

SHARED EQUITY SCHEMES

Background

There has been a growing need for shared equity schemes to address the affordability crisis in the housing sector. The Northern Ireland Co-ownership Housing Association (NICHA) has been providing shared equity for house purchasers in Northern Ireland since 1978. It currently delivers the only Government shared equity scheme in Northern Ireland, a point that was seen to be in its favour in the Semple 'Review of Affordable Housing'¹. Acknowledging the scope for an expansion in the market for shared ownership, Semple felt that there was a complex array of schemes operating in other jurisdictions and that a single provider had its advantages.

The Northern Ireland Co-ownership Housing Association (NICHA) has been in existence since 1978 and is the only shared equity scheme operating in Northern Ireland. Semple acknowledged the scope for an expansion in the market for shared ownership, but felt that a single provider and scheme had its advantages. One of the reasons given was that 'fundamental criticisms of the many schemes in GB and RoI relate to the complexity of managing and understanding a plethora of products and providers.'²

The Minister for Social Development has announced³ that she wants '*to enhance the successful co-ownership scheme*' by abolishing limits making it easier to enter the scheme by buying 25% rather than the current 50% of the value of the property. Minimum increment limits to 'stair casing'⁴ for purchasers is to be reduced from 12.5% to 5% of the remaining equity of a property.

In addition to the Co-Ownership Scheme, in June 2008 the Minister for Social Development has proposed the introduction of two new initiatives to help those who are unable to pay or repay a mortgage. This follows a 33% increase in mortgage repossession orders in the courts.

The first 'Mortgage to Rent' scheme involves housing associations buying properties on behalf of homeowners who cannot afford to make repayments and then leasing the property.

The second scheme is a mortgage rescue scheme known as 'Reverse Staircasing' and is for those who have fallen behind with mortgage repayments. A housing association buys the remaining equity owing on the house and rents it back to the

¹ 'Review Into Affordable Housing' Final Report Spring 2007 (2007): DSD (p.37)

² 'Review Into Affordable Housing' Final Report Spring 2007 (2007): DSD (p.37)

³ Ministerial Statement 'Outcome of Affordability Review' Official Report (Hansard) 26 February 2008 available on Assembly website.

⁴ The payment percentages purchasers are allowed to make to increase their share in a property.

owner at an affordable rent. Mortgage rescue schemes are not new. A national scheme in Scotland co-ordinated by Communities Scotland has been operating since 2003 and was based on local schemes operating since 2001⁵.

Both these schemes allow families to remain in their homes and are only designed to help those in genuine need. Apart from the obvious advantage of allowing people to retain their home, it will also avoid putting more pressure on a social and affordable housing sector already suffering a shortage.

In August 2008 the Ulster Bank and local property developers launched a private scheme to help buyers to purchase their first property. The scheme offers protection against volatility in the housing market and the purchaser is not required to pay an initial deposit.

Shared Equity Schemes

This paper looks at schemes available in England, Wales, Scotland and the Republic of Ireland (RoI). Shared Equity and Shared Ownership schemes for affordable housing provision are defined as follows⁶:

Shared equity is where more than one party has an interest in the value of a dwelling under, for example, an equity loan arrangement or a shared ownership lease. There may be a charge on the loan, and restrictions on price, access and resale.

Shared ownership is a form of shared equity under which the purchaser buys an initial share in a home from a housing provider, who retains the remainder and may charge a rent. The purchaser may buy additional shares ('staircasing'), and this payment should be 'recycled' for more affordable housing. In most cases, a purchaser may buy the final share ('staircase out') and own the whole home, though this may be restricted in some areas.

Intermediate affordable housing is housing at prices and rents above those of social rent but below market price or rents. They can include shared equity and other low cost homes for sale and intermediate rent.

