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Analysis of the Intermediate Housing Market Mechanism in the UK

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Abstract

Government policies have backed intermediate housing market mechanisms like shared equity, intermediate rented and shared ownership (SO) as potential routes for some households, who are otherwise squeezed between the social housing and the private market. The rhetoric deployed around such housing has regularly contained claims about its social progressiveness and role in facilitating socio-economic mobility, centring on a claim that SO schemes can encourage people to move from rented accommodation through a shared equity phase and into full owner-occupation. SO has been justified on the grounds of it being transitional state, rather than a permanent tenure. However SO buyers may be laden with economic cost-benefit structures that do not stack up evenly and as a consequence there may be little realistic prospect of ever reaching a preferred outcome. Such behaviours have received little empirical attention as yet despite, the SO model arguably offers a sub-optimal solution towards homeownership, or in terms of wider quality of life. Given the paucity of rigorous empirical work on this issue, this paper delineates the evidence so far and sets out a research agenda. Our analysis is based on a large dataset of new shared owners, observing an information base that spans the past decade. We then set out an agenda to further examine the behaviours of the SO occupants and to examine the implications for future public policy based on existing literature and our outline findings. This paper is particularly opportune at a time of economic uncertainty and an overriding ‘austerity’ drive in public funding in the UK, through which SO schemes have enjoyed support uninterruptedly thus far.

Keywords: Shared Ownership, Affordability, Housing Supply, Social Mobility, Staircasing.

JEL Classifications: R21, R28, H31, R31.

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**All remaining errors are ours.*

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Introduction

There is a well-recognised housing shortage in the UK and successive governments have accepted housing supply and affordability issues as priority public policy concerns. This sentiment is reflected by the recent UK government's view that 'not enough new homes have been provided to meet the needs of our growing population. We are committed to meeting those needs by increasing housing supply and helping people who aspire to buy their own home' (CLG, 2011a). Aggregate housing supply is clearly a long-term and complex challenge. As part of this, the way that types of tenure aimed to widen the opportunity and accessibility of housing have been developed are of significance. Private rented, owner-occupied and social or public housing as the main tenure choices have been joined by terms and options such as low-cost housing (LCHO), intermediate housing, and shared ownership (SO) housing. This reflects how housing tenure and its representation has been shifting focus over the past fifteen years or so, and how vehicles to encourage homeownership have been gaining importance in terms of widening tenure choices.

Efforts to bridge the affordability gap have been variously assessed and investigated with numerous schemes and policies that are specifically designed to address accessibility being highlighted. Affordable housing as a category and policy concern has become one of the dominant topics of housing provision and debate. Within this broad category a range of different types, tenures and schemes for delivering affordable housing units have been conceived. The approach has received considerable attention (see, for example; Bramley and Karley, 2005; CLG, 2006; CLG, 2011a Monk and Whitehead, 2010). In recent years debates over the merits and issues surrounding social housing and other tenures, and how they have performed over the past two decades, have attracted interest from a range of academic disciplines, given the importance of housing as a social and economic good.

Government policies have also featured intermediate housing as part of the affordable housing prescription. In particular, for this paper, the development of shared ownership schemes has been

part of the development of a suite of low cost home ownership options (Fielder, 1986; Tunstall, 2003). The shared ownership approach is one specific mechanism that has been identified and applied, where: ‘the Government...help[s] social tenants and other first time buyers to own or part-own their home through the Right to Buy and shared ownership schemes’ (CLG, 2011b). The shared ownership mechanism has found political favour, and has attracted considerable attention from politicians and policymakers and the use of shared ownership housing model itself (also referred to as shared equity schemes) has been refined and extended in recent years.

The shared ownership market allows variously for part-equity sales, low mortgage deposits and lower rents payable to housing associations on the remainder of the equity. Shared ownership has been viewed as a useful vehicle to widen access to housing on an affordable basis. This approach has been developed and refined, with new variations of shared ownership being introduced in the last few years (see Annex 2), all with a view to enabling lower income groups to enter a form of owner-occupation. As we discuss, this particular aspect of housing provision has received limited attention in research, partly due to limited data availability (see Wallace, 2008; Clarke, 2010).

Our contribution in this paper is twofold; firstly, to review the evidence thus far on shared-ownership housing in the UK and to characterize the market dynamics from a large sample of new shared owners in the national Continuous Recording of Lettings and Sales [CORE] dataset from the Tenant Services Authority³ which gives a longer run and larger base of evidence than existing published material. We then set up an agenda for further research into SO, specifically to develop better understanding of the decision-making of owners in this market segment and to examine the actual behaviour of shared owners. A decade of information provides a unique opportunity to observe trends and analyze market dynamics across various states of the housing market over the economic cycle. Yet, as we outline, this also reveals a need to further understand the segment and the owners more fully. Future research clearly needs to include deeper engagement with consumer attitudes and decision-making.

We have organized remainder of the paper with the next section containing a detailed discussion of the existing literature on this topic. In the third section, we analyse our findings from the

³ For CORE data access, see <https://core.tenantservicesauthority.org>

secondary data and present our analysis. The final part provides a discussion and future research agenda.

