

# **Shared ownership – meeting aspiration**

## The challenge – housing's vicious cycle

We are simply not building enough homes in England – for rent or sale. Last year, 240,000 new households formed, but only 111,250 new homes were built – less than half the number needed.

This shortfall has huge consequences. The past 10 years have seen house prices rise three times faster than incomes.

The owner-occupation rate is 64.7% - a fall of 5% from its 2002 peak<sup>1</sup>



In 2012 there were 216,000 first-time buyers. This is the highest total since 2007, but still nearly 50% lower than the 403,000 in 2006<sup>3</sup>



5%

Yet, 86% of people want to own their own home<sup>2</sup>

216,000

Over the past five years, mortgage availability for first-time buyers has fallen significantly. Home ownership is now at its lowest level since 1988.

But people's aspiration to own a home is still very strong.

Only 36% of first-time buyers are able to buy without parental assistance<sup>4</sup>



**36%**

The average house price in England is £235,362<sup>5</sup>



**£235,362**

The income needed for an 80% mortgage for this would be £53,797<sup>6</sup>



**£53,797**

Families are increasingly having to look to the private rented sector which is often unaffordable and less secure. Together, these can put added financial pressure on low-to-middle income families. High housing costs can also discourage aspiration, delay people starting families and reduce opportunities to take up employment.

We need to find ways of breaking housing's vicious cycle.



## Why affordable housing? Why shared ownership?

Building homes drives growth with a speed and effectiveness few industries can match. At the same time, it helps build sustainable, balanced and prosperous neighbourhoods.

Every £1 spent on affordable housing is worth £2.41 in the wider economy.<sup>9</sup> It also helps boost employment – every affordable home built creates 2.3 jobs.<sup>10</sup>

Shared ownership has a key role in helping provide a home that meets the needs and aspirations of the working households who contribute to an area's economic prosperity.

With a stake in their home through shared ownership, people are likely to become less transient and more able to give time and energy to their communities.

Shared ownership is also an important way of enabling people to live in areas they wouldn't otherwise be able to afford, and take up employment.

A lower grant rate makes shared ownership excellent value for money for the taxpayer. It is a cost effective way of maintaining house building, meaning more homes, jobs and economic activity. Recycling this grant and reinvesting sales receipts helps boost overall affordable housing supply and reduce the cost of delivering homes for social and affordable rent.



## Shared ownership – part of the solution

Shared ownership is an antidote to many of the problems in today's housing market. It is a long-standing, affordable and sustainable option – and an ideal way of helping people realise their home ownership dreams.

People can buy an initial share of between 25% and 75% in their home, using a deposit and mortgage, then pay a reduced rent to a housing association on the remainder.

It is primarily aimed at first-time buyers, who can afford to sustain home ownership but are unable to afford a suitable home on the open market. It has successfully helped almost 200,000 households into home ownership.

46% of first-time buyers are turning to affordable home ownership options to help them on to the housing ladder<sup>11</sup>



46%

81% of first-time buyers have an understanding of shared ownership<sup>12</sup>

A further 24% said it would allow them to buy in an otherwise unaffordable area<sup>13</sup>



24%

## Meeting demand

As more and more people are priced out of buying their home on the open market, shared ownership is an increasingly popular way of getting a foot on the housing ladder and demand for shared ownership continues to grow rapidly.

In 2011/12, 55,000 applications for shared ownership were approved<sup>14</sup>



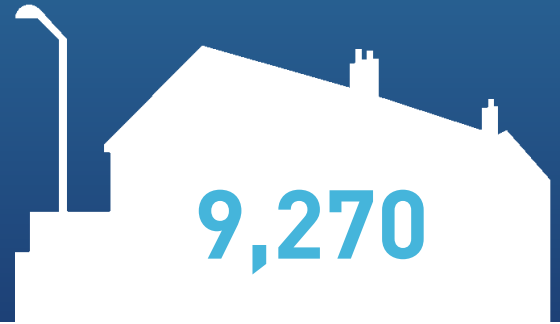
55,000

There are now more than 166,000 active applications for shared ownership in total<sup>15</sup>



