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Policies to increase affordable housing: experience in England

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Förord

Statens Bostadskreditnämnd (BKN) har givit Christine Whitehead vid London School of Economics i uppdrag att göra en översikt över de statliga finansiella åtgärder som används Storbritannien för att nå bostadspolitiska mål. I uppdraget ingick att redovisa skälen bakom valet av åtgärder samt åtgärdernas effektivitet.

Rapporten är ett led i BKN:s strävan att förbättra kunskapsläget om hur staten medverkar i finansieringen inom bygg- och bostadssektorn i andra länder. Innehållet i rapporten utgör också direkt underlag i BKN:s utredningsarbete rörande former för statlig stimulans till upprustningar och nybyggnation.

Statens bostadskreditnämnd

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Policies to increase affordable housing: experience in England

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Contents

1. Background 6
2. The rationale of owner-occupation 7
3. The rationale for shared equity products 8
   - A market rational for shared equity 9
4. The development of low cost homeownership (LCHO) instruments in England 11
   - (i) Immediate government objectives 12
     - Access 12
     - Public Expenditure 12
     - Supporting Older Households 13
     - Mixed Communities 13
     - Sharing Risk 13
   - (ii) The development of shared equity schemes in England 13
     - Shared ownership 15
     - Shared equity mortgage products 16
     - Developments in response to house price rises in the mid 2000s 17
     - Who has been helped? 18
5. The allocation of land for LCHO 18
   - Section 106 19
   - How it works 19
   - Why it works 21
   - Section 106 and the mixed communities agenda 22
   - The current position 23
   - Shared equity in perpetuity and Community Land Trusts 23
6. Transfer Policies 24
   - Incentive schemes 24
   - Right to Buy and Right to Acquire 25
   - Cash Incentive Shemes 25
   - Rent to Mortgage 25
   - Social HomeBuy 25
7. Other Measures 26
   - Grants to First Time Buyers 26
   - The £60,000 home 27
   - Insurance and guarantees 27
8. The Potential 27
   - International Experience of shared equity schemes 27
9. Summary and Conclusions 28
   - (i) Factors relevant to decisions on which schemes are appropriate 28
     - Environment 29
     - Public Expenditure 29
     - Consumer Attitudes 30
   - (ii) Conclusions 30

Selected Bibliography 32

Tables

Table 1 Dwelling Stock and Tenure, England, 1951-2005 6
Table 2 Terminology 12
Table 3 Government Sponsored Low Cost Homeownership Schemes 14
Table 4 Current Open Market HomeBuy Products in England 17
Table 5 Transferring social sector dwellings and tenants to owner-occupation 24

Figures

Figure 1 How Section 106 works 20

Policies to increase affordable housing: experience in England

1. Background

Historically England's tenure structure was particularly differentiated, with owner-occupation restricted to those with the capacity to borrow in a highly regulated market; social rented provided almost entirely by local authorities with rents well below market levels; and a private rented sector where the majority of tenants had long term security and controlled rents. Table 1 shows how the tenure structure has evolved in England since 1951.

In 1980, England was in the middle group of countries with respect to owner-occupation well below most other Anglo-Saxon countries – notably Australia, Canada and the United States (Freeman, Holmans & Whitehead, 1996). It was in this context that the Conservative government started to develop policies to expand owner-occupation.

Table 1: Dwelling Stock and Tenure, England, 1951 – 2005

	Owner-occupied		Private Rented		Rented from HA		Rented from LA		Total
	000s	%	000s	%	000s	%	000s	%	ms
1951		28		52				20	12.5
1961	6068	44	4377	32			3382	24	13.8
1971	8503	53	3122	19			4530	28	16.1
1979	10019	57	2168	12	368	2	5140	29	17.7
1981	10773	60	2044	11	410	2	4798	27	17.0
1991	13237	67	1927	10	608	3	3899	20	19.7
2001	14818	70	2152	10	1424	7	2812	13	21.2
2006	1542	70	2611	12	1850	8	2068	9	22.0

Source: Communities and Local Government Housing Statistics 2007 live Table 104

There were relatively few policy options that would make large structural change because of the existing ownership of the housing stock. Very large scale increases in owner occupation could come only from the local authority sector where there were significant numbers of households who could afford a mortgage and who lived mainly in houses in which they wished to remain. (Large parts of the private rented housing had already transferred to owner occupation as a result of rent regulation and tax policy.) Thus the Right-to-Buy became the core policy instrument for expanding owner-occupation and remains important to this day.

The second major source of expansion was new build. Government limited the capacity of the social sector to develop, expecting private development to fill the gap. In practice there has been little appetite to achieve private development above 150,000 per annum, without some form of subsidy – a major reason for the difficulties experienced in achieving adequate supply and curbing house prices (Barker, 2003 and 2004). Subsidies to new build owner-occupation were an inevitable outcome of this situation. These have mainly taken the form of intermediate

housing products, such as shared ownership, rather than a more general grant or interest rate subsidy.

Thirdly, the transfer of stock to owner-occupation from private renting, which had been occurring since the 1950s, continued throughout the 1980s until well after rent deregulation in 1988. This process has only reversed since the growth of Buy-to-Let in the late 1990s.

Thus policies to expand owner-occupation first introduced at a national scale by the Conservative government in 1980 and continued until the present time have depended mainly on (i) providing incentive for both dwellings and household to transfer from social housing to owner-occupation; and (ii) subsidies for a sub-set of new build aimed at lower income employed households to enable them to enter owner-occupation.

2. The rationale of owner-occupation

The government target for owner-occupation, stated in the early 2000s, is to increase owner-occupation to around 75% of the stock. It is said that the current prime minister has also spoken of 80%. Cohort effects, based on trends, are expected to raise the proportion to about 71 – 72%. Additional subsidy is needed to achieve any significantly higher level.

The main reason given by the UK government for expanding owner-occupation has always been that it helps to meet household aspirations. Over 80% of individuals consistently state that they wish to own their own homes within a few years. In this context the Right-to-Buy was a highly popular policy, even among those who could not expect to benefit.

There are however other important economic, social and political reasons for expanding owner-occupation, many of which reflect the more general benefits of privatisation. These include:

- immediate benefits to public finances;
- longer term benefits to public finances;
- benefits to the dwellings;
- benefits to the neighbourhood and community;
- benefits to the stability of the economy and society; and
- political benefits.

The core issues for government relate to their own finances and to their future commitments. First, it enables the substitution of private for public debt and ensures that people able to pay for their own homes do so. Second, in the context of transfer it enables assets to be realised and public debt to be reduced (particularly important in the context of EU regulations). Third, if people pay off their mortgages before retirement, owner-occupation puts households in a stronger position when their income falls. Most importantly their outgoings fall, so pensions go further. But also important is that they can vary the timing of repairs and improvements – ultimately putting them off to the next generation. Finally they can borrow against or even sell the housing asset to pay for health care and other necessities.

The second group of benefits relate to the impact of ownership on maintaining and improving dwellings. The evidence shows strongly that people will both treat the property better and do much more themselves – generating cost-effective maintenance at least into older age. Owners also have a strong incentive to ensure the quality of the neighbourhood to maintain the value of their assets – and because they are 'aspiring' householders they also tend to support community activity, notably education.

The final group relate to the commitment of mortgagors to their jobs because of the need to pay the mortgage; the family environment for their children; general involvement in society because of their stake in that society; and ultimately their voting behaviour in relation to a property-owning democracy.

Of course there are costs and risks to owner-occupation, especially if householders are overstretched; borrow excessively against housing equity; or if the neighbourhood starts to decline. Equally, owner-occupation reduces mobility and therefore the capacity to adjust to labour market changes.

