

Policy Brief (October 2022)

AFFORDABLE HOMEOWNERSHIP AND RISK

Affordable Homeownership and Risk

Affordable homeownership schemes are central to England's housing policy, but much focus has been on supporting entry to the tenure rather than the longer-term outcomes of households who use the schemes. This mixed methods study focused on shared ownership, the Right to Buy and Help to Buy and explored whether the risks associated with homeownership — paying the mortgage, maintaining the value of the home and the upkeep of home repairs — could be mitigated by using these schemes. The findings are increasingly relevant as the cost-of-living and mortgage interest rates are rising and a recession or housing market downturn are possible in the short term.

Key messages

- Affordable homeownership schemes attract significant housing subsidies and provide access to homeownership for people on lower incomes relative to the costs of their local housing market.
- Greater proportions of single people, women, people in routine occupations, people with disabilities and lone parents use shared ownership and the Right to Buy than Help to Buy purchasers and those who bought unassisted on the open market.
- Homeownership comes with several risks relating to paying the mortgage, maintaining the value of the home, and keeping the home in good repair. These risks are not distributed equally, with households on lower incomes experiencing problems more frequently than more affluent households.
- Homeownership risks were weighed against the risks apparent in other housing tenure — notably private renting — but may be less understood. Homebuyers assessed risk in a period of low interest rates, low inflation and stable employment. This benign context is changing with rising mortgage costs and a possible market downturn and recession looming.

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- Affordable homeownership schemes can limit the risks of non-payment of housing costs, price changes and maintaining their home, but may also exacerbate problems for some households.

Shared ownership (often described as part-rent part-buy)

- Shared owners had low initial housing costs but recent shared owners' mortgage interest rates cost more, 2.39 percent compared to 1.73 percent for open market buyers.
- Significant proportions experience high housing costs relative to incomes, with 31% of shared owners outside of London and the South East having housing costs over 35% of their incomes compared to 17% of other mortgagors. In contrast, shared ownership in London and the South East slightly lowered the incidence of high costs relative to incomes (26% compared to 30% of other mortgagors).
- The low initial entry costs of shared ownership are not maintained. Over inflationary rents mean shared owners' monthly costs converge with open market buyers' costs beyond year 15 while purchasers' accrued much less equity, challenging the products' value for money.
- Ongoing relationships with housing providers and access to housing benefit gave shared owners opportunities to sustain their homeownership beyond what lender forbearance and the limited access to the Government's Support for Mortgage Interest can often deliver.
- Equity sharing via shared ownership limits the impact of negative equity in housing market downturns, important if people need to sell up to avoid incurring mortgage arrears and shortfall debts.
- Purchasers need to undertake complex assessments of the trajectories of household income, local house prices, inflation and mortgage rates to manage housing costs over time and increase shares or equity in the home.
- Consumer misunderstanding about the responsibilities of shared ownership persists, particularly around repairing responsibilities. Providers must offer new sets of information about the purchase but key information about long term costs is omitted.
- Shared ownership is particularly entangled with the problems of the leasehold tenure. Awareness of short leases and diminishing assets was limited and the new model lease does not rebalance the risks for existing shared owners.
- Greater proportions of shared owners carry indicators of financial vulnerability compared to other mortgagors and are less confident consumers than other homebuyers, inferring that additional support to navigate the housing market and support to overcome economic hardships would be beneficial.

Right to Buy (social housing tenants buy their formerly rented home)

- RTB purchasers are older and predominantly in routine occupations.
- Long term RTB purchasers are still paying high interest rates and overall, are carrying greater proportions of mortgage arrears (3.2% RTB compared to 2.7% shared owners and 0.7% of all other mortgagors).
- Right to Buy owners had fewer resources and were often reliant on family and friends if experiencing payment or income shocks and for home maintenance.
- With fewer resources and limited Government support, these purchasers are more reliant on lender forbearance if struggling with payments, leaving them particularly vulnerable to default and poorer housing conditions.

- Large sums of gifted equity cushion buyers from price falls so market downturns present less of a risk.

Help to Buy (equity loan scheme)

- Equity sharing cushions the impact of housing market downturns and the risk of negative equity.
- Help to Buy owners had more secure finances than other affordable homeowners and expected to repay their equity loans. Many faced complex assessments of housing and mortgage markets and their future incomes to decide the timing of repaying their equity loan.
- Repaying the loan in rising markets could mean short-term gain for higher long-term costs, making homeownership more expensive if alternative choices of property were available.