England

The document 'Facing the Housing Challenge: Action today, innovation tomorrow' was launched by the Housing Minister on 6 August 2008. Immediate measures to ensure the delivery of new affordable housing and counteract the credit crunch had previously been announced⁷ and included a further £270 million to deliver an

⁵ Good Practice: briefing Mortgage to rent (October 2007) Shelter Scotland website at: <http://scotland.shelter.org.uk/>

⁶ Annex B of PPS3: Housing available at: <http://www.communities.gov.uk/planningandbuilding/planning/planningpolicyguidance/planningpolicystatements/planningpolicystatements/pps3/>

⁷ "Flint outlines plan to 'ensure delivery' of new affordable housing" Wednesday 2 July 2008 at: <http://www.24dash.com/news/housing/2008-07-02-Flint-outlines-action-plan-to-ensure-delivery-of-new-affordable-housing>

additional 3,800 homes for social rent and 1,500 shared ownership homes over the next three years.

Among the objectives behind Government shared equity schemes has been a need to free up social housing. The Government has been gradually adding to their portfolio of affordable housing schemes, housing supply participants and potential customers. The schemes available below are operating in a rapidly changing climate and increased demand.

Government shared equity schemes

According to Government figures, around 24,000 households were helped into low cost home ownership in 2007 – 08⁸. A National Audit Office (NAO) Report⁹ in 2006 reported that to date low cost home ownership schemes had helped around 40,000 households, but that demand far out weighed supply.

HomeBuy Programme

HomeBuy¹⁰ is a Government shared equity scheme for social tenants, 'key workers' and first time buyers to buy a share of a home. A shared equity scheme also exists exclusively for 'key workers' such as teachers and nurses in London, the East and South East of England.

Three types of shared equity products are available through the HomeBuy Programme.

New Build HomeBuy and Social HomeBuy are shared ownership schemes where the purchaser and landlord share equity in the dwelling. The purchaser then pays rent on the part they do not own.

Open Market HomeBuy is an equity loan model where the purchaser owns all the property, but has taken out a loan to enable them to purchase the property. English Partnership's First Time Buyers Initiative also offers New Build HomeBuy opportunities¹¹.

Open Market HomeBuy, New Build HomeBuy and First Time Buyers Initiative are facilitated by HomeBuy Agents. These are housing associations appointed by the Housing Corporation to provide a one stop shop for those wishing to access these products.

New Build HomeBuy allows a purchaser to buy a minimum 25% of a new build property with the housing provider retaining the rest of the equity. Purchasers can buy further shares when they can afford to in a process known as 'staircasing'. New build schemes are usually part funded by the Housing Corporation as part of its Affordable Housing Programme.

⁸ 'Facing the Housing Challenge: Action today, innovation for tomorrow' (July 2008), Department for Communities and Local government: London available at: <http://www.communities.gov.uk/publications/housing/facinghousingchallenge>

⁹ 'A Foot on the Ladder: Low Cost Home Ownership Assistance' National Audit Office (July 2006) available at: http://www.nao.org.uk/publications/nao_reports/05-06/05061048.pdf

¹⁰ HomeBuy Scheme details at: <http://www.communities.gov.uk/housing/buyingselling/ownershipschemes/homebuy/>

¹¹ English Partnerships website at: <http://www.englishpartnerships.org.uk/>

Social HomeBuy is to allow social tenants not qualifying for the 'Right to Buy' or 'Right to Acquire' schemes¹² to buy a minimum 25% share of their home from participating social landlords. The landlords retain the remainder of the equity and can charge up to a 3% levy on the capital value of their retained equity. Buyers are able to receive a discount on the initial purchase at a sum depending on the local authority area and pro rata to the share purchased. A discount is also allowed on subsequent percentages purchased. Buyers can own their home outright eventually.

Participation in the scheme is voluntary, but the Government encourages local authorities and RSLs to offer it. RSLs bid to the Housing Corporation through the Affordable Housing Programme and the Housing Corporation pays RSLs the sum that is discounted from the purchase price. Revenue from the scheme is generally used for more social lettings or housing related projects.