166,000

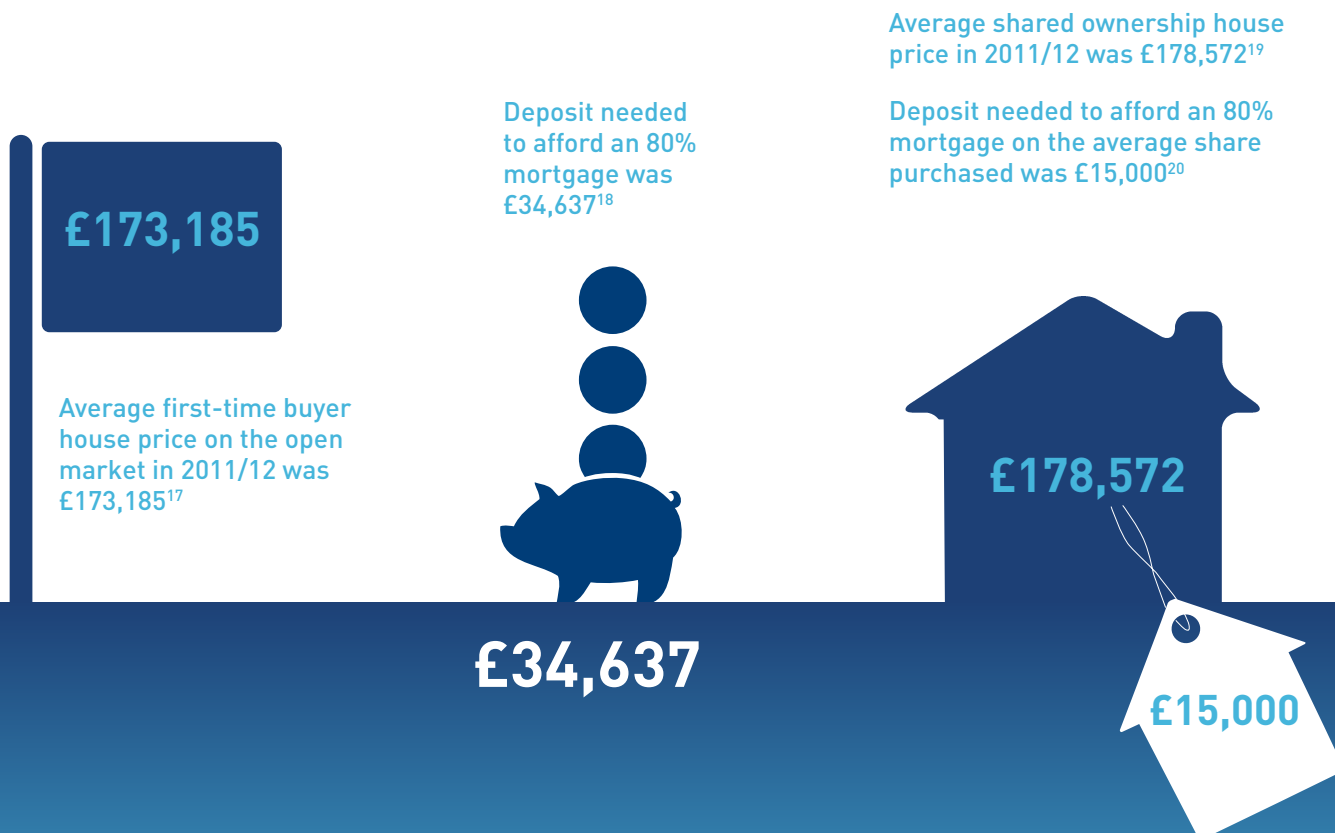
In 2011/12, the Government supported the delivery of 9,270 shared ownership homes<sup>16</sup>



9,270

## Sales breakdown

Housing associations continue to report strong sales of shared ownership homes. High demand means sales times continue to shorten, with buyers experiencing few difficulties. This is aided by far lower deposit requirements, on properties of a similar value, than first-time buyers need on the open market.





