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An Introduction to Shared Ownership

As part of our Ask Askival series of information sheets we have produced this document which explains how shared ownership works and how this can be integrated into the development programme of smaller registered providers.

Shared ownership forms an important part of many development projects, being used as a means of cross-subsidising affordable rented accommodation as well as providing an intermediate form of affordable housing in its own right.

This paper is written for new board members and for organisations with limited experience of shared ownership or who are at an early stage in providing this tenure. It describes how shared ownership works as a tenure and sets out the key risks and rewards that it offers from the point of view of both the purchaser and the provider.

For most developing housing associations and other registered providers (RPs), shared ownership forms an increasingly important part of the tenure mix in an era of reduced capital funding for affordable housing development.



For developers and landlords this is partly driven by financial concerns, as shared ownership housing is often used to cross-subsidise the affordable rented element of a scheme, and partly by a desire to extend the provision of affordable housing beyond the statutorily homeless and to encourage the development of more economically and socially balanced estates.

For residents, shared ownership forms one of a number of routes out of housing need and is available to people who do not qualify for subsidised rented housing on the one hand, while finding themselves priced out of the solutions offered by the private sector on the other. The tenure was introduced to the UK in the 1970s, but started to really take off in the 1990s and early 2000s. It now forms an established part of the housing market, with mortgage finance available from most of the mainstream providers.

How Shared Ownership Works

Shared ownership allows people to purchase a portion of a property's equity, paying rent to the housing provider on the equity they do not own.

This rent is commonly fixed at 2.75%. Disregarding deposits for the time being, if someone wanted to purchase 25% of a property valued at £300,000, they would need a mortgage for £75,000 (25% x £300,000) and would also pay rent of £6,188 per annum (2.75% x £225,000) on the proportion they are not buying.



The structure of the arrangement is that a lease is granted to the resident by the RP which sets out the terms under which they occupy the property and the rights and responsibilities of each party. People can choose how much equity to buy to begin with, typically within a range of 25% to 75%. They have the right to acquire additional equity later. The purchase of additional equity is known as staircasing.

Sometimes, due to restrictions in a S106 Agreement or for some other reason, people are prevented from staircasing out to 100% ownership but this is unusual and shared ownership is generally seen as a means of supporting and encouraging home ownership. The intention is that people ought to staircase their equity share and become outright owners in due course.

As leaseholders purchase additional equity, which is valued at the time of the purchase rather than at historic rates, the rent they pay is reduced proportionately.

Shared owners have the right to sell their interest in the property at any time. However, under a typical shared ownership lease the landlord is able to nominate a purchaser and the purchase price is determined by an independent surveyor appointed by the landlord.

The reason for this is to recycle the property back into affordable housing, so that a new shared owner can access the property for its intended use.

Sometimes this recycling is supported by the RP having the right of first refusal when and if the property is sold. The RP is not obliged to reacquire the property, however, and is not exposed to the financial risk of being required to fund shared ownership repurchases when it might not be convenient or prudent to do so.

If the RP does not wish to reacquire the property or cannot nominate a purchaser within the period stipulated in the lease, the leaseholder is free to sell on the open market, subject to achieving a sales price sufficient to pay the RP for any equity still remaining with it.

Subject to the above, set out here is a high-level comparison of the typical options available to people who do not qualify for affordable rented accommodation.

This highlights that shared ownership is not a 'one size fits all' solution but can be an effective means of securing good quality accommodation for the medium and long term as set out in the following table:

Tenure Comparison Table	S/O Offer (25%)	Outright Purchase	Private Renting
Market Value	£300,000	£300,000	N/A
Deposit	£7,500 <i>10% of 25% of £300,000</i>	£30,000 <i>on a 90% LTV¹</i>	£875 <i>a month's rent in advance</i>
Rent	£6,188 <i>2.75% of £300,000</i>	£0 <i>N/A</i>	£10,500 <i>3.5% of £300,000</i>
Ground Rent	£200	£200	£0
Mortgage	£2,025 <i>interest only at 3% of £67,500</i>	£8,100 <i>interest only at 3% of £270,000</i>	£0 <i>N/A</i>
Service Charge	£1,300	£1,300	£0
Total annual costs (after deposits paid)	£9,713	£9,600	£10,500

¹ Loan to Value

In the above comparison, the cheapest option is outright purchase. However, this requires possession of £30,000 for a deposit in the first place, and access to an income stream sufficient to service a mortgage of £270,000 in the second. For more expensive properties these hurdles will be increasingly difficult to clear.



Not everyone will be able to satisfy these requirements but, for this intermediate group with access to necessary resources, shared ownership provides a sensible solution.

