (Table FT2311 DHLUC Housing Live Tables). Similarly, not all purchasers who used affordable homeownership schemes have mortgages, although there are other housing costs such as service charges and for shared owners rent still to be met. The EHS shows that 81 percent of Help to Buy purchasers have a mortgage, compared to 67 percent of shared owners and only 34 percent of Right to Buy purchasers and 21 percent of the other low to moderate income purchasers. Some owners may have paid down mortgages as they entered the tenure some time ago, and others will be cash purchasers. Shared owners, for example, may have entered the sector following relationship breakdown using equity from their previous family home to purchase their share. Outstanding mortgage balances varied with Help to Buy owners having £171,760 outstanding, compared to only £47,507 left for Right to Buy owners. LMI purchasers had £80,890 balance outstanding and shared owners £62,337. The discounts and earlier entry profile have reduced the sums to be repaid for Right to Buy purchasers, but the other LMI purchasers have higher sums to repay despite their older age profile. Shared owners' partial ownership has reduced the sums involved in their loans, although of course their housing costs include rents as well.

Mortgage product features

Mortgage interest rates vary by route into homeownership, which may relate to the attributes of the borrower, the mortgage market or to that of the tenure (Figure 2.1). Appendix 3 contains detailed tables of the mortgage characteristics of homeowners who bought in the open market or used one of the affordable homeownership schemes. They provide estimates of the interest rates paid by different types of homeowners, the type of mortgage and whether the interest rate has been fixed and rate of mortgage arrears for the different homeowners. The EHS data shows that Right to Buy homeowners who entered the market prior to the financial crisis were paying the highest rates of mortgage interest, but among entrants since 2010 shared owners were paying the highest rates of mortgage interest. Right to Buy homeowners and other LMI homeowners had the lowest rates of fixing their mortgage interest rate, limiting their ability to manage interest rate rises. LMI homeowners also had the highest proportions of interest-only loans where the capital is not repaid in the monthly payments, creating problems when the mortgage term is reached about how the capital will be repaid.

Figure 2.1: Mortgage interest rates by pathway to homeownership and years bough (%)

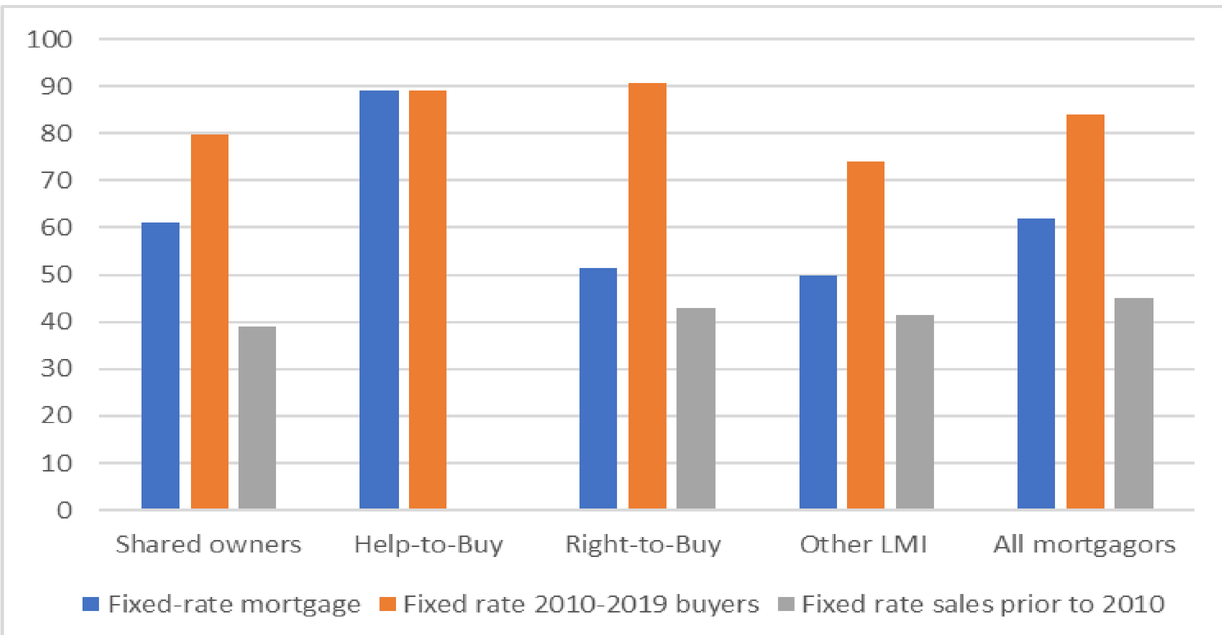


Source: English Housing Survey 2014/5-2018/9, weighted

The mortgage interest rates are estimates and precise figures may vary, but the relative values are what is important. Mortgage rates payable by the most recent entrants to homeownership are lower than those paid across all mortgagors, no doubt due to tighter mortgage regulation screening out borrowers with more risky attributes and the falls in bank base-rates. Prior to the tighter regulation, risky borrowers were not excluded from the market but were offered higher interest rate loans priced to reflect risk. Lower loan rates have emerged across the market over time, but clearly legacy borrowers' rates remain. For all borrowers, the chart shows that Right to Buy purchasers attracted the highest interest rates, estimated here to be 7.49 percent compared to 4.18 percent for shared owners, 3.32 percent for all mortgagors and 2.12 percent for Help to Buy. Interest rates for those who entered the market during 2010-2019, with the riskiest borrowers screened out, were significantly lower, with Right to Buy borrowers commanding interest rates of 1.47 percent, below that of all mortgagors (1.73 percent), possibly due to low loan to values arising from the large discount they are given. For the new entrants, shared owners now pay the highest average interest rates of all routes to homeownership of 2.39 percent.

Fixed rate mortgages can limit payment shocks from rising interest rates, at least for a period typically between two to five years in the UK. A total of 74 percent of all mortgagors have fixed rate loans, rising to 94 percent among new borrowers, compared to 45 percent in 2010 (UK Finance, 2022). The EHS analysis shows slightly lower proportions of fixing mortgage deals but key differences between the types of affordable homeownership scheme, perhaps reflecting the year of entry to the market. Help to Buy homeowners have the highest rates of fixed interest mortgages (89 percent) compared to only 50 percent of LMI homeowners and 51 percent of Right to Buy purchasers (Figure 2.2). Shared owners use fixed rate deals at the same rate as the wider market of mortgagors (61 percent and 62 percent respectively), indicating that around a third will be more vulnerable to bank base-rate rises being passed on to mortgage borrowers. Across the market, fewer people who bought prior to 2010 have fixed the interest rate on their loans compared to newer buyers. Longer term shared owners have the lowest rate of fixed rate loans (39 percent). This may also arise from longer term homeowners having smaller outstanding balances meaning rate rises make less difference to their payments. A similar proportion of shared owners and Right to Buy owners from sales made before 2010 remain on interest-only loans, but at rates much lower than those seen within low to moderate income homeowners.

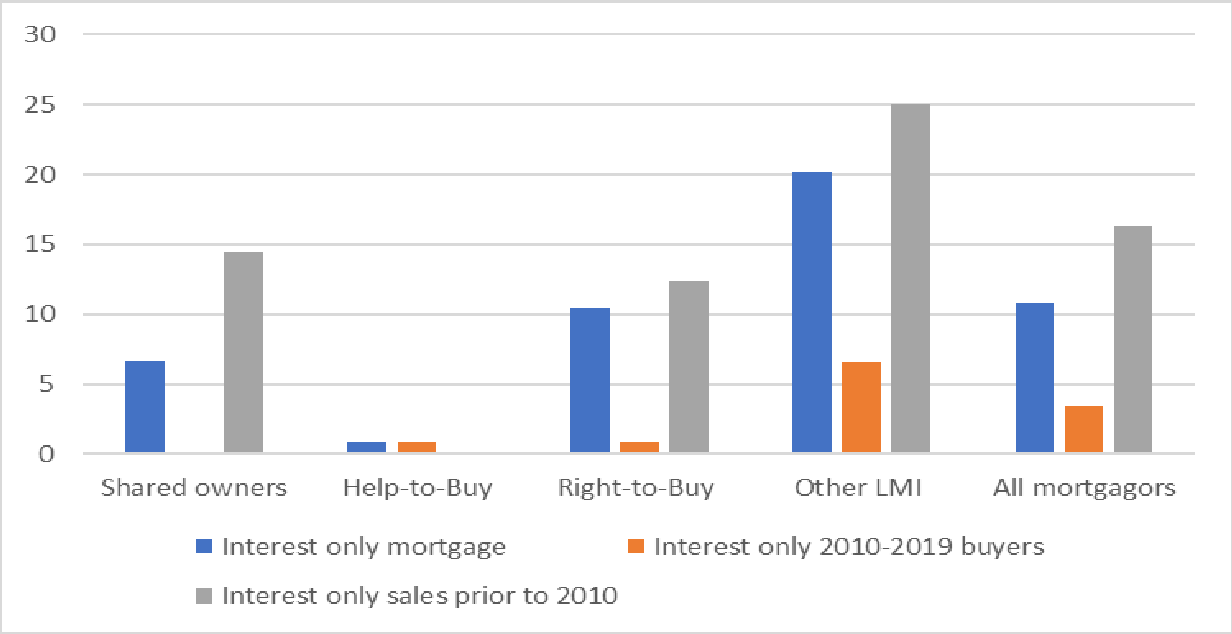
Figure 2.2: Fixed rate mortgages by period of entry and route to homeownership (%)



Source: English Housing Survey 2014/5-2018/9, weighted

Interest-only loans were used to limit affordability pressures on purchasers prior to the financial crisis but as significant proportions of borrowers had few plans for repaying the loan at term their use was curtailed. Interest-only loans are re-emerging in the market but in recent years have mostly used to manage temporary income shocks as part of managed lender forbearance packages. Legacy loans taken out prior to 2008/9 may remain on interest-only terms, however. Across the market around ten percent of mortgages are interest-only, but among LMI income purchasers in the open market the rate is double the market average (20 percent) (Figure 2.3). Right to Buy purchasers had the same rate as the market average (11 percent) and shared owners had a lower rate of seven percent). Help to Buy purchasers had almost no interest-only loans as they obviously purchased after the financial crisis. Indeed, comparing rates between cohorts who bought before and after 2010 illustrates the legacy effects of interest-only loans. Interest-only loans indicate risk of being unable to repay the loan at term unless people are confident in their repayment plans.

Figure 2.3: Interest-only loans by period of entry and route to homeownership (%)

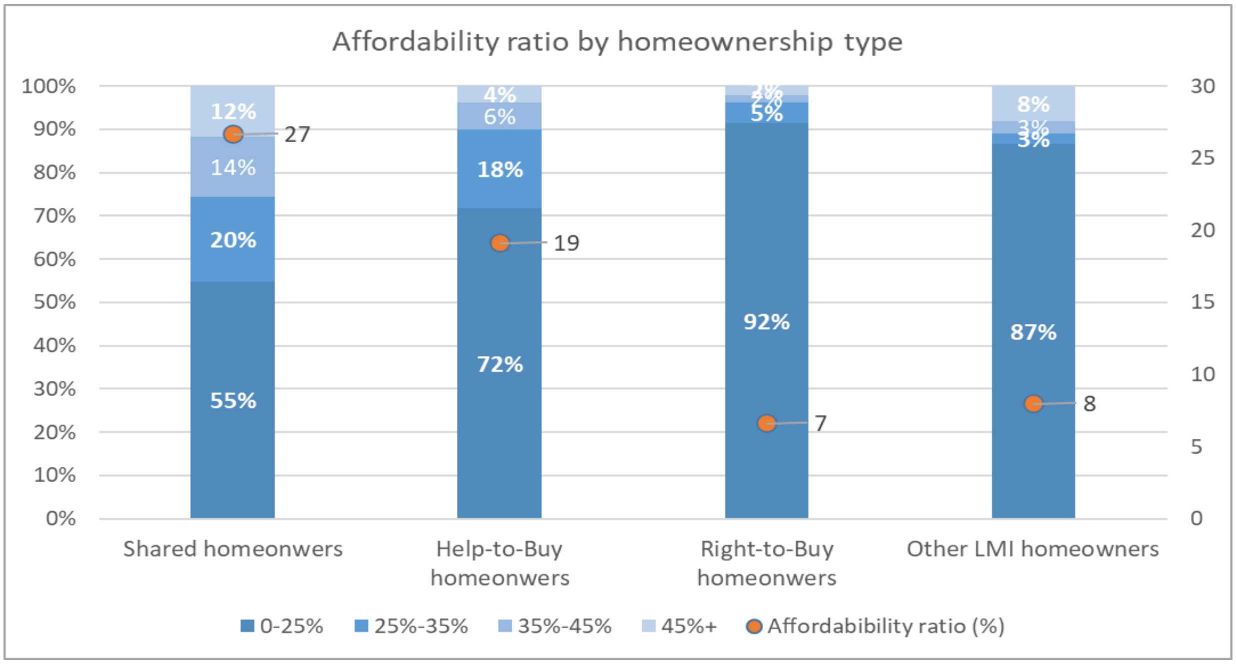


Source: English Housing Survey 2014/5-2018/9, weighted

Housing affordability

Housing affordability ratios can be calculated to express a household’s housing costs relative to their income. Figure 2.4 illustrates the distribution of affordability ratios for respondents using different pathways to homeownership. The average affordability ratio was highest among shared owners at 27 percent, compared to 19 percent for the Help to Buy purchasers and only eight and nine percent for the older Right to Buy and other low moderate-income purchasers, later in their homeownership career. While large proportions of these later Right to Buy and lower income purchasers pay 25 percent of their household income or less on their housing costs (92 percent and 87 percent respectively), only 55 percent of shared owners have relative housing costs this low. Moreover, 26 percent of shared owners have affordability ratios of 35 percent or more, compared to 10 percent of Help to Buy purchasers, five percent of Right to Buy purchasers and 11 percent of low to moderate income open market buyers. Affordability pressures are likely to be felt more acutely by shared owners and the circumstances surrounding these differences are examined below.

Figure 2.4: Affordability ratios by different homeowners

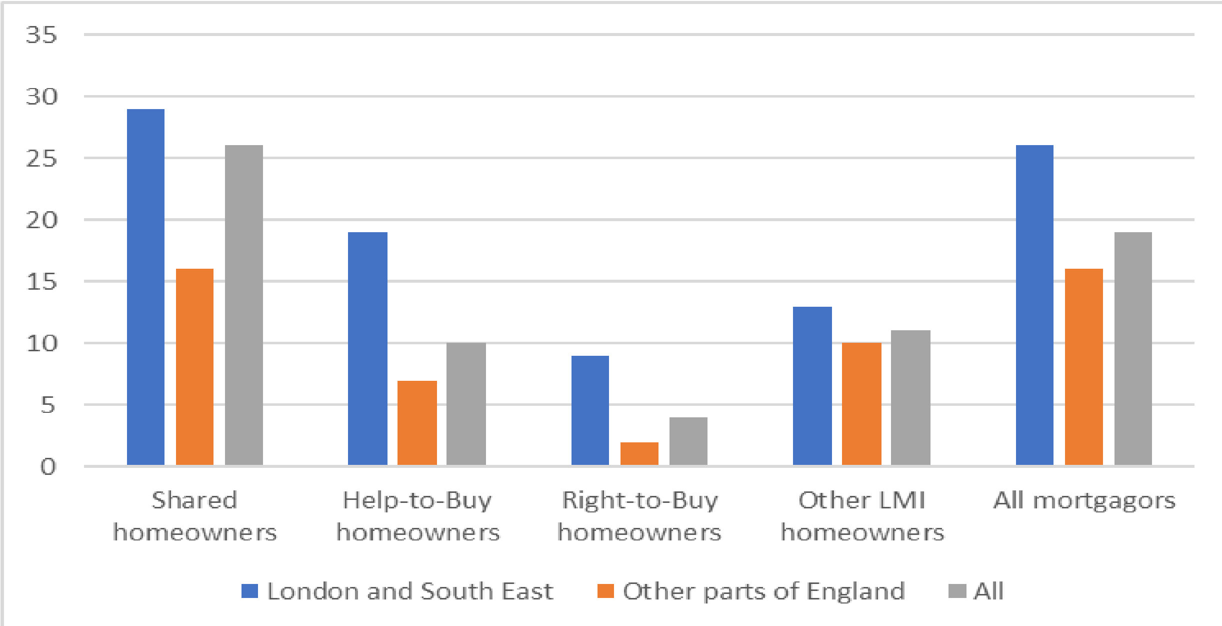


Source: English Housing Survey 2014/5 to 2018/19

Homeowners' housing affordability pressures are greater in London and the South East, where across all mortgagors the average affordability ratios are 30 percent compared to 25 percent in the rest of England. Housing affordability ratios of 35 percent or more indicate housing costs that exert greater pressure on household finances and can be considered unaffordable. Shared owners in London experience the greatest proportions of purchasers with these high affordability ratios (29 percent), although slightly higher than other mortgagors in the market, but impacting people that have less. Help to Buy, Right to Buy and other low to moderate income buyers all have significantly lower proportions of households that experience these high affordability ratios. Outside of London and the South East shared owners and other mortgagors again have higher proportions of people with high housing costs relative to income (16 percent) (Figure 2.5).

There is a similar pattern when considering affordability pressures for new entrants to the tenure who bought between 2010 and 2019 (Figure 2.6). Among new entrants in London and the South East, shared owners (26 percent) and Right to Buy owners (27 percent) have significant minorities who have slightly lower proportions of households with high affordability ratios above 35 percent in London compared to all mortgagors (30 percent). In other parts of England, however, almost a third of shared owners are experiencing high housing affordability ratios (31 percent), significantly above purchasers who chose other routes to homeownership even in more expensive areas. Higher shares for the lower incomes outside of London and the South East are more problematic as there is less residual money to pay for other commitments than a higher earner with a high affordability ratio.

Figure 2.5: Proportion of homeowners with net housing affordability ratios 35 percent or more by geography (%)



Source: English Housing Survey 2014/5 to 2018/19

Figure 2.6: Proportion of homeowners with net housing affordability ratios 35 percent or more by geography for homes purchased between 2010-2019 (%)

Source: English Housing Survey 2014/5 to 2018/19

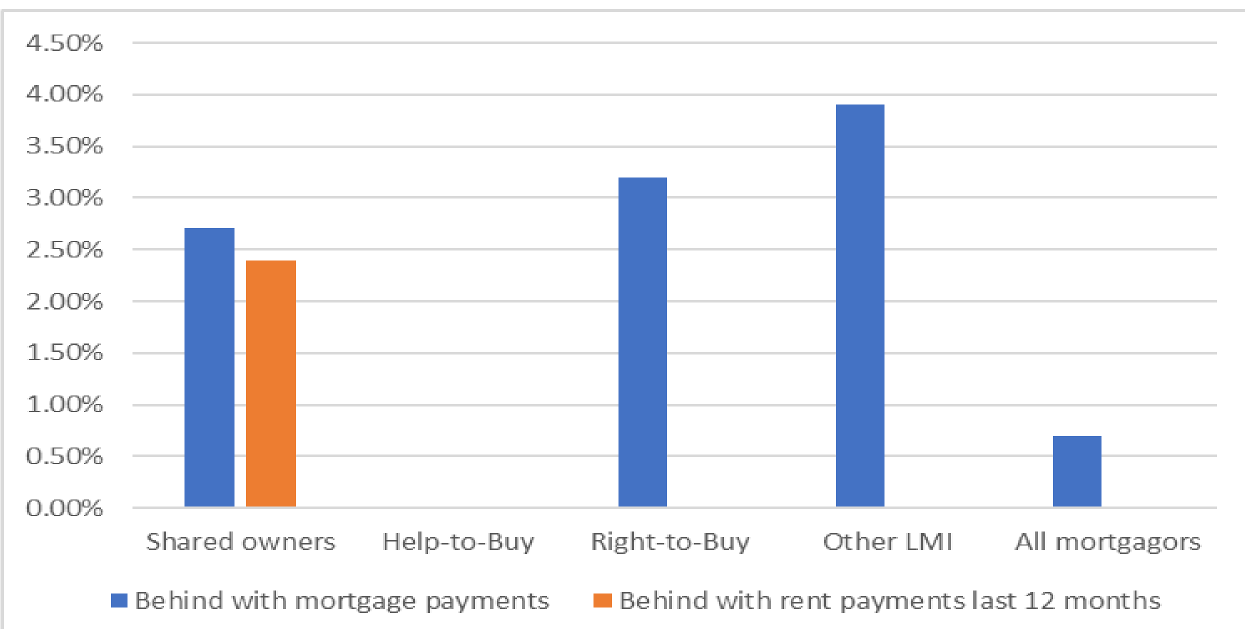
We may expect affordability pressures to be greater in high-cost areas of London and the South East. The lower cost of the housing means that the schemes can reach further down the income scale, but that larger proportions of shared owners are experiencing high affordability in otherwise lower value areas is a cause for concern.

Non-payment of housing costs

The EHS asks if respondents have been behind with their mortgage (and rent in the case of shared ownership) in the last 12 months, so records any incidence of non-payment rather than just arrears over a certain threshold as recorded in UK Finance or Financial Conduct Authority mortgage arrears data. Figure 2.7 shows that other LMI homeowners are slightly more likely to fall behind mortgage payment than affordable homeowners. The EHS showed that homeowners in this Help-to-Buy sample kept up with their mortgage payments, and that only 2.7 percent of shared homeowners and 3.2 percent of Right-to-Buy homeowners have fallen behind mortgage payment, while 3.9 percent of other LMI homeowners fall behind mortgage payment. A total of 2.4 percent of shared owners had also been behind with their rent payments in the last 12 months.

Shared owners were therefore under greater affordability pressures, especially outside of London, but older legacy owners on lower incomes (Right to Buy and LMI homeowners) had greater levels of mortgage arrears.

Figure 2.7: Mortgage and rent arrears by affordable homeownership scheme (%)



Source: English Housing Survey 2014/5-2018/9, weighted

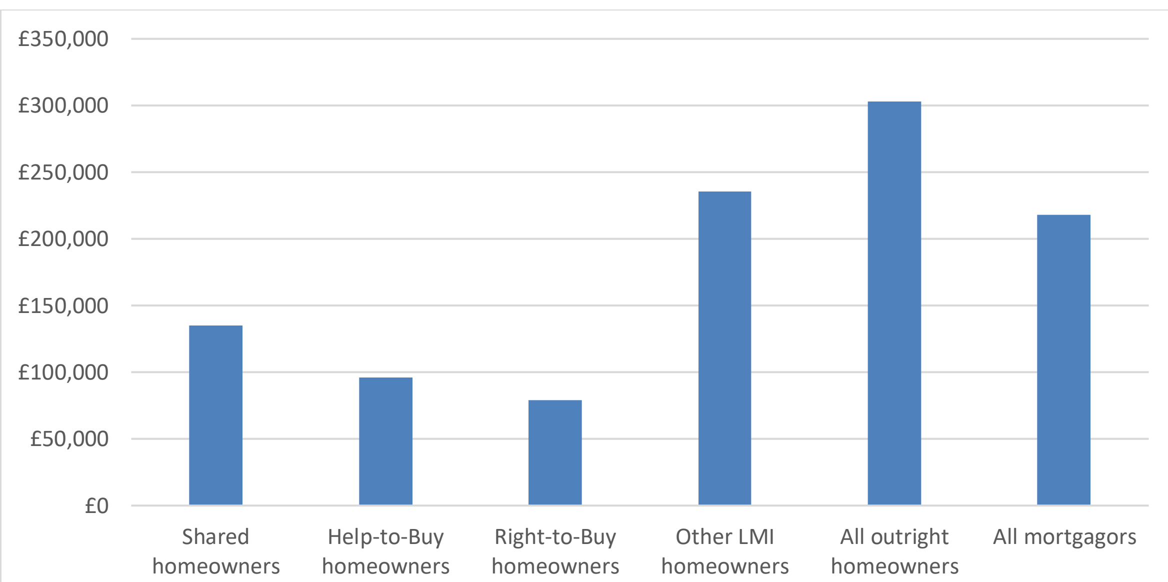
Price Risks

Price risks are often framed as relating to the risk of negative equity. Here the incidence of negative equity among homeowners was negligible during the period covered in our pooled EHS data.

The equity sharing arrangements seen in the shared ownership and Help to Buy models reduce the absolute values of any negative equity and consequently limit the impact. If short sales - sales when negative equity is present- occur, the resulting debt to the lender would be reduced in proportion to the equity sharing arrangement. In return for lower entry thresholds to homeownership, and protection from some dampening of the impacts of negative equity, the equity accrued from capital gains is also reduced proportionately.

Figure 2.8 illustrates the equity gains made for homeowners using different routes to homeownership for those who entered. This chart uses respondents' own estimates of their homes' worth and those who have become outright owners or been in the tenure the longest and have paid down mortgage debt have the most equity in their home. Shared owners have the least equity but have the smallest equity stakes, followed by Help to Buy owners and then Right to Buy owners. The former maybe low due to recent entry to the tenure, and the latter because of the lower value of properties purchased. If Help to Buy owners were to repay the equity loan, they may increase their equity gains for future market rises, as would shared owners if they purchased additional shares. Equity in the home is also accrued by paying down mortgage debt, so those purchasers who have held their homes the longest often have greater equity than recent purchasers.

Figure 2.8: Self-reported equity accrued to homeowners by route to homeownership (£)



Source: English Housing Survey 2014/5 to 2018/19

The average shared equity for shared owners when the property was bought was 44.8 percent, and the average shared equity at the time of being surveyed was 45.2 percent, showing very few people had increased their shares incrementally, while remaining a shared owner. Others may have staircased to 100 percent and exited the hybrid tenure but are not observed in the survey. A further 1.5 percent shared owners reported having decreased their equity stake which in comparison to the arrears figures suggests a sizeable minority of struggling homeowners may have reduced their market exposure using downward staircasing. These results are, however, based on participant recall and use small numbers so we must be cautious about overstating these shifts.

Leasehold

Leasehold is a diminishing asset and subject to reform in the coming period as dissatisfaction with the freeholder and leaseholder relationship is widespread (Wilson, 2022). *All* shared owners are leaseholders until they increase the share of the property, they hold by way of a process called 'staircasing' to 100 percent, in which case those who bought houses rather than flats will then become freeholders. The pooled EHS shows that only 59 percent of shared owner respondents identified themselves as leaseholders, indicating the level of misunderstandings about this form of occupation (Table 2.1). Leases less than 80 years were apparent among Right to Buy and LMI homeowners at just below a third of leaseholders, a concern as these homeowners are on lower incomes and older.

Table 2.1: Leasehold attributes by homeownership type (%)

	Shared ownership	Help to Buy	Right to Buy	LMI owners	All homeowners
Leasehold	59	7	8	12	7
Remaining lease - 80 years or less	-	-	30	29	19
- 81 to 100 years	52	64	48	40	33
- 101 years or more	48	36	23	33	48

Source: English Housing Survey 2014/5 to 2018/19

Repair risks

Repairing responsibility poses a risk to homeowners as housing repairs can be costly, especially in older homes. The proportion of homes failing the Decent Homes Standard measure has been falling. The pooled EHS data will not reflect this annual change but are used here to compare differences in rates of non-decent homes bought using different routes to homeownership.

Table 2.2 illustrates the rate of non-decent homes by affordable homeownership scheme and the costs required to bring those homes up to the Decent Home Standard. Shared owners, Help to Buy and Right to Buy purchasers had homes that failed the Decent Homes Standard less often than open-market purchasers (between 8 and 9 percent) compared to 11 percent across the market and 15 percent among LMI homeowners. Help to Buy applies to new-build homes, and shared ownership sales are also mostly new build, although resales accounted for 39 percent of sales in 2016/17 (Wallace, 2019). This explains shared owner and Help to Buy purchasers better position relative to homes in the wider homeownership market especially for those on LMIs. The cost of bringing a home up to the Decent Homes Standard is the least in shared ownership (£3,772) and the greatest for Right to Buy and LMI purchasers in the open market at just over £7,000 each. The urgent repair costs per square metre is also much lower for shared ownership and Help to Buy homes indicating their better condition and minimising the short- and medium-term risk of expensive repairs for the owners compared to Right to Buy and LMI purchasers.

Table 2.2: Non-decent homes by route to homeownership

	Shared ownership	Help to Buy	Right to Buy	LMI owners	All homeowners
Fails Decent Homes Standard	8%	9%	8%	15%	11.0
Costs to bring up to Decent Homes Standard	£3,772	£5,477	£7,258	£7,388	£5,868
Urgent repair costs per square metre	£4	£4	£10	£11	£8

Source: English Housing Survey 2014/5 to 2018/19, weighted

Among all leaseholders, dissatisfaction with freeholders' approaches to repairs and maintenance is lower among more recent entrants to the sector, with 28 percent being dissatisfied with their freeholders' repairs compared to only 32 percent of all leaseholders (Table 2.3). The highest rate of dissatisfaction with freeholders' repairs performance was among all shared owners (41 percent) although this was lower (31 percent) for newer entrants. Similar dissatisfaction rose from 22 percent among new Right to Buy entrants to 31 percent for all Right to Buy purchasers, like the wider market. Notably all Help to Buy purchasers are recent entrants and the dissatisfaction here is greater than recent shared owners.

Table 2.3: Leaseholder dissatisfaction with freeholders' repairs and maintenance (%)

	Shared ownership	Help to Buy	Right to Buy	LMI owners	All homeowners
Dissatisfied freeholders' approach to repairs and maintenance (all)	41%	36%	31%	28%	32.0
Dissatisfied (2010-2019 cohorts only)	31%	36%	22%	21%	28.0

Source: English Housing Survey 2014/5 to 2018/19, weighted

Risk of financial harm

Decisions made when buying a home frame much of the risk environment for homeowners' subsequent experiences. The Financial Lives Survey (FLS) provides insight into how people approach their household finances that contextualises the qualitative interviews with purchasers on their home-purchase risk. The survey also considered the impact of the pandemic on different households, by undertaking a survey in October 2020. Appendix 1 provides information about the FLS and the construction of the key financial planning variables that indicate whether a person might be vulnerable to financial harm. Financial vulnerability is indicated by respondents showing one or more of the following characteristics that could put people at risk of financial harm. More detail about the FLS is contained in Appendix 2.

- Financial resilience (e.g. limited savings, debt, overdrawn)
- Financial capability (e.g. confidence in managing money, financial knowledge, digital exclusion, emotional resilience, financial savviness)
- Experience of significant life events (e.g. bereavement, relationship breakdown, redundancy)
- Health (e.g. ill health or disability that limits day to day activities)

This FLS analysis shows that:

- Shared owners have greater indicators of financial vulnerability than other homeowners, mostly because they are less financially resilient than other homeowners and are less financially capable than other mortgaged homeowners.
- Shared owners consider themselves to be less financially savvy, less financially confident at managing money and less financially knowledgeable than other homeowners. Shared owners score themselves higher than renters, however.
- These differences between shared owners and other purchasers are maintained when looking at similar age groups or low incomes.
- Prior to the pandemic, greater proportions of shared owners were only just financially surviving or were in actual difficulty compared to other homeowners. During the pandemic, the proportion of shared owners in difficulty almost doubled exceeding that of renters, although the proportion of shared owners reporting worsened finances was only marginally above that of other homeowners.