## Who are shared owners?

Shared ownership is becoming increasingly popular among first-time buyers, who would previously have bought outright, and remains the most affordable route into home ownership. Shared owners are typically aspirational, working households on low-to-middle incomes, who are unable to buy a suitable home on the open market without assistance – though the product is flexible enough to help families with incomes of up to £60,000 nationally and £77,200 in London. They are also able to buy their home at a slightly younger age.

Median household income of shared ownership purchasers in 2011/12 was £27,000<sup>21</sup>

£27k



Average age of shared ownership purchasers in 2011/12 was 35<sup>22</sup>

35



## Getting a mortgage

More than 20 lenders, from large banks to small building societies, now offer mortgages for shared ownership. This reflects the growing confidence mortgage lenders have in shared ownership, the value they place in having a trusted housing association partner and the low levels of repossessions.

Mortgages are available for a deposit of between 5% and 20% and at competitive rates.

A number of housing associations and mortgage lenders have built relationships which allow customers to be offered more competitive mortgage deals.

Housing associations have simplified and strengthened the shared ownership model to ensure risk to lenders is minimal.

Dialogue between housing associations, mortgage lenders and local authority planners is crucial to maintaining the ongoing shared ownership mortgage supply.



## A long-term housing solution

Shared ownership also offers great value for money to the customer. It is not only affordable to buy at the outset, it is a highly sustainable and stable housing option throughout. The average monthly housing costs in shared ownership are considerably lower than those of the average first-time buyer or someone renting privately.

The average monthly housing cost for first-time buyers is £893<sup>24</sup>

The average monthly cost of shared ownership (mortgage and rent) is £688<sup>23</sup>

The annual saving in housing costs is £2,700 (and £1,150 compared to those renting privately)



£688



£893



£2,700

A key feature of shared ownership is the option for people to increase the equity in their home by buying further shares, in a process known as 'staircasing'. While there is no obligation to do this, it is a key way of increasing the stake in a home and reducing the amount of rent a shared owner pays. Importantly, receipts from staircasing transactions will be reinvested in affordable housing supply.

Yet for many, shared ownership is not a transitory tenure, but a desirable, flexible long-term solution in its own right. People value the security of having a housing association partner to guard them from the instability of the housing market.

There is also a strong resale market for shared ownership homes. This is an important way of meeting demand at a time of constrained new supply. Housing associations work to increase mobility in the sector and help shared owners find a suitable buyer when they look to sell. This helps allow more first-time buyers to access shared ownership.



Over the past 10 years a total of 81,782 new shared ownership homes have been sold<sup>25</sup>

81,782

Over the same period 29,974 people have 'staircased' to full ownership<sup>26</sup>

29,974

In 2011/12, resales made up 35% of all shared ownership sales<sup>27</sup>



35%

## Affordability and costs across England

Shared owners across the country need to raise a far lower deposit than the average first-time buyer, even when buying a higher value property. Shared owners monthly housing costs are also lower than those of first-time buyers and typically those renting privately.

Region	Average first-time buyer house price <sup>28</sup>	Average first-time buyer deposit <sup>29</sup>	Average income needed to afford an 80% mortgage <sup>30</sup>	Average shared ownership sales price <sup>31</sup>	Average shared ownership deposit <sup>32</sup>	Median income of a shared ownership buyer <sup>33</sup>	Average initial share bought <sup>34</sup>	Average monthly private rent <sup>35</sup>	Average first-time buyer monthly housing costs <sup>36</sup>	Average shared ownership monthly housing cost <sup>37</sup>
England	£173,185	£34,637	£39,585	£178,572	£15,000	£27,000	42%	£784	£893	£668
South East	£195,638	£39,128	£44,717	£174,049	£14,272	£27,500	41%	£845	£1,008	£656
London	£333,629	£66,726	£76,258	£240,943	£18,794	£33,460	39%	£1,348	£1,720	£857
East	£169,565	£33,913	£38,758	£165,263	£14,213	£25,787	43%	£689	£874	£630
South West	£161,046	£32,209	£36,811	£151,919	£13,065	£22,800	43%	£659	£830	£546
West Midlands	£126,473	£25,295	£28,908	£132,777	£12,215	£22,000	46%	£546	£652	£533
East Midlands	£117,303	£23,461	£26,812	£123,873	£9,414	£19,567	38%	£511	£605	£466
Yorkshire and Humber	£116,312	£23,262	£26,586	£118,933	£10,466	£19,245	44%	£537	£600	£438
North West	£116,810	£23,362	£26,700	£129,281	£11,894	£19,000	46%	£524	£602	£511
North East	£102,429	£20,486	£23,412	£129,990	£11,699	£23,979	45%	£472	£528	£509

