

**First Steps on the Ladder?**  
**An appraisal of shared ownership in**  
**London**  
June 2015



# Housing Committee Members (for 2014/15)

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## Chair's foreword



The decline of home ownership in London is one of the more notable aspects of our current housing crisis. While four fifths of Londoners want to own their own home, the number able to do so has been falling for over a decade. Fewer than half of households in London now own their home.

This has been rightly blamed on the enormous rise in house prices over the last 20 years. As house price inflation vastly outstripped pay increases, the idea of the average Londoner owning their own property changed from a virtual right to a privilege. As well as being more expensive, the routes into home ownership also began to complicate, as governments and financial companies attempted to find ways to subsidise home ownership which would in turn promote balanced and healthy communities.

The Mayor has promoted shared ownership as one way of helping people to buy their home. While subsidising the market in this way would never address house prices, every home provided under this model helped a household that would otherwise rent.

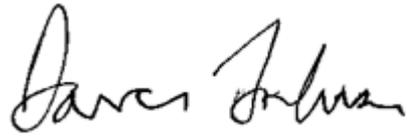
With market prices for full ownership out of the reach of most Londoners, the aim of the shared ownership model is to help them onto the property ladder and provide them with some of the security and control over their home that is rare when renting privately. It is hoped that the owners would be able to gradually buy a larger share, “staircasing” until they own the property outright. But during the course of our investigation we have only heard of very limited evidence of this happening.

We have found that the model is still catering to a lot of households on fairly modest incomes. But the average income of buyers has been rising and in many parts of London is far above the local median household income. And in much of inner London it is becoming difficult to provide shared ownership homes at all, due to the cap on the household incomes of buyers.

If shared ownership is to provide an affordable form of ownership for Londoners for years to come, the Mayor needs to work with government to address these concerns.

In the course of our investigation, we also looked at some alternative models for affordable home ownership, including Community Land Trusts. We think

the Mayor should do more to support these alternatives, which could make an important contribution.

A handwritten signature in black ink, appearing to read "Darren Johnson". The signature is fluid and cursive, with the first name "Darren" being more prominent than the last name "Johnson".

**Darren Johnson AM**  
**Chair of the Housing Committee (for 2014/15)**

## Executive summary

Shared ownership has fulfilled an important role in London's housing market since it was launched in 1979. Home ownership remains a majority aspiration across all generations, but is becoming an increasingly difficult goal for Londoners, especially for younger people. At the other end of the spectrum, there has been an even longer-term fall in the proportion of social rented housing, placing immense pressure on local authorities' ability to meet housing need. Thus, shared ownership can be an effective offer for working households who are priced out of open market owner occupation, but who are not prioritised for social rented homes. Subsidising the demand side of the market will not in itself help to stabilise house prices – although the delivery of shared ownership homes can accelerate the supply of much-needed new homes in London.

The Mayor's First Steps programme has been successful in helping thousands of Londoners onto the property ladder, and the delivery of shared ownership homes can accelerate the supply of much needed new homes. However, while shared ownership falls within the auspices of "affordable housing", in both policy and planning terms, an increasing proportion of shared owners earn above the median annual wage of £28,000 in the capital. The very high values of some shared ownership schemes, especially in parts of central London, raise questions about the use of public subsidy for these homes.

Further, the continuing rise in house prices could jeopardise the long-term affordability of the shared ownership model. There is a concern about where lower income households from the more expensive parts of London can access shared ownership, if other local authorities place overly restrictive residency requirements. Building shared ownership housing in high cost areas also drives down the initial percentage share that households can realistically afford, with serious consequences for maintenance and for buying additional shares (or staircasing). The price of resales is also affected by the upward trend in house prices, and by people successfully staircasing.

Evidence received by the Committee indicates only a few examples where shared ownership has led to full home ownership. Affordability is the main barrier to purchasing further shares, but the cost of the staircasing transaction itself can also be an obstacle. It is in the interests of the providers of shared ownership homes, principally housing associations, to enable staircasing, so that they can recycle the receipts. Thus, some are offering ways to ease the process and reduce the upfront costs for purchasers. Some providers have reported a small increase in the number of shared owners that have staircased up in the past few years, with people worried that rising house prices will make it even harder to do so in the future.

Alongside the difficulties of increasing their percentage share, the evidence suggests that a large number of shared owners may be stuck in their current tenure. There are important structural safeguards in place to reduce the number of shared ownership homes that are lost to the open market; the challenge for the Mayor is to increase mobility without losing homes in the sector. The Mayor has introduced positive policy changes to encourage mobility, but the lack of monitoring data on re-sales makes it difficult to assess the effectiveness of these initiatives.

It is not just the quality of re-sales monitoring data that is a cause for concern, the quality of pre-sales information for some prospective buyers has also been called into question. The First Steps website is a useful tool to help introduce people to the shared ownership market, with good quality information, although some customers have suggested ways in which the site could be improved. Shared owners could also benefit from additional legal protections, and there are wider issues to be addressed in considering the precise status in law of shared owners.

While shared ownership is the best known of the low cost home ownership models, the sector is continually introducing new models and variations, such as Gentoo's Genie home purchase plan. Community Land Trusts could also provide homes to meet the needs of particular low income groups not currently served by the market.