An evaluation of the Social HomeBuy Scheme¹³ found that, although viewed by tenants in a positive way, affordability amongst social tenants will limit viable and sustainable demand. Approximately 70% of tenants were receiving benefits and therefore ineligible for a mortgage. The attractiveness and location of properties and the responsibility for maintenance following purchase were also found to be disincentives in the scheme.

Open Market HomeBuy – there are two new Open Market products available that were announced in the 2008 Budget:

MyChoiceHomeBuy is an equity loan of between 15 and 50 per cent of the purchase price provided by a partnership of eight housing associations named CHASE. Each one is an equity loan provider. It can be used in conjunction with a conventional mortgage with purchasers expected to raise finance of between 50 and 85 per cent of a house on the open market. There is an annual fee of 1.75 per cent on the first year loan payable monthly. The fee increases annually by the Retail Price Index plus one per cent. Purchasers are free to re-mortgage at any time, but will need the loan provider's consent.

Ownhome product is an equity loan of between 20 and 40 per cent provided by a housing association called Places for People in partnership with Co-operative Financial Services. It is provided in conjunction with the Co-operative Bank in the first instance. Purchasers may be expected to raise finance of between 60 and 80 per cent of the cost of a home on the open market and no interest on the equity loan for the first five years, with a 1.75 per cent charge from year six rising to 3.75 from year eleven onwards. The loan must be repaid if the house is sold, but the loan can be paid back at any time before that.

These new loans are designed to be more flexible and provide purchasers with more choice in the mortgage they decide to take out. Until now Open Market Home Buy loans could only be taken out in chunks of 32.5 per cent, 25 per cent, or for the Government only loan, an average of 17.5 per cent of the property value. The loans were also restricted to just one specific mortgage from each of the three lenders

¹² Schemes whereby social housing tenants have the right, following a qualifying period, to purchase their home at a discount price.

¹³ Evaluation of Social HomeBuy Pilot Scheme for Affordable Housing: Final Report (June 2008) available at: <http://www.communities.gov.uk/publications/housing/socialhomebuyevaluation>

providing the loans¹⁴.

Private shared equity schemes

The Pomeroy Review¹⁵ of private equity schemes found they had been put on hold by investors due to the current economic climate. Apart from the credit crisis, however, the main constraint on their development was reluctance by investors to expose themselves to house price risks that are inherent in the shared equity concept.

Some of those consulted during the review felt that there was a demand for shared equity products and not only at the lower end of the housing ladder. As there is a need for affordable housing and conventional mortgages are becoming harder to access, the review concludes that there is the prospect for private shared equity schemes to emerge once the market stabilises.

However, a response to the Housing Green Paper on behalf of the Joseph Rowntree Foundation includes an observation that research in the Midlands in England is showing that intermediate housing is becoming unaffordable¹⁶.

Wales

The HomeBuy scheme in England also operates in Wales. The Affordable Housing Task and Finish Group June 2008 Report¹⁷ to Deputy Minister for Housing states:

The introduction of the Right to Buy (RTB) and other schemes since 1980 has seen a significant shift of dwellings from the social rented to private housing sectors. Between 1980 and the end of June 2007 some 141,500 local authority and 2,400 housing association homes have been sold under the RTB and other schemes. It is clear that the availability of housing for rent from social landlords has reduced dramatically over the last 25-30 years.

The Housing (Miscellaneous Provisions) Bill 2008¹⁸ (the Housing Bill) for Wales provides for a new incremental purchase scheme for existing social housing tenants and households that qualify for social housing support and whose incomes are too low to qualify for affordable housing, but who could in time and with support become owners of new builds by housing associations or approved housing bodies.