Key actions required

- **Providers and Homes England** – Cap rent increases below that allowable in leases for new and existing shared owners and control future cost increases by using CPI rather than RPI measures of inflation, with no additional uplift.
- **Providers, lenders, brokers and Homes England** – Review affordability assessment calculators to avoid high housing costs to incomes and include rent and service charge rises over time (for all schemes), not just rising mortgage interest rates.
- **Homes England and providers** – Highlight the rising long-term costs in key information documents, including rent and service charges, relative to open market purchases.
- **Homes England and providers** – Develop housing costs and equity charge calculators to support purchasers in their equity purchase/staircasing decision making in shared ownership and Help to Buy or any subsequent equity loan schemes.
- **Providers** – Develop support for existing shared owners, by extending all lease terms to at least 250 years, ensure repair costs are proportionate to shares held over time, ensure appropriate advice mechanisms are available and provide greater opportunities for it to be a flexible tenure so that purchasers can reduce their shares as appropriate.
- **Central government** – Produce *How to Buy Affordable Homeownership* guide for prospective purchasers to rebalance information resources in the sector, covering all existing and new affordable homeownership schemes and information on leasehold, based on Government *How to Buy or How to Rent* guides. Include guidance on what to consider when buying a home now and in the future, engaging professionals, shopping for a mortgage, a home, understanding leasehold, sustaining your home, and highlighting the range of possible risks and rewards.
- **Homes England and providers** – Develop shared ownership as a truly flexible tenure and strengthen homeownership safety nets by reviewing the rate, income requirements and waiting times of state support for short term income loss.
- **All stakeholders** – If affordable homeownership is to be maintained, and the tenure expanded further, policymakers and housing providers require a continuing focus on long term customer outcomes, not only on provider interests and access to the tenure alone.

Introduction

The study examined how homeowners who use various affordable homeownership schemes think about and manage the risks inherent in the tenure, and whether the structure of the products and the continuing role of housing providers (in the case of shared ownership) supports homeowners by limiting those risks.

The schemes are generally small — English shared ownership accounted for around five percent of UK first time buyer sales, Right to Buy two percent and Help to Buy more significant at 12 percent in 2021 — but attract significant proportions of housing subsidies and represent important housing policy offers. Right to Buy and shared ownership are important entry points to the tenure for a range of households including those in lower grade employment, lone parents, people with disabilities or long-term illness and women in comparison to open market and Help to Buy homebuyers.

Shared owners had more indicators of financial vulnerability (53 percent) than other mortgagors (37 percent). Shared owners were particularly vulnerable to financial harm due to their lower financial resilience (20 percent had indicators of low savings, debt or were overdrawn) and lower financial capability (27 percent had indicators of low financial confidence, knowledge and savviness) compared to other homeowners buying with a mortgage (11 percent and 13 percent respectively). The difference largely remains for recent entrants, age and income. We may infer from this analysis that Right to Buy homebuyers may have a similar or worse financial vulnerability profile as shared owners sat between renters and mortgagors in their risk profiles. Help to Buy purchaser profiles were very similar to open market homebuyers so their vulnerability is likely to be like other mortgaged homebuyers.

Almost all homebuyers described how they planned and strategised to buy a home, largely as the finances, security and quality of accommodation compared favourably with private renting. The homebuyers, especially higher-income open market buyers, undertook research into homebuying but some other purchasers were inexperienced or had a low base of understanding. A gap was evident between housing providers understanding the markets and products and what information had been available and absorbed by various homebuyers, that current reforms do not wholly overcome. This was most pronounced for shared ownership, a more complex product than the Right to Buy or Help to Buy options. A lack of information for prospective shared owners was noted in relation to their long-term rent and service charge costs, the risk of not being able to staircase unless salaries keep pace with house prices, or for whom and how the product works best.

Payment risks

Almost all participants managed the risk of mortgage interest rates rising by fixing their loans, and the low mortgage rate environment meant that most participants were confident that they could meet their payments, at the time of the interviews at least. The context has now changed and some vulnerabilities were evident. Across all homeowners, older Right to Buy homebuyers were paying estimated high mortgage interest rates (7.49%), a legacy of liberal lending prior to the financial crisis, but among more recent entrants shared owners were paying the most for their mortgages, 2.39 percent for shared owners compared to 1.73 percent for open market buyers, 1.47 percent for Right to Buy and 2.12 percent for Help to Buy. Of greater concern to shared owners, prior to recent interest rate rises at least,

“The rent [...] we’ve seen how quickly ours has gone up in two years, because you’ve got half a percent or one percent above RPI. Actually, I reckon in ten years’ time, it isn’t going to be affordable”