Although evidence received by the Committee indicates only a few examples where shared ownership has led to full home ownership, it can be an attractive offer in its own right, as long as all parties are clear and transparent about its limitations from the beginning. To improve the offer further, the Committee recommends that the Mayor:

- works with Department for Communities and Local Government to collect better quality data that tracks the long-term affordability of shared ownership homes,
- considers how to retain the long-term affordability of shared ownership homes as part of his investment programmes,
- ensures that a comprehensive level of information is available to all prospective shared owners, as a condition of a developer or housing association receiving funding,
- works with DCLG to consider how to place shared owners on a stronger statutory footing with better protections, and
- works with interested Community Land Trusts to help fund their contribution to affordable housing provision in the capital.

# 1. Introduction

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***“We have two basic housing problems. We have the problem of providing houses for rent, for those who are homeless or for those who have not got the financial option of buying. We also have the second problem, which is the provision of houses for the great majority of young people who are trying to buy their own houses and whose ambition is to buy rather than to rent.”<sup>1</sup>***

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- 1.1 So said Sir John Stanley - all the way back in March 1974. In order to meet the ambitions of the great majority of young people who were struggling to buy a home, “Generation Rent” as we call them today, he went on to publish what would become the basis for shared ownership housing policy, *Shared Purchase: a New Route to Home Ownership*.<sup>2</sup> As Minister for Housing and Construction, he introduced the first national shared ownership programme in July 1979, and opened the country’s first scheme in Notting Hill, a year later.
- 1.2 Over four decades later, the two basic problems that he identified continue to dominate the housing sector in London. First, the challenges of providing sufficient numbers of affordable homes are as difficult today as they were in the 1970s. Second, levels of home ownership have been declining steadily since 2001. Research from KPMG estimates that on average across London first time buyers in the capital would have to earn triple the median annual wage of £28,000, in order to enter the market.<sup>3</sup>
- 1.3 Shared ownership is intended to act as a stepping stone to full ownership for those who are priced out of the open market and are not a priority for social rented homes. Applicants purchase between 25 and 75 per cent of the property value on a leasehold basis, and pay a low rent on the remainder, usually to a housing association. The household is responsible for all repairs, and is likely to pay service charges. Purchasers can buy additional shares up to 100 per cent, known as ‘staircasing’. (A full explanation of the different types of low cost home ownership and intermediate rented homes can be found [here](#).)
- 1.4 London has a relatively illustrious record when it comes to the provision of shared ownership homes. During the 1980s, Notting Hill Housing Trust launched the UK’s first shared ownership scheme in Ladbrooke Grove, west London. Today, the capital has the highest number of shared ownership homes of any region: representing an estimated 28,000 homes.<sup>4</sup>
- 1.5 The London Assembly’s Housing Committee undertook an investigation into shared ownership in London to assess its role within the wider housing

market. This report presents our findings on the long-term affordability of the model, issues around mobility within and out of the sector, the quality of information for shared owners, and alternative models for low cost home ownership in the capital.



In 1980, Sir John Stanley, in many respects the architect of the shared ownership model, opened the country's first shared ownership scheme in Ladbroke Grove.<sup>5</sup>

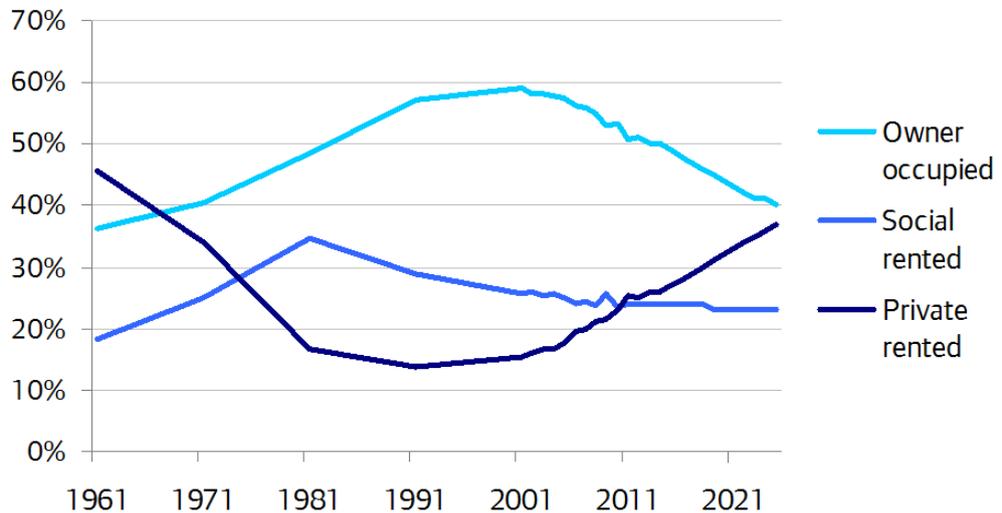


In 2015, the Mayor unveiled plans to accelerate the delivery of 4,000 new shared ownership homes, during a visit to Erith Park in Bexley.<sup>6</sup>

## 2. Shared ownership within London's housing market

- 2.1 **Home ownership remains a majority aspiration across all generations.** Since 1996, when the question was first polled, roughly 80 per cent of people within each age category have stated that they would choose owner occupation over rented accommodation. This level of consistency is relatively rare in polling.<sup>7</sup> Home ownership has many attractions for both the owner and for the wider community. It enables people to build up equity that they can draw upon during financial difficulties, to accumulate an asset that they can pass on to their children, and provides protection against the worst excesses of the private rental market. Owner occupation also builds a stable, long-term commitment to a local area, and avoids the state needing to meet housing costs after retirement.
- 2.2 **But home ownership is becoming an increasingly difficult goal for Londoners, especially for younger people.** Owner occupation, which had been rising steadily since the 1940s, flat lined in the 1990s, and has been declining since 2001.<sup>8</sup> Recent research by KPMG found that hopeful first time buyers in the capital have to earn on average an eye-watering £77,000,<sup>9</sup> almost triple the median annual wage of £28,000. The Mayor estimates that in some parts of the capital, 80 per cent of the new build sales market is affordable to only 20 per cent of working households, and the average first time buyer is now in the top 20 per cent of London's household income distribution. In parallel with this decline in home ownership, the private rented sector has been growing exponentially: by the mid-2020s the proportion of Londoners renting privately is expected to equal the number of those who own their homes.<sup>10</sup>

