



Ministry of Housing,
Communities &
Local Government

Making home ownership affordable

Summary of responses and the Government response to the discussion paper proposing a new model for Shared Ownership



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Contents

Introduction	3
A new model for Shared Ownership	4
Summary of responses	6
Government response:	8

Introduction

1. On the 28th August 2019 the Ministry of Housing, Communities and Local Government ran a discussion paper on several proposed changes to the Shared Ownership model. The discussion paper can be found here:
<https://www.gov.uk/government/consultations/new-national-model-for-shared-ownership>
2. The consultation sought views on proposals for three key areas. Proposals consisted of:
 - a. Increasing the share of the property:
 - i. Making staircasing more flexible by enabling people to buy further shared at smaller increments
 - ii. Ways to make staircasing a simpler, quick process and to reduce the accompanying transaction fees
 - iii. To bypass the costly valuations based on regional House Price Indices
 - b. Making it easier for people to buy their home:
 - i. Removing the pre-emption clause from the model lease. This clause allows the landlord an eight-week nomination period during which they have the right to market the property
 - ii. Introducing a 'right of first removal' whereby landlords have a short period in which they can repurchase the home
 - c. Introducing a standard model for all providers to improve mortgage availability:
 - i. Introducing a single standard model of shared ownership that all providers could use to reduce complexity for consumers and attract greater lending.
 - ii. Effectiveness of the restricted lease in rural areas. The restrictions in place mean shared owners cannot staircase beyond 80% to avoid losing shared ownership homes in areas they are hard to replace.
3. The discussion paper closed on 29th September 2019
4. We have considered all the responses received.
5. This document summarises all responses received and sets out the government's response to the consultation
6. We are grateful to all those who took the time to respond to the consultation and proposals put forward.

A new model for Shared Ownership

1. This Government believes strongly in the benefits of homeownership. It is right that we should do everything we can to support people from all backgrounds to realise their ambition to own their own home. We believe that Shared Ownership has a vital role to play in offering a route into homeownership to those who would otherwise struggle to buy a home. By purchasing a share of a property, aspiring homeowners can overcome the income and deposit barriers that can stand in their way. That is why the Government is continuing to invest heavily in the delivery of Shared Ownership homes through the Affordable Homes Programme.

But there is more that can be done to make Shared Ownership work better. The Government is therefore introducing changes to the standard model of Shared Ownership to:

- i) Reduce the minimum initial share from 25% to 10%
 - ii) Introduce a new gradual staircasing offer, to allow people to buy additional shares in their home in 1% instalments with heavily reduced fees
 - iii) Introduce a 10-year period for new shared owners where the landlord will cover the cost of any repairs
 - iv) Give shared owners more control when they come to sell their home
2. These reforms deliver on our commitment to introduce a fairer and more transparent model of Shared Ownership. The new model builds on proposals put forward in the Making Home Ownership Affordable Discussion Paper and follows careful consideration of consultation responses. The new standard model will be introduced on all future Shared Ownership homes delivered with grant funding and we will set an expectation for Shared Ownership homes secured through the planning system to be based on the standard model.

3. **Minimum initial stake**

In October 2019, we announced proposals to reduce the minimum initial stake of the home that new buyers can purchase from 25% to 10%. Reducing the minimum initial share will allow people to access Shared Ownership with a lower deposit and, in many cases, it will mean that their combined rent and mortgage costs will be lower. This will make Shared Ownership accessible to more people and support those for whom realising the ambition of homeownership is most challenging. We estimate that this reform will widen potential access to over 300,000 additional households.

4. **Staircasing in lower increments**

The new model will make it easier to purchase further shares in the home by allowing shared owners to buy in smaller increments.

Currently, shared owners wanting to 'staircase' and progress to full ownership can only do so by buying at least 10% at a time. With house prices often rising faster than wages, and faster than shared owners can save, buying a 10% share in one go can be a difficult task. Under the current model, shared owners often need additional lending to staircase and incur costly fees.

Under the new model, shared owners will be able to buy 1% each year with heavily reduced fees for up to 15 years. For the new gradual staircasing model, the price of each 1% share will be based on an estimated valuation linked to the original purchase price, adjusted each year upwards or downwards in line with House Price Inflation. This will mean that shared owners will no longer have to get a RICS surveyor to carry out a new valuation each time they want to buy more shares. Landlords will be prohibited from charging administration fees on shares bought as part of this gradual staircasing model. Buying in 1% tranches will make it much easier to staircase without additional lending, enabling shared owners to avoid expensive mortgage fees.

Shared owners wishing to buy larger shares will still be able to do so at any time through the existing staircasing process. For those staircasing using the normal process, i.e. using a RICS valuation, we will lower the minimum additional share from 10% to 5%.

5. Repairs

We are introducing a new 10-year, repair free period, during which the costs of any maintenance or repairs will be met by the landlord rather than the shared owner.

Shared owners, like other homeowners, are currently responsible for all of the maintenance of their property and contribute towards the full cost of any repairs from day one. This means that those starting off with a small stake can be left with large bills. For most people entering into Shared Ownership, the scheme serves as a first step on their journey as homeowners. The new repairs model will better bridge the gap between renting and homeownership. The changes will prevent new shared owners being hit with repairs and maintenance bills and better support them to put money aside towards buying more of their home.

