

Consultation Response

Shelter's response to the ODPM consultation on Homebuy – expanding the opportunity to own

June 2005

www.shelter.org.uk

© 2005 Shelter. All rights reserved. This document is only for your personal, non-commercial use.
You may not copy, reproduce, republish, post, distribute, transmit or modify it in any way.

This document contains information and policies that were correct at the time of publication.

Shelter is a national campaigning charity that provides practical advice, support and innovative services to over 100,000 homeless or badly housed people every year. This work gives us direct experience of the problems caused by the shortage of affordable housing. Our services include:

- A national network of over 50 housing aid centres
- Shelter's free housing advice helpline which runs from 8am-midnight
- Shelter's website which provides housing advice online
- The Government-funded National Homelessness Advice Service, which provides specialist housing advice, training, consultancy, referral and information to other voluntary agencies, such as Citizens Advice Bureaux and members of Advice UK, which are approached by people seeking housing advice
- A number of specialist projects promoting innovative solutions to particular homelessness and housing problems. These include four 'Homeless to Home' schemes, which work with formerly homeless families and the Shelter Inclusion Project, which works with families, couples and single people who have had difficulty complying with their tenancy agreements because of alleged anti-social behaviour. The aim of these particular projects is to sustain tenancies and ensure people live successfully in the community.

Introduction and Overview

We welcome the opportunity to respond to the proposals announced in April 2005 and supplemented in May 2005.

Shelter believes that everyone should be able to live in a home which is affordable, secure, decent, and within a socially mixed neighbourhood where people feel safe, can work and fulfil their potential. This should be achievable across all housing tenures. We believe that the current government drive towards spreading the boundaries of home ownership (of which these proposals form part) is questionable; it risks further marginalisation of those households who have no realistic prospect of becoming homeowners, and further stigmatising of renting as a tenure of choice, whether in the social or private sectors. Any programme of low cost home ownership should fulfil the following objectives:

- It should not reduce the stock of available social rented housing.
- It should represent value for money in terms of public expenditure, taking into account a wide range of costs and benefits, both economic and social.
- It should safeguard the needs of those in society who have little prospect of ever being able to afford home ownership, and avoid further residualising and stigmatising of the social rented sector.
- It should allow the growth and maintenance of mixed communities in terms of income and tenure.
- It should be secure against fraud and exploitation.
- It should avoid encouraging into home ownership those who cannot really afford the costs.

We recognise the ways in which the Homebuy proposals are an improvement to the Right to Buy, in terms of aiming to meet objectives on increasing supply. Our response will go on to discuss the ways in which we think these objectives as a whole are met, or not, by the proposals in the consultation paper. We are pleased to see that the Government has resisted pressure to extend the Right to Buy to tenants of Housing Associations; this would have had undesirable consequences for individual Housing Associations, as well as for the 100,000 homeless households in temporary accommodation and the over 1 million people on housing waiting lists throughout England. It is in this context of acute housing shortage and unmet need that we have to view these proposals.