Some of these problems are particularly relevant at the present time. Arguably the current housing finance crisis in the US has been exacerbated by the US government's emphasis on expanding owner-occupation to those on lower incomes and facing higher risks, especially among lower income employed minority groups, with the related growth of the sub-prime market.

Some implications of this analysis include:

- those households that enter owner-occupation should be able to see their way to full ownership;
- owner-occupation is only generally appropriate for relatively stable (in locational and household characteristic terms) households;
- owner-occupation funding needs to be flexible over the household's lifetime; and
- some shallow subsidy will be necessary to achieve significantly higher proportions of owner-occupation in England[1].

3. The rationale for shared equity products

The main reason why shared equity products are in the forefront of discussion at the present time is that housing affordability has been declining, primarily because house prices have been rising faster than incomes in many industrialised countries (Demographia, 2008; OECD, 2005). As a result, new entrants to the owner-occupied market are finding it increasingly difficult to

[1] In this context it should be reiterated that the current level of owner-occupation of around 70% in England has only been achieved through large scale entry subsidies (through discounted prices).

purchase. Moreover problems of access and affordability are putting pressure on governments who both wish to meet aspirations for homeownership and have an incentive to limit public sector commitments. Of particular importance in the context of English housing policy is that those who traditionally would have been social tenants require some assistance with their entry costs in the market sector.

Shared equity can help to reduce initial outgoings and so enable lower income households to become owners. In so doing, it makes it possible to use shallow (that is, relatively low level) subsidies to help additional households into owner-occupation and to meet government objectives. Thus affordability, rather than market efficiency, has been the primary reason for the development of shared equity products. For government a related objective has been to provide a cost-effective way of levering in private finance to enable limited government funding better to meet housing policy goals.

A market rationale for shared equity

A very different and more general rationale for shared equity products, is that owner-occupation carries with it the risks of price variation, which cannot normally be efficiently borne by individual households. Given the extent of such volatility, if such a market could be seen to be efficient it might be expected to develop as a mainstream market product (Caplin et al, 1997; Caplin et al, 2007).

Owner-occupation involves households investing in a single asset which is large in relation to their overall assets; has a history of significant variation in value; has the additional complications of being in a particular location (so that the capital value is affected by local conditions); has large transactions costs; as well as timing difficulties associated with realising the asset. These problems are exacerbated when a significant proportion of the purchase price is funded by debt finance, as the impact of price variation on the individual's capital and security increases with leverage.

In principle, the owner should transfer some of the risks of owning this specific housing asset to others better able to bear this risk, such as financial institutions or large scale investors. This would both give the household greater financial flexibility and free up funds from the housing asset to allow them to invest in other investments with different risk profiles. This rationale suggests that shared equity products should be suited to a much wider market than simply first time buyers.

A further rationale is that shared equity provides the capacity to release equity for consumption purposes. For most households the largest asset over which they have control (unlike their pension fund) is their home. Older people in particular may want to supplement their pensions by running down their investments. However many do not want to have to move to release funds. The alternative is to realise part of the asset either by borrowing against that asset or by transferring part of the value to another entity that wishes to invest in owner-occupied housing. Shared equity products enable this transfer, while the primary owner remains in the family home.

A rather different reason for the existence of shared equity products arises when owners/ developers want to keep some control over the land they own and/or the estate they are

developing by keeping an equity stake in the properties they sell. This particularly applies in the context of public/private partnerships for the provision of affordable homes. In particular, the public sector may want to keep control over who gains access to affordable housing to ensure that some of the benefits are passed on to future purchasers. A shared equity arrangement for a specified time period or into perpetuity can be a way of doing this. The same rationale may apply to private providers, especially in large scale mixed developments, where suppliers want a direct equity involvement in the value of the overall asset for both investment and management reasons. A shorter term reason is when markets are depressed but developers think prices will rise. In this case they can sell some of their stock but maintain some rights to future gains by selling only a share of the dwelling. An even shorter term reason is when developers have a pipeline which they are finding it difficult to sell – as at the present time.

The development of shared ownership products thus has potential benefits for all relevant stakeholders – purchasers; equity investors; the mortgage and investment industries; and government. For purchasers it provides a new mortgage class with lower repayments. This gives them access to higher valued, larger or better-located property and, in some cases, provides the only opportunity they have of becoming an owner-occupier. Later on it enables the possibility of equity release. Throughout the contract period, it can reduce the household's exposure to risks both with respect to interest rates and capital value variations. For the equity investor it enables greater diversification through access to a residential asset that is not fully correlated with other investments and which can be made tradable and divisible. For both the mortgage and investment industries it provides an opportunity to expand into new markets and access to a different asset class. For the government it helps to lever in private finance and to provide shallow or even no subsidy products to households who would benefit from becoming owner-occupiers but face cash flow constraints or are particularly concerned about housing risk. By expanding owner occupation it also reduces the numbers of households needing assistance in the rented sectors.

These benefits depend significantly on access to financial markets where risks can be better managed and thus interest costs can be reduced. This in turn is likely to depend on the development of a secondary market with appropriate derivative products so that the equity from a wide range of dwellings with different risks can be packaged and sold. Eventually, the successful launch of such markets at scale an acceptable scale could have the capacity significantly to reduce the costs of financing owner-occupied housing.

However, partly because shared ownership products are relatively new and partly because they have complex attributes, they also involve major costs and potential market failures. These are reflected in higher transactions costs; asymmetric information between the purchaser and provider of the shared equity product; the potential for post contractual opportunism (notably moral hazard with respect to the upkeep of the property and its resale value); the need for a price index against which to benchmark payments (especially where a secondary market is developed); the likely thinness of resale markets for products which continue to be partially owned; and many unavoidable contractual complexities.

The potential for the development of different types of shared equity products depends on the extent to which benefits can be realised to offset the costs involved in these more complex

products. It also depends on what alternatives are available. For example, interest only mortgages can reduce outgoings while enabling the purchaser to maintain 100% of the residual value. However these do not avoid other risks (Scanlon et al, 2008). Equally, equity release mortgages have very different risk characteristics for both primary owner and their partner from those where interest is foregone in return for a share of capital gain after a specified period of time.

What works best depends on the legal and administrative system that applies to both the housing and finance markets. In some countries for instance it would require legislation to enable partial ownership and in most countries an appropriate regulatory framework for the financial instruments employed would have to be developed. Successful expansion of the market also depends on the way shared equity products are treated by the tax and benefit system. This is likely to depend on the specific characteristics of each shared equity product and may not be clear on a priori grounds, thus adding to uncertainty and to the costs associated with developing new products. These points suggest that there must be government commitment to facilitate the growth of a shared equity market and to provide an environment in which potential participants can obtain the necessary risk-return balance. Most fundamentally, development depends upon there being demand among both new entrants and more established households to be prepared to share the equity in their home.

This analysis suggests that the most fundamental reason for concentrating on shared ownership and shared equity products is to share risk more effectively. In practice the reasons that governments have been concentrating on these types of product are more to increase access, particularly in periods of rising house prices and entry costs. Their ultimate rationale is the same as for owner-occupation more generally.

4. The development of low cost homeownership (LCHO) instruments in England

The majority of the growth in owner-occupation over the last thirty years has occurred as a result of fundamental demand pressures, including:

- income growth, which has made it possible for households to increase their investment in housing;
- liberalisation of the housing finance market and the integration of that market into the global finance market; and
- tax benefits to owner-occupation in the form of relief from capital gains taxation.

Mortgage interest relief was phased out over a 30 year period and came to an end in 2000, but this was a period of declining interest rates so costs to individual mortgagors did not rise.