## What's needed for the future?

Shared ownership has a key role to play in housing associations' future business and in meeting wider housing need. It can continue to meet the aspirations of low-to-middle income working households and help us out of our housing crisis.

### To make this possible we need:

- Continued government investment in shared ownership post-2015.
- Commitment from lenders and regulators to maintain and increase mortgage supply for shared ownership.
- Greater recognition of shared ownership's role in helping people take up employment and economic prosperity.
- Local authority support for shared ownership as a way of meeting the need for affordable housing, alongside social and affordable rent, and ensuring planning conditions do not deter mortgage lenders.
- Public support for more homes is vital – people want more homes and their voices need to be heard. Visit [www.yestohomes.co.uk](http://www.yestohomes.co.uk) to join the campaign.



# Notes

- 1 DCLG (2012), live tables of dwelling stock by tenure
- 2 NatCen for Social Research (2011), British Social Attitudes Survey
- 3 Halifax First-Time Buyer Review (2012)
- 4 CML (2013), news and views, 22 January 2013
- 5 Oxford Economics (2012), Housing Market Analysis report for the National Housing Federation
- 6 Based on a 80% mortgage at 3.5 times annual earnings
- 7 Valuation Office Rent Officer data (2012), with forecasts by Oxford Economics
- 8 See note 7
- 9 Centre for Economics and Business Research (2012), The economic contribution of new house-building and of housing associations at the national, regional and local levels
- 10 See note 9
- 11 Lloyds TSB (2012), first-time buyers turning to affordable housing schemes to get onto the property ladder
- 12 See note 11
- 13 See note 11
- 14 HCA data (2012), collected from HomeBuy Agents
- 15 See note 14
- 16 HCA data (2012), National Housing Statistics June 2012
- 17 See note 5
- 18 Based on an 80% LTV mortgage on the median first-time buyer house price (using Oxford Economics (2012), Housing Market Analysis report for the National Housing Federation)
- 19 National Housing Federation figures (2012), using CORE shared ownership sales data April 2011 to March 2012
- 20 Based on 80% LTV mortgage on average initial share purchased (using CORE shared ownership sales data April 2011 to March 2012)
- 21 See note 19
- 22 See note 19
- 23 Based on the average initial share sold, with an 80% LTV mortgage, over 25 years, at a 6% interest rate and the average rent/service charge (using CORE shared ownership sales data April 2011 to March 2012)
- 24 Based on an 80% LTV mortgage, over 25 years and at a 6% interest rate
- 25 National Housing Federation figures (2012), using RSR shared ownership sales data 2001/02 to 2011/12
- 26 See note 25
- 27 See note 19
- 28 See note 5
- 29 See note 18
- 30 Based on an 80% LTV mortgage at 3.5 times annual earnings
- 31 See note 19
- 32 See note 20
- 33 National Housing Federation figures (2012), using CORE shared ownership sales data April 2011 to March 2012
- 34 See note 19
- 35 See note 7
- 36 Based on an 80% LTV mortgage, over 25 years and at a 6% interest rate
- 37 Based these on the average initial share sold, with an 80% LTV mortgage, over 25 years, at a 6% interest rate and the average rent/service charge (using CORE shared ownership sales data April 2011 to March 2012)

The National Housing Federation is the voice of affordable housing in England. We believe that everyone should have the home they need at a price they can afford. That's why we represent the work of housing associations and campaign for better housing.

Our members provide two and a half million homes for more than five million people. And each year they invest in a diverse range of neighbourhood projects that help create strong, vibrant communities.

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