Context: housing supply and affordability

The past fifteen years in particular has seen the UK government urging higher levels of private sector housebuilding and imposing targets on planning authorities, as well as urging planning authorities to implement affordable housing quotas to be achieved on new developments. Thus the strategy towards affordability has been to increase supply overall and to provide a range of tenures within the new stock. Added to the general affordability issue is the phenomenon of falling homeownership rates amongst younger households since the early 1990s. Remarkably, there was a parallel increase in private renting amongst young households. Between 1975 and 2003 private renting among under-25s increased from 38% to 47% and among 25-29 year olds from 15% to 26% (see; Smith et al, 2005). Various mechanisms have been devised and the intermediate housing market has expanded to support this group in particular and more widely for those who are renting property, to facilitate entry into the private property market. The affordability problem is particularly pervasive in Greater London and the South-East regions. The Halifax market report for August 2011 showed that in London there were no houses within reach of average earning households and in the SE only 3%, while in the North-East and North-West regions this was 92% and 100% respectively (Planning, 2011: p7). This highlights a regional dimension to this issue. It is, therefore, of no surprise that the intermediate housing options tend to be concentrated in regions suffering from an acute affordability issue. The CORE sample shows that the distribution of shared ownership units in England is uneven and that over 60% of such units are located in London and the SE of England.

Shared ownership: what do we know so far?

The shared ownership approach developed by the successive UK governments, and adopted by developers and housing associations, seeks to address questions of social mobility and encourage lower income groups to achieve property ownership (Bramley and Dunmore, 1996; Ford and Wilcox, 1993). The shared ownership involves the owner buying a proportion of the equity in a

property with a view to ‘stair-casing’⁴ up to full ownership (Clarke et al, 2008; Ford, 2006; Wallace, 2008).

In the past two decades the SO has developed both in terms of size and the range of schemes available with different criteria and other features. Appendix 2 provides a summary of various shared-ownership housing schemes offered over the past ten years or so. The features or refinements made in each scheme indicate how the policy community has sought to correct or encourage more shared ownership and to more effectively target particular groups of prospective buyers, yet the general format of buying a proportion, typically 25-75%, of equity remains the key feature. Estimates of the number of shared-ownership units sold by the Housing Associations (HAs) in England were 170,000 by 2009 (Graham, 2010). Overall the SO represents a relatively small proportion of total housing stock and a fraction of annual supply, with 2,470 for intermediate rent (about 4.4% of all affordable completions of 55,856) and 16,726 for low cost home ownership (about 29.9% of 55,856 completions of the affordable homes) in the year ending March 31, 2011. Quite obviously, almost half of these completions were in London, the South-East and the South-West (HCA, 2011). Despite this relatively small fraction of overall supply, it is important to more fully understand the way that SO housing is used in order to test the underpinning rationalities and inform future policy trajectories; given that some questions and issues have already been discussed in the emerging literature on shared ownership (see Wallace, 2008; Clarke, 2010, for example). Moreover, this model is being promoted and extended nationally and sub-nationally as part of the solution to accessibility and affordability barriers presented by the private ownership market on the one hand, and the ongoing issues of quality and residualisation of the social housing and the private rented sector on the other.

The political rationality for addressing this issue using shared-ownership as one tool since the late 1990s has extended the argument that the notion of homeownership is in some way intrinsically and practically superior to other forms of housing occupation. In this context and over the past three decades, interest and application of various intermediate housing models has grown in the

⁴ Stair-casing involves buying further portions of the equity in the property until full ownership, or in some circumstances a threshold of 80% of the equity, is reached. An expectation underpinning this is that such owners would then move into the full owner-occupation sector. Little empirical confirmation of this currently exists.

UK as part of efforts to supply private-sector led 'affordable housing', a label that is subject to some abuse and contestation (Meen and Andrew, 2008). These models have been shaped and encouraged by rises in house prices, very limited supply of new housing overall and the relative shrinkage of public sector housing provision in the UK. Some of the changes in policy, funding and rhetoric are linked to political and ideological shifts whereby public housing has fallen out of favour with mainstream politicians (Murie, 1997; Hills, 2007). As part of the changing nature of housing provision, the use of Registered Social Landlords (RSLs) as the third sector provider of housing has become a part of the mainstream, with these institutions offering social rented accommodation and intermediate or shared ownership housing.

The economic rationality for adopting SO approach as part of a suite of policies aimed at encouraging homeownership and the delivery of private-sector housing is that lower income households who aspire to become homeowners are 'helped onto the property ladder'. For one thing, this devolves responsibility for housing delivery away from the state, reflecting the attitude of the successive UK governments since 1980, who have not had the political will or resources to maintain or restore the public sector house building programmes seen in the period 1950-80.

While the political and developers' rhetoric around shared ownership has contained claims that intermediate housing, and the shared ownership approach specifically, can be socially progressive, this is not well established through empirical evidence. The SO approach has been seen somewhat uncritically by many policymakers as part of the solution to addressing the housing affordability gap, which corresponds to a political rationality that is not necessarily orientated towards an optimal socio-economic outcome for buyers. The research thus far has offered a glimpse of issues and problems that need further exploration. Wallace (2008: p74) underscores this point stating that: 'understanding the dynamics of this growing sector is imperative for investment and business planning reasons as well as in establishing the outcomes for low to middle income home-owners. To date, studies have examined the potential demand for LCHO and the owners' satisfaction with the products after purchase, but the longer-term outcomes for owners have not previously been a focus of research'.