Shared owner

were the additional housing costs incurred, particularly for rents and service charges which they felt were rising rapidly beyond their control. This was prior to inflation rising rapidly through 2022. Recent shared owners outside of London and the South East had the highest proportions of homeowners with high housing costs relative to their incomes (31%) compared to 17% for all mortgagors, 7% for Help to Buy and 4% for Right to Buy. Shared ownership in London and the South East reduced the proportions who had high housing cost to income ratios (26%) compared to open market mortgagors (30%). To avoid those on the lowest incomes carrying potentially unsustainable housing costs, the affordability calculators need to include long-term costs and adjusted to avoid high housing affordability ratios. Rising mortgage interest rates, rising rents based on higher measures of inflation (RPI) combined with an unnecessary uplift, and the cost-of-living crisis will further challenge the affordability of housing costs, although fixed mortgage interest rates will slow the impact. Estimates of housing costs for different schemes showed that after 15 years, shared owners had housing costs similar to open market full homeowners, undoing the relative initial low entry costs. Help to Buy purchasers were less price sensitive and most could pay the equity charge if required, although a minority had no firm plans about how they might repay their equity loan.

A total of 3.2 percent of Right to Buy homebuyers were behind with their mortgages compared to 2.7 percent of shared owners (2.4% were behind with their rent) and 0.7 percent of other mortgagors, before the cost-of-living crisis hit. Participants who suffered income shocks, largely but not exclusively during the pandemic, had been supported by furlough, lender forbearance and rapid re-employment, support that may not be available in any future recession. Housing benefit successfully supported shared owners with income shocks, with assistance provided by housing association staff. Providers noted that stringent mortgage affordability assessments had minimised payment risks in recent years although they observed that the pandemic had exerted pressure on shared owners’ rent payments. Affordability calculators used at the time of shared ownership purchases include high maximum sums and omit the long-term costs of rent and service charges. Although there were some indications of higher arrears for shared owners, forms of support to remain or sell up quickly meant that key informants reported fewer possessions among this group.

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Providers noted that additional funding for downward staircasing for unsustainable circumstances could make shared ownership a truly flexible tenure. The costs of funding flexible tenure would be marginal to the development costs that typically take funding priority. During the pandemic in 2020, 29% of shared owners were struggling financially compared to 18% of mortgaged households. Taken across the piece, the evidence suggests that providers should, if not already doing so, plan for how they will support shared owners through this period when wage rises fall below the cost-of-living increases.

Price risks

Few participants were, at the time of the interviews, concerned about falling housing markets, with the risk of negative equity (the value of their home being less than their mortgage) in the future being secondary to not keeping up with their current housing costs. Comparing estimates of how much money people had stored in their homes (equity) for the various schemes over the last 15 years, the equity sharing arrangements (as in shared ownership and Help to Buy) limited the impact of negative equity after the financial crisis 2008/9. This is important if voluntary sales are required to remedy payment problems or changes in circumstances during a downturn when negative equity can produce large shortfall debts. The equity sharing arrangements also limit equity gains in rising markets. Comparing housing costs to full ownership over the long term with these much lower equity gains may challenge the value for money of shared ownership. However, wealth building via housing equity accrual, however minimal, is not available at all in private renting. Estimates showed that repaying the Help to Buy equity loan in falling markets was beneficial to the purchaser, and we might surmise that staircasing for shared owners, would similarly be beneficial in terms of housing costs and equity gains. However, participants were more concerned with rising house prices in shared ownership and Help to Buy, putting the ambition for full ownership further away unless salaries increases were commensurate with house prices. Repaying the equity loan in rising markets could

“At that time when I worked it out, if I don't pay within five to ten years then it will really add up because every year it is adding up, so I'll be paying quite a lot. Instead of the 20 per cent that I borrowed, it maybe could be double. So, the best thing, as I understand, is to pay off within those five years as much as possible.”

(Help to Buy owner)

mean paying higher housing costs over the long-term, more than retaining the equity loan and charge, for only a short-term discount in housing costs. Deferring some housing costs to a period when career and household incomes are improved may be advantageous for those on steep career trajectories, but problematic for others who cannot anticipate significant rising salaries and could have bought elsewhere.