**Figure 1: Levels of owner occupation in London continue to fall, as levels of private renting continue to rise.<sup>11</sup>**



- 2.3 Shared ownership can be an effective offer for working households who are priced out of market owner occupation, and who are not prioritised for social rented homes.** In 2013, Shelter called for a major expansion of shared ownership to house 1.8 million households nationally. This would be directed at the so-called “squeezed middle”, buyers who are priced out of home ownership and who have little hope of moving into social housing. In London, Shelter says this means households earning between £20,000 and £45,000 a year.<sup>12</sup>
- 2.4** In most cases, the monthly housing costs for shared owners are lower than for full ownership or private renting. As applicants only need to raise a deposit against a share of the value of the home, deposit requirements are lower than buying a home on the open market. Shared owners not only gain a financial stake in an asset which may appreciate over time, they are able to remain in that home for as long as they choose (and as long as they make rent and mortgage payments), providing much sought-after security of tenure. They also have rights of customisation over the property, subject to the terms of their lease, which they would not have in the private rented sector.
- 2.5 The Mayor’s First Steps programme has been successful in helping thousands of Londoners on to the property ladder.** First Steps, established in 2008, is the Mayor’s programme to support and promote low cost home ownership in London. Eligibility for these homes is primarily determined by income: households must earn less than £66,000 per annum, increasing to £80,000 for family-sized homes of three or more bedrooms. To date, the Mayor has delivered 27,000 homes through the programme, helping an estimated 42,000 Londoners gain a foothold on the housing ladder.<sup>13</sup>

- 2.6 The Mayor's London Housing Strategy 2014 sets an ambition to double the number of First Steps homes by 2020, and double this again by 2025. To support this, the Mayor's 2015-18 investment programme increases the proportion of First Steps homes to 40 per cent of all affordable homes, up from 26 per cent in the previous spending review period. In January, the Mayor announced his First Steps Challenge Fund, which will provide up to £180 million to deliver 4,000 shared ownership homes between 2015 and 2020, with 2,400 to be delivered by March 2018. Bidders will need to demonstrate that homes will be delivered sooner than if they were produced for market sale.<sup>14</sup>
- 2.7 **The delivery of shared ownership homes can accelerate the supply of much needed new homes in London.** The Mayor estimates that the capital requires at least 49,000 new homes a year to keep pace with its rising population and to address its historical backlog of housing need. Yet only about half that number has been built annually in recent years. The traditional house building model can face "absorption" issues, as developers manage the release of homes for sale at a rate that optimises viability and returns. According to the Mayor, building shared ownership homes can have an accelerative effect on overall house building, speeding up delivery of new homes that otherwise might not have come forward for many years, as these homes do not compete with homes for sale on the open market. In Newham, for example, 39 times more households could afford shared ownership (24,477) than outright sale (633), and three times more than private rent (8,465). This demonstrates both the potential demand for shared ownership, and that it can supplement, rather than compete with, mainstream build-for-sale.<sup>15</sup>

## 3. The long-term affordability of shared ownership

- 3.1 **While shared ownership falls within the auspices of “affordable housing”, in both policy and planning terms, an increasing proportion of shared owners earn above the median household income in London.** The London Plan definition of “affordable housing” comprises social, affordable and intermediate rented homes, and intermediate homes for sale, including shared ownership.<sup>16</sup> The median annual salary in London is £28,000, with the median household income at £35,740. The Mayor’s Housing Covenant sought to focus his affordable housing programme to benefit low and middle income working Londoners. The Covenant identifies those in the middle three quintiles of the national income distribution, earning between £11,000 to £38,000 per annum, as suffering particularly badly from a combination of high rents, lower wages and restricted access to social housing.<sup>17</sup>
- 3.2 However, the Committee found that the average household income of buyers of shared ownership homes is at the top end of, or even exceeds, the group identified in the Covenant as being in need of particular help. In 2013/14, the median household income for new shared owners across London was £39,200, and was on course to exceed £40,000 in 2014/15.<sup>18</sup> The highest recorded purchaser household income in that year was £76,485. Of course, there are wide variations across the capital but in more than half of London boroughs, the median household income of those buying shared ownership properties over £35,740 - a full breakdown of purchaser incomes by borough is set out in Appendix 1.
- 3.3 **The very high values of some shared ownership schemes, especially in parts of central London, raise questions about the use of public subsidy for these homes.** While the average cost of a shared ownership property in London is £247,000,<sup>19</sup> this masks large variations across the capital. The Committee heard that some shared ownership properties in central London were priced at over £600,000, while one proposed development in Kensington and Chelsea was estimated at over £1million.<sup>20</sup> The extremely high cost of these central London homes means that only those at the very top of the First Steps income threshold could realistically afford to purchase a share. However, some commentators question if affordable housing products should be targeted at this demographic at all:

***“I just think that is not the group that the product was ever designed for. Those people are in a different kind of housing need, which is much more about not being able to live in the areas they want than actually not being able to find a home to live in.”<sup>21</sup>***