Furthermore the question of mobility across housing markets and in the context of labour market dynamics, as well as questions regarding additional entry and exit costs for the SO buyers have been neglected thus far. Authors such as Bramley and Dunmore (1996) have highlighted much earlier that there may be such difficulties with SO, but other commentators have surmised that issues regarding this approach, such as internalized costs, may be overlooked if it is overall a viable means to a laudable end i.e. to transit lower income groups into a form of owner-occupation and onto full homeownership. One point at issue then is whether the SO is actually a temporary or transitional tenure, or one that sees people staying in that segment indefinitely - by choice or otherwise. Certainly the conclusion drawn by Wallace (2008) in her study claimed that many SO owners were less mobile than social renters and that the tenure was becoming a permanent state. Therefore, it is possible that the SO route is not necessarily facilitating mobility in labour markets. Again, there is a need to further explore the constrained choices and attitudes of shared ownership households, drawing on a larger sample and in conducting more in-depth qualitative work to explore the reasons for owner behaviours.

It is usually contended that intermediate housing products, including shared ownership may alleviate some of the affordability problems arising from overall supply constraints by offering fractional ownership options. Such points have provoked a debate over this approach generally, with numerous authors since the 1980s criticising such assumptions about tenure and decrying the wider attack on public sector housing in the UK since the early 1980s. The critiques of UK housing policy have portrayed this as a creeping privatisation of housing supply (e.g. Bramley and Dunmore, 1996; Ball, 1983; Murie, 1997). Indeed this is seen by some as part of an overall mishandling of housing policy over the past two decades, for example: ‘over many years British housing policy has been built around a set of ideas and assumptions that are now revealed as deeply flawed’ (Malpass, 2007: p1). What Malpass is referring to in his work, is the unresolved issue of what mix and proportion of tenures ultimately should we be seeking to achieve and moreover it reflects a wider concern with the problems inherent in seeking to ‘build our way out’ of the housing crisis (cf. Meen and Andrew, 2008). This is made more significant given the recognised and chronic social problem surrounding access to housing of whatever type since at least 1945. Tunstall (2003) indicates that the UK approach has implicitly been to have a mix of

tenures in the post WWII period until now, but clearly the aim for governments since 1980 have been to extend the proportion of owner-occupiers further.

It is also clear that LCHO and shared ownership is seen as an ‘escape hatch’ which is supposed to allow tenants or first time buyers to move up from the ‘residual’ public or social housing sector or the social rented sector - reflecting a sensibility that assumes owner-occupation to be superior, or the ‘natural’ preference for consumers. The question remains whether people who have the opportunity to use this route actually climb through to the preferred goal of owner-occupation by staircasing their equity. As such, on an ideological level, the shared ownership route has provided an important political rampart for both the continued dominance of owner-occupation in housing policy and in rendering acceptable residual status of social rented housing. Despite this the debate has continued, but with little research specifically on shared ownership and on the attitudes and behaviours of shared equity owners.

The literature specifically on shared ownership is relatively limited with the first wave of published work discussing the principles and justifications for intermediate housing (Bramley and Dunmore, 1996; Monk et al, 2007). By 2008 just a few studies had been published which tended to focus on describing the SO or LCHO segment, but were without large enough data or detailed primary research that could fully inform the debate in terms of whether shared owners were best served, or whether shared ownership could be viewed as the first-best solution to the problem of accessibility to quality affordable housing (Wallace, 2008; Clarke et al, 2008). The economics and wider policy rationale for the shared ownership model crucially depends on a mechanism that ‘moves’ residents through the channel onto the private market.

The situation for the SO is made worse given that much of the previous work and policy extension on this topic area was done during the housing boom. This was predicated on owners gaining value uplift on the shared equity that could be liquidated and used as deposit for a full-owned property. Therefore understanding of the buyer behaviour is incomplete and under-researched. Moreover, given what we know and government’s aspirations, there is some cause for concern from the Clarke et al (2008) study, which found that around a third of shared owners surveyed stated that they would like to live in social housing if they could. More needs to be done

to fully understand why this is the case. Factors could possibly include size of the unit and the combined costs of mortgage, rent and service charges.

There are some unknown or relatively unexplored issues that need to be investigated further. For example, the ability and desire for the SO and to move within the equity holding and then out to full owner-occupation is unclear. The Clarke work showed that ‘around a quarter of all shared ownership sales are re-sales. However, there is very little data on when, where and why households staircase or move out of shared ownership’ (Clarke et al 2008: p8). Moreover the same work argued that: ‘owners purchasing lower proportions of their housing are unlikely to be able to staircase up to full ownership in many cases and may instead remain within the tenure’ (Clarke et al 2008: p9). This is particularly disturbing, and it exactly undermines the principal goal of the shared ownership tenure choice. In a sense, this does sound like a socially regressive situation.

Findings: shared ownership 2000-2010

Our sample comprises new shared ownership buyers who entered into this tenure in the period 2000-2010 and we have looked at the head of households for much of our demographic analysis. However, for some aspects, the data shows the overall household situation e.g. total household income. Our analysis is based on a sample of 56,191 sales records⁵, derived from the national CORE data from the Tenant Services Authority after applying a few data filters. We categorize and now set out the findings into four major parts in describing the demographic profile of the new shared owners, outlining the dwelling profile of the units, showing the income characteristics, and examining the affordability profile of new shared owners. This provides an extensive information base, on which we can build our hypotheses.

A. Demographic profile of new shared owners (2000-10)

Two thirds of the new shared owners are within the 17-34 age group and in comparison to the existing literature, this shows a similar age profile. This raises a question about why the remainder (32.6%) are choosing this option. We will need to understand better the revealed preference and how this compares with the more general market situation. In terms of the latter

⁵ This sample is obtained after applying necessary filters (regarding equity share, house value and property types) to make the dataset useable. Therefore, we exclude a number of new sales records.

point the overall picture of the housing market shows that 18% of all household reference persons in the age group 16-24 and 56% of the age group 25-34 are owner-occupiers (ONS, Labour Force Survey, England 2006). According to Smith et al. (2005), among the first-time buyers, 'some younger households brought forward their house purchase decisions in the late 1980s, both adding to the froth at the top of the late 1980s boom and exacerbating the severity of the downturn in later years. But there is little evidence of a spike in first-time buyer activity in the latest house price cycle'. In light of this comment, we can observe that the shared ownership schemes appeared to have attracted the young prospective home buyers.