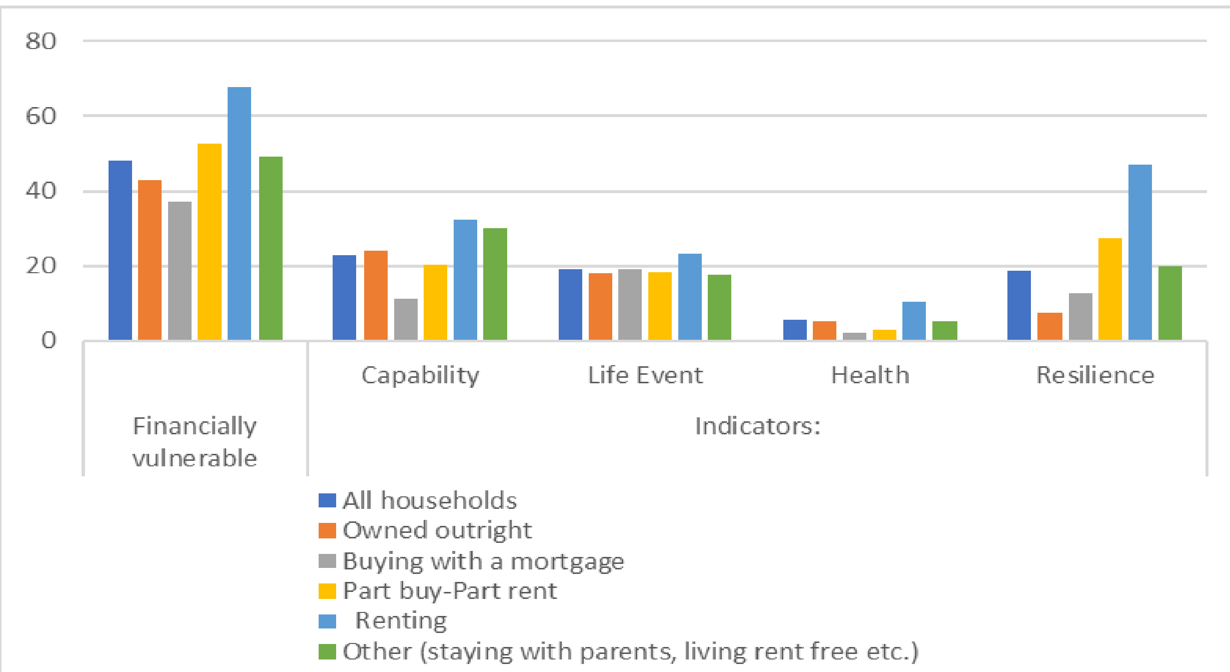
The main financial vulnerability indicator shows that homeowners buying with a mortgage are the least vulnerable group across all housing tenure, with 37 percent showing at least one indicator of financial vulnerability, compared to renters with 68 percent[5] (Figure 2.9). Over half of shared owners have some indicators of financial vulnerability (53 per cent) compared to other mortgagors (37 percent). Shared owners are particularly vulnerable due to their lower financial

[5] The combined FLS 2017 and early-2020 dataset has only summary variables for housing tenure and does not differentiate between social and private renting, although this tenure can be disaggregated in the late-2020 Covid-19 dataset.

resilience (20 percent) and lower financial capability (27 percent) compared to other homeowners buying with a mortgage (11 percent and 13 percent respectively). However, shared owners are far less financially vulnerable than those who are renting.

Examining these data in more detail shows that shared owners considered themselves to be less financially knowledgeable, less confident at managing money and less savvy consumers than other mortgaged homeowners (Appendix Table 3.3). A lower proportion of shared owners (44 percent) than other mortgaged home owners (64 percent) agreed with the statement that they are confident and savvy consumers. A greater proportion of shared owners (11 percent) also reported that they were not knowledgeable about financial matters than other mortgaged purchasers (five percent). Shared owners slightly less frequently reported being confident about managing money (51 percent) than other purchasers (58 percent), and the proportion of shared owners who said they were not confident at managing money was twice as often (six percent) than mortgaged purchasers (three percent). Shared owners reported digital exclusion slightly more frequently (five per cent) than other purchasers (three percent) too. Overall, shared owners reported financial confidence, savviness and knowledge somewhere in between mortgagors and renters.

Figure 2.9: Summary financial vulnerability indicators by housing tenure (%)[6]



Source: FLS 2017-2020 (NB: People may have more than one vulnerability indicator, so indicators do not sum to total of financially vulnerable. FLS does not differentiate private from social renters in the main surveys.)

[6] The proportion of people who had no indicators of financial vulnerability remained similar between the two waves with 62.3 percent of mortgaged purchasers and 47.7 percent of shared owners having no indicators of vulnerability in 2017, and 63.1 percent and 46.6 percent respectively in 2020. As these results have been relatively consistent, pooling these waves therefore has not had an impact.

Mortgaged homeowners comprise a wide range of circumstances but some of these differences in financial capability between shared owners and other mortgagors persist when we consider those on low incomes or by age groups. The number of the shared owners when conducting granular analysis is lower but the differences remain statistically significant. Shared owners at similar life stages still display poorer indicators of financial capability when compared across age groups (Table 2.5). For example, of those aged 18 to 34 years old 22 percent of shared owners did not consider themselves to be confident and savvy consumers compared to 17 percent of other mortgagors. While 13 percent of shared owners report that they were not financially knowledgeable in this age bracket, only five percent of other mortgaged purchasers thought this. Nearly twice as many shared owners thought they were not confident at managing money (six percent) compared to mortgaged purchasers (three percent).

Looking at indicators of financial capability among only LMI households we see similar rates reporting that they are not confident and savvy consumers between mortgaged purchasers (22 percent) and shared owners (24 percent), but the difference in low confidence at managing money (four percent compared to nine percent respectively) and financial knowledge (seven and 12 percent) remains more pronounced (Table 2.6).

Table 2.4: Indicators of poor financial capability by age and tenure (%)

	Mortgaged purchasers			**Shared owners**		
	Age 18-34 years	**Age 35-64 years**	**Age 65 years or more**	**Age 18-34 years**	**Age 35-64 years**	**Age 65 years or more**
Disagree that they're a confident and savvy consumer	17	19	23	22	22	-
Not very knowledgeable	5	5	8	13	6	-
Not very confident at managing money	3	3	-	6	7	-

Source: FLS 2017-2020 (All statistically significant p>0.001)

Table 2.5: Indicators of poor financial capability by LMI households and tenure (%)

	Mortgaged purchasers	**Shared owners**
Disagree that they're a confident and savvy consumer	22	24
Not very financially knowledgeable	7	12
Not very confident at managing money	4	9

Source: FLS 2017-2020 (All statistically significant p>0.001)

Impact of covid pandemic

The FLS segmented the market into three groups of people:

- those who were already *in difficulty* and had already missed bills and credit commitments
- those who were at risk of doing so but were *surviving*, and

- those who were not in these two groups and were *not struggling* and had resources to overcome any financial shock.

Prior to the pandemic, shared owners sat between other homeowners and renters in the degree to which they were getting by financially. Greater proportions of shared owners were financially surviving (39 percent) or were in difficulty (nine per cent) compared to homeowners (25 percent and four percent respectively).

The pandemic had hit many households hard with the proportion of homeowners considered to be financially resilient falling from 71 percent to 49 percent, and shared owners falling from 52 percent to 28 percent, very close to the level of renters at 26 percent, and especially private renters at 29 per cent. The proportion of shared owners in difficulty rose from 9.1 percent to 16 percent during the pandemic, exceeding the proportion of renters in difficulty at nine percent for all renters (11 percent for private renters and seven percent for social renters).

Shared owners were only marginally more likely than those buying with a mortgage to report worsened finances during the pandemic (43 percent compared to 42 percent), although shared owners had a more severe financial impact reporting that their situation had worsened a *great* deal more frequently (22 percent) than mortgaged purchasers (16 percent). Shared owners were also, however, the tenure most likely to report that their finances had improved during the initial stages of the pandemic. This may be due to the segmentation of shared owners with combinations of struggling and financially cushioned customers (see below).

In Oct 2020, shared owners had the highest proportion finding domestic bills and other credit commitments a heavy burden (23 percent), and the lowest proportion of people reporting that these financial commitments are not a burden at all (33 percent) compared to people in other housing tenure.

A marginally higher proportion of shared owners used the mortgage deferral scheme established during the pandemic slightly more often (20 percent) than other purchasers (17 per cent). Among comparable younger households, slightly more purchasers with a mortgage used the deferral scheme (23 percent) than shared owners (20 percent).

Awareness of the mortgage deferral scheme was much lower among shared owners with 15 percent saying that they had not heard about it until asked the question as part of the survey and might have used it had they known compared to only six percent of other purchasers with a mortgage. This difference in awareness of the scheme was maintained for younger households too with around twice as many shared owners saying they might have used it had they known (20 per cent) compared to nine percent of purchasers with a mortgage. The extent to which shared owners required the scheme to get by was, however, similar to that of mortgagors.

A fifth (20 percent) of shared owners reported that they had been advised that they would be made redundant in the next 6 months, twice the rate of people in other tenure. Among all housing tenures, shared owners also had the lowest proportion of people saying that they were not expecting to be made redundant at all (42 percent). While many shared owners worked in the public sector, including health and education, which were unlikely to have been impacted by furlough and pandemic lockdowns, the largest category of shared owners (18 percent) worked in the retail sector, heavily impacted by the pandemic and at twice the rate of other mortgaged homeowners (nine percent).

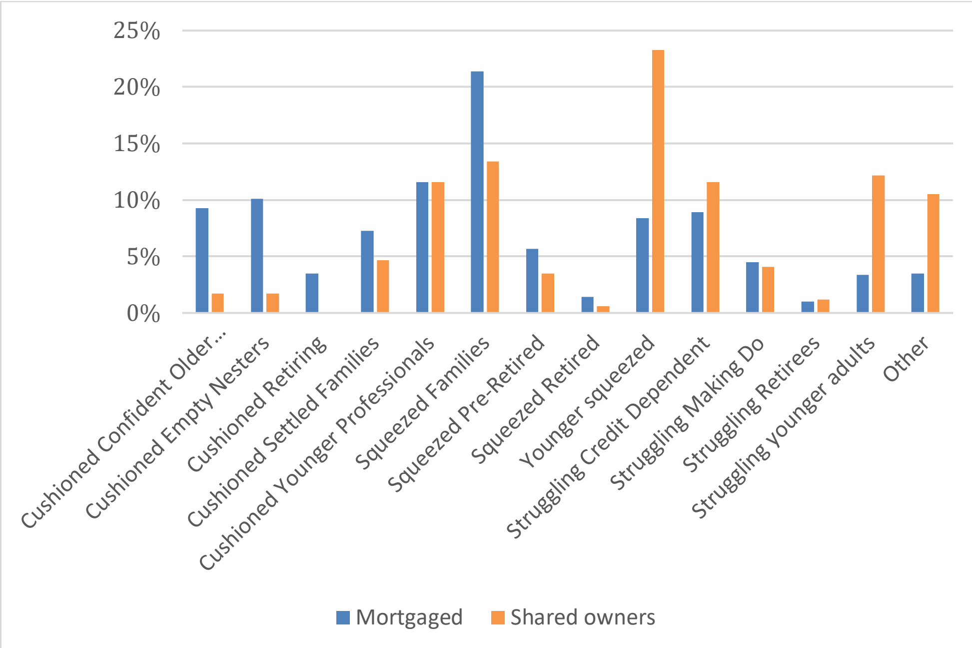
The Covid 19 FLS survey segmented households according to the Money and Pensions Service (MAPS) customer segmentation framework (Money Advice Service, 2016) and provides interesting insight into the financial composition of shared ownership customers compared to mortgaged homeowners (Figure 2.10). A total of 42 percent of mortgagors are in the cushioned categories compared to 20 percent of shared owners, mostly comprising the 12 percent of shared owners who are cushioned young professionals. In contrast, 29 percent of shared owners were classified as struggling compared to 18 percent of mortgaged homeowners.

The FLS survey goes further and identified subsegments of households, revealing what kind of households were cushioned, squeezed or struggling (Figure 2.11). Although large portions of mortgaged homeowners were financially cushioned the largest category of mortgaged homeowners were squeezed families (21 percent) followed by cushioned young professionals (12 percent) and cushioned empty nesters (10 percent). The largest category of shared owners was the younger squeezed (23 percent), followed by squeezed families (13 percent) and then jointly, cushioned young professionals (12 percent) and struggling credit dependent households (12 percent).

Figure 2.10: MAPS Market segments of mortgaged homeowners and shared owners (October 2020)

Source: Financial Lives Survey October 2020

Figure 2.11: MAPS submarket segments of mortgaged homeowners and share owners (October 2020)



Source: Financial Lives Survey October 2020

Shared owners are generally less financially confident at managing money, less financially knowledgeable and consider themselves to be less confident and savvy than comparable purchasers in the open market. They were also hit harder by the pandemic lockdowns than other mortgagors and greater proportions of shared owners are financially struggling compared to mortgaged homeowners.

Conclusion

The various affordable homeownership schemes include buyers with different risk profiles, including Help to Buy purchasers who were younger and in professional occupations compared to older Right to Buy purchasers in routine occupations. The schemes have enabled people from some marginalised groups to enter homeownership indicating increased vulnerability to financial harms. This is borne out by high affordability pressures for shared owners, especially outside of London. There are legacy impacts of lending from prior to the financial crisis leaving Right to Buy owners with higher proportions of interest-only loans and high mortgage interest rates. Shared owners and Right to Buy purchasers have higher incidences of missed mortgage and rent payments compared to the wider market, but these problems are reported less frequently than for older LMI purchasers who bought without support. For more recent entrants to homeownership, shared owners are paying the highest interest rates for their loans. Price risks arising from negative equity were minimal during the period studied but it seemed that Help to Buy purchasers were most at risk, although the numbers involved were small. Poor quality homes that required repairs to bring to the Decent Home Standard were more evident among LMI buyers in the open market. Shared owners were identified in the FLS and showed greater proportions of financial vulnerability than other homeowners. These data go beyond simple expressions of hardship arising from mortgage or rent arrears. It is reasonable to infer from the FLS analysis that 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.

Chapter 3: Anticipating homeownership and associated risks prior to purchase

Summary

- Housing providers had mixed views of how prepared purchasers are when buying a home via an affordable homeownership scheme, some reporting more professional buyers and information circulating online helps, while others thought that buyers' needed help to recognise possible problems.
- Purchasers themselves strategised and researched the tenure and schemes but were often inexperienced and did so from a low base of understanding the market
- Purchasers generally appraised homeownership risk against those found in private renting and within the context of a relatively benign economy.
- The timing of participants' purchases was largely influenced by household changes and ambitions rather than housing market or economic factors.
- Open market and Help to Buy purchasers had greater resources, family skills and contacts to draw on to inform their purchase decisions. Family and friends were important sources to mitigate payment and repair risks if things went wrong for shared owners and Right to Buy purchasers.
- Mortgage brokers were an important source of homebuying support for many, whereas participants had mixed views of the support they received from solicitors, and probably due to the focus on new build few participants talked about surveyors.
- Shared ownership providers struggled to with how best to improve the content, mode of delivery and timing of information to prospective purchasers. Problems with even recent purchasers understanding of repairs responsibilities were evident.
- Right to Buy purchasers rarely received Government advice guides and information about homeownership.
- New information requirements (for shared ownership at least) were welcome but homebuyer comprehension is also important.

Introduction

This chapter outlines how purchasers viewed risk prior to buying their home, the information sources they relied on to establish what homeownership and the various affordable homeownership schemes entailed and how they were supported by housing market professionals.

Purchasers generally strategised to buy a home, started saving and researching well in advance of the purchase. There were, however, varying approaches to risk management at the outset. Some homebuyer participants undertook comprehensive research of the tenure and/or the risks involved, and others had a more limited understanding of risk compensated by a reliance on professionals to limit any future harm. These strategies cut across the different pathways to homeownership, although more comprehensive approaches to identifying and mitigating risks were evident among open market and to an extent Help to Buy purchasers. Housing providers had mixed views on how well informed and calculative purchasers were.

As mentioned earlier, information asymmetries in the market are identified as a key risk for new purchasers. Providers have improved the information they give to prospective purchasers over time, notably in shared ownership, and struggle with the most effective ways to deliver key information about the schemes. Some Help to Buy and shared owners noted that they had been provided with information but various professionals in the buying process had not taken time to ensure that purchasers had comprehended what different things meant in practice.

The chapter continues by examining how providers and purchasers, identified risk at the outset, how purchasers undertook the information search and ends by considering the professional support received.

Identifying homeownership risk

This section examines the providers and purchasers' assessment of homeownership risks. A range of homebuyer approaches to gathering insight into the homebuying process and the detail of the schemes was evident. Purchasers strategised to enter the tenure, manage their finances, recognised and sought to control some risks at the outset. Providers offered varying accounts of purchasers' preparedness for the tenure.

Housing providers

Housing providers (local authorities, housing associations and other private registered providers) were asked about their own assessment of whether the schemes reduced or amplified risks in the housing market, before considering how well prospective purchasers are aware of these potential pitfalls of the tenure. Some staff identified some risks for purchasers including those related to the specific schemes, while others saw no additional problems arising from the schemes.

> "No more risk than anyone buying a property, I would say. Obviously, values can go down as well as up. It doesn't happen very often in our markets. I think, perhaps, what we're always concerned about is people stretching themselves too far." (K14- small provider South East)

> "There's a difference when you get some housing associations that play with it a little bit as a tenure; don't do very much of it, don't really understand it, can't explain it particularly well. I think they're the ones that have most difficulties and most complaints. I think those associations that

> have done it for a long time understand how it works, are able to explain it effectively, are probably dealing with a more savvy purchaser population." (K1 – medium/large provider South East)

Many housing staff considered that customers were well informed, had undertaken their research and were increasingly capable consumers, making calculated decisions to enter homeownership. This was the same for shared ownership, Help to Buy and Right to Buy. Occasionally staff conflated scheme awareness with understanding the risks involved, but other providers recognised that with greater public scrutiny customers were now sufficiently informed to ask pertinent questions. Nonetheless, many providers noted that it was still up to staff to identify actual risk for prospective purchasers, typically about over-committing themselves.

Providers had different expertise and varied in their involvement in the sector. There was a spatial element to some of this with shared ownership making a greater contribution to some local housing markets and for a longer period in London and its environs, hence some providers had greater experience. Some providers reflected their experience of an increasingly more affluent customer base in these areas that brought a greater depth of consumer understanding to the sales and purchase process. Other professionals also saw Right to Buy applicants as making shrewd strategic decisions, sometimes as they were on higher salaries but also because they included family members buying elderly relatives' homes or they intended to rent out the property and become a landlord themselves.

> "Way back in the early '90s, we were helping people like shop workers, postmen, that sort of person, but of course, HPI [house price inflation] has been rampant over that 30-year period. It's massively outstripped earnings and inflation, so we're now housing, I would say, a much more savvy buyer. People are on fairly significant incomes, your £30,000, £40,000 a year, we're dealing with professional people "(K1 shared ownership provider South East)

Other providers were less confident in their customers' ability to navigate and understand the risks due to the overwhelming volume of information, the complexities of homebuying and the different product routes to homeownership. While purchasers reflected on their home buying research and homebuying experience, which may have been dated, providers considered recent sales and indicated that some work is still to be done to better inform consumers. New buyers needed support in distinguishing between the various products, including local iterations of discounted sales or equity loans, and how the range of available schemes may suit their circumstances. There has been regular rebranding of affordable homeownership options over the last few decades so consumer confusion over various products does not necessarily equate with lacking insight into the tenure risks.

> "We get a lot of people coming to us thinking, knowing what they are applying for but also people coming and applying to us for Help to Buy and, wrongly, RTB. There's lots of confusion about… there's lots of different schemes out there with very similar names." (GM16 RTB administrator North West)

> "I don't think they see the risk, it's more us seeing the risk of them - because a lot of them will push to get something bigger than what they need, or more expensive than what they can afford. So it's us to put the lid on, and make sure that people who are going ahead with the purchase, it's an

> appropriate purchase for their financial situation. It's more that. […]t I don't think that they see risk. They just try to work out what is the opportunity." (K16 shared ownership provider South East)

The home purchasers

Respondents rarely responded directly to questions on whether they considered the risks of purchasing a home. Rather, they tended to comment on the disadvantages of their previous housing arrangement. Participants' motivations to buy a home encompassed well-rehearsed reasons regarding the insecurity, expense and poor value for money of private renting in comparison to owning, and the desire for independence from family or from other flat sharers (see Wallace, 2019). Risks, when considered were not confined to homeownership but were weighed against what they considered to be the greater risks or disbenefits of other tenure options.

Many participants, nonetheless, had a strategy around saving (and the financial confidence that comes with that) and had augmented savings from family or Help to Buy savings accounts to accrue funds for the deposits. They offered narratives about how they would manage additional commitments and plan for one off expenditures. A portion also talked about their job security that enabled them to make long-term commitments, with many anticipating increased salaries from an upward career trajectory that enabled them to continue to build contingency savings. Even in circumstances where there were fewer resources, participants carefully controlled their finances, and most anticipated that the mortgage payment —the primary payment risk — would be lower than their previous rent, and comparatively affordable. That the schemes were government-backed also afforded reassurance and a minority of participants had had previous experience of the tenure anyway.

Conversations about homeownership risk were contextualised by low bank base-rates and a low unemployment environment and were set against a private rented sector that offers what many participants saw as limited cost effectiveness. Higher bank base rates and the cost-of-living crisis form a greater part of public discourse at the time of writing than during the fieldwork in 2021 when the research fieldwork was undertaken. The impact of the pandemic had also largely been contained with furlough and business support schemes. Key policy informants, and other participants for that matter, had anticipated a greater recessionary impact on unemployment and a housing market downturn because of the pandemic and complications of Brexit that had not (yet?) emerged. A small minority of purchasers had experienced job loss, relationship breakdown and ill health or had been homeowners from prior to the 2008/9 financial crisis and subsequent downturn. Such concerns, however, were often absent from homebuyer narratives. Purchasers assessed their purchase risks against a long period of historically low mortgage rates, relatively secure or easily obtainable employment, and the insecurity and high rents in private renting.

Some buyers were cautious and more risk-averse while others were more sanguine about risk, accepting it as part of life. Some buyers reported that they understood the risks but were unable to express what they might be, while others provided detailed narratives of the risks involved in homeownership and how they had been mitigated. A small minority of buyers considered there to be no risks at all. The most comprehensive accounts of risk assessment and mitigation lay with higher income open market purchasers although the spectrum of approaches to identifying and managing risk cut across the buying schemes.

> "I'm trying not to think about that! [Non-payment] Obviously there is some insurance, I think, that might help for this. I think I have to make sure I've got the health insurance and all this. Yes, I'm trying not to think about that." (HB210 RTB)

> "Not at all. I truly didn't think along them lines. We saw the house, said, 'Right, let's…' We had all the money in place anyway. I didn't see a risk, because it's part mine, part theirs, and it's a brand spanking new house. So, I didn't see any risk at all, none whatsoever." (HB12 SO)

> "We are aware of the risks and responsibilities, but I think that come with anything really that you want to buy, you want to invest in. That didn't stop us from purchasing the house. We were just positive that we will be able to manage for 25 or 30 years or however long they gave us. We were actually okay, and we are still trying, although we spent all our savings on the deposit, we are still trying to continue to save some more, just for any reason where we can't pay the mortgage or as a back-up. We want to be secure in all aspects." (HB104 open market)

People also entered the market in different positions, outwardly displaying more or less risk from their individual, employment or household circumstances. Some participants were more advantaged than others, with greater incomes and capacity to save, more employment security, had dual incomes and/or had family support. Other participants were single, lacked home buying experience and had no familial experience to draw upon. Other people experienced ill health, disability or were reliant on an element of benefits to supplement lower earnings. Combinations of these attributes were evident across all the schemes and open market purchases, but it was clear that open market and Help to Buy purchasers displayed more material advantages and were more confident in their information searches and risk mitigation.

Family resources could include financial support for deposits, or any property repairs required, professional skills such as financial advisers offering additional guidance, or builders with trade skills to undertake property repairs. Public service workers in health services or similar felt quite secure, although some talked about reorganisations and health problems that undermined their assessment of their employment security. Some higher earners knew that they were set on a particular career path which would see their salary rising by more than inflation, with savings and employment that provided income protection policies and free financial advice. Others however had no sick pay, minimal income and talked about using family resources or selling as their route out of any housing debt.

> "I did calculate my finance, and I did keep a little bit behind for renovations, and plus I've got family that deals with building, so I knew that if I needed to fall on someone, I've got Dad, who that is his job, that's the sort of thing." (HB31 SO)

> "We have quite healthy savings, so I'm convinced that if there was something that happened, we'd be able to pay for it, and if all else fails we do have a very supportive family that could help us." (HB14 HtB)

> "I don't plan on being out of work. So, I don't know. I didn't really think about it like I said. I kind of just knew that I had to own a house. I mean because I've got the equity in the house that I have got, I kind of see that as a bit of a buffer because if anything was to happen where I was to lose my job or anything like that, I know that the house would sell again, and I would be able to pay off the mortgage that is remaining without struggle." (HB127, very low pay and benefits, open market)

The timing of purchases was also important in risk appraisals. Open market buyers had often taken time to build up a sizeable deposit. This was aided for more recent purchasers by covid lockdowns when discretionary spending was limited, but also in less pressured markets buyers felt that they could wait to accrue more savings until they found the right house, a strategy less available to those in rising markets where they feared being cut out of the market entirely. Some Right to Buy purchasers recognised the risks involved and delayed buying their home until their circumstances had improved by moving from self-employed to employed status, for example. The timing of purchases was not always informed by a specific trigger but a long-term desire to change their housing situation, but timing was often sensitive to starting a family, the buyers' age to secure an affordable mortgage before retirement or relationship breakdown. Delaying purchase, therefore, was not always possible. For these people, the low deposit requirements of shared ownership and Help to Buy schemes were a bonus and enabled them to bring forward purchases. Occasionally, timings of purchase were changed to control risk, to improve credit ratings or on the advice of professionals during covid, for example, but personal events often overrode market or economic circumstances.

Participants made conscious, if not wholly informed, trade-offs between the risk and the returns of more space, independence and an equity stake after flat sharing, living with parents or private renting.

> "I'm going to have my own house, have my own freedom, I can come and go as I want. There is positives to it as well, but yeah I mean the downsides are that you are going to have less money because I've got the mortgage to pay now, and I've got rent as well." (HB19 SO)

> "To be honest I thought we were pretty stuck at the time. Without Help to Buy, what I could have afforded wasn't really an upgrade. We could have maybe got a three-bedroom, but it wouldn't have been much bigger, it wouldn't have been in a more ideal location." (HB26 HtB)

Buyers used the affordable homeownership schemes for multiple reasons. Some because they could not buy otherwise, especially for those who used the Right to Buy where the large discount made the purchase the only attractive option. Shared owners also were likely to say they could not have bought if it had not been for the scheme. Use of the schemes, including Help to Buy, was premised on the initially lower entry costs helping them achieve a more suitable property for their needs, either better quality, more space and a better location, as well as being the only way to buy in their circumstances. These issues were weighed against unforeseen repair costs in older homes, commuting costs or having to move again if they had only been able to buy a smaller home. These reasons meant that they could share the risk and rewards of buying a home they could not otherwise afford. Mitigating their market exposure and limiting risk was seldomly at the forefront of decision making. A minority of buyers spoke about resisting calls to maximise borrowing and their equity stakes, although one shared owner found this limited their ability to staircase after purchase.

Buyer research into homeownership options

Purchasers varied in their appetite for information to support their home purchase. These varying approaches to risk assessment and mitigation were reflected in the propensity to investigate and actively seek guidance and advice on buying a home. Often research was undertaken to understand the process of buying a home and the key features of the schemes, and less often to appraise the wider housing market. To a degree this reflected differing attitudes to risk but suggests an informed rational approach to homebuying that not all buyers adopted. Emotional responses to homes and opportunities were also apparent in the wider market.

Generic home purchase information

Internet searches were critical to purchasers' ability to gather the information necessary to make a confident purchase. While people often could not recall exactly which sites informed their knowledge and understanding of the tenure, market and products, many cited the following as good sources of homeownership and affordable homeownership schemes:

- Martin Lewis' Money Saving Expert
- Gov.uk
- Share To Buy
- Greater London Authority
- Homeowners Alliance
- First Home Coach mobile app, and
- other housing association and developer sites

In addition, some purchasers found that property portals were important to monitor the market and local house price movements, and lenders' sites to appraise mortgage lending possibilities and costs. A minority of participants extended their information searches to TV property programmes, Mumsnet, Facebook groups and YouTube videos as well as reviewing media articles and online forums where people discuss tips for buying a home and the risks and rewards involved in various affordable homeownership schemes.

> "Yes, I'm a big Martin's Money [sic] follower. I used his websites. He's got some calculators that help you work out how much your mortgage could be and also tips on buying houses, what they're going to look for, bank statements, that sort of stuff because I'd never applied for one. I could ask my mum and dad, but they applied for their house nearly 30 years ago, so things have changed." (HB111 RTB)

Several purchasers were overwhelmed, viewing the information as voluminous, disparate and difficult to evaluate or interpret, with concerns about partisan information and guidance from actors with a stake in sales. Some buyers sought a single point of trusted unbiased information. Help to Buy agents considered they fulfilled this role.

> “There's nothing to follow to help guide you through the purchase or the process, and I think part of the stress is having that feeling of like, you don't really know what's going on, you don't know what you're supposed to be doing, who you're supposed to be asking.” (HB110 open market)

> “The only thing we were sceptical of, obviously given it was our first time, was worrying that people are trying to sell you something because they're getting commission out of it and trying to find that balance.” (HB202 open market)

> ““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.” (HB18 SO)

> “It’s really about sharing knowledge in an unbiased way. We have nothing to gain from the customer insofar as we are not selling them a mortgage, we’re not actually selling them the property, but we signpost them and give them unbiased information and guidance and support them through that journey.” (K6 Help to Buy agent)

Family and friends were important sources of information about homeownership and affordable homeownership schemes, providing professional financial advice, trade skills to advise on property conditions or undertake repairs, and offer insight and reassurance about affordable homeownership schemes. Occasionally buyers recognised that the context for parental entry into homeownership was different to today and that, while valuable, friends’ experiences may not relate directly to their own circumstances. While family and friends plugged information gaps it was, therefore, often necessary to supplement this with alternative sources of information.