3.4 **The ongoing upward trend in house prices could jeopardise the long-term affordability of the shared ownership model.** This is not confined to just prime central London. The Committee heard that in parts of Tower Hamlets, for example, housing associations are not able to develop shared ownership schemes because the cost of the home would be too high. Many shared ownership properties are already going on sale in London with minimum income requirements approaching the First Steps maximum income threshold of £66,000. In one scheme marketed by Moat in 2014, a household in Southwark would need to earn between £64,100 and £66,000, to purchase a share. Similarly, a Family Mosaic scheme in Shoreditch set a minimum income requirement of £65,617, just £383 shy of the maximum cap. The Committee was told that:

*“In some of those very expensive parts of London, a product that is pegged to the market is not going to be one that is going to remain affordable for very long...It is going to be a product that works for lots of outer London boroughs. I do not think you can change the economics of that.”<sup>22</sup>*

The price of resales is also affected by the upward trend in house prices, and by people successfully staircasing.

3.5 In one example in Shoreditch,<sup>23</sup> four shared ownership homes in the same block were put up for sale in 2014 with monthly costs that were between 5 and 65 per cent higher than the monthly costs in 2010 when the homes were first built. This is despite interest rates in 2014 being significantly lower than 2010. The 65 per cent increase arose because the vendors had staircased from 40 to 60 per cent ownership. In the case of the 5 per cent increase the housing association reduced the size of the share on sale.

Flat no	Open market value increase	Monthly costs increase	Share change
2	72%	65%	40% to 60%
8	51%	5%	40% to 25%
9	57%	6%	40% to 25%
13	57%	17%	40% to 35%

This example illustrates how the market can affect the long-term viability for this product at a time of low wage growth.

3.6 **The lack of monitoring data on resales makes it difficult to assess the effectiveness of the Mayor’s initiatives.** Neither the Mayor, nor the Department for Communities and Local Government currently collects data on shared ownership resale rates, values or costs. Without regular data, it is

not possible to determine whether or not the Mayor's policies have been successful. In October 2014, the Mayor pledged to discuss with DCLG the feasibility of collecting this data on a regular basis.<sup>24</sup>

- 3.7 **There is a concern about where lower income households from the more expensive parts of London can access shared ownership, if other local authorities place overly restrictive residency requirements.** Some London councils, for example, require people to have lived or worked in the borough for ten years before they can register for low cost home ownership in the area. To mitigate this, the Mayor has introduced changes to the London Plan to encourage shared ownership homes to be treated as a pan-London resource. Local authorities can restrict eligibility according to their priorities, but only for a maximum of three months. If they do not find a suitable buyer in that time, the property becomes available on a pan-London basis to those that meet the headline First Steps eligibility criteria. Thirty of London's boroughs have already changed their policies to reflect this, and the other three are in the process of doing so.<sup>25</sup> The Committee welcomes this Mayoral initiative, and boroughs' responsiveness.
- 3.8 **Building shared ownership in high cost areas drives down the percentage share that households can realistically afford, with serious consequences for maintenance and staircasing.** The Cambridge Centre for Housing and Planning Research (CCHPR) told the Committee that there are concerns about the long-term maintenance of properties that are purchased at lower levels of shares:
- “You are asking people to take all the cost of the maintenance of a property that they only own 25 per cent of. Who is really bothered if the roof is falling down?”***<sup>26</sup>
- 3.9 Purchasing a low share initially also has an impact on the household's ability to staircase up to full ownership. The Committee was told that an initial share below 40 per cent is not conducive to acting as a stepping stone to full home ownership.<sup>27</sup> There are other risks: buying reduced shares also means purchasing with a smaller deposit, thereby increasing the risk of negative equity during a period of declining or stagnant house prices.
- 3.10 **Evidence received by the Committee indicates only a few examples where shared ownership has led to full home ownership and many now view it as an additional form of long-term tenure in its own right.** In London, the average initial stake purchased has remained steady at 40 per cent over the past three years.<sup>28</sup> Staircasing is promoted as one of the primary benefit of shared ownership, but the option is taken up by only a small proportion of households each year. During 2013/14, 1,558 shared owners staircased to 100 per cent ownership in London, this is equivalent to 3.6 per cent of the total shared ownership stock. The figures for 2012/13 and 2011/12 were even lower – 979 and 782 households respectively.<sup>29</sup>

**3.11 Affordability is the main barrier to purchasing further shares.** Shared ownership is a complex financial product, and its three central costs (total property value, rent on the unsold share, and service charge) are linked to the wider economy. During 2013/14, the cost of a share ownership property in London rose by over seven per cent, the average monthly rent increased by three per cent, and the average service charge increased by six per cent.<sup>30</sup> The Committee heard that shared owners tend to be older than other first time buyers, thus are further towards the top of their earning potential. Buyers are encouraged to purchase as high an initial stake as possible, and exhaust their savings to do so. With mortgage, rent and service charges, as well as any repair costs, many buyers do not have the ability to save in order to staircase. The cost of staircasing itself can also be a barrier to purchasing further shares, as shared owners have to bear upfront the full legal and valuation costs for each increase in share.<sup>31</sup>

**3.12 However, some housing associations are reporting a small increase in the number of shared owners that are staircasing up over the past few years.** The Committee heard from Gateway Housing that 4.7 per cent of its shared owners staircased to 100 per cent ownership in 2012/13, this increased to 5.2 per cent in 2013/14, and was set to reach six per cent in 2014/15. Rising house prices were reported to be biggest driver, as people were concerned that they would not be able to afford the mortgage if they waited much longer. The people that staircased fully had an average salary of £48,000 a year, or funded the staircasing through a one-time financial windfall such as an inheritance.