Around three quarters of the new shared owners sampled were no-children households whereas Clarke et al. (2008) found that 85% of the new shared owners were no-children households in 2006-07. This contrasts with the general market scenario where 42.5% of all owner occupiers were couples with no dependent children in 2008-09. The wide range of household sizes entering through shared ownership route is interesting but may be understood better when we cross-correlate this with income (Figures 4 to 8).

When we look at the household size, 85.2% of the new shared owners are single or two-person households. This contrasts with the broader market situation where 67.9% of all owner occupiers were either one person or couple with no children households. However, we also find that 20.8% of the SO units are 3 bedrooms or larger in size. When examining the male-female distribution of the new buyers, we find a quite uniform distribution. However the question arises whether the SO favours women occupiers? In the broader housing market, about 57.9% of all one person owner-occupier households in 2008-09 were female, which is largely corroborated in our sample as well. Similarly, when we correlate with income and sex, we do find similar uniformity with wider market scenario.

Almost 80.5% of the new shared owners sampled were from a White ethnic background, just over one tenth (10.4%) were of Black and Asian ethnicity. This corresponds generally with the national ethnic profile in the 2001 census, showing that about 8% of the British population are from minority ethnic background. We found that the vast majority (94.9%) of the new shared owners had full-time employment, compared to the general market estimate that 57.8% of all

owner-occupiers had full-time employment in 2008-09. However, very small percentage of the sample are retired or depend on disability income. The question is therefore: how do they fit into this scheme? This needs to be explored in a primary research. Also, it is likely that other 5.1% may have another income source to be able to qualify for the mortgage.

It appears that 18.3% of the new shared owners were in key-worker professions. However, we are constrained by the limitations of the data to say that whether those housing units were formally allocated to key workers under special schemes designed by Local authorities or associated with s106 agreements (see Battye et al, 2006; Raco, 2008; Crook and Whitehead, 2010).

B. Dwelling profile of new shared owners (2000-10)

The market value of most properties in the sample was in the range of £75-225k (81.7% of all units) - broadly mapping onto the dwelling sizes, types of property and typical property values in the period. Almost 55.7% of the units were flat/maisonettes and 43% were houses. This was a little surprising given that the UK government policy post-2000 (ODPM, 2000; CLG, 2010) has increasingly favoured higher density housing developments, featuring more apartments as part of a strategy to use land more efficiently and demonstrates how the national policies took time to be reflected in outcomes. The SO grew in terms of the number of units during the decade and it is noticeable in our sample that 72.4% of the units were transacted during 2006-10 and in this period 62% of the units were apartments.

This breakdown therefore shows how the provision of 1 or 2 bedroom properties and flatted accommodation has been growing. The SO market is mostly providing 2-bedroom units and, taken together, the 1 and 2-bedroom properties provide almost 79.2% of the total. We could not detect any significant overcrowding issue in the sample, partly due to the supply of housing size that may have filtered out a number of large households anyway because the properties were seen as unsuitable, yet the sample may submerge this as a problem. As such this issue needs further work to understand where large households are living and whether large SO units are needed, particularly given recent claims that affordable housing provision has not served large families well, despite most LPAs aiming to deliver a range of unit sizes (see Pretty and Hackett, 2009). In other respects the profile of households moving into the shared ownership differs considerably

from that of those moving into the social rented sector. In the financial year 2006/07 the Clarke et al (2008) study found that 81% of the households who moved into shared ownership had moved either from private renting (41%) or as new households (40%) leaving a remaining fifth, who it would appear, were either in the social rented sector or in other owner-occupied housing. This conjecture is supported in our sample, with 41.1% having lived with friends and families and 40.9% having lived in private renting before moving into the SO accommodation (see Figures 2 and 3).

While the profile is dominated by the younger age groups (17-44yrs), one finding also relates to older age groups and where they were moving from. A small but significant number of older SO owners were moving from general owner occupation (or possibly other shared-ownership units) into shared ownership. Again, questions regarding the selection and eligibility criteria for SO schemes and how they have been applied are necessary areas for further investigation in order to develop our understanding of the behaviour of other key actors involved in shaping the profile of the SO occupiers. In particular issues relating to the strategies of the housing associations and the impact of specific scheme criteria on the type and behaviours of owners need to be explored.

C. Income profile of new shared owners (2000-10)

The income of the households entering the SO has a bearing on access to capital and the affordability of different sizes (and market value) of property and also in addressing the question of whether these households saw the SO as their only or best available ownership option. SO schemes have tended to cap eligibility at a maximum of £60,000 income (at 2010-11 earnings levels) and there has been some variations across schemes. We think that the specific details of the schemes that shared-owners have joined will be a significant explanatory factor in market outcomes and also requires a more in depth understanding.