> “By the time I was approaching developers I was pretty well-informed because my friend really just talked me through the whole process, I watched a few YouTube videos on it, I looked at the MoneySavingExpert forum on it for people who'd done it and how they'd found it. Yes, and by the time I went to the developer I was all clued up. “(HB14 HtB)

> “Most people [I] think talk it through with family and friends and other people that have bought. We get a lot of people from the same street buying so you know that they’re talking to each other and putting in applications. It’s word of mouth as well.” (GM5 RTB administrator)

Previous experience

Most participants were first-time buyers, but others were second steppers or former homeowners who had experienced relationship breakdown. Participants varied in the length of time since they first bought or how many times, they had previously bought a home. People making second or subsequent moves in homeownership talked with greater confidence in navigating the market. This was occasionally tempered by the fact that as they were more aware of the pitfalls the second time around, they felt more anxious about risk, or that they had not been the lead-partner during the first purchase and so felt that they still required support. Information and support, therefore, remains important for new *and* subsequent purchasers.

> "When I bought my previous house, my ex-boyfriend did all of it. So, when it came to this house, I didn't really have a clue. It was like buying a first-time house because I didn't have any involvement with it really the first time." (HB127 Open)

> "I think I just knew what I was doing. I knew what I needed to have, and I knew where it would go, and I knew what I could and couldn't do. So, I had a good understanding of it. It was probably a lot easier the second time round, but I was doing it on my own rather than with somebody else. Yes, pros and cons, I suppose, with that, but I understood it fairly well. Is my viewpoint on it different now? Probably, because I'm further down the road and I see the pitfalls more." (HB 54 SO)

Inexperienced buyers cannot always recognise that their own circumstances and the products may represent a risk to be considered. New purchasers' searches could therefore be narrow, partial and focus on process. This was especially the case for shared owners, who are also more likely to have been buying on their own. In recent years, the Government and providers' responses in the sector may be more tempered, providing additional information and highlighting some risks.

> "I think we've all realised that we've all, probably, under-researched and may be a little naïve. Having said that, I have to say, at the time, even when we were looking to see a bit more about it, there wasn't a great deal available. I think, when you're researching it now - because there was a Panorama programme about it; there's very much more available for people to understand the pros and cons of shared ownership. Maybe I'm just trying to make myself feel better for my slightly naïve decision, but I genuinely don't think there was as much available, in terms of independent advice, as there is now." (HB18 SO)

Some buyers recognised that since their entry into the market information resources, particularly around shared ownership, had improved and sensed that market actors are now under greater scrutiny, formally via regulation or informally to avoid reputational risk. People talked of market actors keen to avoid controversies that arose from, for example, leasehold houses and doubling ground rents, the building safety crisis or just critiques of buyers not fully understanding the products bought. Some first-time buyers' experiences may also not be replicated today due to a tighter mortgage market, greater provider information resources and greater access to competing viewpoints on various affordable housing schemes.

Professional information and guidance

Many people circumvented some of the information search into mortgages and the legal terms surrounding the purchase by putting trust in market actors, including the brokers, solicitors, developers and housing associations. Participants had mixed experiences of these services.

Mortgage brokers

Most participants from across the market praised mortgage brokers. Mortgage brokers unlocked the housing market for participants, facilitating access to both mortgages and via affordability assessments for shared ownership. At best, brokers held some of the most important conversations about managing credit scores, the buyers' future ambitions for their home, their careers, family, moving, the timing of purchases, and how to undertake buying advantageously in their circumstances. In having these far-reaching conversations brokers' guidance regularly went beyond obtaining the best mortgage deal for them into general homebuying support. Brokers were sometimes critical sources of information about the affordable homeownership schemes, explaining leasehold and the advantages of freehold and giving prospective buyers more detail than other professionals. Shared owners were less enamoured with brokers, maybe as the mortgage market was limited and/or more expensive for them, due to individual credit constraints or regulatory attitudes to shared ownership itself. As discussed in the next chapter, 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.

> "My mortgage broker was brilliant as well, so we rang him, because I was keeping an eye out for everything and at one point there was a house went up for auction. I rang him, and I was like, 'What do you think? If I was to buy a house at auction, what would the process be?' He was actually able to explain what the process would be, and he was also able to advise us to stay away from it, and we did" (HB8 Open)

Occasionally people had fewer positive engagements with brokers where the liaison with the lenders was more easily undertaken directly, either because their circumstances or their property had idiosyncrasies that required detailed discussions. Some people choose their own brokers and others were content to use those referred by developers, agents or housing associations. But overall participants indicated that many brokers contributed positively to their homebuying experience.

Solicitors

Many participants also had positive experiences of solicitors reporting that theirs had been the most informative about their chosen scheme, talking about key clauses to consider and how the property should be held between unmarried couples, for example. But solicitors also attracted disquiet as participants reported that solicitors had not explained important information to them about leasehold, about head leases, were not conversant with the affordable homeownership schemes and, where they had pointed out clauses to consider, had done so without explaining their significance. People often felt pressured to take recommendations for solicitors from lists provided by developers and associations, although some resisted. One Right to Buy homebuyer avoided asking their solicitor questions as they misunderstood the pricing structure of the service. That participants have a mixed experience of their conveyancing solicitors is important as providers rely on the solicitors to explain the terms of the product (Cowan et al., 2015).

> “Any queries that I had, she answered straight away. She's a specialist in this sector, and she was working on a lot of houses within the new build that we're on. She answered all my questions. It was really, really good, really, really straightforward.” (HB12 SO)

> “Generally, I didn't think my conveyancers were great. They did mention it was a leasehold. They didn't go into it. [...] They certainly didn't give their opinion on it to me. [...] When you got the documents, they were like photocopied, or reprinted onto poorly printed paper, just additional hurdles for you to get your head around. I can really see why some people really didn't pay any attention, they put the full trust in the conveyancer and think, this isn't for me, I don't understand it.” (HB26 HtB leasehold house)

Surveyors

With many participants buying newly built homes, surveyors were absent from most conversations. Those participants who bought older property had mortgage valuers visit their homes, but few talked about appointing full surveys. When they did receive more detailed reports, contextualising or interpreting the reports could be a challenge. One Right to Buy purchasers’ valuer/surveyor remarked on subsidence when no other neighbours had experienced this, and his work had to be checked by someone from the firm who reported that it was possible in 30-40 years (HB 115 RTB). Right to Buy purchasers, however, already lived in their homes and had a reasonable idea of the property condition, particularly for houses, although had not all been informed of pending repairs (discussed in Chapter 6).

Housing associations

Some purchasers put great store in the Government backing of the schemes, shared ownership and Help to Buy equity loan especially. For some this reassurance soothed initial concerns and, in a few cases, resulted in limited information gathering. Providers felt that their involvement as a social landlord with social values was an important feature of shared ownership, as they went further in supporting homebuyer decision making and their after-purchase operations went beyond what was expected or required in the leases.

> “The one thing I do clearly remember, my solicitor at the time, having gone through the lease, scratched her head quite a bit. Her comment on the whole thing was, "well, how bad can it be? They are after all a housing association". I asked what she meant by that, and she said "Well, it means they're non-profit". [*When asked if that was important*]: it is if it meant that I was dealing with an ethical organisation” (HB20 SO)

> “That was my thinking on it; that it was a good idea, it seemed sensible, the government backed it, so as far as I was concerned it was safe.” (HB36 SO)

Some participants felt housing associations had too much emphasis on marketing and promotion rather than communicating the key information necessary to make informed choices about shared ownership. People noted that the purchase ‘*was a bit of a hard sell in how wonderful the scheme was*’ (HB10 SO), or that the conversations with providers were imbalanced with none of the downsides highlighted.

> “Being honest, it's a glossy brochure that's put together by a marketing team. It's not the truth on what actually shared ownership is. It's there to draw you in, without understanding the implications and the problems that you can come across. […] The housing associations only tell you what they want you to hear.” (HB21 SO)

> “Even the broker couldn't help me understand everything, and nor did the housing association. They didn't really help. It was literally me using my own head trying to figure out how things work and is it correct. The information I was getting at the time was [the housing association], was very minimal. There wasn't much information, I didn't understand about the service charges that well, I didn't understand they'll be extortionate like they are now. It was basically me trying to figure out by asking several different people.” (HB31 SO)

Some providers resisted this portrayal, and several explained the significant steps they take to convey information to prospective buyers. It was clear that many providers had wrestled with the timing, volume, detail and mode of delivery of information about shared ownership particularly, and some had been reviewing their information packs to accommodate the new Homes England Key Information Documents. While some asked shared owners to simply sign to say they understood the terms and conditions, others went beyond a tick box exercise and attempted to ensure prospective purchasers had a good comprehension of the scheme details. Some providers valued face to face interactions, opportunities for which had reduced due to a shift towards digital communication and fewer first-time homebuyer events.

> “We had a session recently where we invited a number of our existing customers to review the videos, to see what we could do to improve the content. It’s interesting, for half of the cohort there was a view that we needed more detail, and we needed to be really more specific. [...] There were others who were at the opposite end saying, ‘It’s too complicated, there’s too much information.’ So, getting that balance right is quite hard.” (KI23)

The Advertising Standards Authority (2022) has recently upheld complaints about a national marketing campaign on shared ownership, relating to the products’ depiction as ownership the absence of information about the costs of lease extensions. The ramifications of this ruling are unclear as similar depictions are often repeated in individual housing providers’ material.

Right to Buy administrators

Housing staff supporting Right to Buy purchasers were mixed in the information they provided. Some provided 30–40-page booklets based on Government information while others offered very limited guidance or advice to applicants. The Government Right to Buy guidance is reasonably detailed and does include the downsides as well as the positive aspects of homeownership[7]. One buyer was able to use the Government team to intervene to reduce the valuation of their home. However, the Government website and team were rarely mentioned and most of the Right to Buy purchasers simply dealt with their local authority (or housing

[7] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1067757/RTB_Summary_Booklet_2022.pdf

association who processed the transaction. One northern local authority used to visit applicants to discuss what homeownership entailed, as well as the process of sale, particularly if there was benefit receipt or family members were funding the purchase. These visits were curtailed during the pandemic and were unlikely to return. Some providers and purchasers wondered if there was a role for housing staff to do more. Not least as councils/providers reported that occasionally former tenants returned to ask about distressed buybacks or wanting repairs undertaken.

> "I went on the Right to Buy website. I looked through that. They've got, from what I can remember, a lot of information about… They do give you the pros and cons of going down that road!" (HB113 RTB)

> "No. They just tell you it's going to be your responsibility and you tick the boxes to say, 'Yes, that's my responsibility. I look after the house.' If I sell it, I give them first refusal. That's about it really." (HB111 RTB)

> "I'm finding this conversation really interesting, because I'm just thinking I don't think we do, as a council, offer that kind of holistic advice and almost a bit of coaching, getting ready to be a homeowner." (GM16)

Homes England have issued new Key Information Documents (KIDs) for shared ownership whose use is conditional if funded through the 2021 to 2026 Affordable Housing Programme. One provider thought this would make a key difference to sales. The Key Information Documents align with the new model lease and outline in greater detail than previous iterations the lease terms and summary costs applicable to each property being sold as shared ownership, and include information on:

- Rental charges, how it is calculated and how rent increases applied,
- Examples of year 1 service charge costs, how they are calculated
- Reservation fees
- Eligibility criteria
- Leasehold terms and conditions
- Maximum shares and staircasing costs
- Whether staircasing permits transfer of freehold
- The initial repairs period
- Landlords option period to buy the home
- Pets and subletting policies
- Additional fees to complete the purchase
- And additional boxes for applicants to enter other regular outgoings

Housing associations will brand the KID and enter the relevant details for each property being sold. It is notable that long-term costs are not included. There are no worked examples or long-term illustrations of rental and service charge changes over time. There is a similar document relevant to Help to Buy purchases that does, by contrast, detail longer term charges.

Providers also noted that provision of information was necessary but not sufficient to ensure adequate comprehension of the information. Purchasers and providers noted that some first-time buyers ‘just want to get in’ or become caught up in the emotion of a home purchase and focus solely on that. One housing organisation talked about having to temper that excitement, remove the heat and deliver sober messaging. This approach contrasts with much marketing material in the sector that pushes those emotional buttons about getting a home for the first time. Providers also wondered which professionals were best placed to inform prospective buyers of various matters.

> “It's a difficult one, because it means something we can point back to and say, 'You did know about this,' [signed acknowledgement that they have been told of key details of scheme] But of course, you've got some shared owners, not unlike any first-time buyer, they got caught up in the process. They're excited about their new home and whether things go in one ear, out the other, is difficult to tell, but we try and tie it down as much as we can.” (K1)

Conclusion

Most participants had planned to buy their home, manage their money to save for deposits and undertook research on homebuying, albeit some had a low base of understanding of what was involved. Purchasers had varying individual risk profiles and took different approaches to appraising and understanding the risk of homeownership. While this range of approaches cut across the various routes into the tenure, open market buyers reported more comprehensive initial risk appraisals than other purchasers. In other circumstances people often placed trust in the housing professional. Mortgage brokers played an important role for many purchasers, but other professionals had a mixed reception. Providers offered information, but some had taken little time to ensure that purchasers understood the terms of the purchase or provided unidimensional accounts of the scheme. Shared ownership providers were exercised by the effective information provision, although not all staff could either articulate the risks ofr purchasers or did not necessarily share their insight into risk and the use of the schemes with prospective buyers. Right to Buy purchasers seldom received any such broad guidance on the benefits and pitfalls of homeownership, and the Government team charged with this task were mentioned only once. Giving information does not ensure consumer understanding and neither does it change the structure of the product, although information resources support customer decision making.

Chapter 4: Payment risk

Summary

- Providers attested to the positive impact mortgage affordability assessments, introduced after the financial crisis 2008/9, had on limiting payment risks among purchasers.
- Brokers and housing associations conducted proscribed affordability checks for entrants to shared ownership and Help to Buy.
- Shared ownership affordability checks stress test for future rises in mortgage interest rates but not in rises in rents and service charges.
- Service charge rises and above inflation rent rises baked into shared ownership leases were a source of disquiet among shared owners, adding to their financial pressures.
- Estimates of housing costs show that these inflationary rents in shared ownership bring their housing costs close to that of open market and Help to Buy purchasers over the long-term, showing that the relative low entry cost of shared ownership is not maintained.
- Affordability for some buyers was only achieved due to long mortgage terms into later life and sometimes beyond retirement age, limiting the use of extended terms in managing debt, upsizing homes or staircasing or repaying equity loans later on.
- Furlough, the mortgage deferral scheme and rapid re-employment supported purchasers who lost income in the pandemic lockdowns. Shared owners were also supported by housing benefit and access to housing association advice teams.
- Struggling shared owners are often helped to sell their home quickly to overcome problem debt, perhaps underpinning reported higher arrears but lower repossessions in the sector.
- Some shared ownership providers would like to see greater funding of downward staircasing, the reduction in shares held, so shared ownership could play a greater role as a flexible tenure where holdings are adjusted to reflect circumstances.
- Some shared owners were aware of the weakness in their lease and tenancy that means that if they were evicted for rent arrears, they could lose all investment in their home. Recent reforms to shared ownership have highlighted this in the information provided but not moved to remedy this situation.
- Participants cross the schemes had all experienced income shocks in the pandemic, furlough, savings, mortgage deferral schemes, and a buoyant economy were all important to recovery. Not all these support mechanisms may be available in any forthcoming recession. Family support was especially important.
- Right to Buy owners had limited resources in comparison to other purchasers.
- Local authorities were asked to buy back Right to Buy homes but this was infrequent and their relationship with purchasers and their knowledge of them were limited.
- There was limited awareness of mortgage safety nets among purchasers with mixed expectations of how much state support purchasers should receive.

Introduction

This chapter presents evidence about the payment risks for purchasers of affordable homeownership schemes based on in-depth interviews with key informants, housing providers and the range of purchasers. It starts by providing an overview of how affordability is established at the time of purchase, how people selected a mortgage product and the extent to which they minimise risk at this point, how mortgage arrears and other housing costs were managed.

Establishing affordability

Mortgage costs are a key determinant of housing costs in homeownership and lenders and brokers led on establishing affordability. Mortgage brokers and housing associations played a role in ensuring affordability for shared owners and Help to Buy purchasers, but also in ensuring that shared owners bought the maximum percentage equity share they could afford. These latter assessments were supported by a Homes England affordability or sustainability calculator.

The mortgage market is less permissive than prior to the financial crisis 2008/9. Stakeholders and providers placed great store in banks' and building societies' current ability to limit payment risks across the market.

> "It's much more difficult for anyone to get a mortgage that's going to stretch them too much. They take so much more into account now." (K14)

For Help to Buy and shared ownership there were additional layers of affordability checks operated by brokers and housing associations to ensure that customers who viewed and reserved properties have a chance of proceeding to purchase. Providers noted that more people enquire and apply to the Right to Buy than move forward to purchase as the purchase proves unaffordable. Some of these applicants have already paid for a valuation of their home, so similar screening eligibility checks seem an appropriate precaution that could be extended to the Right to Buy.

Housing providers ran the Homes England affordability calculator and made decisions on affordability but now Homes England advises that brokers or IFAs have the correct expertise and should be used to establish affordability of shared ownership at the time of purchase, This IFA appraisal often takes precedence over the housing associations' assessments, despite lenders' assessment premised on their own not the borrowers' risks. The IFA role in shared ownership also establishes the size of the initial share purchased and fulfils Homes England's requirement that prospective purchasers buy the maximum initial equity share they can afford to protect public money.

The calculators used by housing associations, Help to Buy agents and brokers aim to ensure that the total housing costs, including the mortgage, the rent (shared ownership) or equity charge (Help to Buy) and any service charges, are sustainable and within 25 percent to 45 percent of the household income after debts are considered. The calculator also establishes that mortgages do not exceed 4.5 times the income and monthly payments are stress tested for rising interest rates of around 4.5 or 4.8 percent or more. The test does not include rising rents, service charges or equity charges. This is important as several providers and purchasers in shared ownership considered that it is increases in these other charges — not the mortgage, at least not at the time of the interviews — that exert pressure on the household budgets.

Some housing associations performed additional affordability checks to the Homes England calculators. Providers held mixed view of the merits of additional checks. Some considered these additional steps unnecessary and burdensome for applicants as lenders have greater expertise in assessing affordability than housing association staff. These participants reported that the Homes England calculator was more conservative than many lenders and had sufficient comfort room for people to avoid being overstretched at the outset. Other providers expressed concern that the Homes England calculator was a blunt instrument to assess affordability in some geographies, as the maximum 45 percent debt to income ratio was too high for local incomes. A northern provider that supports its own local equity loan model seeks loan-to-incomes of a maximum of 3.5. Furthermore, 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. This was especially the case if niche or non-mainstream lenders were involved, although there are fewer specialist lenders in the market some providers refused to work with particular firms. A for-profit provider outsourced the affordability assessment and operation of the Homes England calculator to new-build developers. As the cost-of-living crisis is becoming more urgent there is some anecdotal evidence that lenders may be carefully considering requests to include other long term costs not just rising mortgage interest rates n affordability assessments, but providers as well as lenders need to review affordability practices.

> "You do the affordability on their current rent, service charges, and their current income and I always feel that we should be doing it for year 2, year 3 as well." (K11)

> "If anything, we are overly cautious and lenders tend to override us and say, well we're prepared to lend. [...] They obviously assess the rent as part of the mortgage application, and the service charges, and obviously even down to how many children they've got, your debts, it's very very thorough. Just to give you an example, since 2008 we've had one repossession. We had ten the year before the [financial crisis]. I think it's because the lenders are better, they're not offering the silly 100 percent, doing a mortgage at 110 percent, they're being more careful." (K3)

Since the fieldwork was undertaken, the Financial Policy Committee (FPC) of the Bank of England (2022a) announced they would remove the requirement of lenders to stress test the affordability of loans by testing affordability at 3 percentage points above the lenders' mortgage rate. The FPC considers this stress test to play a minor role in limiting unaffordable mortgage lending as the loan to income at 4.5 times was sufficient to curb excess in the market. It is unclear how banks have responded and at a time of rising interest rates and pressures on household finances they may continue with their post-crash approaches. It is also unclear whether the stress test was minimal in the affordable homeownership sector as borrowers here are more marginal to their local housing market prices, indicators of greater vulnerability and some display affordability problems.

Shared owners benchmarked mortgage affordability to private sector rents and often valued the additional amenities, security and other benefits they had in the new property. This frequently meant that even if they were paying more for their loan than other purchasers there was a trade off against having security and a stake in their home. Only a few shared owners took a conservative approach to the percentage equity share bought while others took on property that meant their housing costs were up to the maximum 45 percent of income. The 45 percent debt to income ratio exceeds previous research on affordability thresholds[8], but providers and shared owners noted that providers did adjust the maximum affordable share to account for children. Some shared owners sensed that they had to buy the share offered or not at all, but others had been able to opt for a comfortable equity share and did not feel pressured.

> "I enquired, and the mortgage broker at the time says, yes, we can do this. I encourage you to go to the maximum as possible, because I had quite a big sized deposit saved up. He wanted me to go further. At that point I just felt there's no way I can go any further than what he's saying, because that's when I got a bit scared, hold on a second, I would be virtually living on just bills and no savings, no holidays, no nothing. I turned around and said no, I can't go any further than what you're saying, so we kept it to the 55 per cent. That's basically looking at my own finances and affordability at that time." (HB31 SO)

One shared owner did not want the housing costs to exceed their current rent and was able to buy a 25 percent share. Although the broker wanted a larger share the broker determined that 40 percent was unaffordable, but they were not pressured to exceed the 25 percent they opted for. Another shared owner thought that associations required a certain proportion of equity shares of certain levels on a development and felt that they would not have got the house if they could not have reached this target percentage.

Choosing a mortgage

Interview participants almost all obtained loans through mortgage brokers and had fixed rate mortgage deals, reflecting the popularity of these loans seen in Chapter 2. Fixed rate deals also delay the benefits of falling mortgage interest rates but conversely the shock of rising interest rates is also delayed until their current deal ends. Fixed rate deals of 2-, 3- or 5-years universally offered new purchasers' peace of mind. A minority of participants undertook independent research on the mortgage market, due to having unusual building archetypes, or circumstances, and a few used their own bank for convenience. Most participants placed trust in mortgage brokers to find the best deal.

[8] There are multiple ways to assess the affordability of housing costs, using income to housing costs ratios, using proportions of households in any given area that can afford homes on the local market, or using assessing how much households have left over after their housing costs are paid (Mean, 2018). Bramley (2011) considers similar issues but suggests that 25 percent of income spent on housing costs remains a good rule of thumb for assessing affordability, above which payment problems become problematic. The Affordable Housing Commission (2019) used 30 percent income to expenditure ratio to be a reasonable threshold to assess housing affordability.

Some earlier shared owners had little choice over a mortgage lender and found that all their neighbours had obtained loans from the same lender. The market has become more diverse over time. Nonetheless, some shared owners were frustrated that they encountered higher mortgage interest rates, although many compared the costs to their previous rents rather than other mortgages. There were examples of shared owners getting particularly good deals at purchase, but more often shared owners were advised that on remortgaging at the end of their initial deal they were then likely to attract a lower interest rate, as their circumstances or the loan to value ratio will have improved. Help to Buy and especially Right to Buy owners benefited from lower loan to value rates to obtain a competitive deal at the outset.

> “Mortgage: goodness me, we hunted... At the time, it was a very niche product, so it transpires everybody in this rank of three houses all have the mortgage with the Leeds. […] When you hear people saying, 'Oh, I pay half-a-per-cent interest rate,' - and I tell them, 'I'm paying nearly five per cent because it's shared ownership.' My credit rating now is absolutely fantastic. My wife's is the same. We've got a fixed rate - ours is fixed rate for five years - so it's just under five per cent, but the lowest they would offer is three per cent because it's a niche product.” (HB7 SO)

A lender explained that they seek a premium on niche products, such as shared ownership, whereas Right to Buy loans are close to the mainstream market, Help to Buy and especially shared ownership mortgages command a greater premium due to the more onerous administration involved. These loans are also influenced by typical loan to values which for Right to Buy and Help to Buy are low (75 percent or less, once the equity loan or discount is applied), whereas shared ownership loan to values are typically 95 percent which represents a greater (price) risk for the lender, and all higher loan to value loans regardless of whether shared ownership or not command a premium. 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. From this lenders’ perspective the premium is warranted as shared owners present as more vulnerable when struggling. This could be because housing associations often request that lenders repay rent or service charge arrears which in affect transfers the provider debts to mortgage accounts, discussed below.

> “On risk it’s an odd one with shared ownership because you see that the default risk isn’t a million miles away from what you’d see from a standard 95 percent mainstream customer, basically they’re as likely as each other to fall into problems. With shared ownership, when someone does fall into difficulty, they become a problem much, much quicker in terms of arrears build up, so they behave slightly differently when they default.” (KI13)

Shared owners reported higher interest rates, especially at the point of purchase, that are sometimes reduced over time as loan to value ratios fell. But despite Right to Buy mortgages being largely mainstream products, some participants also indicated high rates of mortgage interest (e.g., five percent plus) and the use of non-mainstream lenders, possibly because of adverse credit, self-employment and unusual archetypes that meant building insurance was problematic. One Right to Buy homebuyer also found remortgaging expensive as the conveyancers and council wanted to charge for certain Deeds of Postponement forms to be completed.

> "It was a learning curve but once you've got past that learning curve and you found out which mortgage suppliers would do it but then it filtered even more for me because one, I was part time earning. It was also which mortgage providers would accept tax credits, your spouse maintenance payments as classed as income because not all mortgage providers do." (HB122 RTB)

Some purchasers wanted shorter mortgage terms, notably among older buyers in shared ownership and Right to Buy who needed to clear the debt prior to retirement, or, less often, because they were conscious a shorter term was less expensive. Many participants reported longer mortgage terms, in line with trends in the wider market. Brokers had advised participants to take-out loans over 30 years or more to avoid commitments to higher mortgage repayments, and offer some flexibility if funds were short at any period. Overpayments were advised to reduce the payment term in practice, although few people made any overpayments. For others affordability could only be achieved by using longer loan terms and offered a more comfortable commitment in the short term. A minority of loans were due to end beyond retirement and people were not always confident that they would want to work until aged 70 years old, for example. Few participants noted the higher overall total mortgage costs of longer loans, and the risk of higher payments now was weighed against a distant risk of paying more expensive loans later. Moreover, longer mortgage terms at the outset limits the use of extending mortgage terms to manage mortgage arrears, staircase or repay equity loans post-purchase and increases the likelihood of future cohorts paying mortgage loans in later life with risks of early exits from the labour market and ill-health.

> "He said that basically his advice was, 'Don't be a slave to your mortgage. You can always overpay your mortgage slightly more, and you'll get a much better rate moving forward as well.'" (HB13 HtB)

> "The only way I could staircase was by extending the years, so originally, I had 25 years, I then extended that to 31 years to get the extra share. That's why I've hit the ceiling, because I don't think I can go any beyond 31 years." (HB31 SO)

Managing rent and mortgage arrears

Mitigating payment risks

Some participants mitigated payment risks by obtaining income or payment protection insurance or strategising to rely on family support if they struggled with housing costs. Some had not anticipated the risks of losing a job.

> "I think that's why we thought let's just save some money because we want to make sure that we are always up to date with the mortgage, which I'm sure, we try our best to be up to date anyway in case something really big happens." (HB104 Open)

> “So, I ended up taking out an income protection insurance that means that should something bad happen to me, illness or health-wise, that there is something in place at least, to be able to support me.” (HB13 HtB single)

> “Hindsight is a wonderful thing! I wish I'd taken out mortgage protection insurance or something like that for when I was made redundant.” (HB24 SO)

A total of 14 participants experienced income shocks: four Help to Buy purchasers, five shared owners, two open market purchasers and three Right to Buy purchasers, and eight of these events happened during the early lockdowns of the pandemic. The furlough scheme combined with limited opportunities for consumption spending meant some of these purchasers were able to manage this drop in income. Others who were furloughed experienced subsequent redundancies but rapidly secured new employment. Two Help to Buy purchasers and one shared owner made use of the mortgage deferral scheme to provide a breathing space to re-establish themselves, with their arrears capitalised their payments increased by between £5 and £17 per month. Dual-income shared owners were not entitled to housing benefit on the rental element of the payments as a partner's income was too high, but housing benefit had been beneficial for single owners and is discussed below. A minority of purchasers with income shocks were supported by family. One participant lost income during covid but avoided claiming on the income protection insurance to avoid increasing the premiums and were supported by furlough and reduced expenditure. Aside from the furlough scheme and a buoyant labour market in the unusual economic circumstances of the pandemic, savings, lender forbearance and especially family were important safety nets.

> “Savings, really - and his parents helped us once or twice.” (HB129 HtB and three-month deferral)

> “Really, really helpful [the mortgage deferral] because that money that we would have paid on the mortgage every month was helping us to live, basically to eat! It sounds really dramatic, doesn't it? We were saving it up as well so that when it came to a point where there was no income at all from his side, that's what we were using. So, it really, really helped.” (HB118 HtB)

> “My husband was on furlough for three months. He tried to get other work or do something during that time, but he couldn't get anything. Then his company said they wanted them to go back to work. Once the three-month mortgage holiday came to an end we thought right, three months is enough, we were fortunate enough that we could carry on as before.” (HB33 SO)

> “Well, I was off sick for a little while [during covid lockdowns], so I did have [reduced income], my income did drop at one stage because I was just on statutory sick pay. Then, I suppose at that time my mum was covering the bills, I suppose. So, if I'd been by myself, I would have been in a real pickle.” (HB112 Open)

Experience of mortgage and rent arrears

Providers and stakeholders had no insight into Help to Buy and Right to Buy arrears, but housing providers related their experience of shared owners getting behind with rent and mortgage payments. As in the wider market the impact of the pandemic on mortgage arrears has been contained, providers reported that shared owners have been struggling with payments, although some of the decline in rent payments began prior to the pandemic. One association had rent arrears of eight percent on shared ownership homes and witnessed households dipping into the rent to cover key household expenditure. This accords with the FLS which showed the greater impact of the pandemic on shared owners' finances and bodes ill for the coming period of squeezed household incomes and possible recession.

> "It's the younger tenant. This is an awful thing to say, it is those under the age of 35, that seem to have that impact more. COVID has had an impact on arrears, but taking that aside, people being on furlough or whatever, we can ignore that. I think the general excuses are starting to become, definitely not lifestyle because that's essential expenditure, you know, a car for work because you're a young nurse, a community nurse and your car's broken, it shouldn't be at the expense of your rent payments. That is definitely becoming more of a reason for rent not to be paid than ever before." (K11)

> "I don't think it's as high as we may have expected it to be, when you think of the furlough and the pandemic, I think we were expecting it to be higher position. So, from that point of view, that's positive for [HA name], it's not saying that we haven't got people in arrears and difficult circumstances because we have." (K4)

Unlike in the wider market, shared owners have access to support via their landlord. Housing associations have benefit advisors or money advice teams that offer debt advice and facilitate housing benefit claims to cover the rent element of shared owners' housing costs. Other providers worked with local Citizens Advice who played a similar role. Providers considered the social values of the landlord as being important in supporting struggling shared owners. During Covid one provider offered rent payment holidays, and around 20 percent of their customers had some sort of interest free forbearance package in place to manage the rent arrears that had accrued. This was the case for the for-profit provider too who said that they were also inclined to buy back stock to retain the stock as shared ownership and maintain the rental stream.

