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A problem shared is a property acquired

James Pickford

Debra Stein, who bought a Pocket apartment in Westbourne Park, west London

It was a result that surprised the politicians almost as much as the pollsters and pundits. The Conservatives' resounding performance in the general election puts an end to fears of weeks of potentially tortuous negotiations between parties haggling over power in a hung parliament.

Yet the new government will require all of its new-found backbench strength to tackle the thorny economic and social issues brought to the fore in a bruising six-week election campaign.

Some of the most intractable are those facing the UK housing market, where a critical shortage of new homes has pushed up prices to unaffordable levels and left thousands unable to gain a foothold on the housing ladder. Official projections suggest the number of households in England will grow to 24.3m in 2021, 10 per cent more than in 2011. That equates to an extra 221,000 households a year.

Current housebuilding rates are nowhere near this. A total of 118,760 homes were completed in the 12 months to December 2014, according to the Department for Communities and Local Government. That was 8 per cent higher than in 2013 but one-third below the peak of 2007.

As property values have risen, some first-time buyers and even middle earners have been priced out of the market. Research this week from accountancy group KPMG found that a buyer in London would need an annual wage of £76,971 to purchase a property — against average wages in the capital of just £27,999. While the gap is much narrower in the north of England, the national wage needed to buy a first property is £40,553, compared to an average of £22,044.

In the face of these sobering data — and growing opprobrium from those locked out of home ownership by rampant price growth — politicians used the election campaign to pitch a variety of enticing deals to property buyers, from stamp duty discounts to help with deposits and a boost to "rent to own" schemes.

The Conservatives have pledged to expand the Starter Homes initiative to give 200,000 first time buyers under 40 the chance to buy a home at a 20 per cent discount. They also promised a Right to Buy to tenants of housing associations, and brought out a new Isa scheme to help aspiring home buyers save for a deposit.

The party has hung its hat largely on a shared equity model, exemplified by the Help to Buy scheme (see below). But another alternative is shared ownership, one of the most prominent and longest-established means of getting lower-income groups into the housing market. Both types of scheme come in several varieties, some more effective than others in helping first-time buyers; in encouraging more house construction; and in providing a check on house price growth.

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Beyond the norm

Glen Bramley, professor of urban studies at Heriot-Watt University, says that both shared ownership and shared equity are reasonably reliable mechanisms for getting more people into housing. "They're quite good value for public money because you're not giving a deep subsidy to any one household and the subsidy is repaid when owners move." The subsidising body, whether a housing association or the exchequer, also gains from any uplift in the property's value.

Shared ownership comes in a variety of flavours, but the most common format enables people to buy a share of a house and gradually buy more portions of equity — in a process called "staircasing" — until they become full owners.

Housing associations ask buyers to pay for between 25 and 75 per cent of the total value of the home, typically a new-build property. The buyer then pays a monthly "rent" to the housing association based on the remaining portion of equity it holds. This usually rises each year with inflation; they will also pay a service charge.

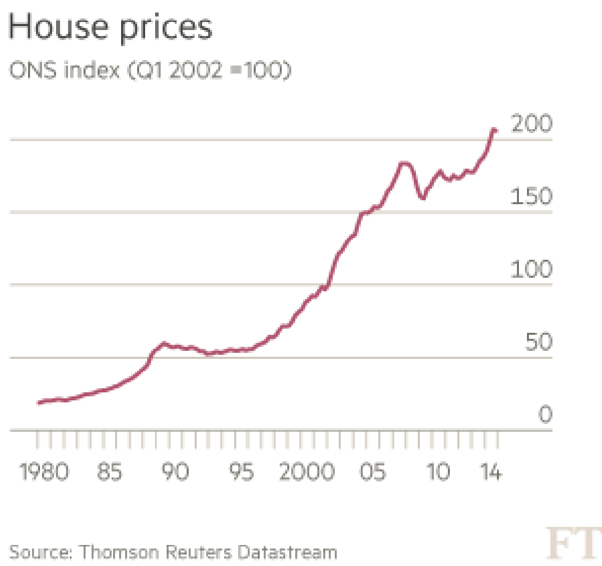
To staircase their way to ownership, buyers can increase their equity in increments of 10 per cent or more, judged at current values rather than the original purchase value. And when selling the home, the housing association insists on first marketing it to those who qualify for shared ownership —

helping to preserve its original function of easing the market for new buyers.

A 2012 report by the Resolution Foundation think-tank found that, outside social housing provided by councils, shared ownership was the most affordable form of tenure in the initial years of purchase. “A 25 per cent share is affordable in most local authorities and is a far more accessible tenure than private renting or owning with a 90 per cent loan to value mortgage,” it said.

Demand widens

But the types of people taking advantage of shared ownership has shifted in recent years. Traditionally, housing associations saw the model as offering a route to affordable ownership for low-income groups. Today, higher house prices are pushing “a plethora of people” towards shared ownership, says Kush Rawal, marketing director at Thames Valley Housing.



“More people are saying: ‘I’ve been saving for a long time but I still have no prospect of buying on the open market. This is my only option.’”