Other issues about pricing are apparent. A greater proportion of affordable homeownership scheme purchases are flats compared to the wider homeownership market and this market segment has seen house prices relatively muted compared to other property types in recent years. During 2016 and 2020 flats were the only property types to see the value of homes fall and since then price gains have

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been lower than other property types, with flats growing 6.97 percent to February 2022 compared to 13.99 percent for semi-detached homes. Some affordable homeownership scheme purchasers may not therefore see the value of their homes keep pace with the wider market. Maintaining the value of their home in leasehold properties was also an issue for some homebuyers who had not fully understood the implications of short leases and leasehold as a diminishing asset. This was especially the case in shared ownership and for some who used the Help to Buy scheme to buy a leasehold house, a practice now curtailed. Providers now offer longer leasehold lengths for new shared owners to avert future problems, but only one provider interviewed was changing lease lengths for existing shared owners. Right to Buy purchasers are gifted a large discount after five years of occupation so are cushioned from negative equity in falling markets and are not required to buy this unpurchased equity incrementally as in the other schemes. Unless they remortgage to withdraw this home equity, less of a feature of contemporary mortgage markets than prior to the financial crisis, price risks for Right to Buy purchasers appeared minimal.

Repair risks

Open market homes were all older less expensive properties and while many open market buyers had secure plans for renovation not all buyers had the resources to undertake the necessary repairs and improvements. Right to Buy purchasers were on low or moderate incomes and while some could fall back on the skills of family and friends to undertake the repairs, others were reliant on saving to undertake work

“Then we went to get a quote and it's, 'Oh, we'll just leave it. We can't afford it.' Then one thing and another builds up. No, we struggle for other bills if you want to put it that way, other unnecessary things, but the actual... As I said right at the beginning, the mortgage is probably the first thing that gets paid every month. [...] We're definitely financially worse off, but that's the way it is. We knew we would be.”

Right to Buy purchaser

periodically and some had experienced financial shocks that prevented work going ahead. Shared owners and Help to Buy purchasers favoured new build homes as repair risks were minimised, and overall the developers had handled any initial defects well. There was some confusion among shared owners about their repairing responsibilities with complaints about the information they received and the conveyancing process failing to highlight that they were wholly responsible. Confusion remained, even among recent shared owners, about how the responsibilities might change in the initial defects period, during the new build warranty period and then long term. The building safety crisis exposed the imbalance in repairing responsibilities between the providers and shared owners, which the Government acknowledged after the fieldwork was completed by capping shared owners' responsibilities for building safety remediation works to be proportionate to their equity stake. Instituting a similar practice for other major works would make the scheme more equitable.

Conclusion

Risk cannot be removed from homebuying and purchasers need to weight risks apparent in other tenure when choosing a home. The individual responsibility of homeownership does, however, present challenges that can cause financial harm or poorer housing conditions over time. The affordable homeownership schemes offered a range of benefits as well as additional challenges for homebuyers. Few were able to or consciously used the schemes to reduce their exposure to risks, but the schemes offered reduced entry costs and dampened the impacts of negative equity, and shared ownership in London and the South East slightly lowered the proportions paying high housing costs relative to incomes. Shared owners also had additional supports available for payment risks through social security and their housing provider. Aspects of the schemes also posed additional risks for purchasers. Higher housing costs to incomes in shared ownership in the most affordable places was a concern alongside over-inflation rent rises, rising service charges and low incomes that may not bear the responsibilities of ownership. Reforms to shared ownership are welcome but limited and they do not reach existing shared owners, still required to manage short-leases and repair costs. Right to Buy homebuyers were vulnerable to high housing costs, with older entrants paying high mortgage costs and greater proportions were behind with their mortgages. These Right to Buy purchasers had few resources to manage home repairs or payment risks. Help to Buy purchasers were comparable to open market homebuyers but had complex calculations to make regarding repaying the equity loan depending on local market conditions and their circumstances or risked paying more for their homeownership. Customer outcomes not just customer entries need to be central to policy and practice in these affordable homeownership schemes. Urgent attention is required to mitigate the cost-of-living crisis for many of these homeowners.

These findings are based upon secondary analysis of the DLUHC **English Housing Survey** and the FCA Financial Lives Survey data together with **95 in-depth interviews** with housing providers, key informants and homebuyers using the shared ownership, Right to Buy, Help to Buy schemes and those who bought without assistance. This fieldwork was undertaken during 2021. The full report **Do Affordable Homeownership Schemes Reduce Homeownership Risks for Lower Income Households in England?** by Alison Wallace, Julie Rugg and Jiaxin Lu is available at the Centre for Housing Policy [website](#) at the School of Business and Society, University of York.

By **Alison Wallace, Julie Rugg** and **Jiaxin Liu**
October 2022

Centre for Housing Policy
School of Business and Society
University of York
Heslington, York
YO10 5DD

alison.wallace@york.ac.uk



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of York