> "From our point of view, certainly over this last year when we've had Covid, now clearly people have been heavily impacted by that, but I'd say certainly in the affordable homeownership world and if you're being housed by a registered provider, there are quite a lot of support that we offer to mitigate against risk." (KI17)

Shared owners' experience of housing association and benefit support

Shared owners had mixed experience of support from their associations and the benefits system. The ability to claim housing benefit on the rental element is a key feature of the shared ownership model, providing some support when people struggle with housing costs. Several providers mentioned this provision, although not all shared owners were aware of their eligibility to claim housing benefit, a significant information gap. Some who claimed were not entitled, but three shared owner participants benefited and were able to retain their homes when they faced payment difficulties due to redundancy and ill-health. Shared owners are advantaged in the benefit system in that shared ownership rents and service charge should be paid in full and are not subject to caps on eligible rents associated with the local housing allowance, or the spare room subsidy, and there is help towards meeting the service charge costs too.[9] However, one shared owner reported that his rent was twice the maximum housing benefit allowable, and so he still accrued rent arrears. This could indicate that local authorities may have struggled to fit shared ownership into the usual housing benefit regulations. Another owner claimed long-term housing benefit due to ill-health and had been receiving Support for Mortgage Interest but declined it once it became an interest-bearing loan, but she managed to pay her small mortgage from benefits. The Citizen's Advice and housing association staff helped her navigate the benefits and deal with lender litigation. Another participant was claiming tax credits and on a low income but did not claim housing benefit as she felt that she was already receiving state support, although she had exhausted her claims for ill health on protection insurance. One provider noted that they had 20 percent of their shared owners on some sort of forbearance package after the pandemic.

> "So if people are losing jobs, having to move, we've got a pretty extensive amount of forbearance. For instance, we've got, probably at the moment, 20 per cent of customers on some form of forbearance where we don't charge interest and we give people up to six months of moratorium on paying rent." (KI17)

> "Because with a lot of shared owners the other thing we found was there was a real reluctance to claim any form of housing benefit. There was almost a stigma attached to it, but what we found was once the team were able to interact with them and explain, almost put them at ease that they're not alone in this and there are thousands where they are, it helped overcome that quite a lot." (KI23)

One shared owner's association refused to buy back his home after a second spell of redundancy, although he was able to negotiate a repayment plan for the rent arrears. Another shared owner, in contrast to their lender, found their association to be intransigent:

> "The first contact I had with them was when I was between jobs and I was just struggling a little bit, financially. I contacted them, and that was the first-time alarm bells started ringing. I contacted my mortgage company and I managed to, I think, either move my mortgage to interest only for a few months, or agreed a payment holiday or something, and that was very straightforward. I contacted the housing association and said that I might fall behind. It was made clear to me, in no uncertain terms, that that can happen and yes, they were just very inflexible. It was crystal clear that you could not fall behind on your service charge or your rent. That was really the first contact I had with them, and I was a bit taken aback by how really inflexible and unwilling to accept any kind of circumstances, or anything like that, they were." (HB28 SO)

Overall, the product features of shared ownership can provide additional support for those that experience payment difficulties although there are mixed provider responses in practice.

Working with lenders in shared ownership

[9] Shared owners are not subject to the Local Housing Allowance maximum rents for private landlords as they are tenants of a registered social landlord (13C(5a) Housing Benefit Regulations 2006 as amended). Neither are they subject to the social sector maximum rents, otherwise known as the spare room subsidy or bedroom tax (A13(2) Housing Benefit Regulations 2006 as amended).

Lenders and providers described arrears typically arising from life events, relationship breakdown, loss of employment income, and ill health, similar to the wider market. A lender noted that shared owners fall faster when they fell into arrears, possibly as they have less of a buffer to recover as quickly as other borrowers. This may also be due to provider rent arrears being transferred to the lender's mortgage account. One provider describes this frequent practice of lenders repaying rent and service charge debts to retain the security of the mortgage. It seems therefore that shared ownership has higher arrears but few repossessions as housing associations work to retain the home or help the person sell to remedy housing debt, providing a softer exit than lender repossession. This practice of seeking lenders to repay rent debt may prevent repossessions, but in a falling market this landscape of few possessions could change as shared owner finances may have low resilience.

> "If it were £2000 outstanding for example, they would pay us £2,000, clear the rent and service charge account down, but add that to the principal mortgage, and obviously, enter into an agreement with their borrower. Now, what tends to happen is that's all well and good while values are increasing, but if you get to a point where the debt is more than the value of the property at that point, clearly there's a potential foreclosure situation, and the lender will then take control of the property, and potentially take possession. It doesn't happen very often. I reckon we probably see, I don't know, ten or 15 a year, off the back of a stock of 5500." (K1)

Most providers reported good relationships with lenders, as lenders' have a role specified in the lease, and there are arrears protocols developed in the sector. However, some providers reported that lenders can occasionally proceed with possession cases without notifying them and many associations refuse to work with particular lenders as they can be aggressive in their arrears recovery procedures and not give purchasers a chance to remedy the situation. We were unable to capture more lenders views of these rent and mortgage recovery processes, but the best outcomes for the customer must guide practice.

During the pandemic the lenders, facilitated by the Government, had a uniform mortgage deferral period and were frustrated that housing associations were not all similarly operating in a uniform way. One provider set up its own hardship fund to manage rent arrears during the pandemic and several noted that they avoided asking lenders to repay this debt and capitalising these arrears as these debts would hit the housing association, with interest added, if the property was repossessed. Providers were, however, frustrated as they felt that mortgages were prioritised over rents. This was not convincingly borne out in the EHS survey data- where mortgage debt was higher than rent debt - but lender repayments of rent debts to associations may mask rent arrears as they often show up as mortgage arrears.

Consequences of not paying rent in shared ownership

Some participants highlighted the status of shared ownership as both a long-lease and an assured tenancy. This means that if the tenancy is terminated due to rent arrears, then the lease falls away and any equity in the home is forfeited (see discussion of Richardson vs Midland Heart, Bright and Hopkins, 2011). The Government webpages now include the warning "*You may lose your home and the money you put into it if you do not pay your rent or you break* *the terms of your lease."* Sector staff have downplayed this issue in previous studies as lenders regularly step in and repay outstanding rent to preserve the loan's collateral (see Cowan et al., 2015). A mortgage is now absent in a third of shared ownership sales, so it remains an unresolved weakness in the lease. Another consequence of the assured tenancy status is that providers can use the *mandatory* Ground 8 to secure possession of the property if there are eight weeks or more rent arrears. In contrast, possession by mortgage lenders is only on *discretionary* grounds where the debt must still be proved but also the reasonableness of granting possession.

> "If God forbid, anything happened to me and [my partner] couldn't pay the rent, in theory, they could take the house, we'd lose any equity. We're not protected in any way, shape or form. I know we're in a very precarious position." (HB7 SO)

Exiting unsustainable shared ownership

Several providers mentioned that selling the property was a common way out of financial difficulties. It is common for struggling owners to sell up in the wider market and shared owners are aided by associations facilitating the sale. Providers in the south noted the high demand for shared ownership properties which may support distressed sales. One northern shared owner had wanted his provider to support his exit from the property, but they were not willing to do so. He experienced a long period repaying debt but would have preferred to have left the property. This person experienced problems with the building safety crisis and it is unclear whether the problems of unresolved cladding may have contributed to his landlord being unwilling to buy back the property or facilitate a sale.

> "We don't have any problems selling a shared ownership property if somebody needs to sell it and needs to sell it quickly." (K1)

> "What would have been helpful for me is for the housing association to try and help me get out of that property because, as when my income decreased, as it did, in any other situation I would have moved out. If there was some help, rather than just me have to live in that apartment and stack up debts, which really caused my stress level, some support in looking at how to help me move out of the property which the housing association have never really offered any help." (HB3 SO)

It seems that housing association approaches to managing sales of struggling shared owners and arrears recovery via lenders acts to dampen headline arrears figures in associations.

> "I'd say four or five where there are arrears, but they're not involved in a sale. I think part of that might be masked by if we do start to get increased arrears, we just ask the lenders to clear them. I may not see a realistic picture." (GM5)

As shared owners can increase their equity stakes, it is also possible to reduce exposure to the market by decreasing equity stakes if a person's circumstances permanently change, and the household has vulnerabilities such as children, disability or similar extenuating circumstances. This downward staircasing in shared ownership offers a flexible tenure option but has been problematic (Burgess, 2021). The Capital Funding Guide governs registered providers' practices and guides that capital receipts from sales and staircasing on grant assisted homes can be used for downward staircasing only as a last resort in managing unsustainable housing costs. A minority of providers wanted to offer struggling shared owners' flexible reductions in their equity stakes but reported that they faced funding constraints as downward staircasing would undermine their development capacity. However, the funding to support a few cases of buying back shares is likely to be small in comparison to large development programmes. When considering buy-back requests, providers involved financial advisers to ensure that the changes would be beneficial to the purchasers and facilitated these transactions in difficult circumstances. Providers requested further guidance from Homes England and additional grant funding to support this small but important activity.

> "We could do more, but it's a balancing act because of the funds we generate, we've got to use part of that to build more homes, we've got to use part of it to support communities, so we've got to make quite tough decisions as to where we allocate those funds. Each purchase can be in the order of £80,000-£100,000 in the areas we operate in so it's a relatively sizeable amount of money." (KI23)

> "I was thinking more like grant input to soften the blow on the housing association. Governments are never this sophisticated, are they, but they need to look at the impact of allowing that tenancy to fail in social value terms. What's going to be the call on the benefit bill, for example?" (K1)

One lender could also see merit in shared ownership as part of a wider flexible tenure system that could support people reducing their equity stakes to release equity in later life and for those managing unsustainable debts if they retained reasonable credit scores. A housing provider said that they had been approached by lenders looking for downward staircasing exits from interest-only loans, as noted in Chapter 3, these loans are a legacy hangover from prior to the financial crisis.

Subletting to provide breathing space

A few people planned to take in lodgers to help pay bills, if necessary, a benefit of permitting extra bedrooms. To ensure the home is not bought for buy-to-let investment purposes and is a person's primary home, subletting the entire property is not available to shared owners, although some housing associations have applied discretion. 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. This aspect of shared ownership deterred some prospective purchasers from buying a shared ownership property as it removed a safety net if problems did occur. Other participants had weighed up subletting, but some were concerned that private sector rents were insufficient to cover their expenses with inflated insurance and service charge costs due to building safety issues.

> "As a shared owner, you're not allowed to sublet. Yes, we have gotten permission to sublet. In our case, it doesn't really help, because we're not going to get enough rent in this block to cover all the costs. It's just not going to happen. I have weighed this up, subletting and moving somewhere else,

> but because the rent and the service charge is so high, whatever rental income you're going to get is not going to cover it." (HB28 SO)

Right to Buy

Right to Buy administrators had requests from purchasers to buy back the properties regularly but most of these arise from purchasers being legally required to give the council first option to buy when the owners want to sell within ten years. One provider was sufficiently concerned about the small proportion of these sales arising from unsustainable housing debts that they were undertaking work to look at mortgage rescue style mortgage to rent schemes.

> "Sometimes those requests are borne out of a change of circumstances. They might be struggling and very often it's along the lines of, you know, relationship breakdown but they can't afford to buy their partner out and they don't wish to move as they wish the council to buy it back so they can remain as a tenant." (GM16)

Other housing costs

Mortgage costs are the principal housing cost for homeowners, but other charges are incurred, such as service charges to cover communal services in leasehold properties, and rent for shared ownership, that covers the unsold equity share. Interestingly the repair costs and insurances were frequently omitted from homebuyer comparisons of monthly homeownership costs with their previous private rents. These additional charges, specifically the service charges and rents, posed a payment risk for shared owners as they stretched affordability of the hybrid tenure over time.

Service charges

Negative experiences of service charges arose among shared owners who bought flats, with positive or neutral experiences mostly arising among shared owners who bought houses. The problems for flat owners related to the opacity of the charges, the area of responsibility that shared owners had, charges for services that were not delivered, third party managing agents and rapidly rising costs. 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. Another shared owner was contributing to the building insurance of an adjacent apart hotel, another for lighting that their part of the development did not have and another for the road to a car park to which they had no access. In contrast, some shared owners had received service charge rebates, mostly among the houses where fewer problems arose, but others found the combinations of multiple parties - offshore freeholders, managing agents and the housing association - in this arena difficult to navigate. Rising insurance costs in properties with unresolved cladding issues rendered service charges unaffordable. One shared owner was very clear about how variable service charges worked, but others found the details opaque and beyond their control, especially in large apartment blocks.

> "The service charge, they give you an estimation for each year based on the last year's costs and then then divide that into twelve and then towards the end of the year they do a reconciliation to see how much it actually costs. Sometimes we get money back," (HB5 SO flat)

> "It does outline quite a lot of services in the lease, but it says that they can be extended. So, you have really no control. When I moved in, there were two members of staff. This is a massive money spinner for the managing agents. They just employ more and more staff to work on the development, they don't even have to consult on that. The law doesn't require them to consult. So, we now have ten, 11 members of staff, working on one development. It's insane and it costs an absolute fortune." (HB28 SO flat)

Shared ownership providers indicated that they had a reduced appetite for large sale flatted developments following the building safety crisis, and their limited control over third party managing agents to resolve persistent issues with service charges. While these arrangements were challenging for associations, not all shared owners were aware that their housing association was not the freeholder of the development when they purchased their flat. The existence of a head-lease and its detailed constraints emerged only after complaints to the association about property management and service charges that were outside of their control. One provider noted that shared ownership rents do go up, but it is in an expected way, albeit as we note below not appreciated by all, but variable service charge costs are challenging for both providers and shared owners.

> "Service charges, for some people, have been the death knell of their homeownership dream in the wider leasehold world but it's so difficult to work out how to control variable service charges. We have had some instances where we've gone in, done the cladding and paid for it, but the insurance premium is ten times what it was. It is outrageous some of the practices I think of the managing agents on service charges." (KI17 provider)

Housing associations are under pressure from shared owner complaints about escalating costs but as providers pass on all variable service charges to the leaseholders the extent to which there are incentives to control these costs is unclear. Notably, the problems for one shared owner had not abated when their block residents had exercised their Right to Manage their apartment block. The block residents were unhappy with the housing association, so they undertook the Right to Manage but the companies appointed to replace the housing association have also created problems. They are currently paying £204 a month for internal aspects (e.g., lighting) and for external they were told that each flat must pay £695 every six months in advance. Other shared owner leaseholders have had to navigate a complex array of companies and their subsidiaries who have increased the management fees. The Housing Ombudsman (2022) has highlighted the problems arising for social housing tenants and shared owners from housing associations' difficult relationship with third party managing agents and has called for greater regulation of the property management sector.

> "The housing association at the time was [HA name] and it was sort of like an offshoot of theirs was managing outside, [Name A] Management. The service charge would go to [HA name] and the portion of it that dealt with the outside areas would just get passed on. It used to be a lot less

expensive than what it is now, now that they've split. [HA name] have become [HA B name] and again are about to become [HA C name]. [Name A] Management went and [Name B] took over, who are an offshoot of [housing developer]. They've recently been swallowed up by [Name C] Management. Each company is harder to deal with than the one before." (HB33 SO)

"Since we've become Right to Manage, the outside service providers, each company just gets nastier and nastier. They want more money for doing less or nothing. They won't talk to us; they won't engage with our management company. It's not great from that side!" (HB33 SO)

The Greater London Authority (2021) has drafted a service charge charter in collaboration with providers, leaseholders and themselves as the affordable homeownership programme grant funder for London. This applies to new shared ownership homes developed from 2021 onwards and aims to empower residents to challenge providers and offers enhanced:

- transparency, including detailed explanations, the apportionment of service charges between different residents, and ensures providers consult on changes to the charges.
- affordability, provision of realistic estimates, requires providers to manage increases and how providers can support those struggling with costs.
- design, requires providers to minimise service costs from the outset while ensuring inclusive design.
- opportunities for challenge and redress, where providers set out how tenants can complain and when providers can be expected to respond.

The GLA Charter is a welcome move to navigate a way through complex and contested problems. The GLA capital funding guide that governs the use of housing subsidies for affordable housing states that the charter must guide providers although the charter remains a voluntary commitment and access to grant funding does not require the charters' adoption. Twenty-six housing providers had signed the 2017 iteration of the charter, it is unclear how many have agreed to operate the 2021 version.

Help to Buy owners also had estate service charges and occasionally had apartments with more substantial service charges, but these owners had fewer negative views. While Help to Buy residents had occasionally queried charges, one participant viewed the range of amenities that the charges covered positively as they would enhance the value of the property. These owners were less price sensitive, included more houses, and service charges did not attract the same level of complaint as for shared owners. Most Right to Buy participants and open market purchasers had bought freehold houses, not on modern estates so there were no service charges involved.

"I think if you're in a house, there's obviously going to be a lot less issues, because it may be not a leasehold situation, I'm not 100 percent sure how that works. Also, you're not going to have service charges, or you're going to have very low service charges, and you don't have these managing agents to deal with, that want to make money, so they're going to increase everything all the time so that they can make more money" (HB28 SO)

Shared ownership rents

The range of leases in the market will diverge in several ways from the current model lease, with housing associations being free to raise rents less frequently than annually, charge different rents as a percentage of the unsold equity and increase rents by more or less than inflation. Rents on current new leases are based on 2.75 percent of the unsold equity charge collected in monthly payments, and associations can raise the rent by inflation (RPI) plus 0.5 percent. Some older leases may vary from these parameters in recent leases and may have a higher rent charge and uplift in rent, for example, 3.25 percent unsold equity and RPI plus one percent rent increase, for example. The relative importance of rents to a person's overall housing costs depends on the percentage share purchased and the overall value of the home. In this respect mixed experiences are unsurprising.

Many shared owners found their homes were affordable and compared favourably with the open market or private renting. Others were more critical of the above inflation rent increases, notably in comparison to a mortgage for the equivalent equity. Although most participants compared housing costs to private renting, sensitivity to the inflation-plus rents among shared owners also arose from comparisons with low mortgage interest rates. The rents at around 2.75 percent of the unsold equity (plus the over inflation rent increases) could be higher than the equivalent mortgage costs for that equity share. The financial value for money of shared ownership had changed.

> "If interest rates are very low, then actually, there's not much financial benefit to being a shared owner, and that's why I've decided to buy the other 60 percent of my property and take out a mortgage to fund that. The mortgage costs will be only slightly more than the rent that I'm paying at the moment, and I will then get equity participation as prices rise in the future. "(HB9 SO)

Some shared owners were content with their housing costs, but for others, combinations of low shares in high value places, annual rent rises and, increasing service charges caused problems. One shared owner suggested individual projections at the point of purchase of rent and other costs would have helped manage expectations. Rising rents were one of the issues shared owners were most vocal about.

> "I think as much as I can moan about shared ownership, it is low rent and low mortgage, so my mortgage and rent have never topped more than £400 per month, which when you're in the South East of England, people pay £800 to £2,000 plus for their rent or mortgage whereas mine has never gone above £400." (HB24 SO)

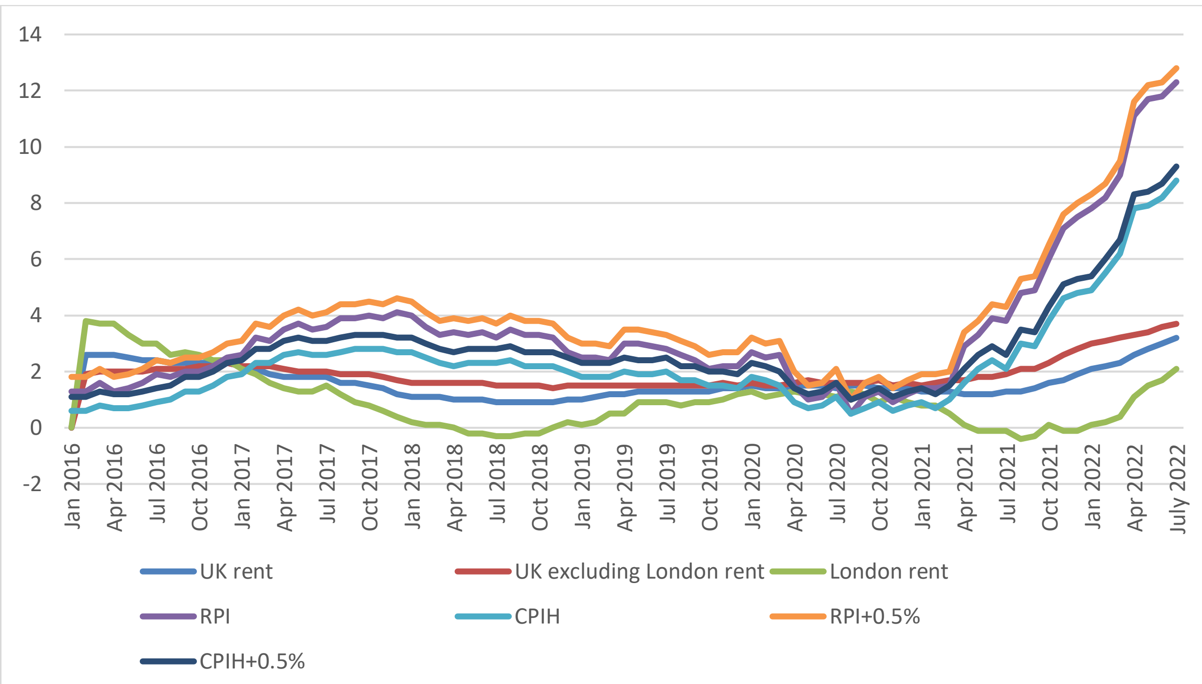
> "Over time, what's becoming a bit burdensome is the rent that I have to pay which goes up by the Retail Price Index plus one per cent. It's now £780 a month. […] The bit that scares me now is the fact that the rent keeps on increasing by the Retail Price Index plus one per cent. So that bit is becoming expensive. In a few years' time, I'll need to think about what I'll do about that." (HB37 SO)

> "I mean I've still got the brochure. It doesn't outline the costs that you'll face in the future. It doesn't outline any things to think about with regards leasehold or with the fact that - with things like

leasehold extension fees. All the other fees that are associated with it, exponentially rising. The possibility that your service charge is going to go up a lot, which that seems to be the case everywhere. Yes, rent increases as well, that's a bit of an issue, that's not really - yes, it's just a very glossy brochure, painting a very rosy picture and you're sucked in." (HB28 SO)

Figure 4.1 shows the difference between the average private rental market uplifts and the inflation figures that underpin possible shared ownership rental uplifts over the last decade. The charts shows annual private rental rises from the ONS Private Rental Index, two measures of inflation, the Retail Price Index (RPI) and the Consumer Price Index Housing (CPIH) and the shared ownership rent rises allowable under the terms of the lease based on RPI plus 0.5 percent (and a hypothetical one based on CPIH plus 0.5 percent). Apart from a period in 2015 and during the first wave of the pandemic in 2020, the rate at which providers could increase shared ownership rents has been above that in the private rented sector. Since 2020 the rate of rent rise that could be applied to shared ownership rents has risen rapidly relative to private rents.

Figure 4.1: Private sector annual rent rises, inflation and potential shared ownership rent rises 2012 to 2022 (%)



Source: ONS RPI inflation; ONS Index of Private Housing Rental Prices percentage change over 12 months, UK

The Greater London Authority (2021a) Capital Funding Guide for the 2021-2026 Affordable Homeownership Programme notes that RPI inflation is being reformed and encourages providers to adopt the CPIH inflation measure which is slightly lower. It remains unclear how widespread the adoption of this changed inflation measure for rent increase calculations is as it is not a funding requirement but is againa voluntary option for providers. The Government is at the time of writing consulting housing providers over introducing a ceiling on social housing tenant rents during this cost of living crisis to CPI+1 percent or by 5 percent, whichever is the lower (DLUHC, 2022c). Shared owners (and indeed Help to Buy owners) are expressly omitted from this consultation.

Private finance has long served the affordable housing sector with debt finance, but the Housing and Regeneration Act 2008 permitted for-profit providers to own shared ownership homes and there has been significant interest in the last few years in new models of institutional investment in the sector. Above inflation rent increases informed long-term institutional investors interest in the sector as they represent a low-yield low-risk investment over time. Institutional investors had bought the shared ownership rental streams and/or the actual shared ownership homes, managed by for-profit providers or the original housing associations under contract. So, what increasingly represents a payment risk to shared owners becomes a low-risk investment for long-term investors and beneficial for developing providers.

> "They're looking for RPI-linked inflation linked returns. So, the shared ownership lease, which is RPI-linked, offers a perfect match for a lot of their pension fund liabilities." (KI 17)

> "It means they can keep producing new affordable homes, but they're not necessarily retaining ownership upon [provider's name] balance sheet of all of it, but they retain the management." (KI 24)

Testing long-term housing costs

To further examine the long-term costs the monthly costs of an average cost two-bedroom home bought using affordable homeownership schemes are compared that to the local private rental costs. We firstly assumed that all the schemes (including Help to Buy and First Homes) had been running consistently for the last 15 years. We then used official data sources to establish the relative costs of buying the same home unassisted on the open market and by using various equity shares of shared ownership, Help to Buy (comparing the costs if the equity loan was repaid via remortgaging, or the loan was not repaid at year 5 and the equity charge was being made) and First Homes. The data is based on two contrasting housing markets, Wakefield in Yorkshire and Humber and Reading in the South East. Alternative housing markets could have been selected but these offered two modest sized conurbations with different regional characteristics over the housing market cycle. This analysis tests how the assumptions about long-term costs play out with real housing, mortgage and inflationary movements over the course of a housing market cycle. Service charges are not included, so should a property be a flat or an apartment the housing costs would be higher. Further details of these data resources are included in Appendix 4.

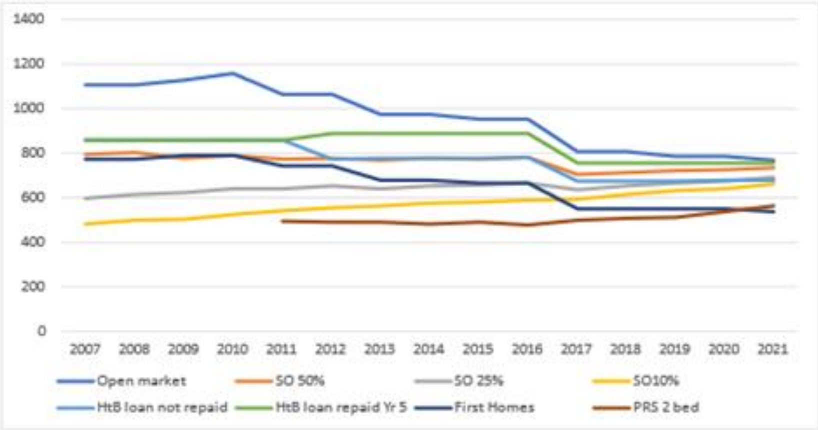
Figure 4.2 shows the long-term costs of the various routes to homeownership for Wakefield and Reading, firstly in absolute terms (1a and 2a) and then the housing costs for each option are expressed as a percentage of the costs associated with the open market purchase (1b and 2b). The 15-year period under consideration saw falling mortgage interest rates, low inflation and a housing market downturn with differential recoveries in different locations.

The first observation in both locations is that the costs of the open market purchase fall consistently, due to reducing interest rates available during the period and because the capital is gradually repaid. Costs of the mortgage in Wakefield reduced from £1,105 per month in 2007 to £769 in 2021. Similarly in Reading the costs reduced from £1,836 per month in 2007 to £1,274 by 2021.

Figure 4.2: Estimated housing costs affordable homeownership schemes, Wakefield and Reading 2007-2021

WAKEFIELD

Figure 1a: Monthly housing costs (excluding service charges) 2007-2021 (£)



READING

Figure 2a: Monthly housing costs (excluding service charges) 2007-2021 (£)

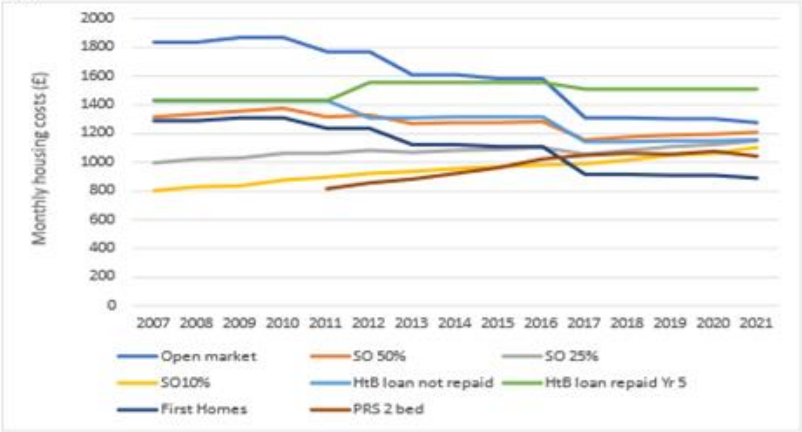


Table 1b: Monthly housing costs (excluding service charges) as proportion of open market housing costs 2007-2021 (%)

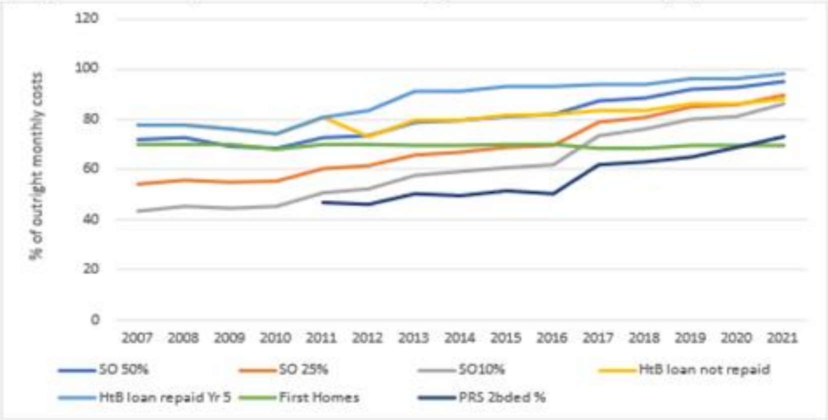
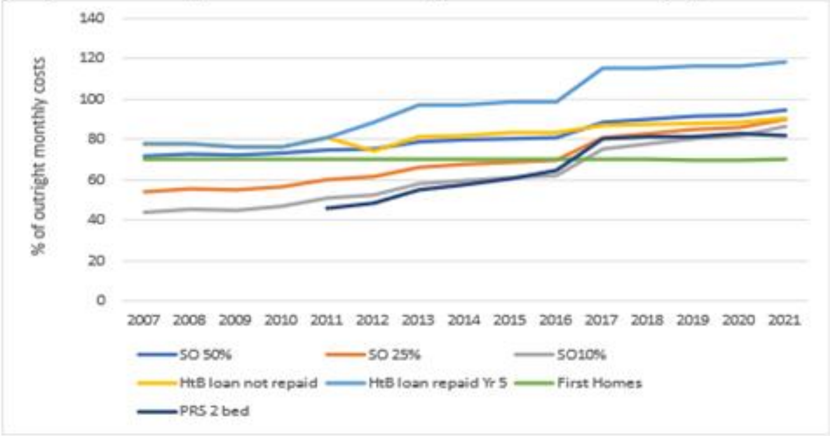


Table 2b: Monthly housing costs (excluding service charges) as proportion of open market housing costs 2007-2021 (%)



Sources: Bank of England (interest rates): Valuation Office (private rents): ONS (inflation): Land Registry (average house prices)

Monthly costs for the Help to Buy options also reduced whether the equity loan had been repaid or not in Wakefield and fell in Reading if the equity loan was *not* repaid. Rapidly rising house prices by year 5 in Reading meant that repaying the equity loan increased the mortgage substantially and so the monthly costs of Help to Buy were higher than the open market purchase from year 5. The Help to Buy purchaser obtained discounted housing costs for the first five years, but would make higher repayments for the remaining 20 years of the loan. By 2021, Help to Buy owners in Wakefield were paying 88 percent of the costs the original open market purchaser was paying if they had not repaid the loan and 98 percent of the open market costs if they had repaid the loan. The discounted costs in the first five years were beneficial and the lower house values in the period following the financial crisis meant that the value of their equity loan was lower at £23462 than the £35,231 when they purchased. In Reading by contrast, the Help to Buy purchaser who did not repay the equity loan was paying 91 percent of the open market purchasers housing costs and 119 percent if they repaid the equity loan via remortgaging at year 5.