6. Resales

The new model will improve the experience of shared owners who wish to sell their home by allowing them to take control of the process earlier.

The current model gives landlords an eight-week period during which they have the exclusive right to market the property. If the landlord does not manage to identify a new buyer to purchase the seller's share after eight weeks, the property can then be placed on the open market and sold either through Shared Ownership or outright. Landlords holding long lists of prospective buyers interested in Shared Ownership are often well placed to arrange a speedy sale. But sometimes, the eight-week nomination period can result in unnecessary delays.

The new model will give shared owners the option to end the eight-week period at the four-week mark if they would prefer to pursue an open market sale, giving them greater power and influence over the resale process.

7. Standard model

The new standard model will be introduced on all future Shared Ownership homes delivered with Government funding. We will also set a new expectation that Shared Ownership delivered through the planning system (in section 106 affordable housing contributions) should use the standard model in order to guarantee consistency in the offer to consumers.

Summary of responses

8. There were 186 responses to the consultation. 97 of these were from individuals, 42 were from Housing Associations, 22 were from Local Authorities and 6 were from Lenders.

9. **Section 1: Making it easier for people to increase their share of the property:**

Proposals consulted on:

We proposed to make staircasing more flexible by enabling people to buy further shares at smaller increments (for example of 1% or more). We sought ideas for ways to make staircasing a simpler, quicker process and to reduce the accompanying transaction fees. We proposed to bypass the costly valuations process conducted by a RICS surveyor by introducing estimated valuations based on regional House Price Indices.

Views of respondents:

There was a positive response to the proposal to lower the minimum staircasing increment. Respondents expressed a clear view that this can only work in a model which dramatically reduces the cost of staircasing. There were mixed views about the use of HPI-based valuations. Some respondents suggested that, if desktop valuations are introduced, they should only be used for small amounts and there will need to be safeguards to protect both parties. Respondents reported that the main factors preventing staircasing are the general low affordability due to high monthly costs and rising house prices and the associated fees. Many respondents said that providers and/or the government could also do more to promote the benefits of staircasing and provide information about the process.

10. **Section 2: Making it easier for people to sell their home**

Proposals consulted on:

We announced our intentions to make it easier for shared owners to sell their homes. We consulted on removing from the model lease the pre-emption clause, which currently gives landlords an eight-week nomination period during which they have the exclusive right to market the property. We proposed to replace this with a right of first refusal, whereby landlords would have a shorter period in which they could repurchase the home.

Views of respondents:

There was no clear consensus about how long would be needed for a right of first refusal. Some housing providers were strongly opposed to the proposed removal of the pre-emption clause and nomination period. A number of respondents said that providers would be unlikely to buy back homes and therefore warned that the removal of the pre-emption clause would result in a loss of Shared Ownership homes. Several respondents highlighted the risk that it becomes harder to build new homes as local support for new developments is often dependent on homes remaining affordable.

11. Section 3: Introducing a standard model for all providers to improve mortgage availability

Proposals consulted on:

We consulted on introducing a single standard model of Shared Ownership that all providers could use in order to reduce complexity for consumers and attract greater lending. We sought views on the effectiveness of the restricted lease in rural areas, which prevents shared owners from staircasing beyond 80% in order to guard against Shared Ownership homes being lost in areas where they are hard to replace.

Views of respondents:

Some lenders and housing providers disagreed that there is a significant issue with mortgage availability. Some suggested that the best way to attract more lending would be to increase supply. There were mixed responses on whether greater standardisation is needed and how to introduce a new standard model. Some respondents argued that there are good reasons for some of the differences between leases e.g. specific provisions for older people. Respondents generally agreed that there are issues around the restricted lease in rural areas including limited mortgage availability and difficulty selling homes, but there were divided views about whether to remove it. Respondents raised concerns about the risks to supply from removing the restrictions.

Government response

12. Section 1: Making it easier for people to increase their share of the property:

We agree with the view of the majority of respondents that the minimum staircasing amount should be reduced and that staircasing costs need to be addressed to make the new model work for shared owners. This is why we are introducing a new 1% model with heavily reduced fees. We understand concerns that HPI valuations could become divorced from the true value of the property, leading to over- or underpayment for staircasing, and will therefore restrict the use of these valuations to 1% per year for 15 years.

13. Section 2: Making it easier for people to sell their home

We recognise the importance of balancing making it easier and quicker for shared owners to sell their homes with retaining affordable homes in areas where there is a demand for them. We believe that retaining the nomination period but giving the power to shared owners to end it after four weeks will provide this balance. The new resales model will still encourage properties to be resold as Shared Ownership homes so that they can benefit new generations once the original buyers move on, while giving greater control to the shared owners to influence the sale and prevent unnecessary delays.

14. Section 3: Introducing a standard model for all providers to improve mortgage availability

The new standard model will apply across all new Shared Ownership homes delivered through grant funding and the planning system, providing a single model that consumers, housing providers and lenders can all have confidence in. The Government will continue to work with lenders to ensure that shared owners can access the mortgages they need at competitive rates. We recognise that, in the cases of Older People's Shared Ownership and Designated Areas, variant leases meet particular needs. We will retain these variants.