For some types of buyer — such as young people at the start of their careers, whose incomes might be expected to rise quickly as they progress — it can be a good option. Some 60 per cent of shared ownership buyers who manage to achieve full ownership do so within the first six years, one study found.

But those whose wages have not kept pace with spiralling house prices complain they are “trapped” by the tenure. The prospect of buying an extra chunk of equity recedes further as its cost rises, while the “rent” on the remaining equity held by the housing association also goes up, reducing owners’ ability to save. One London-based owner says her rent on a 30 per cent ownership share had risen from £600 to £900 a month since buying in 2007 — including a service charge of £200.

Anna Clarke, senior research associate at the centre for housing and planning research at Cambridge university, says that for many people shared ownership is no longer a step into home ownership but a long-term tenure — and one that in some ways compares unfavourably with other forms of affordable tenure.

“Some people in shared ownership are paying a rent that’s higher than social tenants are paying for the whole of the property, yet in return for their rent they don’t get landlord or maintenance services. It’s called rent but it isn’t getting you the things that rent would normally get you. It’s really a charge,” she says.

Research by Ms Clarke and consultant Andrew Heywood in 2012 found that structural problems in the model were weighing on owners’ ability and willingness to staircase out. Since 2004-5, resales of shared ownership housing had been no higher than 2.3 per cent of the total stock. And of an estimated 145,000 shared ownership properties sold in England, only 27,908 have been staircased to full ownership since 2001.

House prices were one part of the explanation: another was the legal and administrative cost of buying more equity. Since the financial crisis, too, mortgage providers have narrowed their lending criteria, pushing some beyond the margins of affordability when buying an extra portion.

Some experts say things have changed in recent months. Mr Rawal says Thames Valley Housing and other associations have seen a surge in staircasing rates as owners realise that a combination of ultra-low interest rates, cheap mortgage deals and rising values means paying a monthly mortgage is no more expensive — and in some cases cheaper — than paying rent to the housing association.

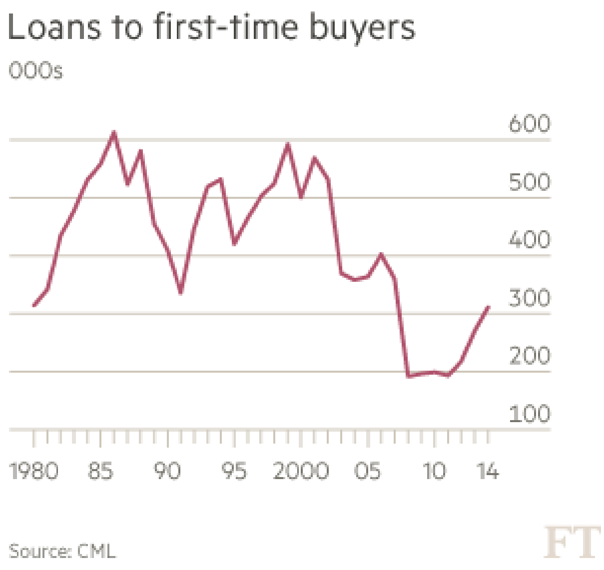
"Our staircasing levels trebled in 2014. We're not alone in this — it's a general trend. People are capitalising on the fact they're able to springboard off the increased value of the equity they own," he says.

But as politicians and housing providers grapple with the problems of Britain's dysfunctional housing market, they will also encounter a further conundrum: with the decline in government grants for affordable housebuilding, housing associations have become ever more reliant on rising house prices to fund the expansion of their portfolios.

Their growth strategies are increasingly based on the assumption that the very trend they are trying to hold in check will continue. Described by some as a "deal with the devil", this has ramifications that will have to be faced, if and when the current phase of rising house prices goes into reverse.

Shared equity

The biggest impact on the housing market has come from the government's Help to Buy scheme, which assists home buyers either by providing a mortgage guarantee or by lending them the money for a deposit as part of an equity loan scheme. Since its inception it has brought 70,000 into the housing market and its equity loans have helped finance the purchase of £10bn of housing.



The latter scheme lends buyers 20 per cent of the value of the house, up to a value of £600,000. Buyers contribute a deposit of at least 5 per cent, allowing them to cover the other 75 per cent with mortgage borrowing. Charges on the government loan are waived for the first five years. When the property is sold, the vendor pays back 20 per cent of the total sale value, not just the loan.

Construction groups have cited Help to Buy as a significant stimulant for new planning and development and data suggests its strongest effects have been outside areas of high house price growth in London and the Southeast.

Knight Frank said the total number of units in planning or under construction had risen by nearly 10 per cent in the last year. "The scheme, which helps buyers access better mortgage deals, resulted in developers and housebuilders submitting higher numbers of planning applications and taking on larger schemes."

Questions persist, however, over Help to Buy's effect on prices and its long-term sustainability for the public purse. Marc Vlessing, chief executive of intermediate developer Pocket, says: "The government is using taxpayers' money to subsidise the cost of the inflated housing that's out there . . . the Treasury clearly cannot continue to support propping up the housing market in this way."