Governments since the 1980s have also provided targeted assistance to enable lower income households to enter owner occupation. The most important such policy has been the Right to Buy (discussed in section 6 below), but throughout there has also been an emphasis on shared ownership and shared equity products which provide shallow subsidy to assist lower income

employed households to buy. These have become more important during the rapid rise of house prices that came to an end in 2007/8. A number of government policy reviews have discussed their changing role over the last decade (e.g. DETR, 2000; ODPM 2005; DCLG, 2007a).

(i) Immediate government objectives of LCHO

Table 2: Terminology

Right-to-Buy (RtoB): the purchase of local authority housing at a discount by the sitting tenant
Shared Ownership (SO): the partial purchase of a new build or renovated home where the rest of the property is rented from a social landlord. It includes the possibility of 100% staircasing
Shared equity (as a general term): where the ownership of the housing equity is split between the primary owner (the purchaser) and a secondary owner (e.g. the social landlord, a Community Land Trust or a financial institution)
Shared Equity Mortgages: where part of the mortgage involves transferring capital gains (and sometimes losses) to the mortgage provider – often called simply shared equity
Buy-to-Let (BtoL): Purchase of property for renting by an individual or company with a specialist buy-to-let mortgage secured against the property
Open Market HomeBuy (OMHB): A shared equity product where part of the equity mortgage is provided by a financial institution or a social landlord
Homebuy: the original shared equity mortgage product which involved a 25% shared equity mortgage provided by government
Do It Yourself Shared Ownership (DYSO): where the purchaser found an existing dwelling and the social landlord purchased part of the dwelling and let that part to the purchaser
Leasehold Schemes for the Elderly (LSE): Shared ownership for the elderly where staircasing limited to 80%
Community Land Trusts (CLT): where the ownership of land is held in local authority/ communal ownership so that 100% cannot be purchased

Access

The vast majority of schemes are aimed at assisting access to owner-occupation to those unable to afford either the deposit (wealth constraint) or the outgoings (income constraint). Within this group many of the products are structured to assist entry by partial purchase for those who can be expected to pay more into the future and so achieve full home ownership. Schemes can be targeted at particular groups where access to specific local markets is important – eg for key public sector workers. Some related schemes involve cost based rental provision by non-profit organisations enabling access to adequate rental housing at below market but above social rents.

Public Expenditure

A second major reason is to develop schemes which enable as much private finance to be levered in through the individual's mortgage as well as their own equity. This in turn allows the subsidy to be lower per household and therefore to achieve better value for money to government from a given level of subsidy.

Where the sale involves a public asset, the transfer to ownership enables the realised funds to be reinvested to achieve higher levels of output. This is very much how the current shared

ownership schemes in England have been working. It is also now part of the underpinning of Right-to-Buy (although there are complications).

Concentrating eg on key workers may provide a cheap alternative to raising public sector wages across the board. This works by providing a subsidy only to a subset of those who are not already well-housed.

Supporting older households
Low cost homeownership – especially shared equity schemes – can allow existing owner-occupiers to realise part of their assets to add to their pension or to transfer into sheltered accommodation – reducing other subsidies that government might otherwise have to provide.

Mixed Communities
A rather different objective relates to ensuring mixed communities on large scale new developments. Policy makers now argue that no new schemes should have more than around one quarter social rented tenants. Low cost homeownership schemes can be used in additional to planning constraints and building regulations to ensure that those with incomes above social rented levels but unable to afford market housing are enabled to live in the area – allowing a full mix of income groups.

Sharing risk
Especially in regeneration and low demand areas where policy wishes to achieve increased owner-occupation and sustainable neighbourhoods, shared ownership schemes are one way of enabling government to take on part of the risk of declining house prices. It also allows both the individual and the government to benefit from success.

(ii) The development of shared equity schemes in England

England has been at the forefront of the development of what have come to be called 'intermediate housing' solutions which have the potential for providing at least some of the benefits of owner-occupation to lower income households; a shallower subsidy regime; better use of the social rented sector; and encouraging mixed tenure and mixed income communities.

In 1980 the Conservative government introduced a shared ownership programme aimed at helping those with some capacity to pay more than social rents for their housing. The original programme involved a new build programme which enabled social tenants and other households in need to purchase a proportion of the new dwelling and rent the rest at social rents from a housing association. It also allowed the purchaser to buy further proportions up to full ownership when they wished, thus achieving full ownership at their own pace. The objectives were threefold: to enable better off social tenants to move out into owner-occupation, thus freeing up rented accommodation for households in greater housing need; to provide a means of providing a smaller – and one off – subsidy for those needing some assistance to obtain adequate housing but not requiring the higher long term subsidies implicit in social renting; and to support the more general aspiration of owner occupation.

In the 1990s the growing problems of access and affordability for those trying to enter home ownership, as well as a growing crisis in recruitment in the public sector, especially in South East England, led to renewed interest in rolling out the general principles more widely than was possible with a scheme dependant on new housebuilding. The government therefore introduced other low cost home ownership products, including do it yourself shared ownership (DIYSO) and Homebuy. The first enabled people to purchase existing units using the shared ownership model of part individual ownership/mortgage and part subsidised rent. The second enabled households to obtain a 25% mortgage at a zero direct interest rate but at the cost of giving up 25% of any increased value between the time of purchase and of resale or paying off the shared equity mortgage.

This approach was further extended into the Starter Home and Key Worker Living initiatives which concentrated on helping public sector workers who were finding it particularly difficult to enter the housing market in areas where they work. All these schemes were implemented through Housing Associations, which both allocated the grants and loans and built and took part ownership of the properties where relevant. Such schemes were directed at meeting the aspirations of a wider range of households in need of shallow subsidy and at reducing the costs per household assisted to the public purse inherent in a new build programme.

Table 2 sets out the main developments in the context of LCHO schemes. In addition there have been a number of other variants over the years.

Table 3: Government Sponsored Low Cost Homeownership Schemes

1970s	"Half and half and similar schemes introduced by local government – Birmingham, GLC based on local authority powers to provide a mortgage plus central government subsidy
1980s	Housing Act 1980 Shared Ownership (new units) (SO) Do It Yourself Shared Ownership (existing units (DIYSO) Leasehold schemes for the Elderly (LSE) Both introduced in the 1980 Act (at the same times as initiative the Right to Buy, Improvement for Sale, Homesteading; sale of land for affordable housing; and mortgage guarantees) Local authority/Housing Association owns a proportion of the dwelling and charges social rent on this portion; purchaser obtains a traditional mortgage secured against 100% of the value of the property; rights to staircase
1990s	Housing and Planning Act 1990 S106 Planning Gain – affordable housing as a material consideration supporting the provision of Shared Ownership. Increasing proportions of affordable housing provided through this process
1999	Homebuy (replacing DIYSO) Zero interest equity mortgage on 25% of the property repayable on sale or before based on valuation. Traditional mortgage on 75% against 100% of asset value Followed by Starter Home Initiative and Key Worker Living
2006	LCHO Restructuring

	Three schemes: (i) New Build Home Buy: exactly similar to SO except rents set in relation to capital values (ii) Open Market Home Buy: similar to Home Buy – Zero interest 25% loan 12.5% provided by central government 12.5% by a small number of financial institutions. FSA requirement that hybrid mortgage [(iii) Social Home Buy: partial purchase by social tenants subsuming Rent to Mortgage and Voluntary Purchase schemes]
Post 2006	Retrenchment Versions of Open Market Home Buy not competitive
2007	Reintroduction of government funded Open Market Home Buy but at 17.5% Specific government sponsored scheme with Yorkshire Building Society providing 5% additional challenge issues to financial institutions and developers
2008	*April* Open Market options replaced by 2 schemes: Ownhome: Co-op Bank/Places for People Equity loan up to 40%; no rent for 5 years My Choice Home Buy: Consortium of 8 HAs – CHASE Equity loans up to 50% through consortium (funded by recycled grant) @ 1.75% rising by RPI+1% *September* HomeBuy Direct: again a challenge based on Equity loan 30%, 15% developer, 15% government In addition the Mortgage Rescue package includes the potential to: Adjust from full, mortgaged, ownership to Shared Equity, Shared Ownership or Sale and Rent Back

Shared ownership

Shared ownership products were introduced by central government in 1980 and have been an element in subsidised housing provision ever since. They are now an increasingly important aspect of policy both because they directly target the growing problems of affordability for first time buyers and because they play an important part in expanding the more general provision of affordable housing through the planning system (through S106) (see section 5).