¹⁴ <http://www.communities.gov.uk/news/corporate/720426>

¹⁵ 'The Pomeroy Review of Prospects for Private Sector Shared Equity' Summary of Conclusions (July 2008) available at: <http://www.communities.gov.uk/publications/housing/sharedequityconclusions>

¹⁶ The Cambridge Centre for Housing and Planning Research submitted a response to the Government on the Housing Green Paper on behalf of the Joseph Rowntree Foundation (2008). The submission is available at: <http://www.cchpr.landecon.cam.ac.uk/projects/detail.asp?ProjectID=107>

¹⁷ Report available at: <http://new.wales.gov.uk/desh/publications/housing/essexreview/reporte.pdf?lang=en>

¹⁸ Explanatory and Financial Memorandum available at: <http://www.environ.ie/en/DevelopmentandHousing/Housing/RHLegislation/FileDownload.17933.en.pdf>

Incremental payment arrangements allow for the title of the house to be passed to the purchaser on payment of a proportion of the equity and the purchaser then takes full responsibility for the maintenance of the property. A charge in favour of the housing association or authority is placed on the house and this gradually decreases over time until it is eliminated. If the purchaser wishes to sell the property the first option must go to the housing authority to buy at market value or the prevailing share of equity value the proportion of the outstanding equity.

Suspension of Right to Buy

A commitment in the 'One Wales' document¹⁹ proposes that legislative powers be introduced to suspend the Right to Buy in areas of housing pressure and the Government has launched a consultation document on suspending the Right to Buy and the right to Acquire for a five-year period²⁰. The Right to Buy scheme has resulted in a reduction of over 45% of social housing for rent in Wales.

Shelter Cymru, argues that five years is not long enough and that the legislation should provide for indefinite suspension of the scheme²¹. Shelter Cymru proposes that local councils should be able to decide the period of suspension to allow them control over local planning. They argue that *'spending on subsidising the Right to Buy is an ineffective use of public money. The discounts that subsidise the scheme should be invested in other housing options, including homebuy and shared ownership'*.

Scotland

Proposals to end the 'Right to Buy'²² in order to provide more choice for those who did not want, or could not afford to buy were confirmed. 'Right to Buy'²³ gives social housing tenants the right to buy their homes from their social landlord at a discounted price after they have occupied it for a qualifying period.

Other measures were also announced to address the current housing supply crisis and 'credit crunch' that included measures to help home-owners at risk of repossession and the expansion of targeted shared equity schemes for first-time buyers with an investment of £250 million²⁴.

The Government's commitment to the Low – cost Initiative for First Time Buyers²⁵ ('LIFT') was backed by plans for a quarter of a billion of investment over the next three years. LIFT is an open market low cost shared equity scheme that has been launched on a pilot basis in several areas of Scotland with an investment of £24 million from the Scottish Government. It aims to expand existing shared equity

¹⁹ 'One Wales' available at:

<http://new.wales.gov.uk/about/strategy/strategypublications/strategypubs/onewales/?lang=en>

²⁰ Available on Welsh Assembly Government site at:

<http://new.wales.gov.uk/consultations/currentconsultation/housandcomm/suspendrighttobuy/?lang=en>

²¹ Shelter Wales, 6 August 2008 available at:

<http://www.sheltercymru.org.uk/shelter/home/newsdetail.asp?month=8&year=2008&Det=146>

²² Contained in 'Firm Foundations': Discussion paper on the future of housing policy in Scotland (October 2007) available at: <http://www.scotland.gov.uk/Publications/2007/10/30153156/0>

²³ Changes to 'Right to Buy' were contained in the Housing (Scotland) Act 2001. Information on scheme and changes available at: <http://www.scotland.gov.uk/Publications/2002/08/15280/10373#1>

²⁴ Scottish Government news release 26 June 2008 at:

<http://www.scotland.gov.uk/News/Releases/2008/06/25142815>

²⁵ Information on LIFT available at: http://www.linkhousing.co.uk/link_homes/documents/Lift2.pdf

schemes and is for people on low incomes, particularly first-time buyers and aims to target assistance for tenants of local councils and RSLs²⁶. Limits will be set on the value of property that can be purchased through the Open Market Shared Equity scheme and will be reviewed regularly to reflect market trends. The purchaser's stake will normally be determined by the maximum mortgage they are able to raise²⁷.