Monthly housing costs for the shared ownership purchases behaved differently. The monthly costs for the 50 percent share in Wakefield reduced modestly over 15 years from £794 per month to £732 by 2021. In 2007 this buyer was paying 72 percent of the open market costs but would be paying 95 percent of the open market costs by 2021. The monthly costs for the 25 percent and 10 percent shares increased more over the period due to the over inflation rent rises forming a greater proportion of the housing costs. The relative costs for the 25 percent share increased from 54 percent of the open market costs in 2007 to 90 percent by 2021, and for the 10 percent share rose from 44 percent to 86 percent of the open market costs over the same period. The costs relative to the open market purchase was the same in Reading.

Although at a higher entry cost the estimates of monthly costs for a First Home purchase, maintains the 70 percent of the open market costs throughout the period. A simple discounted sale model that avoids the complexity and rising costs of shared ownership and keeps costs comparatively low. The type of property may not be strictly comparable but note also that the private sector rents for a two-bedroom home in Wakefield remained below shared ownership costs throughout, and by 2021 exceeded the costs for a First Home. In Reading, the cost of a private rented two-bedroom was below shared owners' costs except for reaching a comparable figure for the 10 percent share after 7/8 years.

The combination of local housing price movements, mortgage interest rate shifts, equity shares and rental market demand mean that the relative value of the schemes in terms of greater affordability changes over time. Greater awareness of the possible trajectories of housing costs and the balance with any equity gains and security of tenure could beneficially inform buying decisions. There is a sense that equity loans should be repaid but doing so could make the homeownership experience significantly more expensive overall in rapidly rising markets. Not least as large proportions of Help to Buy purchasers could have bought in the existing market without the support of the Help to Buy equity loan (Finlay et al., 2016). Similarly greater awareness of the impact of rising rents on the long-term costs of shared ownership need weighed against other options, especially when considering the near comparable long-term costs that could exceed that of open market buyers after 15 years if not before for reduced equity gains, which is discussed in the next chapter.

Mortgage safety nets

The main help with housing costs for mortgagors is an interest-bearing loan called Support for Mortgage Interest (SMI). Homeowners must have no household income and be on Universal Credit for nine months before being eligible for this support. The SMI payments are based on a fixed interest rate of 2.09 percent, regardless of a borrowers' actual mortgage interest rate paid. This nominal interest rate for SMI is below the mortgage interest rates that most shared owner participants were paying so any payments would be only payable after nine months and would not meet the mortgage interest in full. This nominal interest rate is also now below that of the Bank of England base rates of 2.25 percent (September 2022) further reducing this benefits' effectiveness.

One lender indicated that Support for Mortgage Interest is peripheral to lenders' decisions on mortgage arrears, as the sums involved were small and that lender forbearance tools of payment holidays, shifting to interest-only loans, capitalising arrears and extending mortgage terms can often be sufficient to manage short term problems. Waiting nine months and then receiving SMI after a payment holiday may just be prolonging an unsustainable situation. However, one key informant was concerned that lenders may not be able to offer sufficient forbearance if markets changed, problematic as forbearance is now the central plank of de facto policy in this area.

> "I think all these sorts of tools [forms of forbearance] are quite helpful and probably simpler to understand than stuff like Support for Mortgage Interest. [...] So for shared ownership and homeownership for longer term disabled [people], it's something we've stayed away from because it does become a bit of an admin nightmare in terms of dealing with it, but it's never been something that's at the forefront of the tools that we would use to help a customer who falls into difficulty." (KI13)

> "But if you've had six months and then nearly nine months of mortgage holiday then you need more forbearance, how far can they actually offer it for? That seems to be quite an assumption that the government have made that there is almost limitless forbearance in the system and that might not be true." (KI 16)

> "I do feel like there is a bit of an imbalance really in terms of the government helping accessing homeownership but there's a lack of help in sustaining it. Like I said, it seems really short sighted in terms of the costs that are incurred when things go wrong could really be prevented, the things like a little bit of advice and a bit of help in a short-term crisis." (GM16)

Purchasers had mixed views of government support for struggling homeowners. Some suggesting that tenure neutrality was desirable in help with housing costs, while others expected individuals to be responsible for mitigating their own risks and resolving payment issues in alternative ways, via sale or family support.

Participants had limited awareness of government support for homeowners and homeowners, although not universally, accepted that struggling homeowners were on their own. These assessments were made in a relatively benign environment that may not pertain. Lender forbearance was important but limited. Shared owners had landlords that would advise on benefits and/or help facilitate a sale or soft exit from unsustainable debt, and occasionally consider downward staircasing, but how Right to Buy and Help to Buy owners fare was uncertain. The EHS in Chapter 3 indicated minimal Help to Buy mortgage arrears but Right to Buy owners carried a higher rate than other purchasers and yet have fewer support mechanisms.

Conclusion

Payment risks and their mitigation related to choosing a mortgage and its cost, the affordability of the mortgage relative to income, service charge costs and the rents, particularly in shared ownership, the importance of savings and family support and government support. Amongst all types of affordable homeownership scheme purchasers typically met the risks of rising interest rates with fixed rate mortgages, which would slow the impact of rising interest rates but present a payment shock for those seeking remortgages. A minority purchased income or payment protection insurances to limit income shocks. Participants who had experienced loss of income, overcame these periods with state support through furlough schemes, lender forbearance and rapid re-employment, measures that may not all be available in an economic downturn as they were during the pandemic lockdowns. Family support was of critical importance across the piece.

Shared owners were aware they paid more for their loans, but this was a lower concern than the rising rents and service charges that exerted greater pressure on household finances over time. Avoiding these additional rent pressures during this cost of living crisis will become an urgent issue for the Government, although their appetite to do so appears limited. Moreover, that these over inflationary rent increases comprise an appealing rental stream investment for providers and institutional investors may limit the incentives for them to be curtailed. Housing benefit was an important income support for shared owners who had experienced redundancy and ill health. Providers often managed rent arrears in shared ownership by requesting lenders clear the outstanding balance. This in effect places rent or service charge debts on to the mortgage accounts, where they would attract interest, possibly underpinning a lenders' observation that shared owners fell more quickly than other mortgagors once in arrears. Routinely asking lenders to repay shared owners' rent debts could be escalating customer problems. A small minority of shared owners highlighted the risk of losing equity due to rent arrears, a weakness left unresolved in the new model lease. Housing associations offered support from financial inclusion teams for shared owners and/or support to sell if the shared ownership homes were no longer sustainable. Some providers noted that shared owners with long-term changes in circumstances could be helped with downward staircasing and by making shared ownership a genuinely flexible tenure, but funding prioritised development programmes over customer support in this area.

Little was known about default among Help to Buy and Right to Buy purchasers, although the EHS indicated minimal problems among Help to Buy users but high rates among Right to Buy purchasers. Right to Buy purchasers interviewed had limited resources and although some had pulled through the pandemic might struggle in different economic circumstances.

Chapter 5: Pricing risks

Summary

- Affordable homeownership schemes comprise more flats or apartments than the wider homeownership market and in recent years the house price gains of these property types have been muted in comparison to gains in the wider housing market.
- Over the last two years the value of flats has grown at half the rate (7.0 percent) of semi-detached homes (13.5 percent).
- Equity gains for Right to Buy purchases were significant as there was no equity sharing involved.
- Shared ownership and Help to Buy purchasers struggled with the timing and how to facilitate increasing their equity, staircasing or repay their equity loan. Although shared ownership had an ambition to staircase, Help to Buy purchasers fully expected to repay the loan.
- The initially lower housing costs of shared ownership was not maintained over the long-term could recast the value for money of the product given limited amount of equity gained over time especially for low shares.
- Estimates of equity gains over the long-term showed that repaying the Help to Buy equity loan in falling markets was advantageous but doing in rising markets may mean that Help to Buy purchasers may obtain short-term gain for long-term higher costs. Geography is important in these calculations.
- Participants had mixed awareness of the problems of diminishing assets in leasehold and short lease lengths. Not all housing associations were extending lease lengths for existing shared owners to match the new leases.

Introduction

This chapter highlights house prices risks that arise from location, property type and leasehold arrangements. Relative house price movements for different property types may adversely impact affordable homeownership scheme users who rely more heavily on flats than other property types. We provide estimates of housing equity changes over time for the different homeownership schemes, to highlight how local housing markets, house price, interest rates and inflation can all impact on homeowners' experiences of equity gains.

House price change

Geography is important to housing markets as house prices move in different locations at different rates relative to their perceived economic, amenity or aesthetic values. Property types can also be important to the relative price performance. To examine price risks the study explored the performance of flats relative to houses, homebuyer perceptions of house prices, maintaining values in leasehold properties and equity movements over time.

House prices and flats

Large proportions of affordable homeownership schemes are based on flats rather than houses, particularly in high value high density locations. During 2016/17, 42 percent of all new shared ownership sales were flats or apartments (ranging from 92 percent in London, 49 percent in the South East and to three percent in the North East (Wallace, 2019)). This compares to the 19 percent of all Help to Buy sales, 25 percent of Right to Buy sales, 16 percent of wider market sales and 11 percent of all owner occupied homes in England in 2020/21 (Table 5.1).

Table 5.1: Property type per homeownership type 2020/2021* (%)

	Detached	Semi-detached	Terraced	Flat/apartment
Shared ownership	-	-	-	42
Help to Buy	30	33	18	19
Right to Buy	-	-	-	25
All existing homeowners	26	29	26	11
All market sales	27	29	29	16

*Source: Help to Buy Statistics Table 5; DLUHC Table 681 LA/PRP sales data; Table DA1101 Stock Profile English Housing Survey 2020/2021; *CORE sales data 2016/17; ONS HPSSA Dataset 6. Number of residential property sales for administrative*

DLUHC (2022) note that new shared ownership sale prices have risen at the same rate as the Land Registry House Price Index. However there has been some decoupling of the house prices for flats from other property types after the Grenfell fire in 2017 and again after the pandemic, which may adversely impact more buyers of affordable homeownership schemes (Figure 5.1). From the peak of annual house price inflation for flats of 11.0 percent in March 2016, flats are the only property type to have seen annual *falls* in house prices until 2020, followed by much more modest growth of 7.0 percent to February 2022 compared to 13.5 percent for semi-detached homes. Whether this price gap persists is uncertain but relative values for flats may not be maintained over time disadvantaging many affordable homeownership scheme buyers.

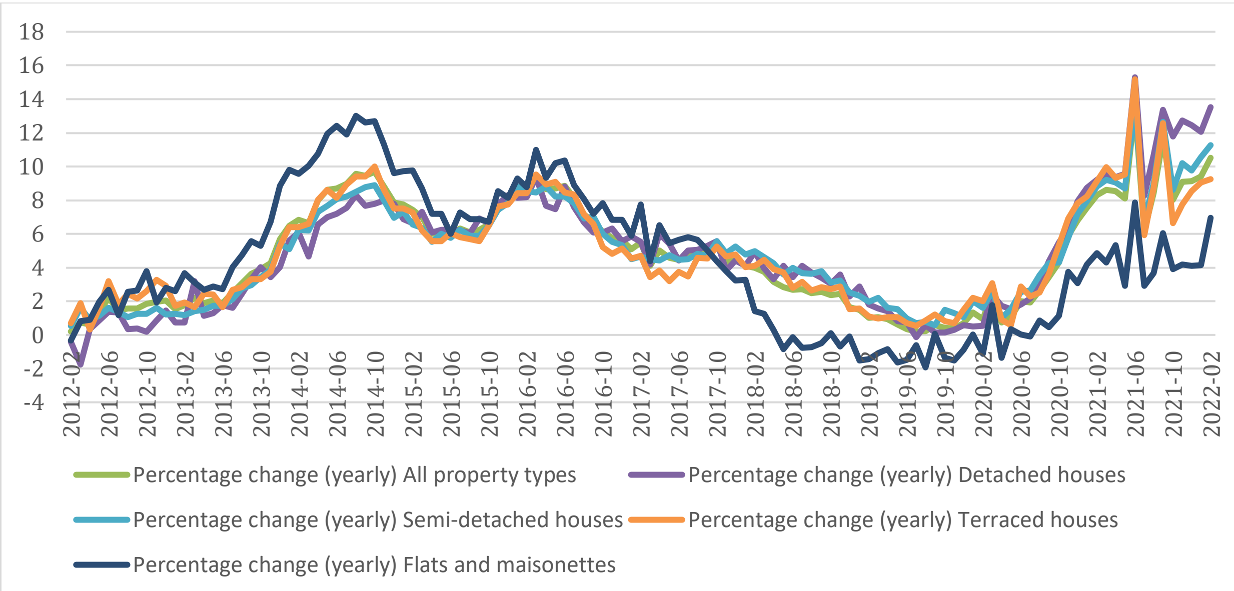
Perceptions of house price change

Few participants talked about housing market downturns nor acknowledged that the schemes limited the impact of any resulting house price falls. Several purchasers were conscious that they were trading equity for initial affordability, although others were less clear and mischaracterised the arrangements.

> "I actually share the risk of the property going down in value, as much as the property going up in value, with the government." (HB13 HtB)

> "Again, you've got to share the equity, so say for example, you did shared ownership on £100,000, £25,000 is yours, they put £75,000 in, that £100,000 value became £200,000 you'd only get £50,000, they would get £100,000 if my maths are right? Yes, so then it's not fair, is it, that £150,000, they made that money, so it wasn't good." (HB106 SO)

Figure 5.1: Percentage annual house price change by property type, England, February 2012 to February 2022 (%)



Source: Land Registry House Price Index data

Not all participants were aware of the value of their home but for those who were there were mixed estimates of house price changes, with some significant variation in price shifts in similar areas, perhaps reflecting the weakness of using respondent 'guesstimates' of housing values With these caveats, issues that impacted on participants' equity gains included the new build price premiums, what several saw as higher prices at the outset. One shared owner thought that it was easier for new builds in affordable homeownership schemes to attract a premium as people buying shares were less price sensitive to the property's overall value. Nonetheless, a minority of shared owners did challenge initial valuations perceived to be over-valued and achieved reductions in their purchase price or obtained fee waivers and free goods. Although one shared owner had an independent valuation but the housing association would not change the rental element of the lease, despite independent valuations viewed as the prime determinants of value for resales and staircasing. Many participants valued new build homes as they reduced the risk of hidden immediate and longer-term repair costs. Others viewed new-build space standards as poor and the homes expensive. One specifically opted for an 'as new' homes to get the style and feel of a new build without the price premium.

> "A new house you pay a premium for the new house, there may be a slight dip, I don't know, say we had to sell in a year or two after moving, there may have been a slight dip, we might not have got exactly what we paid for it. I understood it might have been a little bit less because you pay that premium on a new house." HB20 HtB

> “The independent evaluation was £10,000 lower than theirs, £175,000, so I was arguing at that stage essentially for that lower rent, but they couldn't do that, it's set in stone, it was all agreed with the solicitor, so they offered a discount, as I recall, on the price on my share, so my 12.5 per cent share, waived a couple of legal fees and threw in some furniture from the show flat.” (HB3 SO)

> “This is a real bone of contention this. In 15 years, the property went up in value by £1,000. It was valued at £85,000. I was told that that is very common in shared ownership, that they don't increase in value in the same way that the housing market normally does.” (HB36 SO)

Right to Buy purchasers made significant equity gains because they retained the large discounts five years after the purchase. This discount on the property’s value enables purchasers on lower to middle incomes to access homeownership with minimal outlay. Many of the Right to Buy applicants said they could not have bought without this large cash injection and others considered the option a “no brainer” because of the gifted equity

> “It's because you get such a good discount, so I think that was the driving force for me, because of the discount. I knew once I got the prices what I were thinking, I know that I could afford it.” (HB215 RTB)

Other participants reported that their homes had been devalued due to cladding issues for shared ownership flats, with flats unmortgageable and sellable only to cash purchasers. Another Help to Buy purchaser considered their home to be worth less than they paid due to anti-social behaviour in a mixed tenure development. She was selling up and the sales process obliges her to report instances of neighbour disputes and she feared a down valuation.

Increasing equity stakes

Rising house prices challenged shared owners and Help to Buy purchasers. One key informant noted that shared ownership serves multiple constituencies of people who may want to achieve full ownership by selling and moving on rapidly or by staircasing, increasing their equity stakes in the property. This point could also include different Help to Buy purchasers and a third category who choose to remain in situ and maintain their original equity stakes. House price fluctuations impact upon these groups differently, not least in different locations and at different points in the housing market cycle and adds complexity to the purchases.

> “The demographic who wants to use it to sell on, they need the property market to go up. They need it to be worth much, much more than they've paid for it; enough to cover all the costs of selling, and still make a gain that's big enough to be worth that exercise to put on the next one. People who want to staircase, need the property market to stay stable.” (KI 19)

Remaining in an equity sharing arrangement must be weighed against the rising rental or equity charge costs discussed in the previous chapter. Selling quickly and taking capital gains to a next property can be beneficial, if their financial circumstances have changed or when moving to a lower value housing market, and rising markets can assist this transition to full ownership.

Rising markets do not, however, always support those wishing to remain in place and staircase or repay the equity loan to achieve full ownership.

Shared ownership

That shared ownership holds out the promise of full homeownership is of critical importance to prospective purchasers (Cowan et al., 2015). This feature as well as the emphasis on the hybrid tenure being a form of homeownership comprised part of the Housing Act 1980 that shaped the product in its current form (Cowan et al., 2017). Shared owners may not be able to buy all the home at the outset but in time could realise this aspiration. Some participants had staircased, increasing their shares to 100 percent or incrementally to below that by combinations of rising salaries and extended mortgage terms. For others, initial ambitions had given way to frustration about an inability to save enough or afford the rising value of the non-purchased shares. One shared owner had anticipated price falls during the pandemic and had planned to staircase but a rising market left him without sufficient funds to buy the remaining shares. A couple of participants had staircased more than once, but another was to seek professional advice as she was unsure of the best option to take.

> "So, I'll own maybe 50 per cent in the next five years. And then you just increase it as and when you can afford it, you just buy more shares in the house until you own 100 per cent and then once you do it's your own home." (HB19 SO)

> "I thought as I get older and my income improves, yes, I'll then either save and buy a further share or I'll take out a mortgage and buy further shares. I mean my experience in talking to other people with shared ownership, and certainly my neighbours, is that the costs have gone up so much that it's impossible to save, so staircasing has been impossible for me." (HB3 SO)

Balancing payment and price risks requires continuous market appraisal for shared owners and Help to Buy owners. One shared owner noted that he had been cautious with the amount of equity share originally purchased but now regretted not pushing himself to buy more now that house prices have risen and staircasing is therefore more expensive.

> "I think what he [the broker] was doing was, what he said to me is true, and I do kick myself today saying why did I not do that. What he was trying to say is, at the moment property prices are going up, if you buy that bigger share now, you know you've got less to buy when it gets to that other point. All I could think of is how am I going to afford this, how am I going to afford this. There was this frightenedness [sic] in the back of my head, so I didn't go through that route in the end." (HB31 SO)

Not all participants understood that staircasing is based on the present market value not the purchase. The new Key Information Document emphasises this issue. One provider considered this changed housing market context to shared ownership as the key problem that underpins lower satisfaction rates among shared owners.

> "There are lots of catches; they don't tell you when you're buying at the time, the housing association, but if you want to buy more shares in the property, if that ever became an option, then

you have to buy at the purchase price at the time rather than the purchase price that you purchased at." (HB24 SO)

Being a long term shared owner with no staircasing is a legitimate outcome, but it does expose purchasers to the risks of inflationary rent increases and incurring the full repairing costs as the property ages.

Equity charge and repaying equity loan Help to Buy

Most Help to Buy purchasers were aware of the equity charge and provisions for it to increase over time, although two had not appreciated the detail and level of the equity charge prior to the purchase. Lenders have previously expressed concern that purchasers may have limited awareness or capacity to meet the equity charge that commences after five years if the equity loan is not repaid, and 11 percent of purchasers in the evaluation had indicated that they were not confident of being able to repay the equity charge (Whitehead et al., 2017). This study echoed those findings, which Help to Buy purchasers aware of their commitments. unlike in shared ownership, the Help to Buy Key Information Document does include projections of the equity charge for years six to ten, but a small minority were uncertain about how these commitments might be met. The Help to Buy information document does also confirm that rising prices mean that people would repay the equity loan at a higher value.

"I definitely received something that was like, after this day on the 5th year, you go in to this process where you're going to be charged interest on the loan. Here it is in year one. Here is in year two, here it is in year three. It also outlined the cost and the process of being able to staircase, and to be able to own more of the property - and what they actually looked like." (HB 13 HtB)

"No, they don't give you anything like that, but I think they start doing it towards year five. When you're getting closer to the actual five years, I think that's when they start giving you it. We've only been here two-and-a-half years, so maybe in two years they might give us more information on it. Again, my mortgage advisors went through it with me, so I knew roughly what it would be. I can't remember now off the top of my head, but I knew at the time that they were telling me roughly what it would be." (HB119 HtB)

Some participants considered the imposition of the equity charge or the decision to repay the equity loan a distant prospect as they did not anticipate being in the property that long. After time others had begun to realise that the equity charge was something that they were going to have to engage with after all.

"Yes, they did explain it, yes, but to be honest, it felt like such a long time in the future then that I just went, yes, yes, and now it's here!" (HB118 HtB)

"Again, because in my mind I'm going, 'Well, I probably would like to sell it in four to five years,' I was a little bit like, 'It might not come to that, so it doesn't really matter as much to me.' However, when I looked at it I was like, 'Okay, I'm going to have to be aware that I would almost enter into a shared ownership-style kind of mortgage and rent, or mortgage and a fee on top, once I hit this threshold - but I think by that point, I had been quite sold in - or had sold myself in - to the virtues of Help to Buy, that I felt like, actually that is something to be aware of, but it's a risk I'm willing to take,

> and I think it won't affect me. If it does affect me, it might only affect me for one or two years. I don't plan on living here for 20 years, unlike some people who buy Help to Buy, and it's their family or forever home." (HB13 HtB)

Most Help to Buy purchasers felt that they needed to repay the equity loan, although not all had strategies to do so. Some participants planned to repay the loan via savings, supported by rising salaries, or remortgaging, while others thought that they would have to just pay the equity charge as they could not repay the loan at the present time. One person was planning to sell up as they realised the equity charge was unaffordable as they were near retirement. Another Help to Buy participant was struggling with the timing of repaying the loan, too soon and you lose the benefits of having a free loan in years 1-5 and too late may risk having to pay a much-inflated price for the unpurchased equity.

> "I have started an ISA, so every month, nearly around £400, I'm just keeping for there. So that's like one bit and another bit like, what do it get the saving that I'm putting in my other saving account. So, per year I'm making [a] target of around 15 to 20K to pay back. (HB107 HtB)

> "We're just planning on, because we've got a five-year long-term mortgage, we'll just do a remortgage to get, pay that off. "(HB206 HtB)

Help to Buy participants were more likely to appreciate the detail of their purchase scheme than shared owners, maybe as it is less complex, although this was not universal.

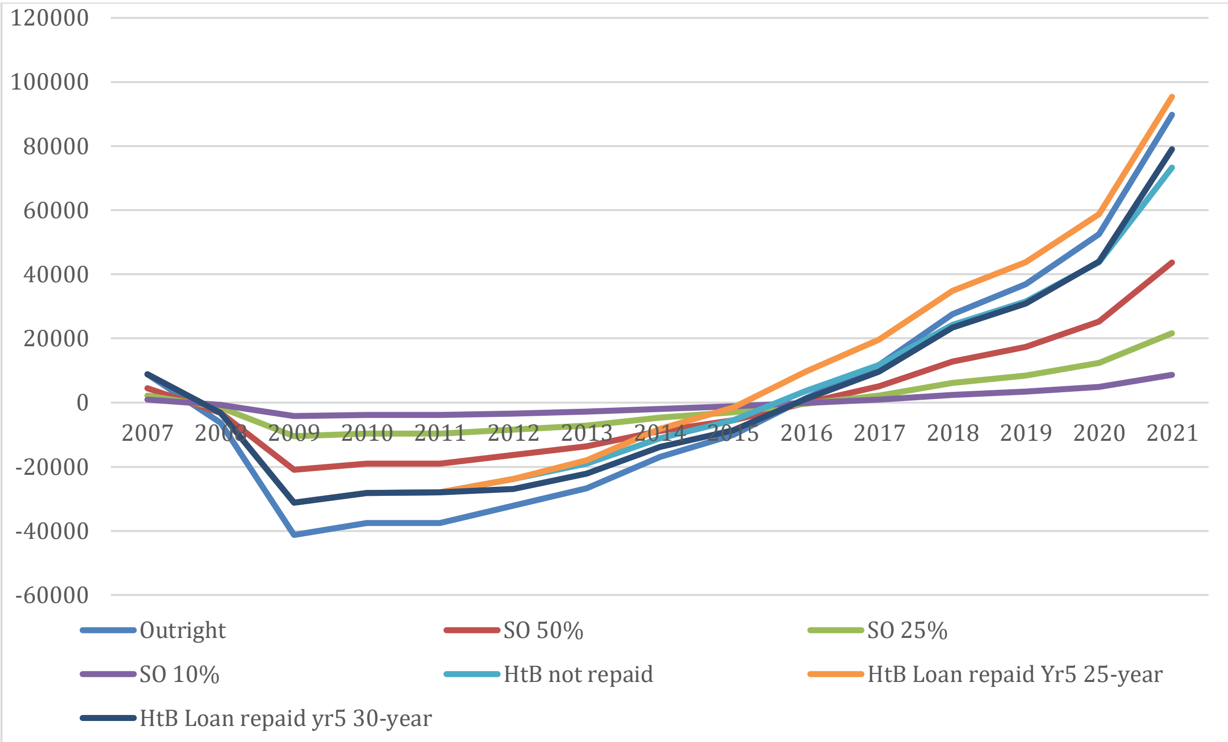
Two participants noted that there were a series of unexpected charges to relinquish the equity loan. These included the valuation fee, the conveyancing fee, and a fee to remove their name from the estate management company records. The Government's Help to Buy buyers guide also mentions a Homes England early repayment fee of £200 charge for repaying the equity loan. In total the cost of repaying the loan was upwards of £1000, not appreciated by all owners.

Some knew at the outset that they would sell prior to the equity charge commencing as their commitment to that location was short term. One participant was selling prior to the equity charge commencing as she had not appreciated the equity charge costs until after purchase and was near retirement and felt it was beneficial for her to move north and use her equity from a previous relationship to buy outright.

Testing the impact of house price changes in different housing markets

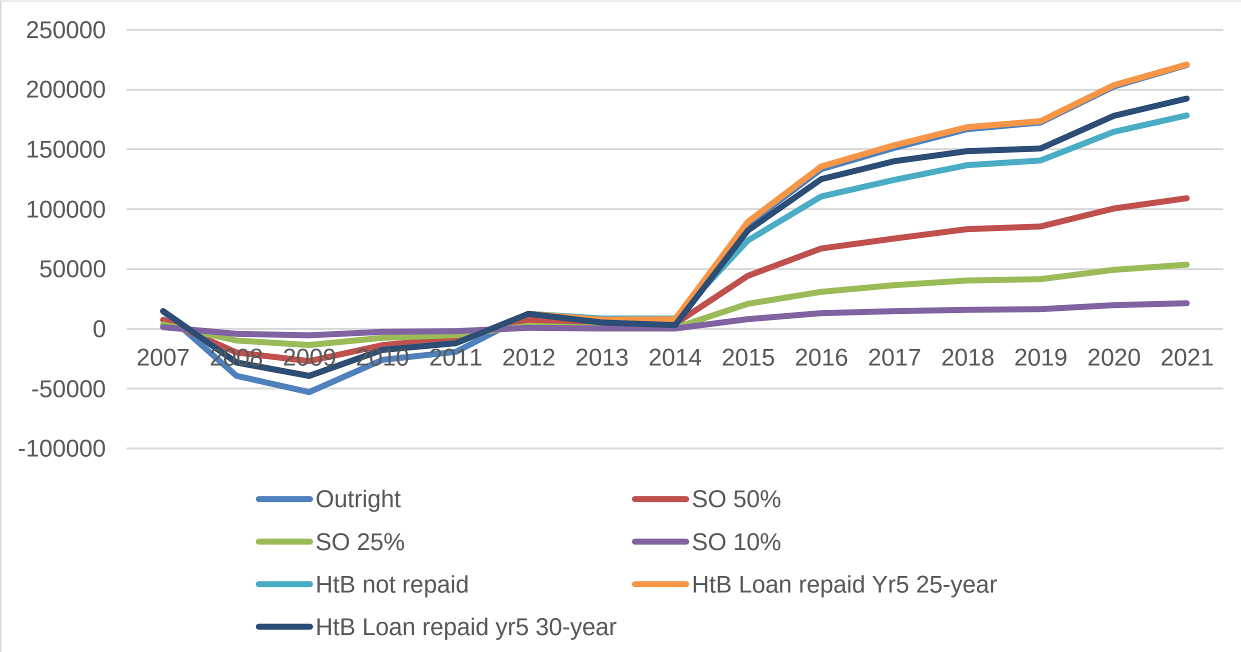
This section follows on from the exploration of long-term housing costs for affordable homeownership scheme users in contrasting housing markets in Chapter 4 and considers the impacts of the schemes on the equity held in the property. The data used is from the Land Registry Price Paid Data for Wakefield and Reading during the same 15-year period 2007-2021, and Bank of England average mortgage interest rates for 2-year and 5-year fixes. Figures 5.2 and 5.3 below illustrate how the equity held in the home changes with the market fluctuations and the type of scheme used. The estimates include equity for different equity shares purchased for shared ownership, as well as for Help to Buy users who have repaid their equity loan at year 5 and do so keeping the original assumption of a 25-year mortgage or by them extending that mortgage to a 30-year term to limit housing costs. Looking backwards over the last 15 years is useful as the housing market has gone through a full housing market.