***“Our sample is a small sample, however when we did our research we spoke to a number of other housing associations that do shared ownership at greater volume and they were finding similar trends...they are also finding that the percentages of upward staircasing and also second-hand sales have gone up.”<sup>32</sup>***

**3.13 Some housing associations are offering ways to ease the process and to reduce the upfront costs for purchasers.** It is in the mutual interests of housing associations to facilitate staircasing, as they use the receipts from sales to re-invest in additional affordable homes. Gateway, for example, has suggested that providers of shared ownership properties should consider offering free up-front valuations as a way of encouraging staircasing and/or discounting other fees, such as solicitors’ or mortgage fees, which could be recouped after the property is sold, or added to the monthly rent payments. Additionally, Thames Valley Housing Association is currently piloting its Shared Ownership PLUS initiative. The initiative enables shared owners to purchase a further 15 per cent of their home at an agreed fixed price, in tranches of one per cent per year.<sup>33</sup>

## 4. Mobility within and out of the shared ownership sector

- 4.1 **Aside from the difficulties of increasing their percentage share, the evidence suggests that a large number of shared owners may be stuck in their current tenure.** Shared ownership properties come up for resale less frequently than open market homes, and second hand shared ownership sales take longer than new build shared ownership sales on the market. The Committee heard that over the last decade, just over two per cent of shared ownership homes nationally changed occupants each year; this suggests that such properties are half as likely to come up for sale as fully owner occupied homes. The turnover rates in London can be as low as 1.5 per cent.<sup>34</sup>
- 4.2 One reason is that shared owners generally want to move out of shared ownership and into full owner occupation on the open market. However, unless they are willing to move to a similar sized home in a significantly cheaper area, it is not always possible to convert the equity built up on a share of a home into full owner occupation.
- 4.3 There is also the challenge of finding new buyers who fall within the First Steps eligibility requirements. When existing shared owners want to sell their property, there is typically an eight week nomination period during which the housing association has the right to market the property and to nominate potential purchasers for the home, usually at the same percentage share as the existing occupant. This can be difficult to achieve within a context of massive year-on-year house price inflation. If an eligible First Steps buyer is not found during this eight week period, the property may be sold on the open market.
- 4.4 **There are important structural safeguards in place to reduce the number of shared ownership homes that are lost to the open market.** Approximately 1,000 second hand shared ownership homes come up for sale each year in London, representing a fifth of all shared ownership properties that come onto the market in the capital. Up to 30 per cent of these homes find their way onto the open market, rather than pass onto another First Steps customer. This represents a loss of up to 300 much needed homes from the sector every year.<sup>35</sup>
- 4.5 While some shared owners express frustration at the length of the eight week nomination period, as they consider housing associations are not as adept at marketing properties as estate agents, this period is essential to ensure that these homes remain within the affordable housing sector. The Committee heard that Thames Valley Housing Association, for example, manages to retain 95 per cent of its shared ownership homes through the eight week

nomination period, without needing to resort to the 21-year Pre-Emption Right.

***“The average home that we have on our books ends up helping four or five families. If we just wash our hands of it the minute that first family goes...the likelihood is it will go to an estate agent who will hold on for whatever period you restrict and then it will be sold on the open market and that home will be lost for affordable provision. Ninety-five per cent of the homes that are coming through us are maintained within the system.”***<sup>36</sup>

4.6 Under the Pre-Emption Right, the housing association can nominate (within an eight week period) the next purchaser for 21 years after the shared owner has bought the whole home; the rule also applies to any subsequent owner who buys this home in this period. In reality, housing associations very rarely exercise this right. Earlier this year, the Government and the Homes and Communities Agency undertook a technical consultation about removing the right. As the HCA does not operate in the capital, London was excluded from the consultation. However, the GLA is reportedly “watching it with interest.”<sup>37</sup> Some mortgage lenders view the Pre-Emption Right as hampering the ability to realise the full value of the home and, therefore, restrict mortgage finance. But the right provides an important safeguard in ensuring that shared ownership homes are not lost from the sector.

4.7 **The Mayor has introduced positive policy changes to increase mobility for shared owners; the challenge is to increase mobility without losing homes to the open market.** Significantly, the Mayor has expanded eligibility for First Steps homes to include existing shared owners, a group that was previously excluded. The Mayor has also authorised housing associations to agree to port loans for households that still fall within the London income thresholds for First Steps, and where moving from one shared ownership home to another will help the household better meet their housing need.<sup>38</sup> Porting allows a household to buy a new shared ownership home, on the same terms as their existing home. The Committee was told that the GLA is intending to take porting even further, and is seeking to pilot a scheme that will enable shared owners to port their assistance to another second hand property on the open market:

***“If you are a shared owner with a 50 per cent share in a £400,000 property, you could then find another £400,000 property elsewhere on the open market that was suitable for your needs and your shared ownership assistance could effectively move with you and you could remain as a shared owner but in a property that is appropriate for you.”***<sup>39</sup>

4.8 The Mayor has invited bids to pilot the scheme, as part of his First Steps Challenge Fund. The Committee heard that the GLA is exploring whether it can tie in conditions that the existing property must be retained for shared ownership.<sup>40</sup>

## 5. Quality of information for shared owners

5.1 **It is not just the quality of re-sales monitoring data that is a cause for concern, the quality of pre-sales information for some prospective buyers has also been called into question.** The Committee found evidence that a number of shared owners were unhappy with the level of information they received from housing associations and developers when purchasing their property. One in five respondents to a Committee survey of shared owners said that the available information was either unclear or very unclear, and over a quarter of respondents experienced difficulty in purchasing their shared ownership property.<sup>41</sup> The complete survey results are published alongside this report.