Figure 4 shows the gross household income combined for two persons, (or one if there was only one income per household). It shows that a large proportion of the older households have a lower-income profile. If we compare this information with Figure 3, we also see that a large proportion of these people owned houses before moving into the SO (n=301; 65+ households). However, we do not have enough data to understand this fully. Nonetheless, it is quite surprising

that even a small number (1.3% of the total sample) of this type were entering the SO, particularly given that a majority of that number were coming from the full ownership market. It may be that these owners were bringing a substantial amount of equity. This is also something that requires further exploration. For the younger groups, it seems that lower income households are able to access this market, as expected, although within the limits of credit availability or possibly depending on the shared ownership scheme design.

The distribution of equity across income groups shows that even the higher income groups start with a relatively low equity stake (less than 50%). We can see, however, that almost half of the income group of £20-£30k enter the SO with a low equity share. Following a similar reasoning, the £10-£20k group would be expected to have low equity stake, which is, however, not reflected in the sample (see Figure 6). Surprisingly, 51.6% of £10-£20k group enter with a 46-55% initial equity stake. The question arises whether households in these income group are big in size and thus need a big house; and therefore can only afford a small proportion of the equity in it. We attempt to explore this question in comparing the income profile and size of the property in Figures 7 and 8. Though it is in line with our expectation, there are some households in £10-£20k income group with more than 2 members and thus require houses with more than 2 bedrooms. Overall, across all income groups, we see the preference for 2 bedroom houses and that households in high income groups consist of more than 1 person.

D. Affordability profile of new shared owners (2000-10)

This section explores the affordability issues raised within the SO option in this sample. A common and simple measure of affordability takes ratio of the market value of the dwelling and the household income. We compute a measure of affordability taking into account the full value of the property (see Figure 9), and the starting equity value (see Figure 10). Almost 63.2% of the units have a >5.5 affordability multiple. This implies that some households are able to afford to buy a share of properties which are otherwise unaffordable from the general market point of view. This also supports a quite interesting, but in line with expectations, finding that older households tend to go for units with an affordability ratio of more than 7. When we compare these numbers with the broader market scenario in Table 1, we find some marked similarities. As shown in Table 1, in 2010, the ratio of lower quartile house price to lower quartile earnings stood

at higher than 7 in London, South East, and the South West. These are the regions where we find most of shared ownership units and other LCHO unit (refer NHPAU 2009; HCA, 2011; CLG, 2011a). Figure 9 shows that majority of the young households buy units under full value affordability ratio of 7. Almost 65.1% of all new shared owners purchase units with a full value affordability multiple of 7 or less.

However, given the part-own/part-rent design of the SO schemes, perhaps a better and more effective measure of affordability should take into account the initial equity value that households choose. When we contrast the full value affordability measure (Figure 9) with the equity value affordability multiple (Figure 10), we find that 65.5% of all new shared owners buy into units with an affordability multiple of 1 to 3. This implies that the shared ownership model is enabling people to move into otherwise unaffordable units. The vast majority of the new shared owners – almost 95.1% - opt for initial equity value that is up to x5 their total household income. It needs to be explored further whether it is affordable for owners to staircase or otherwise maintain some degree of mobility after they initially buy into the SO. In terms of variation across age groups, young households expectedly purchase lower equity-income multiple than their older peers. Overall, these affordability measures bring out a range of prices that shared owners opt for. The general market scenario is not markedly different from these trends in this niche segment. There are interesting trends that broadly conforms to objectives of these affordable housing schemes. Nonetheless, questions do remain about few facts that requires further investigations, e.g. why did almost 34.9% of shared owners purchase units that are more than x7 of their household income? Such a finding begs the question whether this is due to the location of the SO units being concentrated in areas with sharper house price appreciation.

Moreover, previous studies have indicated that little transitioning out of the SO market has been taking place. Yet, we do not know clearly enough what has been happening. Although SO has been engineered into the reach of poorer households, the overall costs (adding up mortgage, rent, and service charges in most cases) may not necessarily make this a viable option for some households either in terms of initial decision-making and/or to act as a block on staircasing.

Discussion and an agenda

Past work has raised several key concerns about shared ownership, together these questions raise the spectre of SO being less desirable than some politicians and policymakers might otherwise advocate. Our findings largely correspond with the types of issues and concerns revealed in other published academic material on shared ownership (e.g. Wallace, 2008, Clarke, 2010). Some of the main findings reported elsewhere appear to be lent further weight here. On generic point that is reinforced is that there are a number of gaps and issues that require further investigation. The key questions and issues arising are detailed below, with a resultant research agenda that, in our view, should be embarked upon as priority if SO is to continue to be used as a public policy tool.

The main elements of the nascent critique of SO have centred on questions of mobility, for example; when occupiers have entered SO schemes their ability to move into other housing or to switch employment due to the costs of exit has been raised. The second is their ability to staircase, and actual behaviours in staircasing, through to full ownership has received very little research scrutiny. Overall there is an important question about the relative total costs and benefits of SO, compared to the other rented sectors and also the relative performance and application of different SO schemes, with their variations in terms of entry criteria or other relevant features.⁶ Some of which may alter the ability or decisions to staircase.

Equally there are issues about implementation of such schemes by the housing associations and their application of entry requirements, as well as the particularities of the different schemes and how these differences relate to, or address, some of the early criticisms of the SO option. Analysis of the SO market has lacked some necessary details; not enough is known about different schemes and their performances in serving consumers' interests. It appears that a significant portion of SO units have been bought by groups across income and age bands, which we would not otherwise expect to be in greatest need of such schemes. This raises the question about whether designs of the SO schemes are targeted enough. Therefore, future research needs to look at the fine details of various schemes; how they work and serve wider public policy objectives. For example, how different groups may have been prioritized in particular schemes

⁶See Hendershott and Slemrod (1983), Poterba (1984) for analysis of costs and benefits of homeownership.

e.g. key workers, single parent families etc. Similarly, we need to know more about how the housing associations have used, applied or varied entry criteria to the SO and elicit their views about the most effective approaches to ensuring that SO is effective in serving stated objectives.