The major attributes of shared ownership have not changed significantly since 1980. The properties involved are always either new build or rehabilitated units. The proportion purchased, while originally expected to be 50%, can be as little as 25% and tends to vary with the economic cycle. Staircasing to 100% is always allowed (except for LSE where it limited to 80%). The mortgagee providing the traditional mortgage obtains first charge on the whole 100% of the value of the property – so the HA's rights are subordinated. Rents were originally set in the same way as for social rented property but are now based on capital values.

One of the major reasons for introducing shared ownership was to free up social rented housing. However there has usually been a large gap between social rents (with its associated security of

housing benefit) and the outgoings associated with SO. As a result the majority of households who purchase using shared ownership come from the private rented sector or have been living with family and friends.

Shared ownership is part of the affordable housing programme under Section 106 – so as Section 106 has become more important so the output of shared ownership products has increased. They involve considerably less government subsidy than social rented development, so have worked well in levering in private finance. They are therefore, at a proposed 25,000 per annum, an important element in achieving the government's overall housing targets of 2m additional units by 2016 and 3m by 2020.

Social landlords can make large profits on shared ownership especially if they receive significant developer contributions eg in the form of free land. Shared ownership dwellings are generally sold at valuation prices so the benefit to the purchaser is in the subsidy to the rent charged and to a lesser extent in any constraints that lower valuations. HAs receive the percentage of the price provided by the purchaser/mortgagee immediately and can recycle this, including any government grant, into new investment both in SO and social rented housing. As such SO has become an important part of the business plans and financial viability of some HAs – an important issue in the current economic environment.

Shared equity mortgage products

A variant of shared ownership known as 'do it yourself shared ownership' (DIYSO), enabled subsidised purchase of homes on the open market where part was transferred to a Housing Association and the rest purchased with a traditional mortgage by the purchaser. It was heavily subsidised especially by those local authorities that had sold their stock by Large Scale Voluntary Transfer.

In the late 1990s, the UK government turned to the development of mortgage instruments that could allow the purchaser to pay for their home through a mix of interest and shared equity payments. *Homebuy*, (which replaced DIYSO) involved a government provided shared equity mortgage – funded from public funds – where the eligible purchaser could choose their own dwelling on the market and obtain an interest free equity mortgage on 25% of the value of the dwelling (Jackson, 2001; Housing Corporation, 2003). Again the purchaser had a right to pay back that mortgage at any time, based on the then current valuation and so become a 100% owner. The product helped overcome purchasers' deposit and initial cash flow problems as well as enabling them to share the house price risk with the government. Eligibility has generally been restricted to existing social tenants and those on the waiting list, especially key workers and a small number of other priority households.

This product avoids many of the difficulties associated with a broader based market scheme because government provides the money and the first charge on the dwelling goes to the financial institution providing the traditional mortgage. The valuation of the property for sale or mortgage repayment is determined by the district valuer who is employed by the local authority tax department and tends to favour the purchaser, at least while house prices are rising.

More generally, both schemes were funded by public expenditure, so the private market incurs few additional default risks and these are offset by lower repayment risks. However, schemes are necessarily small scale and only available to a narrow range of potential purchasers who meet the governments' criteria. As such, while they effectively assist a small number of households into owner-occupation, they do little to improve the efficiency and offering of the housing finance market (Shared Equity Taskforce, 2006).

Developments in response to house price rises in the mid 2000s

In 2005 the Department of Communities and Local Government issued a consultative paper on expanding ownership options (DCLG, 2005). In 2006 the government introduced a new form of HomeBuy involving a 12.5% loan from government, and a further 12.5% loan from private lenders who also provide the traditional mortgage, called *Open Market HomeBuy.* Both loans were interest free for the first five years. The objective was to stretch the public funding available but also directly to involve the financial institutions in taking up equity products. The process proved extremely difficult, in part because the Financial Services Authority (FSA), which regulates financial institutions, required a complex form of 'hybrid' mortgage. Only five main lenders signed up as providers for the original product and the terms and conditions – eg in one case shared appreciation rather than shared equity – were not good value for money and there was very little take-up.

As a result government funded HomeBuy but with only a 17.5% equity loan was reintroduced. For some people this could then be supplemented by a 15% equity loan provided by Yorkshire Building Society. At the same time a challenge was issued to the industry to develop more structured and longer term products (DCLG, 2007a; Housing Corporation, 2007a).

The results of this challenge were announced in March 2008 and the winning schemes replaced all earlier Market HomeBuy products. Table 4 sets out the details. The most important elements of these two products are (i) it is now the social sector that provides the equity loan backed by recycled government subsidy and (ii) the proportions of equity loan funding involved are now much higher. This reinforced the view that neither developers nor financial institutions were prepared to take on significant equity risks.

Table 4: Current Open Market HomeBuy Products in England

Ownhome	provided by a partnership between Places for People (one of the largest HAs) and the Cooperative Bank. Equity loan up to 40% of value. First five years free; thereafter 1.75% rising to 3.75% by year eleven. Remainder funded by traditional mortgage from Cooperative Bank
My Choice HomeBuy	provided by a consortium of eight HAs. Equity loan of up to 50% of value. Interest rate 1.75%. Remainder funded by any FSA registered lender.

Source: Housing Corporation, 2008

It was not clear whether these could be as popular as the original HomeBuy product which assisted many households to achieve the homes they wanted, even though they are apparently more generous (Cho & Whitehead, 2006). Continual reinvention of the products makes them

less transparent to consumers. The credit crunch has also impacted on demand. However in principle these new products appeared to be better designed - in that they provide enough benefit actually to help potential purchasers and they share risk more effectively than earlier products. The main lesson from the experience of 2006/8 is that financial institutions are not prepared themselves to take on equity.

Over the year as market conditions have worsened additional elements have been introduced – notably greater capacity for HAs to buy in market housing and increased flexibility in funding.

The position changed again in September when, as part of the government package to help the housing market, two new elements were added:

- a mortgage rescue package which includes shared ownership, shared equity and sale and rent back for vulnerable households facing repossession; and
- Homebuy Direct which is a challenge fund to developers to provide shared equity products to a maximum of 30% provided equally by government and the developers on new build schemes which are either completed or near completion.

At the present time the market for shared ownership is suffering in part because of the lack of available mortgage credit but also because of falling valuations. Further, private developers are now offering shared ownership products which can be more flexible in the face of changing market conditions. However in principle at least these products should have a future in that they provide a way of sharing the current risks in a way which could enable additional households to achieve affordable housing.

Who has been helped?
Shared Ownership and HomeBuy have helped

- Social tenants to move often to cheaper areas to achieve the type and size of housing that they require, mainly through HomeBuy; and
- Single or couple households who have not been able to obtain secure accommodation on the open market to access small units which they are able to purchase in full over a few years (mainly through shared ownership).