Case study: 'Full ownership and affordable'

Debra Stein originally thought shared ownership might be the answer to the vexing issue of how to gain a toehold on the London housing ladder. But when she came across Pocket, a London developer of compact housing, the 37-year-old project manager rapidly concluded it provided a better solution for her needs.

"I wanted to own a home — I didn't want to own 20 per cent of a home. It attracted my attention because it was both full ownership and affordable. I couldn't quite see how you could have both at once," she says.

Ms Stein arrived in London from Australia in 2002, and spent a decade renting, latterly in a one-bed flat at £12,000 a year — "money that went straight out the door", she says. She bought the Pocket flat in Westbourne Park for just under £200,000 three years ago and moved in on Valentine's Day.


A typical Pocket apartment

One of a new breed of developers for the intermediate market, Pocket builds blocks of one or two-bed apartments typically on brownfield sites within easily commutable distance of central London. Flats are offered to first-time buyers living or working locally for at least 20 per cent below market rate, with an upper limit on salary of £71,000.

Ms Stein is typical of the "squeezed middle" buyers for whom Pocket's intermediate housing is designed. Unlike shared ownership models, the buyer purchases the flat outright. But there are rules around resale designed to keep the flats available to middle-earning buyers.

The flats have a clean and modern aesthetic, with floor to ceiling windows in the sitting room and bedroom, elegantly designed kitchen areas and wet room bathrooms with a shower and toilet. A communal roof terrace gives near 360-degree views of the capital, while a lush green wall decorates one side of the building and solar panels and ground source heat pumps reduce energy costs.

Marc Vlessing, Pocket founder and chief executive, says: "What we have demonstrated is that you don't need shared equity or shared ownership funding to make one-bed homes work for singles or couples.

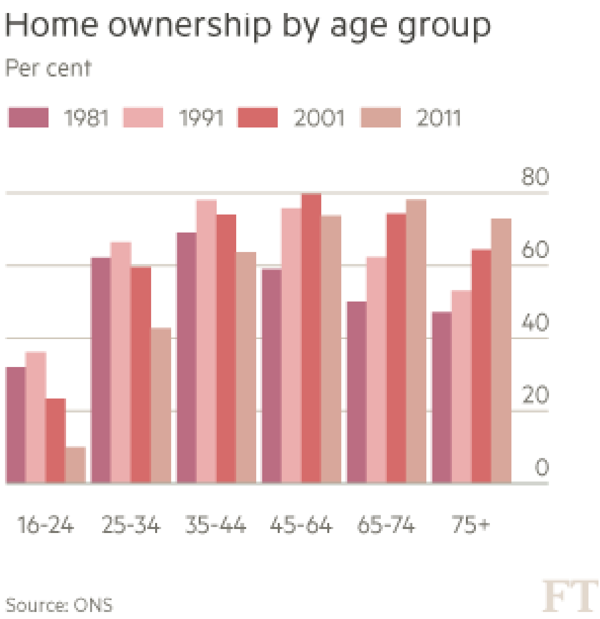
"By not using up expensive land for car parking and making apartments more compact we can price them at a discount of at least 20 to 30 per cent."

Ms Stein says there are "no words" to describe how lucky she feels to have found an affordable flat in central London. But she worries about the affordability for buyers after recent stratospheric price rises in the capital. An identical flat in the building is on the secondary market for over £320,000, including the discount, which would stretch even a buyer earning £71,000 a year.

"I'm slightly concerned about it being affordable housing [tied to] the rate of increase in the area, which is something that Pocket can't control . . . Housing generally in London is outside the realms even of fantasy."

Certainty over costs

Complaints about shared ownership have often revolved around the difficulty of buying a bigger share in a part-owned home when rising property prices raise the costs of purchasing an extra portion.



Thames Valley Housing is attempting to address the problem with a new scheme — Shared Ownership Plus — which gives owners more certainty about costs when buying a greater share.

Normally, buying an extra 10 per cent equity incurs costs such as valuation and legal fees, mortgage arrangement costs and potentially stamp duty — an extra burden that can deter some buyers from taking the plunge.

But the new scheme allows owners to buy an extra 15 per cent of the equity over 15 years at a price that is fixed in the first year and comes out of a higher monthly rent. The predetermined price factors in a small extra cost for inflation every year, but decouples the costs from house prices in the open market, as well as reducing the amount of rent owners ultimately have to pay to the association in respect of the remaining equity.

Having launched the scheme last summer, Thames Valley Housing has 110 people signed up and expects 250 by the end of the year. Kush Rawal, marketing director, says: "Our bigger aspiration in the longer term is to be able to offer it to all of our 6,500 existing customers."

Other variants include Gentoo's Genie, a scheme backed by the Lib Dems and Boris Johnson, mayor of London, which does away with the need for a mortgage or deposit to help those on low incomes. Instead, owners make monthly purchases towards 100 per cent ownership over the long term.

Critics have suggested the scheme, which originated in northeast England, might struggle to work in the higher-value south of the country. But the Greater London Authority is giving up to £40m in loan finance to fund 2,000 new homes via the scheme over the next decade, through housing association Orbit Group.

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