5.2 The Committee heard that some buyers are entering into a huge financial and contractual commitment without full knowledge of their rights and responsibilities:

*“One of the issues we find is that shared ownership is very popular with people who are not in it. People who are in it tend not to like it that much. A lot of it is because I think they get into it without fully understanding... They get the basic concept but the actual detail slightly surprises them. That is where a lot of the resentment comes from in terms of the product.”<sup>42</sup>*

This was echoed by shared owners that responded to the Committee’s survey. One respondent said:

*“Make the lease and head lease much clearer, so that legal responsibility for major structural repairs (or even minor ones) are clearer. Also the service charges go up all the time, with little or no explanation, sometimes with wild estimates and even wilder ‘actuals’. This causes stress and makes the flat less ‘affordable’ even if the intention of a shared ownership flat was to make housing affordable in the first place.”*

5.3 **The First Steps website is a useful tool to help introduce people to the shared ownership market, with good quality information, but there is some customer dissatisfaction with the website.** Launched in May 2013, the revamped First Steps website was promoted by the Mayor as the single portal to help attract, inform and signpost customers to First Steps properties. The portal was intended to mitigate the disbanding of the First Steps agents service in London; a service for which the GLA paid £700,000 per annum. The portal is provided at nil cost to the taxpayer, through a private sector SME

partner, Share to Buy. In addition to hosting the portal, Share to Buy has also been running hugely popular trade shows for prospective shared owners and industry experts, again at nil cost to the GLA.

The Committee received positive comments about the website from expert guests, and from the survey:

***“We have lost a whole lot of bureaucracy and we have lost a whole lot of confusion for the consumers because they are getting one clear and concise message from the website. They are coming to us better educated and better informed and then we are able to take off from where the website finished and take them through the process.”***<sup>43</sup>

5.4 However, there were complaints that the website was poorly updated in terms of the properties that are available. In April 2015, the GLA carried out the first survey of users of the First Steps website since its launch. It found that users were unhappy with aspects of the website, such as how alerts matched the stated preferences of registered applicants in terms of location and property type, and the speed with which housing associations contacted them. The GLA said that the results of this survey would be used to drive future development of the site.

5.5 **Shared owners could benefit from additional legal protections, and there are wider issues to be addressed in considering the precise status in law of shared owners.** The Committee received evidence to say that the game is too skewed in favour of landlords. This included unfair division of costs, whereby a shared owner who only owns 25 per cent of a property is nevertheless liable for all maintenance, and has little protection from losing their financial investment in the property should they be evicted. The basis for this is the status of the shared owner as both long leaseholder and assured tenant. As an assured tenant, they are left open to a form of fast track eviction if they fall eight weeks in rent arrears. The courts have no discretion to examine the circumstances of the individual, and must grant the notice.<sup>44</sup>

***“However, ideally, you would base shared ownership on a secure statutory footing that places them as a shared owner rather than as an assured tenant, which is explained in the coversheet but probably is not widely understood by lots of shared owners.”***<sup>45</sup>

This is likely to require changes to primary legislation. The Committee welcomes the GLA’s stated intention to raise the matter with DCLG.<sup>46</sup>

## 6. Alternative models to delivering low cost home ownership

6.1 **While shared ownership is the best known of the low cost home ownership models, the sector is continually introducing new models and variations, such as Gentoo's Genie home purchase plan.** In January, the Mayor pledged up to £40 million of loan finance to Gentoo's Genie, to deliver up to 2,000 new homes in London over the next 10 years. Genie was first piloted in the north-east of England, and to date has helped 88 households in that region. It provides a mortgage-free home purchase plan for first time buyers and long-term renters, which enables them to buy a very small share of their home every time they make a monthly payment, over a 30-year period. If they choose to move home at an intermittent point, they are entitled to the percentage of equity accumulated up to that point.<sup>47</sup>

6.2 The Committee heard that this type of model is more realistic than previous rent-to-buy schemes that depended on individuals saving money that they were not in fact able to save.

***"You have to build savings behaviour into the design of the product, so you have to charge people additional money on their rent, and then in that way they are accumulating equity, rather than developing a savings plan for them, which in the end their day-to-day reactive life means they do not save any money. I think those products need to be designed around human behaviour rather than the behaviour we wish everybody displayed."***<sup>48</sup>

6.3 It is unclear how Genie will operate in London, which has significantly higher land values, build costs and house prices than the north-east. Shelter, while welcoming the extension of the plans to London, warned that how it is implemented in London will determine its value for money for purchasers. A similar scheme has been implemented in Erith and there may be lessons that can be learnt from there.

6.4 **Less obviously, Community Land Trusts could also provide homes to meet the needs of particular low income groups not currently served by the market.** A Community Land Trust (CLT) is a charity or not-for-profit company that owns land and property for the benefit of a community and the people living or working there. The ownership of community assets is a resource for people to steward, rather than for speculation on the market.<sup>49</sup>

6.5 CLT homes can be let at social or intermediate rents, freehold or leasehold, outright or shared ownership. However, unlike traditional shared ownership, many CLT homes, especially in urban areas and London particularly, have no

staircasing. CLT owners have 100 per cent ownership rights, but only limited or restricted equity. The sale and resale formula aims to explicitly decouple house prices from the housing market, and index it instead to the local wages. The purpose is to ensure the cost of housing retains a healthy relationship with what people can actually afford to pay, in perpetuity.<sup>50</sup>