Both products have been used as access subsidies to help those who are fairly close to being able to purchase to enter and sustain homeownership in stages. In London because of the high costs of owner occupation the majority of those who have benefited have had incomes between £25,000 and £45,000 per annum – well above affordability levels for the vast majority of social tenants (Cho & Whitehead 2006). More generally neither of these schemes can assist the majority of social tenants because of the worsening relationship between incomes and house prices.

5. The allocation of land for LCHO

Under the policy, introduced in S106 of the Town and Country Planning Act 1990, developers can be required to provide a proportion of affordable housing on all larger residential developments. Under the policy the local authority has a right to negotiate a proportion of affordable housing on larger sites which can be in the form of social rented housing or shared ownership. Shared ownership involves shallower subsidy than social rented housing and

therefore can provide more affordable housing units. Equally, shared ownership accommodates lower income employed households, notably key workers, rather than those in priority need, which makes it more comfortable for developers.

Currently, government data suggest that well over 50% of all affordable housing is provided through S106 and that this proportion could well rise to over 75% in the next few years. Shared ownership has increased from around 12% of S106 affordable housing in England as a whole in 2001-2002 to one third by 2005-06 (DCLG, 2007). The UK government is looking to expand provision significantly as part of their policy to increase overall housing output by more than a third by 2016 (ODPM, 2005; DCLG, 2007a).

Section 106

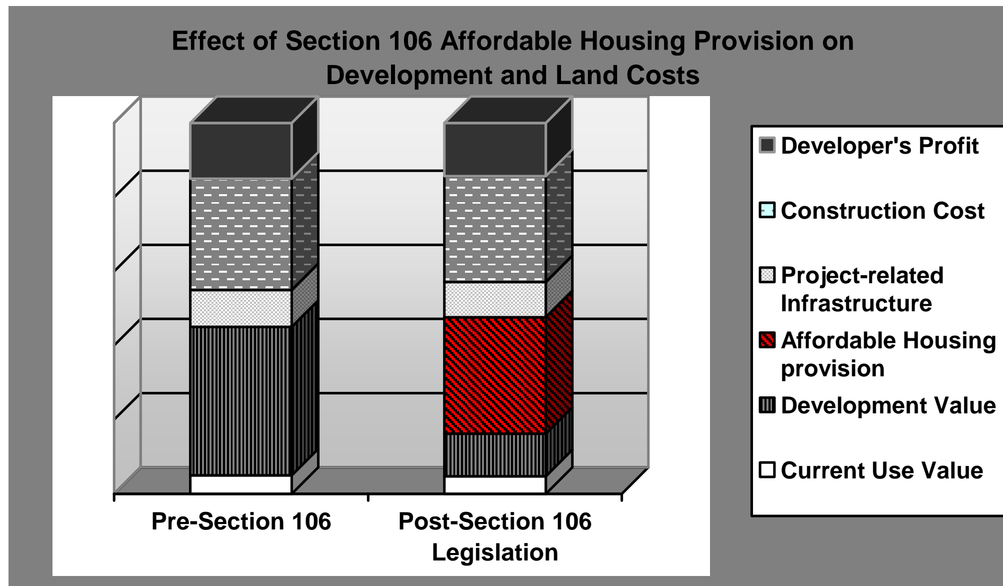
The basic rationale behind the Section 106 agreement is as follows: once planning permission has been granted on a parcel of land, the value of that land increases dramatically. This increase from the original value of the land to the post-planning permission value of the land is known as planning gain. Rural land can increase to as much as £2.5 million per hectare from an original value as low as £10,000 per hectare once residential planning permission has been granted. Section 106 attempts to harness that gain into benefits for the community in which the development will be taking place initially through a variety of provisions such as schools, roads and other infrastructure, but now virtually mandates affordable housing contributions in addition to the more traditional infrastructure. In London in particular, affordable housing commitments are expected to comprise up to 50% of all new build developments. Government policy defines affordable housing as subsidised rented housing or owner occupancy homes available below market cost, thus it the type of affordable housing implemented varies case by case and depends on both the developer's and local authorities' preferences and negotiations. Ideally the affordable housing element is included on the site of development, but in rare cases where this is accepted overly difficult or not possible, the developer will provide the housing on another site or make financial arrangements to fund off-site housing for the local authority.

How it works

Section 106 assumes the transfer of planning gain benefit from the land owner to the local authority via the developer. Because the developer anticipates a major Section 106 commitment, it will be less willing to pay the inflated value of the land to the land owner that results from planning gain permission, and will pay the increased value less the anticipated cost of Section 106 agreements. (Figure 1 provides a visual representation of the value transfer.) The graph demonstrates that while the total development value decreases rather drastically, the cost is passed on entirely to the landowner who still receives a higher price for the land (the land cost is the current use value combined with the development value), it is less inflated than if anticipated Section 106 values were not worked into the equation. Because the cost of Section 106 agreements are, in theory at least, expected to be borne by the landowner, they do not affect the ultimate price of housing or even influence the level of house building. If the developer was expected to carry the cost of Section 106 provisions directly, on the other hand, it would in fact serve as a deterrent to residential development. It is important to note that the policy may in fact have less obvious effects on residential development as it may in some cases cause land owners to delay sale of their land in anticipation of a policy change under different political leadership. Furthermore, in order to avoid planning gains mandated through residential developments, a

developer may opt instead to build a commercial site on the location and further add to the overall housing shortage.

Figure 1: How Section 106 works



Adapted from H Campbell, H Ellis, C Gladwell and J Henneberry's *"Planning Obligations, planning practice, and land use outcomes,"* February 2000

The appeal of Section 106 agreements for both local authorities and developers lies in part in its degree of flexibility for both parties. Aside from a handful of high demand urban locations such as London, most local authorities follow general guidelines in provision expectations but have few, if any, absolutes. While this creates a situation of uncertainty in the final outcome for both parties involved, it also allows for a case by case assessment on the particular needs of a site and takes a myriad of other factors into account as well. For example, in a number of cases local authorities have allowed developers to build to a higher density than they would otherwise have been granted with the inclusion of a higher proportion of affordable housing. Factors such as brownfield development, pepper-potting the affordable portion of the development rather than isolating it within the community, and contribution to education and other infrastructure have played a role in the negotiation process. The other side of this flexibility and overall negotiation practice elicits claims of unfairness as the local authorities are generally less knowledgeable and experienced than developers when it comes to aggressive negotiations over construction costs, land values and appropriate compensation to the communities. Part of the weaker position of the local authority stems from their lack of resources to provide adequate assessment on a case by case basis or ensure Section 106 agreements are actually delivered. Most local authorities do not have the funding for a dedicated Section 106 Officer.

As a result of local authority deficiencies in the process, studies have found wide discrepancies in the level of funding achieved from Section 106 on a per-dwelling basis, ranging from £500 to £30,000 per dwelling depending on the effectiveness of the authorities' policies. However, these numbers are not solely determined by the negotiation abilities of the local authorities but are also heavily influenced by the level of demand in the given area. Current housing market conditions

heavily impact the viability of Section 106. The current profitability of housing provision at market prices entices developers to meet the demands of local authorities. Without the high demand and thereby profitable market of the last few years, Section 106 would likely be far less effective.

The level of expectation on the part of the local authorities and developers varies widely as well, with developers arguing on average a 22% quota of affordable housing as a fair contributions and local authorities aiming for an average of 35%. In some cases, even when an agreement on proportion has been arrived at, local authorities have in a number of cases miscalculated the number of affordable units required.