Figure 5.2: Equity changes Wakefield 2007-2021 (£)



Source: Land Registry Price Paid Data, Bank of England

Figure 5.3: Equity changes Reading 2007-2021 (£)



Source: Land Registry Price Paid Data, Bank of England

The first thing to note is that the equity sharing schemes, shared ownership and Help to Buy, have not removed the incidence of negative equity during the market downturn following the financial crisis 2008/9, but clearly reduced the magnitude of any negative equity. Should the outright owner have had to sell in 2009, through relationship breakdown, job loss or similar, then they could have incurred a shortfall loss of £41,275 in Wakefield or £52,865 in Reading. In comparison the shared owner with a 25 percent equity stake would face shortfall debts of £10,473 in Wakefield or £13,473 in Reading, which could make the difference about what debts could be managed with unsecured loan, written off or people declared bankrupt, as happened during that period (see Wallace et al., 2010). Help to Buy also lessens this impact of negative equity but to a lesser extent.

The two housing markets have contrasting experiences of negative equity with the original sale price in the Wakefield market not being met again until 2021, compared to in Reading where the original sale price in 2007 was met again in 2015. From peak to trough the Reading house fell 26 percent in value and the Wakefield house fell 33 percent. In Reading, therefore, the impact of the downturn was lower and shorter.

The shallow negative equity in shared ownership is matched with shallower uplifts in housing equity when the market recovered. In Wakefield, after 15 years of homeownership the shared owner with a 25 percent equity stake has accrued £21,644 in their home and the 50 percent shared owner has accrued £43,706 compared to £89,787 for the outright homeowner. This is despite the shared owners with 25 percent and the 50 percent equity stakes by this point paying the equivalent 90 percent and 95 percent respectively of the outright owners' housing costs. The shared owner with the 10 percent equity stake is estimated to accrued £8,657 and could have been paying the equivalent to 86 percent of the outright owners' costs. A similar pattern is observed for the estimates of housing equity in Reading.

The scenario depicted in these estimates assumes that the Help to Buy owners had the choice about remortgaging during the downturn after 2008/9. This may not have been possible in the market circumstances of the time when low loan to value loans were unobtainable, not least if there was already negative equity then the mortgage lender is unlikely to advance further sums. However, setting this aside we can see how buying additional equity by repaying the equity loan when the price was low was beneficial to the Help to Buy owner in Wakefield. This means they eventually had a lower mortgage to repay and could accrue more equity at year 15 (£95,391) than the outright owner (£89,787) at 98 percent of the outright owners' monthly costs if they chose to retain their original 25-year mortgage. If at the point of repaying the equity loan through remortgaging they chose to extend the loan to a full 30 years, the mortgage is paid down less quickly, and equity accrual is slower than the outright owner in both housing markets. In the rising market of Reading repaying the equity loan at year 5 with a 25-year loan meant that at year 15 monthly costs were 104 percent of the outright owner's costs for a similar amount of equity. Note that although the experience of the market downturn differed in Reading and Walefield in both locations equity loans were repaid at a lower value than the original purchase price.
If the five year period was later than the 2007-2012 chosen here, say 2013-2018 the Reading house would have increased by over £100,000 compared to only around £20,000 in Wakefield, making these differentials about equity loan repayments more pronounced. Most Help to Buy owners expected to repay the equity loan but in rising markets, which has generally been the experience across the country of markets since the Help to Buy was introduced in 2013. Repaying the equity charge after rising house prices could mean people receive a short-term discount but then pay more over the loan term.

First Homes buyers had 70 percent of the equity of the full market homeowner if they had made similar decisions about remortgaging, and this is matched by their housing costs that remained consistent throughout. This appear to be an unambiguous affordable homeownership model in terms of the costs and equity gains are maintained relative to the open market purchase throughout the occupancy.

The exercise in estimating housing costs and equity changes in different housing markets highlights the interaction between individuals and their circumstances and mortgage and housing markets, and in the case for shared owners, inflation measures. The housing market comprises millions of households making individual decisions about their home, their finances and their futures that we can miss in generalisations. The estimates could have used other examples or configurations of remortgaging, property types, or local housing markets with different outcomes. The point though is to illustrate that purchasers' experience the affordable homeownership schemes not in a vacuum but in specific locations and particular market circumstances.

Maintaining control and asset values in leasehold

Among the study participants, 28 had bought leasehold properties including 21 shared owners (12 flats and 9 houses), three Right to Buy flats, two Help to Buy houses and two open market purchase flats.

Leasehold lengths

Several open market buyers explicitly rejected shorter leases and leasehold property when looking for a home to buy. Problems in the properties they passed over related to complicated arrangements on mixed use sites, or leases that needed extending, other buyers notably shared owners, could not avoid leasehold terms of occupancy. Across the participants, the length of leases, understanding the lease and complex layers of management in the lease arrangements were key issues.

Around half of the shared owner participants were comfortable with 125 lease terms, although one noted that the next purchasers would have to extend the lease. Other shared owners had bought 99-year leases or shorter and many had remaining terms of around the 85-year mark when interviewed. Among these participants, there was a mixed awareness of the diminishing value of their leases and not all were aware of or were engaging with the lease extension process to maintain the value of their home.

> “I did ask about the length of the lease, and I was told that, well no one lives that long, so it doesn't really matter. I feel so stupid now because I just didn't really understand it. I was in my 20s, you're young. Unless you're very financially savvy, you're never going to - I mean I did look into it quite a lot, relative to my knowledge, but my base knowledge was very low. I'd never even considered buying a property before, and it was literally the first place I'd looked at.” (HB28 SO resident for 17 years)

The complexities of leasehold also add another dimension to some of the limited information provided to prospective purchasers, certainly in the past. Some providers reported moves to increase the information flow to new customers to increase awareness of the issues, while others were already taking steps to minimise the problems at source by changing the leases they held, by extending the terms for older leases, for example.

> “Then you have the stuff that sits on top of it around leasehold, which obviously a big, big point of concern for people. I don't think it just applies to shared ownership, it's much, much wider, but still, it's just an added complexity.” (K13 lender)

> “It's making sure that they understand what a lease is, so shared ownership is exempt from the Leasehold Reform Act, as I'm sure you're aware, so they will still be leaseholder 'til they staircase out. There is more in the Capital Funding Guide amendments in May where housing associations have to provide that information to potential purchasers, and I can see the reasoning about that. I would think we probably - although we try, we probably don't give enough information about that risk, and when they move in, then they're so excited about, it's a new home. When they first go to view, they're probably not taking that information on board.” (GMP12)

Shared owners did not enjoy all the rights of ordinary leaseholders until they reached 100 percent ownership. However, while shared owners were granted the Right to Manage their leasehold building – and some providers facilitated them exercising this right – shared owners are only granted lease extensions by permission of the housing association freeholders not by right. In practice lease extensions are obtainable but at cost.

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. These moves represent significant problems for some associations, especially if they have many leaseholders in third party owned and managed blocks. A for-profit provider considered that if the sector moved towards commonhold then their shared ownership model may then need to revert to a different shared equity model to ensure it stacked up for this provider. It is clearly a fluid policy space with providers looking to involve shared owners more in the management of their blocks, reviewing ground rents and leasehold lengths.

> "We've taken a practical step to increase all of our lease lengths to 990 years and that's across both shared ownership and private housing. We've also 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." (KI23)

> "The Law Commission did something recently on commonhold and leasehold, so yes, there is a move to look at it. I think at the moment, associations are probably a little unsure of the process and what they have to do. It's easy in blocks that housing associations own outright, but a lot of the bigger blocks tend to be, the housing associations don't own the freehold themselves. So, it's finding that way of making that work, so I'm hesitant to say just because it's a space that we don't really know where we're at, at the moment." (KI4)

Leaseholders who had used the Help to Buy scheme had already been offered long leases (150 and 999 years) and so felt protected from their home losing value. However, two participants had bought leasehold houses under Help to Buy, and both been told they could buy the freehold by the sales teams, but this was not straight forward. One participant had felt pressured to buy before understanding the arrangements.

> "When I went to the sales/market suite, I said, 'Would it be possible to buy the freehold later?' I was told, 'It shouldn't be a problem.' Then, two years down the lane when I wrote and asked them, they said, 'We don't sell any of the freeholds.'" (HB23 HtB)

The other Help to Buy leaseholder, however, bought a leasehold house with 250-year term but where the freehold was sold to an offshore company who told leaseholders it would cost them £10,000 to buy the freehold and charged up to £1,000 for permission to install a conservatory and other excessive charges. Residents collectively pressured the freeholder to drop the excessive charges. In addition, the sales office had said he could purchase the freehold but once he bought, he realised this was not the case. The Government has since removed the ability of developers offering Help to Buy leasehold houses.

> “There was probably a bit of naivety buying the house at the time, thinking oh, these are the rules, the developer will stick by them. I mean that in the sense of, I can buy the leasehold after two years, enfranchisement, that'll be fine, that's what I'll plan to do. The naivety part of me was, I can trust the developer, they'll keep hold of it, they'll sell me it, they won't make it any harder.” (HB 26 HtB

Another Help to Buy leaseholder was alerted to the issue of short leases in advance of the purchase, and after researching the cost of extending leases in the wider market was able to secure a very long leasehold flat.

> “Lease is 999 years. other properties I went to go and look at - and I hadn't realised this until I started to look at properties on the open market. They'd have a lease of 70 or 80 years, that needed renewing.” (HB13 HtB)

Conclusion

Pricing risks are typically framed as a risk of falling house prices and negative equity. While a minority of participants noted that this was a risk, it was considered minor to managing payments and organising repairs. Of greater concern for the shared owners and Help to Buy purchasers was the risk posed by rising markets. The decoupling of house price inflation and wage rises meant that achieving full ownership via staircasing in shared ownership or by repaying the equity loan under the Help to buy scheme presented a greater challenge for some. New shared owners held the ambition to staircase but those with longer experience of the hybrid tenure expressed frustrations that they may be unable to do so. Some shared owners were also unsure how best to approach the issue of the unsold equity, whether to move and cash in what they had, to remortgage to increase their shares or pay down the existing mortgage. These issues were weighed against the rent charges on the unsold equity discussed in the previous chapter. Estimating equity gains over the long term for different scheme purchases illustrated the limited equity gains for greater housing costs rasing questions about the value for money of low shares in shared ownership for long term occupiers. Geography was also important in terms of the value of repaying equity loans (or staircasing) raising the prospect of short-term low housing costs for long-term higher costs than buying outright. Right to buy owners had a substantial cushion against the risk of falling markets because of the large discount they receive and as there are not equity sharing arrangements involved in repaying that discount, in rising markets even if they move before the first five years, they can benefit in full from any capital gains. Maintaining the value of the home by avoiding short lease terms when in leasehold property had not been fully appreciated by all purchasers. Some providers were looking to increase the length of new shared owner leases to avoid such risks of a diminishing asset in the future and one had committed to lengthening the leases automatically for existing shared owners. Providers noted the challenges this would create among those blocks owned by third party freeholders.

Chapter 6: Repair risks

Summary

- Some Right to Buy purchasers organised to get outstanding repairs undertaken in their home prior to applying to the scheme, while others were left with homes that required some significant repairs and improvements.
- Right to Buy borrowers had few resources to undertake necessary repairs often relying on friends and family with trade skills. Long-term saving was in place for some although job loss frustrated some savings strategies.
- Shared owners and Help to Buy purchasers were mostly in new build homes and largely benefited from their homes requiring less maintenance than open market buyers.
- Some shared owners were caught up in the building safety crisis and were struggling to move on with their life as remediation works remained outstanding, problems with high insurance costs were unresolved and they were unable to sublet or move.
- Some shared owners had providers who had funded part of the works and others were facing significant repair bills, although these may now be reduced as government requires invoices for building safety remediation work to be proportionate to the share held.
- Most other shared owners and Help to Buy owners had developers who had resolved routine building defects reasonably well.

Introduction

Homeownership risks relate to payment and price but there are associated problems with property repairs, which especially over the long-term can be problematic. This chapter explores purchasers' experiences of repair problems, particularly for buyers of existing homes in the open market and through the Right to Buy, how these risks were generally mitigated for some by buying a new-build home in shared ownership and Help to Buy, and how purchasers and providers viewed the repairing responsibilities of shared owners.

Existing homes

Open market purchasers had often opted for existing homes over new build as they felt that these homes gave them more space and the ability to choose fixtures and fittings and decorate to their own taste. For some open market participants this was a calculated decision to spend more to get a bespoke home that would meet their long-term needs. Other open market buyers bought an existing home as it was less expensive than a new build. Affordable homeownership schemes were frequently based on new build properties with few repair problems. In contrast, open market buyers on lower incomes reported homes with many maintenance requirements, including damp, outdated electrical systems and damaged roofs, and lacked the resources to overcome the repair issues. Two participants had obtained new boilers under Government schemes to support people on low incomes, but there is no such support for other important repair work. While these purchasers were able to achieve full homeownership many did so at a cost in terms of the quality of the home they bought.

Right to Buy

Right to Buy owners were universally aware that repairing and maintenance responsibilities were now theirs alone. The benefit of having repairs undertaken by the social landlord was traded against the ability to own their own home and in some instances to accrue equity. Here there was no ambiguity, as with shared ownership discussed below, as the Right to Buy involves a straight transfer of ownership from the landlord to the sitting tenant.

> “So, you've got to keep money on the side now and everything is your own thing, so before, if something went wrong in the kitchen, you ring the council up, they would then fix it and stuff like that. Obviously, that's our own thing, but the only thing is, at the end, it's our property, so you've got to think about the positive side. It's got equity in there, they've given us that money to put towards it, and we've got our deposit, so it's only literally a small mortgage.” (HB106 RTB)

Social housing homes are in proportionately better condition than other homes but there is a cycle of planned maintenance investment and where a person’s home is on that investment cycle may influence the condition of the property at any given point. Some Right to Buy participants bought their home after the landlord had undertaken significant refurbishment works or the tenants had made conscious efforts to get repairs done in advance of their application to purchase, meaning they had minimal work to do themselves. Other participants tried to get outstanding repairs conducted once they had applied and were unsuccessful at using the repairs as leverage to reduce the price further. Others undertook the required improvements and upgrades themselves, installing new windows, kitchens and bathrooms, some aided by having family members in the construction trade. Nonetheless, incomes were low or moderate, occasionally precarious, and some of the Right to Buy purchasers bore a significant repairs risk.

> “We bought it, just before they decided that they were going to renovate, because windows were just bog-standard, wooden, not double glazed, and then, two years after the renovations to all the houses, they put new kitchens in, they got new bathrooms, they got new windows, they double glazed the windows. No, we didn't know there was [going to do those repairs], but then I suppose the house price would have gone up. “(HB128 RTB)

Some refurbishment work was therefore anticipated but for others the new repairing responsibilities were tested in unforeseen ways. Unlike the freehold house owners who could undertake repairs over time, Right to Buy leaseholders of flats felt their repair costs were not within their control. While some experienced costly water leaks that damaged others’ flats, another Right to Buy homebuyer received a large invoice for block refurbishment works shortly after purchase that made her feel vulnerable to other unexpected bills. The conveyancing work should have ensured that the landlord provided the buyer with advanced notice of major works. However, several Right to Buy purchasers reported that they were unaware of planned maintenance from their former landlords and invoices for refurbishment work was an unwelcome surprise.

Right to Buy participants were largely in routine employment and were aware of the risks of buying their home, many having delayed doing so until their circumstances had improved, employment become more secure, or household income had increased. Repairing risks were all understood but of a secondary concern. It was clear that there were limited resources within some of these households to undertake major works, or indeed if there were to be payment shocks. Two participants had obtained new boilers using government grants as they were on low incomes and in receipt of qualifying benefits. Other participants were meeting the new repairing responsibilities by relying on family to fund or undertake the repairs or improvements or were saving and undertaking work over time.

> “Then we went to get a quote and it's, 'Oh, we'll just leave it. We can't afford it.' Then one thing and another builds up. No, we struggle for other bills if you want to put it that way, other unnecessary things, but the actual… As I said right at the beginning, the mortgage is probably the first thing that gets paid every month. [...] We're definitely financially worse off, but that's the way it is. We knew we would be.” (HB115 RTB)

> “Obviously, the big things I know are covered by buildings insurance - should we be struck by lightning or whatever! Or the roof came in. I think it's just the little niggly things like the plumbing and if we have a leak or the heating packs in. Just the little niggly sort of repairs that build up and would be taken care of by the council if it was rented.” (HB113 RTB)

There are implications for stock quality among low-income homeowners especially in later life as maintenance problems may accumulate and incomes become fixed.

New build defects

Shared ownership and Help to Buy schemes are based on new build, although resales of existing shared ownership homes now comprise a significant proportion of that sector, comprising 37 percent of purchases during 2017/18 (Burgess, 2021). But many owners found new build homes attractive to minimise the cost and inconvenience of unanticipated repairs. These purchasers were content to pay the premium to offset these repair risks.

> “I think I guess with buying a new build, you don't have the worry of boilers breaking and plumbing and electric nightmares and wiring and things like that. Everything is brand new, so we didn't have any emergencies where the roof caved in or anything. I think that's one of the good things about buying a new build.” (HB120 HtB)

UK housebuilders routinely offer one- or two-year defects period in which construction problems that arise should be fixed by the original developer. A company like NHBC or similar offer a further warranty that covers the remediation of new build defects that may arise during the years 2-10. The shared owner and Help to Buy participants who bought new homes did experience some building defects which for the most part were minor, and the developer resolved without issue. The sorts of problems purchasers encountered included doors requiring adjustments, locks getting stuck, missing parts from radiators, dents in kitchen units, damp and electrical problems. Those that occupied new homes whilst the developer remained on site building later phases had good support from on-site staff. Even where there were many problems the developers handled them well leaving the homebuyer satisfied.

> “We obviously had a few snags but they're all cosmetic things that they're built with. They got things done, they've changed, they had to change the carpets because they had to fix the floorboards. They put new kitchen doors in for us because the other ones were just crap, but they've been really... They've been excellent, they've been really, really good.” (HB206 HtB)

One shared owner felt that he felt that resolving outstanding defects was complicated by being unable to deal directly with the original developer, pursuing remediation via the housing association. He reported that his neighbours who dealt directly with the developer had their issues resolved more quickly.

Not all defects were undertaken in the defects period, but new build purchasers were further reassured by the building warranties which they felt further mitigated any risks of repair and maintenance expenditure. There were some new build Help to Buy owners who had not been able to remedy all defects in the initial period, and, after feeling burnt on the issue of leasehold houses with onerous terms, one homebuyer was now also sceptical about the value of the warranties issued.

> “There's a lot of new build issues. Then now it's been two years because the developer does it for two years and then after the two years, it then goes on to the NHBC, or whatever, I can't remember what it's called, it's the building people. We did find that after the two years which was due and there's still quite a few things that the builder hasn't sorted out, which is what is quite annoying because we're still chasing them now and it's six months later. They just as soon as it gets to the two years, they don't seem to care about you now. They still have some unresolved repair issues.” (HB119 HtB)

For the most part Help to Buy new home buyers had anticipated minor problems and the developers’ responses resolved the defects reasonably well. Even when more involved defects were uncovered the developers’ responses were viewed positively. In a minority of homebuyer’s defects were left undone and assurances that the warranties would pay out largely gave comfort, although some were wary that the warranty companies would not pay out.

Shared ownership repairs

The imbalance of shared owners’ full repairing responsibilities, despite holding only a fractional equity stake in the property, has long been a source of contention. Many shared owner participants did not view the repairing responsibilities as onerous, because they had bought new build, had a house not a flat, were new entrants to the hybrid-tenure, had family to help with repairs, or because the service charges and rent represented greater financial challenges.

> “The only thing that we don't have as, obviously, renting, was if something goes wrong, like the boiler packing up or there being a water leak, that cost. There wasn't a huge risk in that element for us to really weigh up.” (HB21 SO)

Nonetheless, many shared owners said they had not realised the extent of their repairing responsibilities at the time of purchase, and some misunderstood what the responsibilities were. Some had bought some time ago, but one shared owner still misunderstood the allocation of repairing responsibilities. This shared owner had been in occupation less than a year and was in regular shared ownership not for the over 55s or for disabled people. He had read about repairs complaints in the sector, but he reported that his Association had attracted good online reviews for repairs and thought that they would fix his boiler and undertake external works.

> *“What about the additional responsibility like repairs and service charges, and insurances?* That's all in with the rent, so all the extra charges are already built into the rent. So, I'm not going to get a bill for such-and-such at this date, because it's actually paid every month through the rent - which is actually - makes life a heck of a lot easier. [...] *I thought you were responsible for the repairs under the shared ownership…?* Yes, minor repairs, but obviously stuff like the roof, and stuff like that, they're responsible for. If the boiler breaks, they're responsible for it. *If what breaks? The boiler?* The boiler, yes, they're responsible for fixing the boiler. *Is that only within - while…?* That's for all the time that we're paying rent for.” (HB12 SO)

> “The unfortunate thing with the solicitor, and this happened to all of the residents at the property, all 18 of us and the people who subsequently bought and sold; not one solicitor ever said, 'You realise you pay for everything and that the owners of the building pay for nothing?' Had they have said that to me, I would have walked away because that didn't seem like shared ownership to me. My impression was shared ownership would be shared ownership, shared responsibility. So, if something needs doing in a property, I would pay a percentage towards that.” (HB36 SO)

The imbalance in the allocation of repair and maintenance risks was not supported by many.

> “I think the thing that I find more difficult to wrap my head around is the fact that you've used the scheme, you've put in less money; you own less of the property, but you're still hit with the same amount of costs as the people that could afford to buy outright. That's my difficulty with the scheme is that yes, it's great, it gets you on the property ladder, but you are at a disadvantage, in that somebody who can afford to buy a flat outright, probably earns more and has more in savings than somebody who's had to use an affordable housing scheme, but you're more vulnerable to those costs. Where it's the case that you own 25 per cent, you pay 25 per cent. I would a hundred per cent advise people to do it - but because that isn't the case, I would struggle to recommend it to people.” (HB18 SO)

Some confusion may arise from people trying to understand the defects period, the building warranties and the allocation of shared ownership repairing responsibilities between the shared owner and the landlord over time. Occasionally this was reflected in suggestions that providers had advised flat purchasers that the shared owner dealt with internal repairs and the landlord external repairs. This formulation by staff was also observed in Cowan et al. (2015). Whilst this describes who *operationalises* the repairs in blocks, it is not how the actual *costs* of the repairs are allocated, with landlord repair expenditure for the external fabric of the building and communal areas being recharged to the sinking fund or service charges. The landlord of the new shared owner above who had confused views of the repair responsibility adds to this confusion with ambiguous wording. The landlord's website (Accessed 4 February 2022) provided guidance on their leases and stated under 'Your responsibilities' *"You must keep your home in good repair inside and out if you have a house and inside if you have an apartment or flat*" and under 'Our responsibilities' *"We must keep the outside of apartment blocks in good repair.*" Even a shared owner of another association who had the threat of repairs costs arising from the cladding and building safety crisis expressed the repair cost responsibilities in this way.

Shared owners also had concerns about the management and costs of the landlord's repairing responsibilities in blocks of flats. Complaints included the timing and costs of maintenance work that was due or completed, similar to that of some of the Right to Buy leaseholders. One owner noted that cyclical maintenance had not been undertaken in a property that was 13 years old, possibly due to the building being subject to unresolved cladding issues but this provided an additional layer of disquiet. Others worried about costs over which they had no control.

> "We have a sinking fund of £250,000 that hasn't been spent: it's not been decorated since it was built, we never have balconies cleaned or whatever - all that are supposed to be included in your service charge. That's, probably, why I consider all of it to be rent, to be honest." (HB 18 SO)

> "What unfortunately happened was that about 18 months ago, we had £56,000 in the sinking fund and we had about £15,000 or £16,000 in the cyclical fund. They then decided they were going to paint the corridors and replace the carpet. They charged us £20,000, which we thought was a lot of money, but they wouldn't show us any invoices or anything to prove what they were saying. They charged £20,000 and took that out of the sinking fund, which meant that if they did the lift, the sinking fund now only had £35,000, £36,000 in it, so there would be £60,000 short at least if they were doing the lifts, and that's from two years ago." (HB36 SO)

Providers recognised major repair costs are a concern and offer support packages, including loans to leaseholders to meet maintenance invoices. Providers viewed the new ten percent shares lower entry thresholds to shared ownership as amplifying the risks of repair costs and responsibilities falling on even lower income customers.

> "We have homes there where a ten per cent share can be bought on a credit card. It's just worrying as to what sort of financing people might be putting together to make some of these schemes happen. Now, we will have safeguards in place to protect as far as we can, but they're never going to be 100 percent fool proof, and it just worries me. Are we going to be getting a group of people into a product that in three years' time are saying, 'Wow, you've conned me? This is horrible, this is a rip off, I'm not happy with this.' We already get customers saying, 'I own 25 per cent but I'm responsible for 100 per cent of the cost.' Think how much more exaggerated that'll be when they only own ten per cent." (KI23)

> "Well, there are additional risks if you're buying a property in a tower block or a block of flats and the whole leasehold issue and having to pay for communal repairs. Whereas a home owner in a terraced house can choose not to do their roof if they haven't got the money, obviously in a block of flats that will be done at some point, and you will be charged. Then leaseholders can find that

> they've got expensive repair bills that they just can't afford. 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.” (KI1)

Building safety crisis

As noted by Preece (2021) shared owners have been especially impacted and aggrieved by the issues and possible costs arising from the building safety crisis as they are facing significant remediation bills but have a minority stake in the property. Participants in this study conveyed their anxieties and frustration at the imbalance in the repairing responsibilities, in leasehold arrangements and their impotence in the face of steep repair bills that the cladding crisis has highlighted. Many described profound impacts on other aspects of their lives while they wait for possible resolutions.

> “Well, I don't know, we're being told that we are responsible for cladding. We are legally liable for cladding, and the lease does not say that, but it does not not say that. I know from other people that this is a very difficult thing to challenge because the lease is so vague. The brochure, interesting, did say, in more than one place, including in a brochure entitled, the lease, you are responsible for repairs inside your house, the landlord is responsible for exterior repairs. So that was in the brochure. That is not what they're now saying. They're saying we are legally liable. They have said that in writing. They are charging us for stuff.” (HB28 SO)

Cladding issues had highlighted problems with freeholders, managing agents and the imbalance of repairing responsibilities. While some reported that their housing association had shouldered the full remediation costs, others had different experiences. One shared owner reported that shared owners and leaseholders in his block were partly responsible for the enhanced insurance costs and remediation costs of the adjacent sister block that includes an aparthotel. His housing association had initially paid the initial remediation costs but then issued a demand for £8,000 to the shared owner as more work was required. Another shared owner was being charged £5,000 for work that was not being undertaken in the privately owned blocks where the owners have been able to sell but they have not. Her landlord is proposing further work amounting to £40,000 per flat without, in her view, providing sufficient evidence that the work is required. This is a sum of money that would bankrupt her, and this is now her principal worry. Here the new build defects and warranty arrangements have been weak and left leaseholders and shared owners facing significant costs if a resolution was not found.

Several providers said they were representing their leaseholders and looking for resolutions and included some who had not passed on costs and had undertaken cladding remediation work at their own expense. The Government has since recognised the inequity in the repairing responsibilities in shared ownership by capping the remediation costs of building safety work at to the proportion of the equity stake shared owners hold. The issue, nonetheless, highlights the vulnerable position of leaseholders and how that is compounded by shared ownership where purchasers often have fewer resources and lower incomes.

> “Now, instead of being at the mercy of a landlord I'm at the mercy of a freeholder. I think I was probably slightly naïve, in that sense, in that I still have bills coming through my door that I don't really think I should be having to pay, etc. So, I think, actually, the benefits that I thought I was going to get from owning rather than renting are maybe not quite as clear as I thought they would be - my brother owns freehold, and my parents are both freeholders… I think I always looked at homeownership through that lens, and I don't think I necessarily really understood the powers of freeholders, when it comes to being a leaseholder of a flat.” (HB18 SO)

Conclusion

Some participants preferred older homes for their potential and size, and their greater affordability. Older homes were associated with greater repair issues that LMI homeowners and Right to Buy homeowners could not always support, especially at the outset, only partially offset by their access to friends and family with construction skills. These repair risks were mitigated for Help to Buy and shared ownership purchasers who largely bought new build homes. Some new build defects were apparent, but developers managed their remediation reasonably well. Problems arose for shared owners who had not initially understood and/or did not accept their full repairing responsibilities, particularly if their homes had building safety issues. The building safety crisis exposed the imbalance of repairing responsibilities within shared ownership. This was acknowledged by the government as after the fieldwork was undertaken, when they capped shared owners’ liabilities to reflect the equity share purchased (DLUHC, 2022b). There was also confusion about the limits of repairing responsibilities within shared ownership, amplified by some providers’ messaging. It was apparent that the initial defects period, the insured warranty period and then the ongoing repairing responsibilities were muddled, and the boundaries of who ultimately pays for and who undertakes actual repairs inside and outside of apartment blocks was unclear. Shared ownership and Right to Buy leaseholders were unable to control the timing and costs of repairs amplifying the risks.

Chapter 7: Conclusions and recommendations

The study examined how homeowners who use various affordable homeownership schemes think about and manage the risks inherent in the tenure, and whether the structure of the products and the continuing role of housing providers (in the case of shared ownership) supports homeowners by limiting those risks.

The schemes, especially Right to Buy and shared ownership, were important entry points to the tenure for a range of households including lower grade employment, lone parents, people with disabilities or long-term illness and women in comparison to open market and Help to Buy purchasers. There were professional and dual-income households in shared ownership but purchasers using open market and Help to Buy routes to ownership were more often professional, part of a couple with more male household reference persons. In terms of their financial vulnerability, shared owners sat between that of open market homeowners and rented households, as they were less financially resilient and less financially capable than open market purchasers. We may infer from this analysis that Right to Buy purchasers may have a similar or worse financial vulnerability profile. Shared owners experienced greater financial impact during the pandemic than other homeowners.