It is worth mentioning also that this comparison would be affected by changes in mortgage rates. Should interest rates increase by 1%, for example, the mortgage payment on outright purchase would increase to £10,800, while shared ownership would increase to only £2,700. This would change the total annual cost to £10,388 for shared ownership and £12,300 for outright purchase.

Risks and Caveats

For developers and landlords, the financial appraisal of a shared ownership development opportunity differs in a number of ways from that of a rented property.

These are set out as follows:

Costs	Income
Enhanced specification for kitchens & bathrooms	Grant funding
Sales and marketing	Initial sale of equity
Legal fees on sale of lease	Rental stream on retained equity
Valuation costs for sale of equity	Sales receipts from staircasing
	Reduced rents after staircasing

The receipt of grant funding and the modelling of an ongoing cash flow from a rental stream is common to both rented and shared ownership tenures, but are included in the table above for the sake of completeness.

As an affordable housing tenure, shared ownership is subject to a number of qualification requirements.

These include:

- a household income cap of £90,000 per annum in London, or £64,000 elsewhere, the thinking being that if a household is earning more than this they should be capable of resolving their housing needs without the assistance of public funds;
- that a prospective leaseholder should not already own a property, on the grounds that if they own another property they should live in it themselves rather than looking to public funds for assistance with their housing.

Shared ownership is a market-facing product and carries with it an element of risk which is not borne by rented housing. Generally, the scarcity of affordable rented housing is such that the risk of being unable to let a property, assuming there is nothing seriously wrong with it, is small. The same does not necessarily apply to shared ownership. Firstly, because purchasers have more options than people eligible for affordable rented housing, and secondly because the sales value of the property is subject to variation in the wider property market.

Therefore, in the event of a decline in values, a scheme which looked like a sound investment when a site was bought may return a loss by the time the completed units are ready for sale.

Curiously, increasing property values can also generate a significant risk. At the upper levels of shared ownership property values it is possible to find oneself in a position where the purchase of a 25% equity share and the payment of rent at 2.75% of the unsold equity are not affordable to households with an income level below £90,000 in London or £64,000 elsewhere.



Since one cannot sell grant-funded shared ownership property to households with an income in excess of these thresholds, while at the same time being obliged to sell equity at market value and at a minimum amount of 25%, this can mean one has a very small, or even non-existent, group to whom one can market the property.

In practice, as one approaches the affordability

ceiling, one reduces the rent charged on the unsold equity, firstly to 2.5%, then 2.25% and so forth, until one has a sufficiently wide pool of people to form a viable market for the shared ownership portion of the development.

These issues need to be factored into the appraisal at an early stage, and reasonable estimates made to accommodate the risks associated both with falling and rising sales values, supported by a valuation exercise to inform the pricing of the proposed new housing.

For the leaseholder, shared ownership can offer a point of entry to home ownership and a route out of insecure tenancies in the private rented sector. However, it is not a panacea and comes with significant strings attached.

First and foremost is that the leaseholder is responsible for the maintenance of the entire property, not just in proportion to the amount of equity they hold. In the event of repairs or planned maintenance they are liable for the full cost of the work associated with their home.

Another issue of which to be aware is that of buying a low percentage of equity, and not staircasing over time. This can be a particular issue with smaller properties, where a couple may stretch themselves to buy into a one-bedroom flat only to find that, when a baby comes along, their low equity share has not appreciated sufficiently to allow them to afford a larger home, even on a shared-ownership basis.

For the landlord, staircasing may incur the repayment of grant to a funder. This is generally managed through the Recycled Capital Grant Fund (RCGF), into which is paid funds due for reimbursement to the Greater London Authority (GLA) or Homes England. This fund is held internally by a registered provider, and they have three years in which to spend the fund on additional affordable housing (in order to recycle the grant funds previously received). Once the three years period has elapsed, however, the unspent money must be repaid to the funder, with interest, and is lost to the landlord.

Subletting is prohibited under shared ownership leases, until a leaseholder owns 100% of the equity, and there is a smaller marketplace for shared ownership sales than exists in the private

sector. This means that relocation can take longer and be more complicated should one's circumstances change.

It is important, therefore, to ensure that prospective leaseholders are fully informed about the obligations and responsibilities of shared ownership as well as its benefits.



It is also important, from the viewpoint of both business management and the wish to avoid building tomorrow's problems into today's housing solutions, that landlords and developers appreciate the balance of interests involved in mixed-tenure and shared ownership projects, particularly with reference to the regulatory restrictions and marketing issues involved.

Ask Askival

If you would like to discuss these issues further or to look into shared ownership as a development option for your organisation please contact:

E: Mike.Nestor@askival.org

T: 07984 611410