The result of on-going analysis of Section 106 agreements has been contributions from independent consultants on appropriate levels of contributions, as well as a tighter framework within which negotiations are undertaken developed by local authorities. An example is one consultant that advises that 15% of the developers' profit margin is an acceptable amount to expect Section 106 agreements to be drawn from. Additionally, they site that an increase from a 30-40% proportion of affordable housing on a development site results in a 20–30% reduction in land value. Some local authorities have also created rather tight frameworks, and even across-the-board mandates for affordable housing requirements, or in other cases have made Section 106 agreements that include a nominal contribution towards funding a Section 106 officer. Bristol City Council, for example, now requires developers to contribute £250 per unit towards financing their Section 106 officer, while Islington has created 2.5 positions through requiring that 5% of Section 106 provisions be dedicated costs related to negotiations and monitoring agreements.

Why it works

Section 106's success in England over the last decade relates in many ways to planning traits unique to the country, particularly the separation of development rights and land ownership. The government owns development rights to land regardless of that land's ownership by private citizens, and recent legislation has allowed for the mandate of affordable housing provision as a prerequisite for planning permission. Furthermore, the term development in England is not limited to a definition of physical construction or physical change, but in fact refers to any change in use. For example, a shift from a day-care facility to a hardware store is considered development in England and therefore requires government consent, as every development pursued requires case-by-case permission from the planning authority. In 1998, Government Circular 6/98 determined that inadequate provision of affordable housing on the part of the developer was acceptable grounds for rejecting a developer's proposal. In sum, every development must obtain planning permission, and recent legislative changes have made it possible to accept or deny applications based on a commitment to affordable housing provision. In a country with different planning laws, such as zoning in the case of the U.S., implementing a policy such as Section 106 would prove difficult as no permission is required as long as the development adhered to the zoning mandates (residential, commercial, etc.) in that particular area.

While housing demand has remained high in the majority of the country, linking contributory obligations to planning proposals through policy such as Section 106 has worked because the

eventual profit margin has remained large enough for developers to continue building in spite of the additional requirements. In areas where demand is lower, such as in areas in the North, Section 106 has been less effective or not effective at all and may actually have served as a disincentive to developers. In these areas, attempts to gain affordable housing through Section 106 can actually reduce output and thus increase affordability concerns.

A final requirement necessary for policies such as Section 106 to succeed is commitment on both the local and national levels of government. England's history demonstrates that where local authorities attempted to hold developers accountable for certain provisions prior to Section 106, the state undermined their approach and declared the practice unfair. Only after the government embraced a low-tax initiative, along with the privatisation of utilities (which increased infrastructure costs for local authorities and the state) did the state recognise the need for supplemental infrastructure costs and national policy at last came in line with the mindset of the local authorities in terms of planning obligations. At this point, when both state and local governments supported the policy, planning obligations began achieving important gains for communities.

Section 106 and the Mixed Communities Agenda

Section 106 is essentially a planning constraint used for generating an increase in affordable housing, rather than maximizing housing production overall. The main benefit of the policy over traditional methods of affordable housing provision is that it allows, demands even, for the incorporation of affordable housing into market rate sites, thereby creating a mix of incomes and tenures within a single location rather than isolating affordable housing developments into less desirable locations without physical proximity to more mainstream provision. In London, Mayor Ken Livingstone highlighted an objective of 50% of all new developments in the capital to be affordable. He goes beyond this to specify mixed tenure developments within new-build sites in order to avoid the historic mono-tenure and mono-class communities. The new mayor Boris Johnson wants to operate a more bottom-up system giving local authorities more power.

Studies have found that while at first reluctant to introduce affordable housing into market developments at all, developers are now recognising personal gains from the practice and open to pepper-potting mixed tenures throughout the developments rather than creating "communities within communities" by isolating the various tenures. For example, the addition of below-market housing options in an otherwise exclusively upscale development site increases political acceptance of the project and therefore makes it easier to obtain planning permission. In some cases project developers have found that an increased number of smaller, less expensive units actually increase profit over a lower number of higher-end units. Finally, the negotiation aspect of Section 106 also often allows an increase in density in exchange for an increase in affordable housing provision so that a greater number of units is provided overall.

Mixed-tenure developments, or developments that incorporate affordable housing units on site rather than on another location, entail greater costs to the developer in terms of opportunity cost as the space given to affordable units reduces the number of market-rate units and thus creates a greater cost to the developer. In this context, off-site provision would most likely allow for a greater number of affordable units to be built, albeit in the same mono-tenure fashion as they were historically produced. This illustrates the conflict between maximising the amount of

housing to be built, particularly in the face of a housing crisis, and the goal of long term sustainability for those new homes through the mixed communities agenda. Interestingly, regardless of the implications of off-site affordable housing provision, land scarcity in high demand areas such as London makes off-site provision extremely difficult and therefore unlikely with or without government constraints.

Developers also face issues concern the long-term viability of affordable housing on their estate. For example, a purchaser of an affordable home available for ownership has the opportunity to resell the unit at market rates without constraints in place at the time of purchase. Therefore many Section 106 agreements include constraints restricting market sale of below-market homes for a set number of years. Other alternatives include restricted sales to local residents or key workers. While important for the long term-sustainability for the mixed-community agenda on a particular development, such restrictions can increase risk on both the owner and the mortgage provider and can impact a would-be buyer's ability to obtain a loan for the property. For example, in circumstances where the owner falls into arrears and faces possession, it is in his or her best interest to sell the property at the best price within the shortest possible timeframe. However, expediting the process in the face of restrictions on would-be buyers creates a scenario where the current owner may fall deeper into debt or the home is possessed by the lender who then also faces difficulty in reselling the property to the restricted list.

The current position
There is extreme concern at the present time about how S106 will play out as land and house prices fall – especially as the new Community Infrastructure Levy is expected to come into play in 2010. Obviously there will be considerable renegotiation especially on larger projects. However the main source of funding to assist developers at the present time comes from the new Housing and Communities Agency which has £8 billion to spend on infrastructure and the facilitation of development. Intermediate tenure housing is likely to form a large part of projects aimed at maintaining output levels.

Shared equity in perpetuity and Community Land Trusts
A rather different approach is one that reduces prices by sharing equity in perpetuity. The most usual are those that separate the ownership of land and housing.

Community Land Trusts (CLT) are one mechanism by which land can be held cooperatively; it is possible to specify who has access to the housing and affordability may be protected into perpetuity. Community land trusts have been common in USA, generally simply to conserve land, but sometimes to support other socially desirable purposes. The idea behind it is that the value that derives from land within a community should be protected to serve the long-term benefit of that community.

In the context of affordable housing, the idea is that by using a Community Land Trust one can separate the ownership of the land and the ownership of the dwelling and so reduce the price of the home. At the limit the purchaser simply buys the dwelling, while the Trust keeps ownership and control of the land on which the dwelling is built. More generally the Trust maintains rights over say 20% of the value of the property while at the same time specifying rights and responsibilities. The contract between landowner and dwelling owner/tenant sets out the

relationship (e.g. additional responsibilities in the context of the neighbourhood) and alienation rights – e.g. to whom the property can be sold. This is one way of, in principle, achieving affordable housing into perpetuity. Commentators have put it forward as a possible approach to new house building over the years (Barlow *et al* 2002).

Schemes like this have been successfully been run in the UK, but mainly in rural areas, notably national parks where planning is very restrictive and planning permission would not otherwise be granted. Setting up a Community Land Trust is much more difficult in an urban area because of the need to pool enough land together to achieve relevant economies of scale and because of the opportunity cost of the land that has to be purchased. More generally there are many practical difficulties associated with: the lack of second-hand markets for buildings separate from the land; the governance of Trusts; and the potential difficulties in maintaining the land in trust ownership in the longer term associated with the potential application of leasehold legislation which enables owners to purchase their freehold in certain circumstances.