- 6.6 CLTs are mostly concentrated in inner London boroughs, including Lambeth, Camden, Hackney, Tower Hamlets, Hammersmith and Fulham and Islington. The most successful example is the East London Community Land Trust (ELCLT), which was established in 2007 as the first urban CLT in England: it has since grown to over 1,000 members. ELCLT will be the freeholder of the former St Clements Hospital site in Bow, and will own all the affordable-for-sale homes. It is currently also in negotiations with the London Legacy Development Corporation to include the CLT in the mix of redevelopment at the Olympic Park.
- 6.7 While CLTs have successfully delivered affordable homes in some rural areas with proactive community support and engagement, at present, there are not any completed CLT homes in London. The Committee heard that in urban areas, where communities of place, need and interest are more difficult to align, and affordable housing is a more contested area of activity and policy, CLTs have not been readily accepted. CLTs are also at a disadvantage because they are undercapitalised.<sup>51</sup>
- 6.8 The Committee welcomes the GLA's offer to consider capital funding for CLTs, as part of its affordable housing programme:

***“We are in a position where we do have capital funding for affordable housing, which is as yet unallocated. If there are ways that we could help make some of those CLTs deliver faster, I am definitely happy to look at them.”<sup>52</sup>***

## Conclusion

Thirty-five years after Sir John Stanley opened the first shared ownership scheme in Notting Hill, shared ownership continues to fulfil a vital role in London's housing market. A plethora of other part-buy-part-rent models have come and gone over the decades; it is a testament to the longevity and relevance of the shared ownership model that, at its essence, it is still the same today as Sir John prescribed it in 1979.

Evidence received by the Committee indicates only a few examples where shared ownership has led to full home ownership. However, shared ownership can be an attractive offer in its own right, as long as all parties are clear and transparent about this from the beginning.

Of course, there is always room for improvement. Here are the Committee's recommendations for what the Mayor can do to make shared ownership even better in London.

# Appendix 1 – Recommendations

## Recommendation 1

It is difficult to track the long-term affordability of shared ownership homes as the data is not currently collected by either the Mayor or the Government. In October 2014, the Mayor agreed to raise the issue of collecting resale values and monthly costs during the GLA's bilateral discussions with DCLG. The Committee recommends that:

- The Mayor should report back on the outcome of this discussion by December 2015.
- The Mayor should publish annual data on levels of staircasing in London, disaggregated by location, property size, household income and percentage share sales.
- The Mayor should publish annual data on resales in London, including a statement of whether the property remains within the shared ownership sector, and whether the sale value would have excluded a purchase of a minimum 25 per cent share for those within the First Steps income thresholds.

## Recommendation 2

The Committee recognises that the value of shared ownership homes are pegged to house values on the open market, and the likely difficulties of raising mortgage finance for purchasers if values are artificially suppressed. When inviting bids to pilot porting between the shared ownership and open markets, the Committee welcomes the Mayor's commitment to explore whether he can tie in conditions that the shared ownership property should be retained in its current tenure. Similarly, the Committee urges the Mayor to consider how to retain the long-term affordability of shared ownership homes as part of his investment programmes.

## Recommendation 3

The Committee heard that there is a sizeable minority of shared owners who feel they were not properly informed about the rights and responsibilities of shared ownership before purchasing. In particular, there is poor information on the overall cost of shared ownership. The Mayor should ensure that a standardised and comprehensive level of information is available to any potential purchaser of a First Steps home, as a condition of a developer or housing association receiving funding. This should include information on the minimum income requirements, mix of payments, service charges (both an

estimate for the property and details of how future rises are calculated) and information on staircasing.

#### **Recommendation 4**

Shared owners take on a huge responsibility in terms of repairs and maintenance to their homes, even when they have only a 25 per cent stake. But if they fall into rent arrears, they have as limited rights as other assured tenants. The Committee asks the Mayor to raise with DCLG the issue of basing shared ownership households on a stronger statutory footing as shared owners, rather than as assured tenants, and to report back to the Committee by December 2015 on the outcome of the discussion.

#### **Recommendation 5**

The Committee welcomes the Mayor's commitment to encourage new entrants into the house building sector, as set out in his London Housing Strategy. Community Land Trusts are heavily undercapitalised, but could make an important contribution to the provision of affordable homes. The Committee recommends that the Mayor works with interested CLTs to consider how they could use as yet unallocated capital funding from the Mayor's housing budgets to deliver affordable homes in London.

## Appendix 2 – Median income by borough

Median joint income (person 1 + person 2, if applicable) of First Steps buyers by London borough, 2013/14

Borough	Median joint income	Number of sales
Barking and Dagenham	28,000	12
Barnet	36,162	73
Bexley	32,085	37
Brent	35,468	47
Bromley	39,362	59
Camden	45,000	15
City of London	-	0
Croydon	30,047	74
Ealing	37,972	130
Enfield	30,000	55
Greenwich	35,725	184
Hackney	39,578	120
Hammersmith and Fulham	43,125	38
Haringey	35,000	93
Harrow	34,500	91
Havering	24,688	38
Hillingdon	34,782	58
Hounslow	36,156	52
Islington	43,000	179
Kensington and Chelsea	58,310	6
Kingston upon Thames	36,000	7
Lambeth	43,000	135
Lewisham	35,000	174
Merton	33,396	42
Newham	32,000	48
Redbridge	34,584	17
Richmond upon Thames	40,400	15
Southwark	41,800	187
Sutton	32,500	19
Tower Hamlets	31,750	186
Waltham Forest	36,000	75
Wandsworth	49,250	88
Westminster	35,850	2