The SO units seem to be catering to the needs of many households who cannot otherwise afford to buy private market units. However this appears to stand scrutiny only when we consider the full value or the starting equity value and access to credit; it is not clear whether this is useful in gauging real affordability and the optimality of the choices made, particularly when one includes various other cost items i.e. the combination of mortgage payments, *and* rent and service charges. It is possible that some households would have been better off in social rented or private rented accommodation (possibly saving for their entry to the private ownership market later) or making use of large rented properties that would serve their household size and fit in terms of overall income and costs.

Our findings derived from the secondary data analysis shows that about 20% of the units have three or more bedrooms and are serving large households, many of the remainder are bought by single person households with one or two bedroom properties. We highlight how more needs to be done in future research to understand how such households are reaching decisions about SO properties across different age, income groups, equity stakes and unit sizes, and how this compares to the overall need for housing and with need at different stages in household formation and in subsequent changing housing needs.

A crucial aspect for the SO approach to work efficiently as a legitimate public policy tool is to enable occupiers to stair-case upwards to full ownership and to help recycle the units. As yet it is unclear why some consumers decide to stair-case and others do not take up this option and the literature, although limited so far, indicates that many SO owners are not doing this. It is clear that further study will need to explore the decision-making of the residents regarding staircasing strategy and to inform a new approach that facilitates recycling. This dimension has important implications for sustainable and socially balanced communities, given the general undersupply of new housing.

Successive governments have sought to promote housing tenures which enables a shift away from public sector housing. The relative inability of housing policy and economic controls to address affordability questions means that wider housing affordability issue has not been effectively resolved. As a consequence, models such as SO have been encouraged. However, the limited research that has specifically looked at SO indicates that outcomes are of line with the declared aims and objectives, which claim SO as a transitional tenure. Such a gap in knowledge needs to be addressed, particularly given that government policies continue to support the SO option, despite initial findings both here and elsewhere which gives cause for concern.

In summary the agenda for further study must explore the actual behaviours and decision-making of owners. The particular nuances of the schemes used will also be of relevance and how future schemes might be designed or tightened to focus on particular needs and circumstances requires comparison. As such the overarching questions that need to be explored and better understood relate to the decision-making and behaviours of shared ownership housing occupants, particularly in terms of staircasing and the relative costs and benefits vis-a-vis other standard housing options.

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Annex 1 – Cited table

Table 1: House price/earnings comparison across the English regions

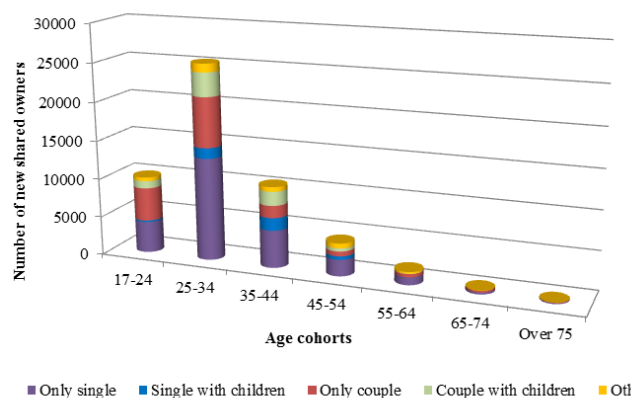
Ratio of lower quartile house price to lower quartile earnings

Area/Regions	1997	2001	2004^R	2007^R	2008^R	2009^R	2010
England	3.57	4.08	6.28	7.25	6.97	6.28	6.69
North East	2.86	2.64	4.14	5.50	5.39	4.86	4.90
North West	2.95	2.87	4.43	5.93	5.71	5.02	5.12
Yorkshire and the Humber	3.10	2.99	4.79	6.25	6.04	5.17	5.43
East Midlands	3.19	3.56	6.07	7.00	6.57	5.68	5.83
West Midlands	3.47	3.69	5.95	6.88	6.61	5.82	6.05
East	3.67	4.77	7.58	8.55	8.25	7.23	7.70
London	3.93	6.02	8.26	9.09	9.32	8.04	8.96
South East	4.20	5.63	8.09	8.88	8.82	7.71	8.51
South West	3.98	5.18	8.18	8.94	8.75	7.63	8.17

R Figures have been revised due to revisions in ASHE data.
Source: [DCLG Live Table 576](#) (January 2011)

Annex 2: Cited graphs

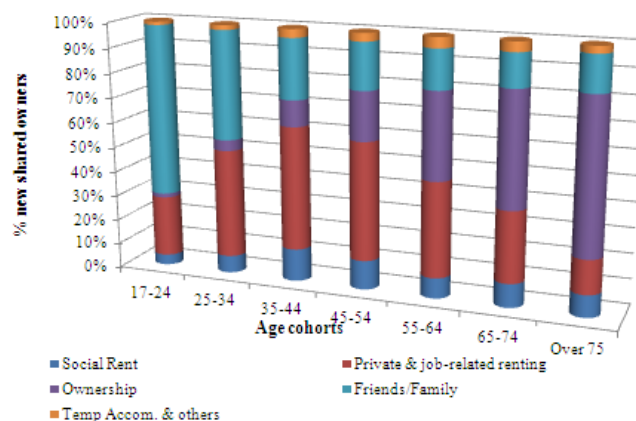
Figure 1: Average age of new shared owners by household type



(n=52,474 observations over 2000-10).