Almost all purchasers described how they planned and strategised to buy a home, largely as the finances, security and quality of accommodation compared favourably with private renting. The purchasers undertook research into the market and/or products but some did so without experience or from a low base of understanding. Significant information asymmetries in the market were apparent, not least for shared ownership, a more complex product than the Right to Buy or Help to Buy options.

Payment risks were examined by looking at rates of non-payment, affordability pressures in relation to incomes, relative cost of mortgages, other housing costs and experiences of income shocks, particularly during the pandemic. Almost all participants managed the risk of mortgage interest rates rising by fixing their loans, and the low mortgage rate environment meant that most participants were confident that they could meet their payments. Across all homeowners, older Right to Buy purchasers were paying relatively high mortgage interest rates, a legacy of liberal lending priced higher to reflect the risk of these more financially vulnerable households prior to the financial crisis. Among more recent entrants, shared owners were paying the most for their mortgages. Of great concern to shared owners, however, were the additional housing costs incurred, particularly for service charges and rents which they felt rose rapidly and outside of their control. Shared owners had the highest proportions of homeowners with high housing costs relative to their incomes, especially for recent purchasers outside of London and the South East. Using estimates of housing costs for different schemes showed that after 12-15 years, shared owners had housing costs approaching those of open market full homeowners. Help to Buy purchasers with service charges were less price sensitive and most could pay the equity charge if required, although a minority had no firm plans about how they might repay their equity loan. Limiting shared ownership rents and service charge rises not least as mortgage interest rates and other costs are also rising is an important take away from the report.

Some borrowers had mitigated payment risk by taking out payment or income protection insurance, although those who suffered income shocks, largely but not exclusively during the pandemic, had been supported by furlough, lender forbearance and rapid re-employment. Housing benefit successfully supported shared owners with income shocks, with assistance provided by housing association staff. Providers noted that stringent mortgage affordability assessments had minimised payment risks in recent years although they observed that the pandemic had exerted pressure on shared owners' rent payments. But there were mixed views of the tools providers use to assess affordability at purchase. Maximum affordability is set high and the long-term costs of rent and service charges are omitted. Although there were some indications of higher mortgage arrears for shared owners, forms of support to remain or sell up quickly meant that key informants reported fewer possessions among this group. Providers noted that additional funding for downward staircasing for unsustainable circumstances could make shared ownership a truly flexible tenure. The use of equity sharing to limit payment risks was limited as shared owners had high affordability ratios that were not confined to London and the South East, and some felt pressure to purchase the maximum affordable share at the outset.

Price risks in homeownership have been generally framed by the risk of negative equity in falling markets. Some purchasers recognised this as a concern, not least when they had paid a new build premium. Comparing estimates of housing equity for the various schemes over the last 15 years, the equity sharing arrangements of shared ownership and Help to Buy limited the impact of negative equity after the financial crisis 2008/9. The equity sharing arrangements also limit equity gains in rising markets. Comparing housing costs to full ownership over the long-term with these much lower equity gains may challenge the value for money of shared ownership (low shares in particular), although wealth building via housing equity accrual, however minimal, is not available at all in private renting. These estimates also showed that repaying the Help to Buy equity loan in falling markets was beneficial to the purchaser, and we might infer that staircasing for shared owners, would similarly be beneficial in terms of housing costs and equity gains. However, participants were more concerned with price risks arising from rising markets in shared ownership and Help to Buy, putting the ambition for full ownership further away unless salaries had increased commensurate with the housing market. Repaying the equity loan in these circumstances could mean paying more over the long-term, for a short-term discount in housing costs. Deferring some housing costs to a period when career and household incomes may have improved may be beneficial for those on steep career trajectories but may also be problematic for others who may have been better off buying without the scheme as was possible for many Help to Buy users and some shared owners.

Other issues about pricing are apparent. A greater proportion of affordable homeownership scheme purchases are flats compared to the wider homeownership market and this market segment has seen house prices be relatively muted compared to other property types in recent years. Some affordable homeownership scheme homes may not keep pace with the wider market over time. Maintaining the value of their home in leasehold properties was also an issue for some purchasers who had not fully understood the implications for short leases and leasehold as a diminishing asset. This was especially the case in shared ownership and for some who used the Help to Buy scheme to buy a leasehold house. Providers were reviewing leasehold lengths for new shared owners to avert future problems, but only one provider interviewed was changing lease lengths for existing shared owners. Right to Buy purchasers are gifted a large discount after five years of occupation so are cushioned from negative equity in falling markets and are not required to buy this unpurchased equity incrementally as in the other schemes. Unless they remortgage to withdraw this home equity, which is less of a feature of the market compared to prior to the financial crisis 2008/9 (see Wallace et al., 2010), price risks for Right to Buy purchasers appeared minimal.

Open market homes were all older less expensive properties and while many open market buyers had secure plans for renovation not all buyers had the resources to undertake the necessary repairs and improvements. Schemes based on new build therefore offer lower income purchasers some succour in terms of maintenance. Right to Buy purchasers were on low or moderate incomes and while some could fall back on the skills of family and friends to undertake the repairs, others were reliant on limited saving to undertake work periodically or had financial shocks that prevented work going ahead. Shared owners and Help to Buy purchasers liked new build homes as repair risks were minimised, and overall participants reported that developers had handled initial defects well. There was some confusion among shared owners about their repairing responsibilities with complaints about the information they received and the conveyancing process failing to highlight that they were wholly responsible. Confusion remained, even among recent shared owners, about how the responsibilities might change in the initial defects period, during the new build warranty period and then long-term. The building safety crisis exposed the imbalance in repairing responsibilities between the providers and shared owners, which the Government acknowledged after the fieldwork was completed by proportionately capping shared owners' responsibilities to their equity stake.

Risk cannot be removed from homebuying, and participants observed that risks must also be weighed when considering other tenure. Homeowners' individual responsibility does however present challenges that can cause financial harm for some. Across the study, the affordable homeownership schemes offered a range of benefits as well as some additional challenges for purchasers. Few were able to or consciously used the schemes to reduce their exposure to risks, except perhaps repairs, but the schemes clearly offered reduced entry costs and dampened the impacts of negative equity, and for shared ownership there were additional supports available for payment risks through social security and their housing provider. Some aspects of the schemes – including high housing affordability ratios, inflationary linked rent and charge rises, and dependence on leasehold - posed additional risks for purchasers. Reforms to shared ownership are welcome but limited. Right to Buy purchasers were particularly vulnerable to payment and repair risks due to low incomes and savings. Help to Buy and shared ownership entails complex calculations about how and when and indeed whether to increase their equity stakes. Customer outcomes not just customer entries to the tenure need to be central to policy and practice in this area.

The following sections discuss the benefits and disbenefits of the schemes in greater detail.

Shared ownership

New shared ownership leases have recently been reformed to increase the transparency of the product with the Key Information Document, improvements to the length of new leases to remove the problems of diminishing assets and lease extensions and has tried to address the imbalance in repairing responsibilities. There are strengths in the product in terms of ongoing provider support, and the potential of a flexible tenure option. But reforms could go further to rebalance the consumer risk and rewards, allowing shared ownership to play a larger role in the market with a more equitable product.

Affordability

Shared ownership provides a lower cost entry point to homeownership that allows equity accrual, a stable tenancy and a quality home. Decades ago, Bramley and Dunmore (1996:120) identified that the fundamental point is that *"SO [shared ownership] must offer not just short-run affordability but good value for money in the longer run…".* And yet it remains the case that shared ownership cannot always maintain the lower housing costs relative to private rents and full ownership, due to inflationary rents and service charges, particularly for flats. Over time the relative cost advantage of shared ownership is lost but this facet is known but little discussed. With wages no longer synchronised with rising prices, annual above inflation rents no longer incentivise staircasing out of the sector, but exert significant pressure on long-term shared owners, not least in a low mortgage rate environment. That shared owners particularly recent purchasers outside London and the South East, experience high housing costs to income ratios requires attention.

Associations who wish to demonstrate support for long-term shared owners have discretion to limit rent rises to below the terms of the lease, not least in the current context of high inflation and rising interest rates. To inform the Government consultation over imposing a ceiling on inflationary rent rises for social housing tenants, the National Housing Federation signalled that their own repair and development costs are rising above inflation (CEBR, 2022). Shared owners do not receive repair services and business models reliant on using shared owners to supplement gaps in development income must be reconsidered. At a minimum, the model lease should specify that rent increases are based on CPI rather than the higher RPI and omit the additional uplift. Helping prospective purchasers at the outset should mean that Key Information Documents include details of how rents and service charges *have* changed in similar schemes in the past and include the long-term costs using different inflation levels to illustrate how rents *could* change over a 5/10/15 year period, for example.

Shared ownership rental streams have been increasingly attractive to institutional investors over recent years. This boosts investment in the sector but is problematic. What represent payment risks to shared owners becomes a low-risk investment for long-term investors and beneficial for developing providers. Rebalancing the rent increase to be more equitable over the long-term may reduce the appetite for institutional investors in the sector but consumer interests should prevail.

The FCA has removed the requirement to stress test mortgage applications for rising interest rates, and it is unclear how lenders may respond in this sector, but the affordability calculator for entry to affordable homeownership schemes should remain. Homes England should review the affordability calculator to include long-term rent and service charge costs, in addition to greater possible interest rate rises in the current formula. The calculator should also ensure that the maximum affordability ratio is limited for lower income households to ensure sufficient residual income available after housing costs.

Rising service charges were problematic for some shared owners, particularly in flats, as well as housing associations. These issues were particularly challenging where third-party freeholders and managing agents were involved. The Ombudsman has called for greater regulation of the building management sector. Associations can work with the property industry to affect change in this area. For self-managed schemes, associations could pursue price caps or fixed charges for certain periods as in other industries to offer shared owners (leaseholders) greater certainty over costs. GLA capital funding guide and Service Charge Charter do acknowledge problems with rising rents and service charge costs but grant funding does not require providers to address these issues as the Charter and adoption of the lower CPIH inflation rate remains voluntary. In the context of greater regulatory scrutiny and stronger consumer standards in the sector, Homes England and the GLA should tie grant funding to action in these areas.

Affordability- Mortgage and rent arrears

Although we have seen that the affordable housing product can maintain rather than alleviate affordability pressures, albeit in a tenure of choice, provision by *social* landlords points to product features that can limit risk for buyers and could be developed further.

Shared owners who lost income found access or signposting to financial inclusion or debt advice teams was important, as they received advice about Support for Mortgage Interest and housing benefits. There are tensions between social and business impulses within housing associations, but associations can routinely go beyond the terms of the lease in this way and offer measures to support good outcomes for buyers. Purchasers were unaware of shared owners' eligibility to housing benefit, and many felt it was stigmatised. Nonetheless, housing benefit was an important support for shared owners who suffered income loss. Some participants noted that not being able to sublet the property deterred them from purchasing shared ownership, viewed as a good solution if they were struggling with their housing costs. Promoting awareness of benefit support might detract from the marketing message that shared ownership is directly akin to homeownership but could help existing shared owners with affordability pressures and reassure interested buyers that there were other support avenues to subletting.

Another product feature that could minimise displacement risks for unsustainable mortgages is the potential for shared ownership to be a greater flexible tenure. With additional access to funding there is potential for shared ownership to offer downward staircasing to match housing commitments with any changed circumstances. Some providers felt that the Capital Funding

Guide and the pressure to use receipts for new development limited them offering downward staircasing routinely for priority cases. If financial advisers confirm affordability of the new arrangements, grant funding or greater flexibility in the use of receipts could offer greater support to struggling shared owners. The sums involved are likely to be small in comparison to development budgets but would increase support in the sector.

The lease reforms missed an opportunity to close the loophole where possession is obtained on rent arrears grounds means that the former purchasers lose all equity interest in the property. The new Key Information Document includes a brief statement to this affect but overcoming this weakness in the lease remains important, not least as growing proportions of shared owners are mortgage-free.

In the current context of significant pressures on household finances, combined with shared owners' greater propensity to be financially vulnerable, housing providers must proactively review their own package of support and signpost shared owners to support from lenders, government and debt agencies.

Price risks

Shared ownership builds housing equity over time via capital gains from rising markets or by people paying down mortgage debt. Even low shares provide wealth building that private renting cannot match. While equity gains are reduced proportionately in line with shares bought, so too are any incidences of negative equity. Short sales, whereby sales are made when the house price is less than the mortgage debt, would therefore produce smaller shortfall debts than would be the case in the open market as the provider shares the price falls as well as rises. This again is a risk reducing product feature.

The purchase of more shares via staircasing can be impacted by changes within mortgage and housing markets and expectations of future income, rendering it a complex decision requiring regular appraisal. Some participants talked of paying down mortgage debt to increase equity, rather than remortgaging to buy a greater share, but shared owners must also include paying higher rents in the long-term in the calculations. Housing providers could provide greater support to inform these decisions by developing models or calculators that could be used to indicate the impact of changes in the equity share, price, rent etc. over the long-term. Any calculators could also show the impact on staircasing of the additional mortgage payments (if not using savings or windfall inheritances) with any reduced rent and the equity gains made under certain conditions. This support in illustrating what long-term costs and benefits would be is currently absent.

Shared ownership is entangled with issues around the leasehold tenure. Some associations are pre-empting the Law Commission reform of leasehold and extending the length of leases and removing ground rents for existing as well as new shared owners. Housing providers must work to remove the risk of diminishing assets and expensive lease extensions for their existing and often long-term shared owners.

Repairing risks

Problems with shared owners' full repairing responsibilities have been recognised. The new model lease provides for some support during the first ten years of the lease and makes the responsibilities more explicit in the Key Information Documents. The Government has also proposed a limit on shared owners' responsibilities on the costs of remediation works of blocks subject to the build safety crisis, suggesting that costs borne should be in line with their equity stake. And yet these issues are modest and do not address existing leases and routine repairs required over the long-term. Continued effort to formulate proportional support will become more pressing as the stock ages. For new homes, clarity about the apportionment of repairing obligations during the defects period, warranty period and beyond is important to avoid confused messaging impacting service relations over time.

Prospective shared owner information

Bramley and Dunmore (1996) also note the inexperience of prospective shared owners and suggest that practical advice and support should constitute part of the remit of a social landlord. Otherwise, they suggest, the product may well sit within the private sector, if we maintain that the two sectors have differing values. Since Bramley and Dunmore the sector has become increasingly marketized and the incentives to go beyond handholding at the time of purchase are moot, due to sales often being driven by the cross-subsidies providers receive. Not all shared owners are inexperienced in the market, indeed an increasing proportion are former owners, but the current evidence indicates that shared owners remain less savvy, less knowledgeable or confident consumers than other mortgaged homeowners.

Many providers wrestled with the amount and mode of delivering information about the product, and there are incentives for them to get the information about the scheme right at the outset as they maintain a relationship with the purchasers in ways that private developers do not. The provision of neutral advice on what prospective buyers should think about when entering into shared ownership, or other affordable homeownership schemes, would be beneficial. Making it a regulatory or funding requirement to provide a comprehensive tailored *How to Buy Affordable Homeownership* guide, based on the How to Buy Guide (DHLUC, 2019), or the How to Rent guide required of landlords in the private rented sector may help in this respect. Such a guide may cover some of the same ground as the Right to Buy guidance, cover other products and include information about whether buying is right, and if so, is it right now, maintaining credit histories, shopping for a mortgage, viewing a home, information on leasehold, employing surveyors and solicitors, the buying process, new builds, post-purchase responsibilities, support for struggling borrowers, where to go for help etc. (see Wallace, 2016 for further ideas on homebuyer information including apps). Government may also consider developing app based models of these guides. Such moves would unify the advice and messaging across the sector, whereas now, notably for shared ownership, there are disparate amounts and quality of information provided across a range of different providers.

The Key Information Documents are a step forward as overcoming information asymmetries is necessary, but it is insufficient. At a minimum, illustrations of possible long-term costs are required. Recent reforms are welcome but pursuing better homebuyer outcomes should remain a focus of work in this area.

A last point on information about shared ownership is that to explore a wider set of policy outcomes other than access to the tenure, a greater range of publicly available management information is required. Expanded data resources would help the public, researchers, lenders and new provider entrants understand the sector better. While CORE data helps understand the circumstances of new entrants, Homes England or the Regulator of Social Housing could collect data on length of occupation, rents, service charges, lease lengths, ground rents, third party agent flags, staircasing to less than 100 percent, staircasing to 100 percent disaggregated by those that were to facilitate a sale only and those where full ownership is genuinely achieved, seller destinations and reasons for exit.

Regulatory oversight

While the operation of the model leases is required to obtain Homes England funding, with some proscribed actions on behalf of the information provided and restrictions on what providers can do with the funds, the management of shared ownership is largely outside the remit of the Regulator of Social Housing. Current regulatory arrangements preclude shared owners with shares less than 100 percent from key areas of the consumer standards that providers must meet for tenants. Reforms to social housing regulation continue to omit shared owners from more strident intervention from the Regulator to uphold service standards and ensure greater resident satisfaction. The government and the Regulator should pursue actions to draw the affordable homeownership sector into this regulatory pace.

Help to Buy

Help to Buy is an equity sharing scheme ending in 2023, a model of assisted purchase used in many countries and preceded the latest branding iteration. The model offered purchasers a lower cost entry point to homeownership, compared to the costs of a similar new build home. The scheme offers a free equity loan for the first five years after which a charge is payable as a percentage of the unpurchased equity.

Help to Buy participants *expected* to repay their equity loan rather than this being *desirable* like for many shared owners. Purchasers' calculations over the timing and how this interacts with inflation, mortgage markets, housing markets, their expected household incomes and plans to remain or move is much the same as for shared ownership, but Help to Buy purchasers had greater resources or steeper career trajectories than among shared owners. Our estimates of long-term housing costs and equity changes highlighted the benefit of repaying the equity loan in falling markets, but more Help to Buy purchasers will be repaying the loan in much higher value housing markets than when they bought, unless we face a market downturn soon. In rising markets increasing equity shares may increase long-term costs for a short-term gain. This may be beneficial and reduce payment risks as homeownership costs are typically frontloaded to a period when a household's earnings are lower or more draws on income with family formation, or example. Pushing housing costs further along the homeownership journey may be beneficial for some if they are confident that their incomes are on an upward trajectory. Alternatively, not least when many Help to Buy purchasers could have afforded alternative accommodation elsewhere in the market (Finlay et al., 2016), it may mean the buyers paying more for a property than if they had bought elsewhere without assistance. Guidance and online calculators highlighting how a household's circumstances could change if they remortgaged to repay the equity loan in different market scenarios would benefit Help to Buy purchasers' decision making. Information reiterating the costs of repaying the equity loan could also be considered.

First Homes are an equity sharing arrangement in perpetuity where homes will be bought and sold at 30 percent of the property value. They were not part of the study as they are yet to hit the market. Arguments about First Homes have focussed on how they will impact the supply of shared ownership or other social housing in new developments. From a purchasers' perspective they are a less complex proposition than shared ownership, and even Help to Buy. Our estimates of long-term housing costs and equity changes see that not only do First Homes provide lower entry costs, albeit not as low as shared ownership, but that lower housing costs are maintained throughout the tenure relative to open market buyers, provide a consistent equity share without the penalty of repaying loans at a higher cost or paying a higher rent or equity charge. Future research into First Homes and discounted sale models should consider homeowner outcomes as well as the more frequently articulated possible displacement effects for providers' other products.

Right to Buy

Right to Buy offers often large, arguably anachronistic, discounts to sitting social housing tenants to buy their own home. This provides a lower entry point to homeownership, reducing mortgage costs, especially in lower value areas. A homebuyer needs only to live in the property five years to be gifted the discount as equity in their home. There are no equity sharing arrangements, so while you pay back 80/60/40/20 percent of the discount if you sell during the first five years, all capital gains during that period are retained by the purchaser. Unless tenants' remortgage or if the market falls substantially this discount provides a large equity cushion to protect purchasers from negative equity and as lower value homes are often involved lower mortgage payments than could be obtained if they bought on the open market. This scheme may challenge the new supply for social housing as there is no return to the state for this large subsidy, may also challenge the economics of the model. From a purchasers' perspective with sustainable incomes the gifted equity is advantageous.

Our small insight into the longer-term experiences of buyers suggested legacy buyers from prior to the financial crisis paid more for their homeownership experience. Right to buy purchasers who had bought before 2010 were paying high mortgage costs compared to those who bought under more strident mortgage market regulation, who paid similar interest rates for their homes to other mortgagors. Interviews with recent Right to Buy purchasers, however, indicated households had limited resources to overcome income or payment shocks. Some were reliant on benefits, although short of further benefit reform, benefit income should maintain through any housing market downturn. Conversely, support to homeowners who lose income would be required.

The Government has basic but relatively balanced guidance to prospective tenants wishing to buy their home. Most participants dealt solely with their local authority or housing association, however, and were given little advice or guidance about what homeownership entails. Again providers should routinely provide the Government guidance on buying the home through Right to Buy or a newly developed *How to Buy Affordable Homeownership* guide as discussed above.

Right to Buy purchasers had limited resources and some had significant refurbishments to undertake. Guidance about property condition and likely repair costs would be beneficial. Landlords should ensure tenants in blocks of flats comprehend their responsibilities towards any forthcoming repairs and the associated costs. As with the experience of shared ownership, assuming another party like solicitors will deliver and highlight this detail could be misplaced. Issues around the impact of Right to Buy on the wider social housing system were not part of this project, focussing on individual homebuyer risks instead. However, it was notable that a small minority of Right to Buy purchasers were developing plans to use their home asset to become landlords directly, so not using the scheme as a route to low-cost homeownership but to landlordism.

Conclusion

Homeownership schemes address housing affordability gaps, providing lower entry costs for households marginal to their local housing market. The schemes aim to reduce the deposit required and limit initial monthly costs associated with homeownership relative to buying unassisted on the open market. Shared ownership and Right to Buy have formed a route to ownership for less affluent households. Homeownership is a tenure that shifts responsibilities from landlords to individuals in return for control of the asset in respect of repairs and asset accrual. Homeownership is not, therefore, without risk, but less affluent households carry greater relative weight. To date attention has primarily focussed on household entry to the sector with less concern for the longer-term experiences of purchasers. This study explored whether the affordable homeownership schemes have limited the risks involved in homeownership for these households.

The schemes have product features that limited risk for purchasers notably equity sharing (or gifting for Right to Buy), access to housing benefit and an ongoing relationship with housing providers that can support debt advice or flexible tenure in shared ownership, generally good property conditions via new build or the ability to delay some housing costs to later in career for Help to Buy and shared ownership. The schemes provide opportunities for equity accrual through rising markets or paying down mortgage debt that is absent from private renting, as well as the security and psychosocial benefits of homeownership relative to other housing tenure. These benefits need weighted against additional risks that people may pay more for their homeownership experience via higher mortgage rates, that initial lower costs may not be maintained, that for significant minorities affordable homeownership has produced high housing costs relative to incomes, that equity gains may be mooted relative to housing costs over the long-term, and that repair costs over time may be problematic. The products may introduce complexity that can be a challenge to manage in terms of buying additional equity. Help to Buy has catered to more affluent purchasers but some households with fewer resources in shared ownership may feel pressured over time. Right to Buy purchasers have limited finances increasing the risks of payment and home maintenance over time with implications for the future quality of this stock.

Changing consumer standards in social housing, problems of the leasehold tenure, complaints handling and the impacts of the building safety crisis have highlighted the imbalance between public and private housing providers and people receiving housing services be those tenants, homeowners or leaseholders. Government has moved to introduce some reforms of shared ownership, introducing longer leases and greater clarity about responsibilities and costs, but falls short of shifting the balance between providers and shared owners due to the impacts on provider finances and development funding. If households are to be further encouraged into homeownership, and this is something that all parties are committed to, then additional forms of guidance, support or safety nets are required across the sector to ensure equitable outcomes.

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Appendix 1: Additional notes on the research methods

English Housing Survey

The EHS is a national survey that collects information such as housing circumstances and the condition of housing in England. The EHS consists of two main elements: an initial household interviews and a follow up physical inspection of a sub-sample of dwellings. In this study, five waves of the EHS Household Datasets (i.e., 2014/5, 2015/6, 2016/7, 2017/8, and 2018/9) and three waves of physical survey (physical survey data is released on a two-year rolling basis, therefore, 2014, 2016, and 2018 waves continuously cover physical inspection from April 2014 to March 2019 without double-counting) were matched and pooled for analysis. The dataset was obtained under Special License from the UK Data Service.

Additionally, as the study draws together five years of information, to allow for comparisons, House Price Index for England and Consumer Prices Index including owner occupiers' housing costs (CPIH) were obtained from the Office for National Statistics and applied to the estimation of current housing value and housing/repair costs (with 2019 as the base year).

Unless otherwise stated, the analysis uses weighted samples to take account of the oversample issues in the survey, as the EHS oversamples tenure groups who are less prevalent. Weighting is provided in the dataset for each observation.

Homeownership type

Affordable homeownership. The EHS includes an identifier for shared homeowners ("part own and part rent"), however, there is no direct identifier for Help-to-Buy homeownership or Right-to-Buy homeownership. In this study, we identified the Help-to-Buy homeowners by using those who chose "I need or have made use of the Help to Buy Scheme or NewBuy Guarantee to buy my own home" (the question was introduced in 2016/7) and simultaneously were homeowners. This is imprecise and we require caution about the outcomes but gives a reasonable guide to this important market segment. We identified Right-to-Buy homeowners by using homeowners whose properties were purchased from councils or Housing Associations as sitting tenants. Other low-to-moderate income (LMI) homeowners were identified as homeowners who were not identified as affordable homeowners (shared homeowners, Help-to-Buy homeowners, or Right-to-Buy homeowners) and simultaneously have BHC equivalised income below 50% of median incomes. The pooling of the datasets provided enough shared owners and Help to Buy purchasers to undertake analysis (Table A1.1).

Table A1.1: Sample numbers of households using affordable homeownership schemes (2014/15-2018/19)

Shared ownership	Help to Buy	Right to Buy	Other low- or moderate-income households
420	301	2161	2374

Source: English Housing Survey

Other variables

Being a well-developed dataset, the EHS has provided extensive information and ready-to-use derived variables as well. For instance, the EHS provides equivalised household income variables based on the OECD equivalisation factors. The EHS also provides information on home equity based on respondent's valuation, which is calculated as the respondent's estimation of the value of the dwelling deducting the amount of outstanding mortgage and other loans on the property.

However, to answer the research questions, additional derived variables were generated. For instance, the housing affordability ratio was based on annual gross housing costs and annual BHC equivalised incomes. Mortgage interest rates were estimated in Excel, where the interest rate paid by those who use interest-only mortgage was calculated as monthly payment divided by total amount of mortgage multiplied by 12, and the interest rate paid by those who use repayment mortgage was calculated using the Excel RATE function (requiring information on the number of months left on mortgage, monthly mortgage payment, and total amount of mortgage). Additionally, information on the total purchase price of the properties when bought was missing in 2016/7, 2017/8, and 2018/9 datasets. In that case, total purchase price was estimated by summing up the total amount of mortgage and deposit.

The data cleaning and analysis was conducted in the statistical analysis software Stata (Version 17.0). Microsoft Excel was also used in a few circumstances (as mentioned above).

Financial Lives Survey

The Financial Conduct Authority (FCA) undertook the biennial Financial Lives Survey (FLS) in 2017 and early 2020 to support understanding of how consumers across the UK experience and respond to financial services. An additional rapid-version of the survey was undertaken during October 2020 to capture the financial impacts of the Covid-19 pandemic. These data were made available under license by the University of Leeds Consumer Data Research Centre.

Table A1.2 shows the size of the individual and combined surveys.

Table A1.2: Summary of respondents for each wave of the FLS

Survey	Survey period	Total survey respondents	Shared owners ('part rent-part buy')
2017	Dec 2016-April 2017 (wave 1)	12,865	145
Early 2020	Aug 2019- Feb 2020 (wave 2)	16,190	220
Late 2020	Oct 2020 (wave 3)	22,267	173
Combined dataset total		**51,322**	**538**

The 2017 and early 2020 surveys were overseen by NatCen in conjunction with the FCA and private market research firms and undertaken largely online but with an in-home survey to capture non-digitally connected respondents. The later 2020 survey was undertaken during the pandemic and at a time of various tiers of restricted face to face activities and was therefore predominantly undertaken rapidly online with a small sample of 250 telephone interviews.

The FLS explored respondents' demographics, financial attitudes, assets and debts and product holdings. Not all questions were asked of all respondents, with the core questions about financial vulnerability and capability being asked for all respondents but individual suites of questions about product holding were asked only of randomly selected subsets of respondents. The FLS has enough shared owner respondents to consider the core questions. Issues of debt and mortgages were of interest but had too few shared owners to undertake any meaningful analysis. For example, the survey asked mortgage payment questions of only 1,317 respondents, producing only 19 shared owners in 2017 and 79 in 2020.

FCA (2021) work on financial services and vulnerability identifies four key drivers associated with consumers being at potential risk of financial harm, which includes health (illness, disability, mental health, addiction etc.), life events (caring responsibilities, bereavements, income shocks, relationship breakdown etc.), resilience (low-income, indebtedness, low savings and low emotional resilience) and capability (low confidence in managing money, poor literacy and numerical skills, language skills and low digital literacy etc.). Not all these questions are amenable to asking in a survey and combined potential financial vulnerability may therefore be under-estimated.

To operationalise these factors that may increase the risk of people being vulnerable to financial harm, the FCA constructed a composite variable to identify potential financial vulnerability that involves having at least one indicator of potential vulnerability as set out below.