Source: GLA analysis of CORE data

## Appendix 3 – Endnotes

- <sup>1</sup> John Stanley, during his maiden speech as a newly-elected Member of Parliament, 28 March 1974
- <sup>2</sup> *Shared Purchase: A New Route to Home Ownership*; John Stanley; Conservative Political Centre; 1974
- <sup>3</sup> <http://www.theguardian.com/business/2015/may/04/first-time-buyers-need-to-earn-77000-a-year-to-live-in-london>
- <sup>4</sup> *Moving on Up*; Gateway Housing Association; March 2014
- <sup>5</sup> Photo courtesy of Notting Hill Housing Trust
- <sup>6</sup> Photo courtesy of Orbit Housing
- <sup>7</sup> IpsosMori
- <sup>8</sup> Homes for London: the London Housing Strategy; Mayor of London; June 2014
- <sup>9</sup> <http://www.theguardian.com/business/2015/may/04/first-time-buyers-need-to-earn-77000-a-year-to-live-in-london>
- <sup>10</sup> *Homes for London: the London Housing Strategy*; Mayor of London; June 2014
- <sup>11</sup> Data based on GLA analysis of the Census and English Housing Survey
- <sup>12</sup> *Homes for Forgotten Families*, Shelter; August 2013
- <sup>13</sup> The First Steps Challenge Fund; Mayor of London; January 2015
- <sup>14</sup> As above
- <sup>15</sup> As above
- <sup>16</sup> <http://www.london.gov.uk/priorities/planning/london-plan>
- <sup>17</sup> *The Mayor's Housing Covenant: Homes for Working Londoners*; Mayor of London; September 2012
- <sup>18</sup> GLA analysis of CORE data
- <sup>19</sup> MQT, Q: 2015/0575, Monday 23 February 2015
- <sup>20</sup> Transcript of the Housing Committee meeting; December 2014
- <sup>21</sup> Vidhya Alakeson; Deputy Chief Executive, Resolution Foundation; taken from the transcript of the Housing Committee meeting; December 2014
- <sup>22</sup> As above
- <sup>23</sup> Example taken from AM Darren Johnson's case work
- <sup>24</sup> [http://questions.london.gov.uk/QuestionSearch/searchclient/questions/question\\_278206](http://questions.london.gov.uk/QuestionSearch/searchclient/questions/question_278206)
- <sup>25</sup> Jamie Ratcliff; Assistant Director, GLA; taken from the transcript of the Housing Committee meeting; February 2015.
- <sup>26</sup> Anna Clarke; Senior Research Associate, Cambridge Centre for Housing and Planning; taken from the transcript of the Housing Committee meeting; December 2014.
- <sup>27</sup> As above
- <sup>28</sup> GLA analysis of CORE data
- <sup>29</sup> Submission to the London Assembly Housing Committee from the GLA
- <sup>30</sup> GLA analysis of CORE data
- <sup>31</sup> Anna Clarke; Senior Research Associate, Cambridge Centre for Housing and Planning; taken from the transcript of the Housing Committee meeting; December 2014
- <sup>32</sup> Sheron Carter; Chief Executive, Gateway Housing Association; taken from the transcript of the Housing Committee meeting; December 2014
- <sup>33</sup> Kush Rawal; Sales and Marketing Director, Thames Valley Housing Association; taken from the transcript of the Housing Committee meeting; February 2015
- <sup>34</sup> Anna Clarke; Senior Research Associate, Cambridge Centre for Housing and Planning; taken from the transcript of the Housing Committee meeting; December 2014

- <sup>35</sup> *The Mayor's Housing Covenant: Homes for Working Londoners*; Mayor of London; September 2012
- <sup>36</sup> Kush Rawal; Sales and Marketing Director, Thames Valley Housing Association; taken from the transcript of the Housing Committee meeting; February 2015
- <sup>37</sup> Jamie Ratcliff; Assistant Director, GLA; taken from the transcript of the Housing Committee meeting; February 2015
- <sup>38</sup> *The Mayor's Housing Covenant: Homes for Working Londoners Progress Report*; Mayor of London; March 2013.
- <sup>39</sup> Jamie Ratcliff; Assistant Director, GLA; taken from the transcript of the Housing Committee meeting; February 2015
- <sup>40</sup> As above
- <sup>41</sup> Survey on behalf of the Housing Committee; March 2015
- <sup>42</sup> Vidhya Alakeson; Deputy Chief Executive, Resolution Foundation; taken from the transcript of the Housing Committee meeting; December 2014
- <sup>43</sup> Kush Rawal; Sales and Marketing Director, Thames Valley Housing Association; taken from the transcript of the Housing Committee meeting; February 2015
- <sup>44</sup> Written evidence from a recently retired housing lawyer.
- <sup>45</sup> Jamie Ratcliff; Assistant Director, GLA; taken from the transcript of the Housing Committee meeting; February 2015
- <sup>46</sup> As above
- <sup>47</sup> Gentoo Genie website and Mayor of London press release
- <sup>48</sup> Vidhya Alakeson; Deputy Chief Executive, Resolution Foundation; taken from the transcript of the Housing Committee meeting; December 2014
- <sup>49</sup> Joint written evidence to the Housing Committee from the National Community Land Trust Network, East London CLT, and Citizens UK
- <sup>50</sup> As above
- <sup>51</sup> Stephen Hill; Trustee, National CLT Network; taken from the transcript of the Housing Committee meeting; February 2015
- <sup>52</sup> Jamie Ratcliff; Assistant Director, GLA; taken from the transcript of the Housing Committee meeting; February 2015

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