In principle these type of scheme could mean that there was no capital value increase associated with ownership – indeed there could be decreases arising from the depreciation of the building. However, it is usual to devise schemes that split the benefits between landowners and homeowners in such a way as they share both risks and capital gains.

There has been increasing interest in the concept of Community Land Trusts over the last few years as a means of capturing some of the benefits of large scale new mixed development (including not only housing but also commercial and industrial uses) as well as ensuring affordability. Both the GLA and English Partnerships have been examining potential models and the Housing and Regeneration Act, 2008 includes a clearer framework. The Deputy Prime Minister's £60,000 Home Initiative also had the potential for linkage to a CLT approach but it now appears that these are simply being sold on the private market.

6. Transfer policies

Table 5 sets out the range of policies that have been aimed at transferring social tenants to owner-occupation. There have been other limited instruments but these cover the general approaches.

Incentive schemes

The importance of the Right to Buy dominates all other schemes. The latest version, Social Homebuy, announced in 2004 and introduced in 2006, allows tenants to purchase part of their home (as low as 20%) and staircase up if and when circumstances permit. It thus follows the principles of Right to Buy but also includes aspects of the shared equity model.

Table 5: Transferring social sector dwellings and tenants to owner-occupation

Pre 1980	Right to sell to local authority tenants
1980	Housing Act 1980:Right-to-Buy with discounts depending on length of time in the sector plus right to a local authority mortgage

1990s	Range of Tenants Incentive Schemes, cash payments aimed at those under-occupying, developed
1999	Rent to mortgage – purchase equity as addition rents
	Voluntary Purchase Schemes and Right to Acquire – enabling HAs to choose to put in the equivalent of Right-to-Buy
2006	Social HomeBuy, replacing Rent to Mortgage and Voluntary Purchase Schemes

Right to Buy and Right to Acquire

The traditional approach to assisting social tenants into owner-occupation has been the Right to Buy (RTB) in the local authority sector and the Right to Acquire (RTA) in the housing association sector. The Right to Buy provided subsidy to tenants in the form of a discount on the purchase price of the dwelling dependant upon the length of time as a local authority tenant, with a cap on the total discount. The scheme has allowed over 1.5 million tenant households to purchase their homes (ODPM 2005). However the discount has been reduced over the years to £16,000 in many pressure areas, representing a small and decreasing subsidy (often 10% or less, especially in central London) to the point where sales have fallen to historically low levels (so low in fact that the Treasury has been concerned about the fall in revenue as compared to predictions). The Right to Acquire is similarly limited to £16,000 and anyway runs with specific properties – those built post April 1997 or acquired from local authorities – because of the charitable status of many housing associations.

Cash incentive schemes

Local authorities and Housing Associations have the right to offer cash incentives from their own resources to free up properties where they feel it is appropriate. Cash incentive schemes consist of a one-off grant to enable tenants to purchase a home on the open market. Sums offered to tenants vary between local authorities and HAs.

Rent to Mortgage

A rather different scheme that has now been wound up was the Rent to Mortgage scheme, which enabled council tenants, and some housing association tenants, to purchase their homes in stages. The scheme was not as generous as the Right to Buy and more problematic with respect to private funding. As a result it had very low take-up and was withdrawn by the Housing Act 2004 and replaced with Social HomeBuy. The current version which has only been in place for a few months is Rent to HomeBuy but the numbers involved so far are tiny.

Social HomeBuy

Social HomeBuy is a rather different approach trying to help those further down the income scale. Social HomeBuy is a scheme for social tenants, enabling them to buy their home or a share in their home at a discount. The minimum initial share is 25% and the remainder of the equity is kept by the landlord who can charge up to 3% of the capital value of the retained equity. The discount on the initial share is a proportion of the Right to Buy discount. The tenant can then purchase further shares in the home and staircase up to a 100% ownership of the home. However, this additional staircasing will not benefit from any additional discount. Equally the

tenant may sell back to the landlord if they wish to move or if circumstances change. To qualify for the scheme, tenants must be secure or assured tenants, or must have been a public sector tenant for a minimum of 2 years (or 5 years for tenancies starting after July 2005). Only self-contained properties for rent are eligible. (Housing Corporation, 2007, 2007a, ODPM 2005, DCLG 2005)

Positive aspects of the Social HomeBuy model include that it gives the participant a greater stake in their own neighbourhood as well as their home which could have wider benefits to the community and management. However, as housing assets may lose value it will have a risk factor that not everyone can afford to gamble. In particular, values are dependent on the specific unit and neighbourhood – which can generate inequalities as well as risks. Another problem with this model is that it locks up assets and implicit savings are not easily available on rainy days. Further, affordability complications can arise as a result of the liabilities to the homeowner. The purchaser might not be prepared for the long term consequences of maintenance liabilities associated with Social HomeBuy. Equally, as with any property purchase with a mortgage, there are issues of ongoing requirements of building insurance and in leasehold / commonhold purchases sinking fund or communal facilities liabilities, which the purchaser has to meet both in the short and long term. In addition, the purchaser loses their rights to Housing Benefit whilst having to secure the mortgage payments through other means such as Mortgage Payment Protection Insurance and pay an interest charge on the rental benefit.

There has been an evaluation of Social HomeBuy by CURS at the University of Birmingham. It is not yet generally available but the evidence suggests that the scheme does not provide enough benefit to tenants to take up the option. The only success has been in enabling a small number of tenants to purchase 100% of their properties from HAs that had not offered the Right to Acquire but were involved in Social HomeBuy.

7. Other Measures

Grants to first time buyers

The UK government has introduced very few initiatives involving grant; mainly because they are seen as raising prices rather than helping individuals. Thus when schemes are introduced they tend to be only for new build properties.

The first round Starter Home Initiative for key workers included a £10,000 grant. Some grants were much higher for specific key workers. However they were soon phased out and replaced by more general shared ownership schemes.

The First Time Buyer Initiative is the current scheme which pays a direct payment not to the first time buyer but to the developer on specified developments in which English Partnerships is involved. In return the government takes a stake in the property. From the point of view of the purchaser it operates like a shared equity scheme where no payment is required on the proportion owned by government for the first three years. The scheme is restricted mainly to key workers with incomes under £60,000.

The £60,000 home
The £60,000 home competition announced by the Deputy Prime Minister is an initiative which related specifically to the cost of building rather than the cost of land. It has not yet been made clear whether implementation of such an approach will be based on varying the initial ownership share (making it particularly low in London); introducing some form of Community Land Trust; or providing additional subsidy in such a way as to make the resultant homes affordable.

Insurance and guarantees
Traditionally local authorities have guaranteed certain mortgages for affordable homes. However this power has fallen into disuse in the face of a liberalised finance market and public expenditure constraints. There is currently some interest in examining the potential for reintroducing this approach in the light of current constraints.

In the early 1990s the government helped to develop the market in Mortgage Payment Protection Insurance (MPPI) by persuading the financial institutions to provide insurance on all new mortgages. The government provided no guarantee or subsidy. In practice take up has been limited often to those who are insurance inclined rather than those facing the highest risks. The product has been relatively expensive and has not yet been put to the test (Stephens et al, 2005). The next few months will provide evidence on its capacity to address issues of unemployment as well as sickness and accident.

MPPI only pays for one to two years. After a period (currently 9 months) households who lose their incomes are eligible for Income Support for Mortgage Interest (ISMI). However the benefits available are now very limited (Housing Benefit is only available to tenants) and are part of the more general social security system. The government has announced some improvement on the scheme to come into force next April and there is pressure to improve the safety net.