A 'new build' shared equity scheme, HomeStake²⁸ has operated in Scotland since 2005. It allows first-time buyers and those who cannot afford to pay the full price to purchase homes on the open market. Housing associations will part-fund a share in the property and hold a part equity share in the property with the owner. Typically the owners share is between 60% and 80% with the option to increase their stake to 100%.

Funding was announced to expand shared equity schemes from the £1.5 billion Affordable Housing Investment Programme in May 2008. The New Supply Shared Equity scheme for new homes built by RSLs is also part of the LIFT initiative.

Republic of Ireland (RoI)

Tenants in the RoI are eligible for an affordable house (under Part V of the planning and Development Acts 2000 -2002) through shared ownership schemes²⁹ provided their income is not sufficient to buy a house. However, a media report³⁰ in April 2008 said that there was a major misconception with people confusing affordable housing with social housing and many not qualifying because, even at discount prices, they could not afford to repay a mortgage.

Mortgages for local authority homes are available through local authorities if the purchaser has been a tenant for at least one year. Loans can be up to 97% of the house price subject to repayments being no more than 35% of the household net income. Some banks in the RoI will also provide a mortgage for affordable housing.

Household may qualify for the Mortgage Allowance Scheme³¹. It is an allowance payable over a 5 year period to tenants or tenant purchasers of local authority houses. The allowance is also available to tenants of housing associations in housing provided under the Rental Subsidy Scheme who are buying or building a house with a mortgage. The allowance is paid directly to the lending agency and repayments reduced accordingly for the first five years of the mortgage.

The Affordable Housing Initiative (AHI) was introduced under the 'Sustaining Progress Agreement'³² to meet the needs of those who could formerly have afforded

²⁶ 'Firm Foundations': Discussion paper on the future of housing policy in Scotland (October 2007) available at: <http://www.scotland.gov.uk/Publications/2007/10/30153156/0>

²⁷ Information available at: www.communitiesscotland.gov.uk/lift

²⁸ Information on HomeStake available at:

http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs_010807.pdf

²⁹ Citizens Information at: http://www.citizensinformation.ie/categories/housing/local-authority-and-social-housing/buying_your_local_authority_house

³⁰ 'Discount homes' Tuesday April 29 2008 Independent

³¹ Environment, Heritage and Local Government website:

<http://www.environ.ie/en/DevelopmentandHousing/Housing/HousingGrantsFinancialAssistance/MortgageAllowanceScheme/>

³² Sustaining Progress Social Partnership Agreement 2003 – 2005 at:

http://www.taoiseach.gov.ie/attached_files/Pdf%20files/SustainingProgressSocialPartnershipAgreement2003-2005.pdf

to buy their own home before the sharp rise in house prices. It operates through the release of a series of State and Local Authority lands for affordable housing. Each area has an AHI Project Team. For example, in South Dublin the flagship development consists of 1,600 homes of which approximately 600 will be affordable.

Under the initiative purchasers are eligible for the scheme if 35% of their income is not sufficient to buy a house. The potential purchaser makes an application to the AHI Project Team to purchase a property at a price that is significantly below the market value and applies for a mortgage from a private mortgage lender at the lenders usual rates³³.

Conclusion

The variety of shared equity schemes has been developing to accommodate a growing market. As house prices have risen, the potential for home ownership, particularly for first-time buyers has decreased. This has added pressure to an already stretched social housing sector.

The provision of shared equity schemes at an individual level allows those who aspire to home-ownership the opportunity to tailor the process to their changing economic circumstances. At housing sector level shared equity and mortgage rescue schemes allow the market to stabilise without exacerbating the shortage in the social rented sector.

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³³ Property Path website at:

http://www.propertypath.ie/index.php?option=com_content&task=view&id=37&Itemid=63