Source for the University of Reading analysis: Tenant Services Authority, Continuous Recording of Lettings and Sales [CORE] dataset.

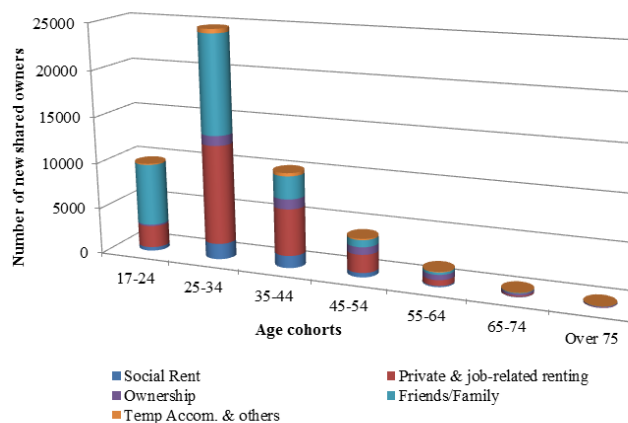
Figure 2: Previous tenure of new shared owners by age group



(n=51,103 observations over 2000-10)

Source for the University of Reading analysis: Tenant Services Authority, Continuous Recording of Lettings and Sales [CORE] dataset.

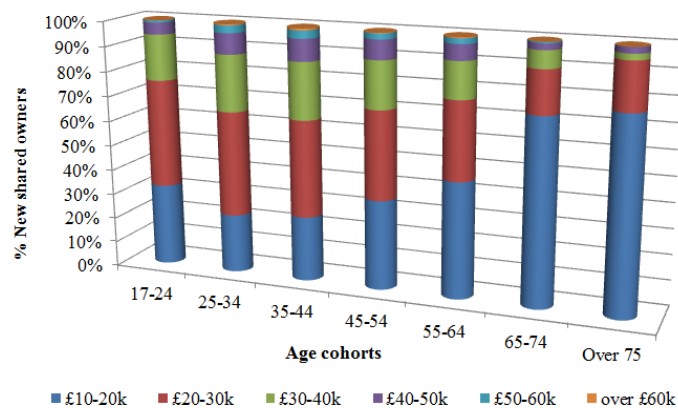
Figure 3: Average age of new shared owners by previous tenure



(n=51,103 observations over 2000-10)

Source for the University of Reading analysis: Tenant Services Authority, Continuous Recording of Lettings and Sales [CORE] dataset.

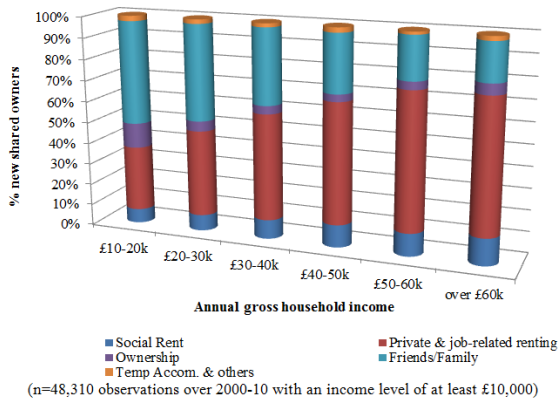
Figure 4: Annual gross household income of new shared owners by age groups



(n= 48,297 observations over 2000-10 with an income level of at least £10,000)

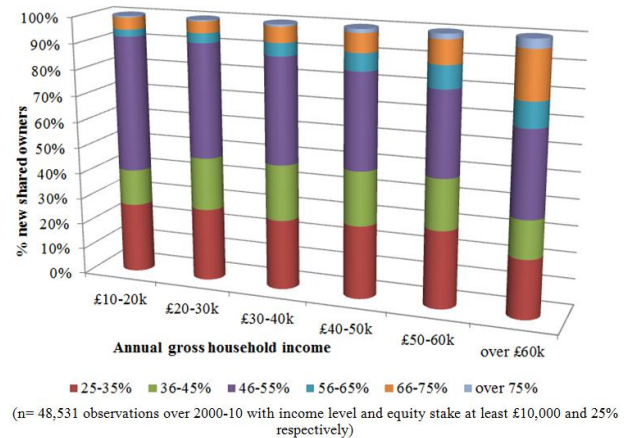
Source for the University of Reading analysis: Tenant Services Authority, Continuous Recording of Lettings and Sales [CORE] dataset.

Figure 5: Annual gross household income of new shared owners by previous tenure



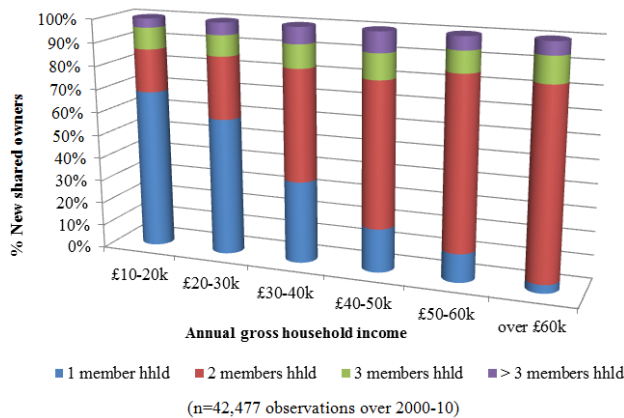
Source for the University of Reading analysis: Tenant Services Authority, Continuous Recording of Lettings and Sales [CORE] dataset.

