PlaceShapers
Building Homes and Lives

New model for Shared ownership: technical consultation response: PlaceShapers

About PlaceShapers

PlaceShapers is the national network of community-based social landlords. Currently comprising over 100 members of varying types and sizes, between us we own or manage nearly 900,000 homes, with over 70,000 more in the pipeline to 2022.

Overview

PlaceShapers members see that there is increasing support for and interest in shared ownership as many people's only realistic route to home ownership. Therefore, we welcome any proposals that would make the tenure more accessible and work better. We understand the rationale behind the proposed changes in this consultation on a lower minimum stake and on gradual staircasing.

Logistically, we can make these changes work. However, we are very concerned that smaller stakes will push people to try and purchase a shared ownership property when really it is unaffordable for them. We could easily see people taking on unmanageable levels of debt and being exploited by loan sharks. While trying to meet some people's ambitions of home ownership we must also provide for people who want to live in social housing, and for whom social or affordable rent is the most affordable and accessible tenure.

We understand that finding funding for repairs is a big challenge for many new shared owners so support proposals to share these more between landlord and resident. However, we are concerned repairs and maintenance liabilities will cause serious disputes unless real clarity is offered over liabilities and responsibilities and these are fully explained to tenants before they purchase.

Finally, we are concerned that proposals contained in this consultation could have detrimental impacts on our future ability to build new homes. If we assume that people buy a 10% initial stake with £500 maintenance allowance, modelling for Origin housing shows grant levels of £10k to £20k extra per unit will be required in London in order to maintain the small level of surplus we currently expect to generate from SO which cross subsidises the building of social rent. Without this cross subsidy or higher grant levels for social rent, supply will reduce.

In addition, in a property could theoretically change from Affordable Rent to Shared Ownership at any point in time it's likely that our security valuations will be downgraded. As we fund our development programmes with debt that is secured on our existing stock any downgrade in the security valuation could have a very detrimental effect on our ability to build the new homes we desperately need.

Reducing the initial minimum share to 10%

Questions 1 and 2
Our members are not concerned about the practicalities of implementing this change and recognise that reducing the initial stake may make shared ownership accessible to more households. Our members currently typically sell at a minimum share of 25% to 35%.

Our concern is that anyone who can only afford a 10% share is likely to face additional stress testing and higher borrowing rates by mortgage providers, who will see the product as deeply sub-prime.
In Stoke on Trent, a 2-bed house valued at £150k would equate to a 10% first tranche purchase of £15k. This could be secured with a £750 deposit (5%), with a risk of the balance of £14k being borrowed through unsecured lending via dubious providers leaving both the purchaser and HA open to a potential default

If the Government is going to make 10% stakes work, it needs to work with mainstream lenders to agree conditions that they would lend to people buying at this level, for example an approved panel of lenders/brokers, or a policy on maximum agreed interest rate (e.g. 4% above base rate). Those wishing to staircase should continue to be required to provide proof of funds to avoid reliance on unsecured lending. In short more regulation will be needed to ensure that the interest rates used by lenders are reasonable.

In addition, one implication of selling at a lower equity will have a detrimental impact on revenue in the early years and affect interest cover covenants. This will also reduce the amount of cross subsidy available to cover deficits on rented homes, potentially reducing overall numbers that can be developed. This can be covered to a degree by increased grant to make up the difference, but this will also limit the overall number of homes that can be produced for the fixed level of funding available.

Introducing gradual staircasing

Question 6
We are concerned that 1 % gradual staircasing will conflict with housing associations charitable obligation to sell assets at best value. The main issue is that current values are calculated by updating the historic purchase price with an index rather than a valuer providing a red book valuation. In addition, the HPI is often out of date and covers quite wide areas not reflecting local changes accurately. Therefore, properties may have to be sold at below an open market value, causing problems with charitable obligations to sell assets at best value.

To rectify this, more needs to be done to reduce the backlog and delays in registering sales. HPI data is slow to come through and as such 3 month's validity would result in a false presentation of the market value. The HPI data should also be more user friendly if RPs are going to absorb the administration cost. Something like https://www.nationwide.co.uk/about/house-price-index/house-price-calculator would be helpful.

In addition, the Government should consult with the Charity Commission on this issue and provide clear guidance on how to mitigate this possible risk.

Question 8
As with reducing the initial purchase stake to 10%, in principle we would be pleased for shared owners to staircase more quickly and at smaller increments. However, we believe that with the reduced valuation costs the associated transaction costs are likely to be very challenging for some to meet – in Oxfordshire a 1% share in a three bed house is likely to be around £3K, the legal fees associated with the transaction are likely to be in the order of £500-700. It may be beneficial to encourage buyers purchasing smaller amounts initially to then buy larger amounts if they can afford it.

The key challenge for Housing Associations on gradual staircasing will be the administrative burden. This information won't be being submitted to the land registry or solicitors each time. Clear guidance from Government on how best to account for and monitor this would be very useful.

<u>Updates to repairs and maintenance</u>

Questions 9 - 16
We agree that maintenance liabilities should be capped at £500 and be able to be rolled over for one year. We also strongly support that items usually built into service charges - compliance servicing, such as fire doors and lifts - and sinking fund items, such as for communal areas, are excluded. This is really important in particular for many blocks of flats which will be within the scope of Building a Safer Future management requirements.

However, we are concerned that the proposals on maintenance liabilities have a high potential for disputes which would severely damage the landlord/ resident relationship.

For example, under the proposed new model shared owners are responsible for gas servicing, but the landlord is responsible for major repairs to the boiler. Landlords are responsible for the cyclical replacement of boilers, but not kitchens/bathrooms. In order to carry out these repairs and replacements, landlords will require key information on ongoing servicing and work carried out for the shared owner, which they may not have.

Clear guidance should be issued outlining specific detail of who has responsibility for each element of repairs and maintenance. Guidance should also cover a process like an inventory at the start of the tenancy, to guide detailed conversations about the list of responsibilities between landlords and residents. This should include some agreement on keeping details of contractors who provide repair services for the resident's repair liabilities.

Housing association developers and landlords will have to build in extra costs and risk into their financial models to provide for the financial liability for maintenance bills of exterior works and structure and to cover annual repairs and administrative costs. This is likely to make shared ownership less attractive to housing association developers compared with other tenure and could lead to a reduction in the number of homes built, unless more grant per unit is made available for the new model.

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Right to shared ownership

Question 19

There are some further delivery issues with the right to shared ownership we are concerned about. The consultation does not ask any questions on the changes proposed to shorten the pre-emption clause and nominations period from eight to four weeks. This causes concern as it currently takes two to three weeks for all valuations, photos, listings etc. to come together before the property is marketed. We would therefore rather see this remain at eight weeks or at a minimum six

There is also a potentially significant issue on funding new development. Currently, Housing Associations get a higher security valuation for Affordable Rent (AR) than for Shared Ownership (SO). If a property could theoretically change from AR to SO at any point in time it's likely that our security valuations will be downgraded. As we fund our development programme with debt that is secured on our existing stock any downgrade in the security valuation could have a very detrimental effect on our ability to build. Therefore, if there is any meaningful take up of the right to shared ownership we're likely to get a lower security valuation for all new AR properties.

The issue of how corporate funders to housing associations perceive the changes is not offered for discussion in the Consultation. There is a current restriction common in most loan agreements across the sector limiting the maximum value of asset secured against loans to be no more than 20-30% shared ownership tenures. If the proposed AHP requires 50% to be SO plus rented tenures having the Right to SO, this may create funding challenges due to the increase in the numbers of shared ownership properties within overall asset security pools.