Appendix 2: Summary tables profiles of purchasers

Table A2.1: Profile all purchasers (%)

		Shared owners	Help to Buy	Right to Buy	Other LMI buyers	All mortgagors
No. of observations		420	301	2161	2374	16790
Age (mean years)		47	40	64	65	46
Age group	18-24	0.03	8	0	0	2
	25-34	27	41	2	3	19
	35-44	25	25	7	10	30
	45-54	20	13	20	14	32
	55-64	10	7	22	18	14
	65 or over	15	7	49	55	4
Gender	Men	52	70	55	50	67
	Women	48	30	45	50	33
Ethnicity	White	89	90	92	86	89
	Ethnic minority	11	10	8	14	11
Socioeconomic group	Managerial and professional	50	67	19	21	59
	Intermediate	12	12	10	15	10
	Small employers and own account holders	9	5	10	20	10
	Lower supervisory and technical	8	9	15	8	8
	Semi-routine and routine	22	8	46	36	13
Employment status	Employed	78	91	45	22	92
	Retired	15	7	50	62	4
	Unemployed	3	0	1	4	1
	Inactive (including full-time education)	5	1	4	12	3
Long-term illness or disability		26	14	46	41	21
Average household size	(Number)	2.33	2.42	2.15	1.99	2.87
Household composition	Couple with no dependent child(ren)	23	42	46	31	35
	Couple with dependent child(ren)	28	34	7	12	41
	Lone parent with dependent child(ren)	10	2	2	4	4
	Other multi-person households	6	2	13	6	6

	One person under 60	20	16	6	10	12
	One person aged 60 or over	12	4	25	36	2
Regions	North East	3	7	12	5	5
	North West	9	1	15	14	14
	Yorkshire and the Humber	3	8	10	11	10
	East Midlands	9	13	9	9	
	West Midlands	7	12	15	13	1
	East	10	12	9	11	1
	London	2	9	1	12	13
	South East	27	15	10	13	18
	South West	10	1	9	11	10
IMD ranking	Most deprived 10% of areas	9	5	2	8	5
	2nd	1	10	2	7	8
	3rd	13	5	16	9	9
	4th	13	9	12	11	10
	5th	11	12	8	11	10
	6th	10	8	7	12	11
	7th	9	13	6	11	11
	8th	9	12	3	11	11
	9th	8	11	3	10	12
	Least deprived 10% of areas	9	14	1	9	12

Source: English Housing Survey 2014/5 to 2018/19

Table A2.2: Profile all purchasers bought between 2010 and 2019 (%)

		Shared owners	Help to Buy	Right to Buy	Other LMI owners	All Mortgagors
No. of observations		214	301	232	499	7152
Age		41.8	39.8	48.0	56.0	39.8
Age group	18-24	5.5	7.5	1.3	2.2	3.4
	25-34	41.8	41.4	17.1	9.8	36.2
	35-44	20.7	25.0	28.0	18.4	35.0
	45-54	16.3	12.5	30.7	17.2	19.0
	55-64	5.9	6.8	12.5	19.7	5.3
	65 or over	9.7	6.7	10.5	32.6	1.0
Gender	Men	56.3	69.9	57.0	53.3	68.8
	Women	43.7	30.1	43.0	46.7	31.2
Ethnicity	White	87.6	89.6	77.5	81.8	88.0
	Ethnic minority	12.4	10.4	22.5	18.2	12.0
Disability	Homeowners with disability	20.8	14.3	31.4	36.8	14.7
	Homeowners without disability	78.7	85.7	68.6	62.8	85.1
Socioeconomic group	Managerial and professional	53.8	66.7	28.1	24.5	66.7
	Intermediate	10.4	12.2	9.3	13.9	8.7
	Small employers and own account holders	8.4	4.6	12.9	21.5	7.2
	Lower supervisory and technical	8.4	8.6	12.8	7.8	7.5
	Semi-routine and routine	19.0	7.9	69.9	32.3	9.9
Employment status	Employed	83.3	90.9	80.7	32.7	96.3
	Retired	9.3	7.4	13.3	40.7	1.2
	Unemployed	2.1	0.3	0.9	5.5	0.5
	Inactive (including full-time education)	5.3	1.4	5.2	21.1	2.0
Average household size		2.3	2.4	2.8	2.2	2.8

		Shared owners	Help to Buy	Right to Buy	Other LMI owners	All Mortgagors
Household composition	Couple with no dependent child(ren)	21.1	41.5	30.3	21.9	32.9
	Couple with dependent child(ren)	29.7	33.7	26.9	20.8	45.5
	Lone parent with dependent child(ren)	10.1	2.4	5.4	7.8	3.1
	Other multi-person households	5.5	2.2	15.6	7.3	3.6
	One person under 60	25.9	15.9	14.5	16.2	14.2
	One person aged 60 or over	7.7	4.2	7.4	26.0	0.8
Regions	North East	0.8	6.9	10.0	4.0	4.4
	North West	7.6	10.9	11.2	13.6	12.7
	Yorkshire and the Humber	3.1	8.2	11.4	10.0	9.4
	East Midlands	11.7	12.6	9.8	8.5	9.0
	West Midlands	7.4	11.8	11.4	12.7	9.0
	East	11.3	12.4	8.3	12.2	12.0
	London	21.6	8.7	21.4	10.8	13.7
	South East	27.1	14.8	7.0	15.9	18.8
	South West	9.4	13.5	9.3	12.4	10.8
IMD ranking	Most deprived 10% of areas	6.7	4.8	24.5	9.2	4.7
	2nd	10.1	10	23.6	5.8	7.4
	3rd	13.3	5.2	17.5	12.4	8.2
	4th	15.4	9.3	10.8	9.7	10.0
	5th	12.3	12.4	7.0	9.8	10.0
	6th	7.2	7.9	5.4	10.7	11.9
	7th	5.8	13	5.8	8.9	11.7
	8th	10.5	11.8	1.7	12.8	12.1

		Shared owners	Help to Buy	Right to Buy	Other LMI owners	All Mortgagors
	9th	7.9	11.3	1.4	12.3	12.1
	Least deprived 10% of areas	10.9	14.3	2.3	8.5	11.9

Source: EHS 2014/5-2018/9, weighted

Measuring potential financial vulnerability

The FCA used the FLS to construct measures of potential financial vulnerability, based on one or more characteristics that could put people at risk of financial harm. These indicators were revised between the 2017 and later 2020 surveys and the latest flag for people being at risk of financial vulnerability is based on people having one or more of the following indicators:

Low financial resilience

- unable to survive more than one week if their income stopped
- over-indebted, as they indicate that paying bills or credit commitments is a burden or that they have missed 3 months or more of bills or credit commitments
- unable to meet increased mortgage commitments of up to £50 per month
- strongly disagree with the statement 'I do not have difficulty paying for day-to-day expenses since I retired'
- Constantly or usually overdrawn (Removed late 2020)

Experienced one or more adverse life events

- Experienced one or more of the following life events in the past 12 months:
  losing job/redundancy; reduction in working hours (against wishes), bankruptcy, relationship breakdown/separation, divorce, serious accident or illness (or of a close family member), death of a parent, partner or child, becoming the main carer for a close family member

Financial capability is low

- Scored 0-3 on a scale of 1 to 10 when asked to rate confidence in managing money
- Scored 0-3 on a scale of 1 to 10 when asked how financially knowledgeable they were
- Strongly disagreed with statement that they were financial confident or savvy
- Being digitally excluded (Added late 2020)
- Low emotional resilience, low score at finding it easy or difficult to bounce back from negative experiences (Added late 2020)

Health may indicate access or capacity issues

- Ability to carry out day-to-day activities is reduced a lot through a condition or illness

Data analysis was undertaken using SPSS software.

Appendix 3: Summary tables homeownership risk and affordable homeownership schemes

Table A3.1: Characteristics of mortgage lending by type of homeownership 2013/14-2018/19

		Shared owners	**Help to Buy**	**Right to Buy**	**Other LMI owners**	**All Mortgagors**
Mortgages	Fixed-rate interest	80	89	91	74	84
	Outstanding balance	£78,126	£173,167	£71,710	£117,051	£157,529
	Repayment mortgage	99	99	99	93	96
	Interest only mortgage	7	1	11	20	11
	Interest only 2010-2019 buyers	*0*	*1*	*1%*	*7%*	*3%*
	Interest only sales prior to 2010	*15*	*n/a*	*12*	*25*	*16*
	Fixed-rate mortgage	61	89	51	50	62
	Fixed rate 2010-2019 buyers	*80*	*89*	*91*	*74*	*84*
	Fixed rate sales prior to 2010	*39*	*n/a*	*43*	*42*	*45*
	Estimated interest rate	4.18	2.12	7.49	3.19	3.32
	Est. interest rate 2010-2019 buyers only	*2.93*	*2.12*	*1.47*	*1.16*	*1.73*
	Est. interest rate sales prior to 2010	*5.64*	*n/a*	*8.76*	*3.9*	*4.56*
	Remortgaged	10	4	16	22	18
	Behind with mortgage payments	2.70	0.00	3.20	3.90	0.70
	Behind with rent payments last 12 months	2.40%	-	-	-	-
Affordability ratios over	London and South East	26	19	27	19	30

35% (2010-2019)						
	Other parts of England	31	7	4	15	17
	All	29	10	10	16	22
Affordability ratios over 35% (All homeowners)	London and South East	29	19	9	13	26
	Other parts of England	16	7	2	10	16
	All	26	10	4	11	19

Source: English Housing Survey 2013/4-2018/9

Table A3.2: Indicators of Financial Vulnerability by housing tenure, 2017-2020 (%)

	Financially vulnerable	Indicators:			
		Capability	Life Event	Health	Resilience
All households	48.1	22.8	19.3	5.5	18.7
Owned outright	42.7	23.9	18	5.3	7.5
Buying with a mortgage	37.3	11.4	19.2	2.4	12.6
'Part buy-Part rent'	52.5	20.1	18.3	3.1	27.3
Renting	67.5	32.4	23.1	10.4	46.8
Other (staying with parents, living rent free etc.)	49.4	29.9	17.7	5.3	19.9

Source: Financial Lives Survey 2017-2020

Table A3.3: Indicators of Financial Capability by tenure (%)

	Own outright	Buying with mortgage	Part-rent part-buy	Renting	Other (includes family and friends)
When it comes to financial services and products, I would consider myself to be a confident and savvy consumer					
Agree	61	64	44	49	44
Neither agree nor disagree	20	18	31	25	25
Disagree	20	19	24	26	31
How knowledgeable would you say you are about financial matters?					
Not knowledgeable (0-3)	7	5	11	14	19
Moderately knowledgeable (4-7)	52	55	61	61	62

Very knowledgeable (8-10)	41	40	28	25	19
How confident do you feel managing your money?					
Not confident (0-3)	4	3	7	9	11
Moderately confident (4-7)	33	39	42	52	56
Very confident (8-10)	63	58	51	40	33
Digitally excluded	17	3	5	15	6

Source: FLS 2017-2020 (All statistically significant p>0.001)

Appendix 4: Data resources to estimate long-term housing costs and equity over time

Housing costs were based on actual average data for:

- A 95 percent LTV, 25-year repayment mortgage
- Two-bedroom terrace or semi-detached home purchased in 2007(Land Registry Price Paid Data)
- The median two-bedroom home in Wakefield in 2007 was £176,153 and in Reading was £292,839
- Two and five-year fixed rate mortgage interest rates according to the relevant loan to values (Bank of England)
- Retail Price Inflation (RPI) (ONS) to inform shared ownership rent increases (assuming associations made the increases in line with the lease provisions) and Consumer Price Inflation (CPI) (ONS) to inform Help to Buy equity charges
- Values for terrace and semi-detached homes sold in those locations for relevant years (Land Registry Price Paid Data)
- Two-bedroom private rents (The Valuation Office)

In addition:

- The tables use the *moneysaving expert* online calculator to estimate mortgage costs and outstanding mortgage balances
- The estimates assume that the homebuyer remains in the property for the duration of the period, remortgaging periodically at the end of two-year or five-year fixed rate deals.
- Help to Buy options included both non-repayment of the equity loan and a repayment of the equity loan via remortgaging at year 5. Comparisons are made between retaining the original 25-year loan and also extending that to 30 years when remortgaged.
- Housing costs for a 50 percent, 25 percent and 10 percent equity share for shared ownership.
- The estimates assume that the mortgage interest rates for shared ownership was 0.75 percentage point higher than for other options.
- Appendix 4 includes detailed tables of the housing cost and equity estimates.

Appendix 5: Summary tables estimated housing costs and equity over time

Table A5.1: Estimated housing costs and housing equity by scheme for two bed house purchase Reading 2007-2021 (Based on 2 year fixes 9% mortgages) (6)

Reading	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Outright															
Median 2 bed house 2007 (1)	£292,839	£234,392	£215,496	£237,486	£238,480	£263,313	£249,922	£242,121	£314,673	£351,464	£359,676	£363,044	£356,083	£373,410	£378,248
5% deposit	£14,642														
Mortgage/ remaining	£278,197	£273,432	£268,361	£263,120	£257,530	£251,039	£244,163	£235,918	£227,287	£218,085	£208,470	£196,116	£183,557	£170,719	£157,680
LTV	95	117	125	111	108	95	98	97	72	62	58	54	52	46	42
mort interest rate (%) (2)	6.26%		6.47*		5.77*		4.59*		4.39		1.65		1.56		1.17
Monthly mortgage outright	£1,836	£1,836	£1,872	£1,872	£1,766	£1,766	£1,607	£1,607	£1,583	£1,583	£1,308	£1,308	£1,301	£1,301	£1,274
Equity	£14,642	-£39,040	-£52,865	-£25,634	-£19,050	£12,274	£5,759	£6,203	£87,386	£133,379	£151,206	£166,928	£172,526	£202,691	£220,568
50% Shared ownership															
50% share	£146,419	£117,196	£107,748	£118,743	£119,240	£131,657	£124,961	£121,061	£157,336	£175,732	£179,838	£181,522	£178,041	£186,705	£189,124
5% deposit on 50%	£7,321														
mortgage	£139,098	£136,973	£134,695	£132,321	£126,769	£123,851	£120,736	£116,964	£112,985	£108,711	£104,212	£98,371	£92,388	£86,221	£79,911
unsold equity	£146,419														
rent 2.75%	£336														
RPI		4.6	-1.6	5	5	2.8	3.3	2.5	1	1.6	3.5	3.4	2.9	1.1	3.9
RPI+0.5%		5.1	0.5	5.5	5.5	3.3	3.8	3	1.5	2.1	4	3.9	3.4	1.6	4.4
Rent	£335	£352	£354	£373	£394	£407	£422	£435	£441	£451	£469	£487	£504	£512	£534

Assumed mort int rate (%) (4)	7.01		7.22		6.52		5.34		5.14		2.40		2.31		1.92
Monthly mortgage	£984	£984	£1,001	£1,001	£925	£925	£844	£844	£832	£832	£690	£690	£686	£686	£672
total rent +mort	£1,319	£1,336	£1,355	£1,374	£1,319	£1,332	£1,266	£1,279	£1,273	£1,283	£1,159	£1,177	£1,190	£1,198	£1,206
% of outright	*72*	*73*	*72*	*73*	*75*	*75*	*79*	*80*	*80*	*81*	*89*	*90*	*91*	*92*	*95*
Equity	£7,321	-£19,777	-£26,947	-£13,578	-£7,529	£7,806	£4,225	£4,097	£44,351	£67,021	£75,626	£83,151	£85,653	£100,484	£109,213
25% Shared ownership															
25% share	£73,210	£58,598	£53,874	£59,372	£59,620	£65,828	£62,481	£60,530	£78,668	£87,866	£89,919	£90,761	£89,021	£93,353	£94,562
5% deposit 25%	3,660														
Mortgage	£69,549	£68,487	£67,347	£66,610	£64,884	£63,390	£61,796	£59,685	£57,829	£56,641	£53,339	£50,349	£47,287	£44,131	£40,901
Unsold equity	219,629														
rent 2.75%	503														
Rent	£503	£529	£531	£561	£591	£611	£634	£653	£663	£677	£704	£731	£756	£768	£802
Monthly mortgage	£492	£492	£501	£501	£473	£473	£432	£432	£426	£426	£353	£353	£351	£351	£344
total rent +mort	£995	£1,021	£1,032	£1,062	£1,064	£1,084	£1,066	£1,085	£1,089	£1,103	£1,057	£1,084	£1,107	£1,119	£1,146
% of outright	*54*	*56*	*55*	*57*	*60*	*61*	*66*	*68*	*69*	*70*	*81*	*83*	*85*	*86*	*90*
Equity	£3,661	-£9,889	-£13,473	-£7,238	-£5,264	£2,438	£685	£845	£20,839	£31,225	£36,580	£40,412	£41,734	£49,222	£53,661
Private Renting (5)															
new lets mean 2 beds (5)					£814	£855	£886	£923	£960	£1,020	£1,051	£1,061	£1,057	£1,076	£1,040
% of outright					46	48	55	57	61	64	80	81	81	83	82
10% shared ownership															
10% share	£29,284	£23,439	£21,550	£23,749	£23,848	£26,331	£24,992	£24,212	£31,467	£35,146	£35,968	£36,304	£35,608	£37,341	£37,825
5% deposit	£1,464														
Mortgage	£27,820	27,395	26,939	26,464	25,954	25357	24,719	23,947	23,132	22,257	21,336	20,140	18,915	17,653	16,361
Unsold equity	£263,555														
Rent 2.75%	604	£635	£638	£673	£710	£734	£761	£784	£796	£813	£845	£878	£908	£923	£963
Monthly mortgage	197	197	200	200	189	189	173	173	170	170	141	141	140	140	138

total rent +mort	801	832	838	873	899	923	934	957	966	983	986	1,019	1,048	1,063	1,101
% of outright	44	45	45	47	51	52	58	60	61	62	75	78	81	82	86
Equity	1,464	-3,956	-5,389	-2,715	-2,106	974	273	265	8,335	12,889	14,632	16,164	16,693	19,688	21,464
Help to Buy (loan not repaid)															
5% deposit	£11,720														
20% equity loan	£58,568	£46,878	£43,099	£47,497	£47,696	£52,663	£49,984	£48,424	£62,935	£70,293	£71,935	£72,609	£71,217	£74,682	£75,650
75% mortgage/outstanding	£219,629	£215,776	£211,681	£207,329	£202,704	£197,790	£191,412	£184,754	£177,804	£170,549	£162,975	£153,558	£143,951	£134,151	£124,155
LTV	75	92	98	87	85	75	77	76	57	49	45	42	40	36	33
Equity charge 1.75% (7)	£0	£0	£0	£0	£0	£77	£80	£83	£85	£88	£92	£96	£99	£102	£107
CPI	2.5	3.7	1.7	2.4	3.6	2.3	2.6	1.8	0.3	0.8	2.6	2.3	1.9	0.8	2.4
Int rate 5 year fix	6.10%					4.3					1.99				
monthly mortgage	£1,428	£1,428	£1,428	£1,428	£1,428	£1,231	£1,231	£1,231	£1,231	£1,231	£1,048	£1,048	£1,048	£1,048	£1,048
Mort +charge	£1,428	£1,428	£1,428	£1,428	£1,428	£1,308	£1,311	£1,314	£1,316	£1,319	£1,140	£1,144	£1,147	£1,150	£1,155
% of outright	78	78	76	76	81	74	82	82	83	83	87	87	88	88	91
Equity	£14,642	-£28,262	-£39,284	-£17,340	-£11,920	£12,861	£8,526	£8,943	£73,934	£110,622	£124,766	£136,877	£140,915	£164,577	£178,443
Help to Buy (loan repaid year 5 kept 25 year mortgage)															
outstanding mortgage	£219,629	£215,776	£211,681	£207,329	£202,704	250,453	242,377	233,947	225,146	215,960	206,369	194,444	182,280	169,871	157,212
LTV	75	92	98	87	85	95	97	97	72	61	57	54	51	45	42
monthly mortgage	£1,428	£1,428	£1,428	£1,428	£1,428	1,558	1,558	1,558	1,558	1,558	1,327	1,327	1,327	1,327	1,327
% of outright	78	78	76	76	81	88	97	97	98	98	101	101	102	102	104
Equity	14,642	-28,262	-39,284	-17,340	-11,920	12,861	7,545	8,174	89,527	135,504	153,307	168,600	173,803	203,539	221,036
Help to Buy (loan repaid year 5 and 30 year mortgage)															
outstanding mortgage	219,629	£215,776	£211,681	£207,329	£202,704	250,453	244,748	238,793	232,577	226,087	219,313	214,422	205,043	195,475	185,716
LTV	75	1.15	1.23	1.09	1.06	1.19	1.22	1.23	0.92	0.80	0.76	0.74	0.72	0.65	0.61
monthly mortgage	1,428	£1,428	£1,428	£1,428	£1,428	1,364	1,364	1,364	1,364	1,364	1,109	1,109	1,109	1,109	1,109

% of outright	78	78	76	76	81	77	85	85	86	86	85	85	85	85	87
Equity	14,642	-28,262	-39,284	-17,340	-11,920	12,861	5,174	3,328	82,096	125,377	140,363	148,622	151,040	177,935	192,532
First Homes															
70% SHARE	204,987	164,075	150,847	166,240	166,936	184,319	174,946	169,485	220,271	246,025	251,773	254,131	249,258	261,387	264,774
5% deposit	£10,249														
30% discount	£87,852														
Mortgage 65%	194738	191403	187853	184184	180271	175727	170914	165143	159101	152659	145929	137261	128490	119503	110376
Monthly mortgage	£1,286	£1,286	£1,310	£1,310	£1,236	£1,236	£1,125	£1,125	£1,108	£1,108	£916	£916	£910	£910	£892
% of outright	70	70	70	70	70	70	70	70	70	70	70	70	70	70	70
Equity	£10,249	-£27,328	-£37,006	-£17,944	-£13,335	£8,592	£4,032	£4,342	£61,170	£93,366	£105,844	£116,870	£120,768	£141,884	£154,398

Table A5.2: Estimated housing costs and housing equity for open market and shared ownership two bed house purchase Wakefield 2007-2021 (6)

Wakefield	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Outright															
Median 2 bed house 2007 (1)	176153.5	158206.1	120153.6	120781.7	117311.2	118830	120233	125080	126768	132716	137257.8	145767	147763	155602	184993
5% deposit	£8,808														
mortgage/remaining	£167,346	164,480	161,429	158,276	154,914	151,009	146,873	141,962	136,816	131,277	125,489	118,233	110,831	103,079	95,206
LTV	95	104	134	131	132	127	122	113	108	99	91	81	75	66	51
mort interest rate (%) (2)	6.26%		6.47*		5.77*		4.59*		4.39		1.65		1.56		1.17
Monthly mortgage outright	£1,105	£1,105	£1,126	£1,126	£1,062	£1,062	£974	£974	£953	£953	£806	£806	£785	£785	£769
Equity	£8,808	-£6,274	-£41,275	-£37,494	-£37,603	-£32,179	-£26,640	-£16,882	-£10,048	£1,439	£11,769	£27,534	£36,932	£52,523	£89,787
50% Shared ownership															
50% share	£88,077	£79,103	£60,077	£60,391	£58,656	£59,415	£60,117	£62,540	£63,384	£66,358	£68,629	£72,883	£73,881	£77,801	£92,496
5% deposit on 50%	£4,404														

mortgage	83672.91	82395	81024	79442	77754	75794	73718	71415	68985	66375	63628	60062	56408	52463	48790
unsold equity	£88,077														
rent 2.75%	£202														
RPI		4.6	-1.6	5	5	2.8	3.3	2.5	1	1.6	3.5	3.4	2.9	1.1	3.9
RPI+0.5%		5.1	0.5	5.5	5.5	3.3	3.8	3	1.5	2.1	4	3.9	3.4	1.6	4.4
Rent	£202	£212	£213	£225	£237	£245	£255	£262	£266	£272	£283	£294	£304	£309	£322
assumed mort int rate (%) (4)	7.01		7.22		6.52		5.34		5.14		2.40		2.31		1.92
Monthly mortgage	592	592	565	565	533	533	515	515	508	508	421	421	419	419	410
total rent +mort	£794	£804	£778	£790	£770	£778	£770	£777	£774	£780	£704	£715	£723	£728	£732
% of outright	*72*	*73*	*69*	*70*	*73*	*73*	*79*	*80*	*81*	*82*	*87*	*89*	*92*	*93*	*95*
Equity	£4,404	-£3,292	-£20,947	-£19,051	-£19,098	-£16,379	-£13,601	-£8,875	-£5,601	-£17	£5,001	£12,821	£17,473	£25,338	£43,706
25% Shared ownership															
25% share	£44,038	£39,552	£30,038	£30,195	£29,328	£29,707	£30,058	£31,270	£31,692	£33,179	£34,314	£36,442	£36,941	£38,901	£46,248
5% deposit 25%	2,202														
Mortgage	41,836	41197	40512	39798	39031	38132	37173	36012	34787	33471	32086	30288	28445	26546	24604
Unsold equity	132,115														
rent 2.75%	303														
Rent	£303	£318	£320	£338	£356	£368	£382	£393	£399	£408	£424	£441	£456	£463	£483
Monthly mortgage	£296	£296	£301	£301	£285	£285	£260	£260	£256	£256	£212	£212	£211	£211	£207
total rent +mort	£599	£614	£621	£639	£641	£653	£642	£653	£655	£664	£636	£653	£667	£674	£690
% of outright	*54*	*56*	*55*	*57*	*60*	*61*	*66*	*67*	*69*	*70*	*79*	*81*	*85*	*86*	*90*
Equity	£2,202	-£1,645	-£10,474	-£9,603	-£9,703	-£8,425	-£7,115	-£4,742	-£3,095	-£292	£2,228	£6,154	£8,496	£12,355	£21,644
PRS (5)															
new lets mean 2 beds (5)					£496	£490	£490	482	£490	£478	£498	509	510	£539	£562
% of outright					47	46	50	49	51	50	62	63	65	69	73
10% shared ownership															
10% share	£17,615	£15,821	£12,015	£12,078	£11,731	£11,883	£12,023	£12,508	£12,677	£13,272	£13,726	£14,577	£14,776	£15,560	£18,499
5% deposit	£881														
Mortgage	£16,735	£16,479	£16,205	£15,919	£15,612	£15,253	£14,869	£14,404	£13,915	£13,389	£12,835	£12,116	£11,379	£10,619	£9,842
Unsold equity	£158,538														

Rent 2.75%	£363	£382	£383	£405	£427	£441	£458	£471	£478	£488	£508	£528	£546	£554	£579
Monthly mortgage	£118	£118	£120	£120	£114	£114	£104	£104	£102	£102	£85	£85	£84	£84	£83
total rent +mort	£481	£500	£503	£525	£541	£555	£562	£575	£580	£590	£593	£613	£630	£638	£662
% of outright	44	45	45	47	51	52	58	59	61	62	74	76	80	81	86
Equity	£881	-£658	-£4,190	-£3,841	-£3,881	-£3,370	-£2,846	-£1,896	-£1,238	-£117	£891	£2,461	£3,397	£4,941	£8,657
Help to Buy (loan not repaid)															
5% deposit	£8,808														
20% equity loan	£58,568	£31,641	£24,031	£24,156	£23,462	£23,766	£24,047	£25,016	£25,354	£26,543	£27,452	£29,153	£29,553	£31,120	£36,999
75% mortgage/outstanding	£132,115	129797	127334	124716	121934	118978	115142	111137	106956	102592	98036	92371	86592	80697	74684
LTV	75	82	106	103	104	100	96	89	84	77	71	63	59	52	40
Equity charge 1.75% (7)	£0	£0	£0	£0	£0	£35	£36	£38	£38	£40	£41	£43	£45	£46	£48
CPI	2.5	3.7	1.7	2.4	3.6	2.3	2.6	1.8	0.3	0.8	2.6	2.3	1.9	0.8	2.4
Int rate 5 year fix	6.10%					4.3					1.99				
monthly mortgage	£859	£859	£859	£859	£859	£740	£740	£740	£740	£740	£631	£631	£631	£631	£631
Mort +charge	£859	£859	£859	£859	£859	£775	£776	£778	£778	£780	£672	£674	£676	£677	£679
% of outright	78	78	76	76	81	73	80	80	82	82	83	84	86	86	88
Equity	£8,808	-£3,232	-£31,211	-£28,091	-£28,085	-£23,914	-£18,955	-£11,073	-£5,542	£3,581	£11,770	£24,242	£31,618	£43,785	£73,310
Help to Buy (loan repaid year 5 retaining 25 year mortgage)															
outstanding mortgage	£132,115	£129,797	£127,334	£124,716	£121,934	£142,744	£138,141	#######	£128,321	#######	£117,619	£110,823	£103,889	£96,817	£89,602
LTV	75	82	106	103	104	120	115	107	101	93	86	76	70	62	48
monthly mortgage	£859	£859	£859	£859	£859	£888	£888	£888	£888	£888	£756	£756	£756	£756	£756
% of outright	78	78	76	76	81	84	91	91	93	93	94	94	96	96	98
Equity	£8,808	-£3,232	-£31,211	-£28,091	-£28,085	-£23,914	-£17,908	-£8,256	-£1,553	£9,631	£19,639	£34,944	£43,874	£58,785	£95,391
Help to Buy (loan repaid year 5 mortgage extended to 30 years)															

outstanding mortgage	£132,115	£129,797	£127,334	£124,716	£121,934	£145,700	142,381	138,917	135,300	131,525	127,584	122,338	116,897	111,528	105,960
LTV	0.75	0.82	1.06	1.03	1.04	1.23	1.18	1.11	1.07	0.99	0.93	0.84	0.79	0.72	0.57
Monthly mortgage	£859	£859	£859	£859	£859	£794	£794	£794	£794	£794	£645	£645	£645	£645	£645
% outright		78	76	76	81	75	82	82	83	83	80	80	82	82	84
Equity	£8,808	-£3,232	-£31,211	-£28,091	-£28,085	-£26,870	-£22,148	-£13,837	-£8,532	£1,191	£9,674	£23,429	£30,866	£44,074	£79,033
First Homes (8)															
70% share	£123,307	£110,744	£84,108	£84,547	£82,118	£83,181	£84,163	£87,556	£88,738	£92,901	£96,080	£102,037	£103,434	£108,922	£129,495
5% deposit	£6,165														
30% discount	£52,846														
95% mortgage	£117,142	£115,136	113000	£110,793	£108,439	£105,706	£102,811	£99,339	£95,705	£91,830	£87,782	£82,580	£77,292	£71,886	£66,395
LTV	67	73	94	92	92	89	86	79	75	69	64	57	52	46	36
Int rate as per open market	6.26%		6.47*		5.77*		4.59		4.39		1.65		1.56		1.17
Monthly payment	773	773	788	788	744	744	677	677	667	667	551	551	548	£548	£536
% of outright	70	70	70	70	70	70	70	70	70	70	68	68	70	70	70
Equity	£6,165	-£4,392	-£28,892	-£26,246	-£26,321	-£22,525	-£18,648	-£11,783	-£6,967	£1,071	£8,298	£19,457	£26,142	£37,036	£63,100

(1) Average all sales semi and terraced new build Land registry Price Paid Data
(2) Bank of England 5-year fix June 2007, 2012, no 95% loans 2-year 90%, 5-year fix 95%, 5-year fix
(3) RPI ONS June- Annual uplift RPI+0.5%
(4) Leeds BS 2-year fix c.3.5% so loan, compares to current 2-year fix average BoE 95% 2.75, rate differential for shared owners 0.75%
(5) Valuation Office Agency Table 2.4 Private Rental Market Statistics
(6) Used *moneysavingexpert* mortgage calculators
(7) Equity charge annual increase CPI+2%

By **Alison Wallace**, **Julie Rugg** and **Jiaxin Liu**
October 2022

Centre for Housing Policy
School of Business and Society
University of York
Heslington, York
YO10 5DD

alison.wallace@york.ac.uk

abrdn Financial Fairness Trust

UNIVERSITY of York