Figure 6: Annual gross household income of new shared owners by equity stake (%)



Source for the University of Reading analysis: Tenant Services Authority, Continuous Recording of Lettings and Sales [CORE] dataset.

Figure 7: Income group, household size for new shared owners



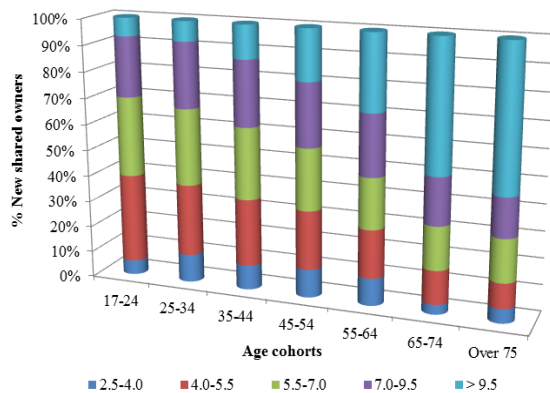
Source for the University of Reading analysis: Tenant Services Authority, Continuous Recording of Lettings and Sales [CORE] dataset.

Figure 8: Income group, number of bedrooms for new shared owners



Source for the University of Reading analysis: Tenant Services Authority, Continuous Recording of Lettings and Sales [CORE] dataset.

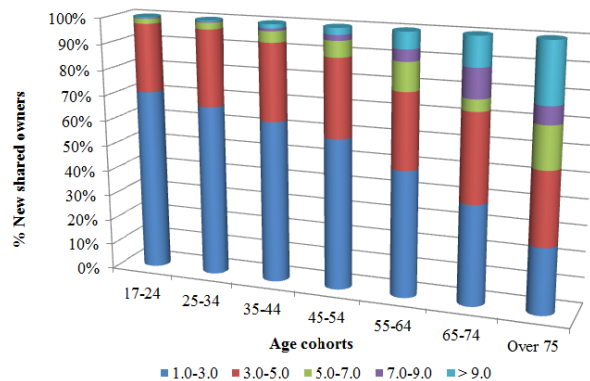
Figure 9: Full value affordability for new shared owners



(n=48,699 observations over 2000-10. Affordability = ratio of market value and household income)

Source for the University of Reading analysis: Tenant Services Authority, Continuous Recording of Lettings and Sales [CORE] dataset.

Figure 10: Shared value affordability for new shared owners



(n=49,214 observations over 2000-10. Affordability = ratio of shared equity value and household income)

Source for the University of Reading analysis: Tenant Services Authority, Continuous Recording of Lettings and Sales [CORE] dataset.

Annex 3: overview of SO schemes		
SO Scheme	Basis	Details
New Build Homebuy (traditionally shared ownership)	Part buy/part rent on new build homes	<ul style="list-style-type: none"> • Purchase between 25 and 75 per cent at the outset. • Purchase additional shares until 100 per cent is owned - 'staircasing'. • Eligibility – new Build HomeBuy is usually available to first time buyers with a maximum income defined by the scheme provider • Also targeted at 'priority groups' such as existing social housing tenants, people on local authority waiting lists and key workers.
Homebuy Direct	Shared equity scheme	<ul style="list-style-type: none"> • Both builders and Government provide funding for a potentially sizable deposit on a new home in the form an equity loan (shared equity). • The scheme is available for new build properties. • The purchaser takes out a mortgage to cover at least 70% of the purchase price (up to a maximum of 85%). • This is topped up with an equity loan covering up to 30% of the price. The Government shares the cost of the equity loan 50/50 with the developer. • The maximum value of homes purchased through HomeBuy Direct is £300,000.
Rent to Homebuy	Potential homebuyers rent at a discounted rate before they purchase	<ul style="list-style-type: none"> • Potential SO home buyers pay a reduced rent on a new-build home. • Tenants can then save their discount towards a deposit for a SO property purchase. • The tenant pays a rent set at no more than 80% of the current market rent on a home for up to five years. • Enables people who might otherwise have trouble saving a deposit for an affordable mortgage to take part in Rent to HomeBuy, which could eventually lead to purchasing a SO home. • For new build properties the eventual purchase would take place under the new build Homebuy scheme. It is of particular benefit to RSLs who have a LCHO scheme but finding it difficult to market the units during the current financial climate.
Social Homebuy	Allows existing secure or assured tenants of participating HAs and council housing shared ownership basis or outright, with the benefit of a discount	<ul style="list-style-type: none"> • Tenants usually buy their home on a shared ownership basis with a minimum share of 25% and outright purchase is also allowed. • The maximum discount available varies from £9,000 to £16,000, depending on the location of the property. • Discounts are also available on any subsequent shares purchased.
Open Market Home Buy* (*to become <i>Firstbuy</i> , first homes available Sept. 2011)	Purchase 75% and receive 2 equity loans to cover the remainder	<ul style="list-style-type: none"> • Purchase 75% of a property and receive two equity loans of 12.5% from the mortgage lender and the Government or Homebuy agent.
Do It Yourself Shared Ownership	Funded by Housing Associations, available for people to buy a share of a property on the open market	<ul style="list-style-type: none"> • The tenant/owner selects a property they would like to purchase on the open market and approaches the Housing Association to purchase the remaining share (normally based on 75% to 25% share, but can sometimes be negotiated). • It can be used in mortgage rescue.

Source: various web-based material