The general evidence on arrears and possession is that shared owners have not been particularly risky on average. However there are concerns among lenders that marginal buyers are particularly vulnerable. They are also concerned that downward staircasing and other approaches to financial difficulties are complex and expensive to operate.

8. The Potential

International experience of shared equity schemes
Across much of Europe there are growing problems of access to owner occupation for younger employed households as prices rise out of line with income growth. Equally there are pressures to reduce public expenditure on income related housing subsidies and social rented housing - and to restructure social housing in line with twenty first century aspirations and increasing concerns about social exclusion concentrated among social tenants.

Shared equity products exist in a number of countries, particularly those with ‘Anglo-Saxon’ legal frameworks. Pinnegar et al (2008) provide an overview of some of these schemes. Davis (2006) and Jacobus and Lubell (2007) give an indication of the current status of shared equity products in the US which, in their terminology, are all subsidised. Equally the concept of shared

equity or shared ownership as a means of managing portfolio risk has been developed in the US literature, notably by Caplin and his colleagues (Caplin et al, 1997; Caplin et al, 2003, Caplin et al, 2007). In other countries, such as France and Germany, there are legal constraints on the development of shared equity products although alternatives exist. In countries as widely separate as Sweden, South Korea and China there is growing government interest in developing appropriate instruments often based on the use of the planning system to provide affordable housing (Whitehead and Scanlon, 2007).

There are examples of similar types of schemes in 'Anglo-Saxon' countries with deregulated finance systems and comparable planning systems. Financial instruments have been developed notably in Australia where shared ownership schemes have been in operation since the early 1980s but with relatively little success and where they are looking to develop a private market in shared equity mortgages as well as in deferred interest funding approaches (Whitehead and Yates, forthcoming). Australia is also looking to use the planning system to provide land and funding for affordable housing – but this is made more difficult by the form of planning which gives developers rights to develop as compared to the UK system (Berry et al, 2004, 2005). The government has now introduced grants to first time purchasers which are not directed specifically at an intermediate market.

In the United States the majority of schemes are very local and most are targeted at workforce housing – looking to accommodate particular groups on above average incomes in high priced areas. More generally many jurisdictions have in place land use planning requirements for affordable housing – not usually provided on site and often implemented with the federally based tax credit system for the development of low cost housing (Holmans et al, 2003). The HOPE 6 programme has also been used to support a wide range of partial purchase solutions at local level.

A number of countries in Europe have greater relevant and widespread experience in the context of co-operative housing, including ownership co-operatives which support the provision of services. Germany in particular is experiencing a revival of this type of approach. Forms of Community Land Trusts are also relatively common (Barlow et al, 2002). The Danish government has introduced a form of the £60,000 home mainly using a deferred interest approach. Planning requirements to provide affordable housing at the local level are also fairly common. However the main mechanisms for assisting access remain financial – providing subsidies to interest rates or sometimes grants to first time purchasers.

9. Summary and Conclusions:

(i) Factors relevant to decisions on which schemes are appropriate

Whether or not a particular scheme will be appropriate depends on the economic, legal and administrative environment in which it will be operating; on the nature of the public expenditure constraints; and the attitudes of potential participants in the scheme

Environment

The most important question is who is being targeted. In England with 70% of owner-occupation those who are being targeted are low-income employed households often with a single earner. Latterly it has been used to assist first time buyers who before the last rapid rises in prices would have been able to purchase. It is currently starting to be seen more as a way of managing risk and introducing additional flexibility in the face of changing circumstances.

The approach can at the moment only help those fairly close to being able to purchase, including those who are relatively risk avers. Social HomeBuy is aimed much further down the income scale but is not as yet working effectively.

Households that are not being effectively targeted include 'sons and daughters' – the children in (often Right to Buy) households with little wealth and wanting to live in the more expensive areas where their parents live; low income households with large affordability gap between social renting and LCHO/cost rents; and the very poor who have no capacity to build assets. This is raising major concerns about inter-generational equity.

A major issue in terms of sustainability is the longer term income expectations of those taking up partial ownership schemes – in particular will they be able to buy 100% by retirement age or will they suffer greater volatility of income than other purchasers.

The feasibility of new housing provision depends on local housing markets. New housing is more expensive in cost terms than buying on the existing market. In many areas, even with subsidy, people may be able to do better by moving to a cheaper area nearby and buying on a traditional mortgage.

General taxation and subsidy policies, eg with respect to social security and housing benefit, impact on the viability/value of schemes in ways that are not always immediately obvious.
The type of housing being provided or transferred is also extremely important – notably houses are better suited to owner-occupation than flats. Also the questions of the level of repairs and maintenance required and the extent of housing related expenditures such as heating are important to long-run viability.

What alternatives are there is also extremely important. For instance, flexible mortgages can do much of the job of partial ownership in an environment where there are monetary capital gains or increasing incomes over time.

Public Expenditure

Many of the schemes aim to provide one-off subsidies to access and thus reduce longer-run government commitment. However the process involves a loss of a unit from social housing there is a problem for the next generation. Enabling one generation to purchase may imply continuing to provide assistance for the next.

A second issue is how well schemes can be targeted. Over-targeting can lead to waste – as with the Key Worker Living Scheme problem of dead weight losses associated with helping those who could have helped themselves.

The current emphasis on recycling public assets and 'taxing' land values are clearly ways of substituting new sources of funding for traditional subsidy. How effectively these approaches meet government public expenditure objectives depends on the rules by which public expenditure is determined – both nationally and within the European context.

Any scheme should be assessed against other possible approaches to achieving similar goals. Politically, extending owner-occupation may have looked like the only game in town but there may be other more sustainable approaches, including for instance cost rent approaches.

Consumer Attitudes
The evidence in England is that people find many of the schemes difficult to understand and do not like the partial ownership aspects of schemes. They will take these options if there is little other choice in their area but they will be looking to staircase up as soon as possible. It is not clear whether this will change the economic environment.

There is concern about the possibility of mis-selling because the schemes are complex; there is little evidence about longer tem consequences; and most importantly not everyone understands that they lose housing benefit and take on 100% repairs and maintenance responsibilities when they buy.

There is some evidence that older people may be interested in shared ownership arrangements especially in the context of moving into sheltered housing and freeing up some equity from their existing home. This and other niche markets may well be developed further in more constrained circumstances.

(ii) Conclusions

- In most countries that have not provided access for all types of households into social housing there is an 'affordability gap' between social rents and market rants and prices. It is this gap that affordable housing policies aim to fill.
- Many countries also see a strong case for owner-occupation because it can provide long-term stability for the purchased and lower costs to the public purse as well as meeting aspirations. The emphasis has therefore been on low-cost home ownership schemes (LCHO).
- The majority of these schemes have aimed to help households access homeownership – with an expectation that the purchaser will be able to pay more in the future. But there is an equally important role for government sponsored schemes in terms of risk sharing in the face of market and income volatility.
- In the UK the two main models of LCHO have been
    - Shared ownership where the purchaser buys a new build or renovated home and rents part of that unit from a social landlord at a below market rent with the right to staircase to 100%. This is a true shared ownership model where the ownership is split between two owners;
    - Shared equity mortgages where the purchaser obtains two mortgages – one traditional and one where the payment is in the form of the capital gains (or

losses). The equity mortgage is generally provided by government who therefore bears the risks associated with variation in prices.

- Shared ownership has worked well in tandem with S106 planning gain requirements and has enabled considerable expansion in the output of affordable housing.
- All the schemes involve government support. All are complex and purchaser can have difficulty in understanding their rights and responsibilities.
- The model has worked well in an expanding market. They could work well in a downturn – but the cost to government will be higher.

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