Summary of response

- The Social Homebuy proposals are preferable to extending the Right to Buy to HA tenants. It is crucial that they act in practice to increase the supply of social housing stock, as set out in the aspirations in the consultation document. We are concerned that there is no new money available to increase the National Affordable Housing Programme to cover the cost of discounts. Because discounts are to be ring-fenced out of the overall sum already allocated, the proposals serve to put public money directly into home ownership, whilst relying on uncertain levels of reinvestment to contribute to the vital task of building more social rented housing, at the expense of directly funding the building of this housing.
- The joint initiative on shared equity mortgages will bring new private sector funding into subsidised home ownership and will genuinely enable first time buyers to get on the housing ladder while safeguarding the supply of existing housing stock. We welcome this innovation in the source of funding for subsidy, whilst still cautioning that to increase affordability without increasing supply will have an inflationary effect on house prices.
- We take the view that the Homebuy proposals are capable of replacing the Right to Buy and Right to Acquire, and that the opportunity should be taken now to remove this system which is so inefficient in terms of funding replacement housing provision, and so inequitable, given the restrictions on eligibility. There is no justification for continuing to run Right to Buy and Right to Acquire alongside the Homebuy proposals.
- We do not accept the assumption in the consultation document about sale proceeds from Social Homebuy being used to fund the building of replacement units for rent. There is no compulsion to use funds from sales to build new rented housing. There is a risk that funds could instead be used to fund low cost homeownership schemes, or to pay for renovations or other pressing needs of the individual RSL; the general proviso that these proceeds should be used for building new social housing “where this makes sense” is thoroughly inadequate. We would like to see tight regulations for the use of disposal proceeds from sales under Social Homebuy, with the range of circumstances under which proceeds can be used for other purposes strictly limited; all RSLs who have received funds in any year should be monitored and audited on the subject of how they have spent these receipts.

- Using the sale proceeds for building new social housing units is also going to be problematic because of issues of land supply for new building. The proposals exclude rural areas from Social Homebuy “to protect the supply of social housing in areas where there is restricted land for replacement homes”. While the exemption for rural areas is welcome, this problem of land availability is widespread and does not only apply to rural areas.
- It is considered likely that the properties sold off first under Social Homebuy will be the best stock - street properties and houses on small desirable estates. Unless the welcome new right of re-purchase is universally exercised, this will further residualise the social housing sector in the same way as happened under Right to Buy. The proposed right of buy-back is inadequate to ensure that RSLs will, in fact, buy back these units when the opportunity arises. They may have other financial priorities, and may be under pressure because of operating costs measurement to avoid repurchasing street properties, or one or two units left on an estate remote from the rest of their stock, which may increase their management costs per unit.
- It is good to see that the proposals recognise the difficulties amongst low income homeowners in meeting repair costs, and mortgages, rent and other charges. The recommendation of giving advice and some level of financial checking by the landlord before proceeding with the purchase is very welcome. There is also a suggestion in the proposals that a sinking fund of some sort might be set up to help meet large repair bills, and this too is further evidence of government recognition of the difficulties faced by home owners on low incomes. However, we are concerned that there is to be no compulsion for HAs to allow tenants to staircase down if they get into financial trouble. Rather than being left to the landlord’s discretion, this flexibility for low income homeowners should be built into the scheme at the outset. Careful attention is also needed to the legal status of the shared equity purchase because there are likely to be implications for Stamp Duty, and for eligibility for Housing Benefit.
- Former shared ownership schemes which allowed applicants to purchase a 25% share of the property are replaced with New-Build Homebuy, which starts at 50%. This difference in the minimum equity to be purchased will exclude a significant group of potential low income home owners, particularly in high value areas, and should be looked at again.
- We have concerns that these proposals will have an adverse financial effect on RSLs who opt to offer Social Homebuy. They will make cashflow unpredictable and uncontrollable, and there is a high risk of RSLs not being able to afford to buy back properties when offered, a key feature of the scheme and one crucial to its claim to have no detrimental effect on social housing supply.

Detailed Response

In analyzing the proposals, which are complex and wide-ranging, we have adopted an approach of highlighting the effects they will have on various groups and interests. The specific questions set out in the consultation paper are answered through this analysis and cross-referenced under the section headed "Questions in the Consultation Document". Our analysis is below, and covers the following groups.

1. Applicants and potential applicants for social housing, including homeless households and those on housing waiting lists
2. Tenants of social housing who are economically inactive and have no prospect of being able to afford home ownership
3. Tenants of social housing who have a reasonable income and might be able to afford home ownership, depending on the details and degree of subsidy available under low cost home ownership schemes
4. Tenants of social housing who have a good income, and who would have been able financially to exercise the Right to Buy, had it been available to them
5. Households (often newly formed households made up of young people, or people following relationship breakdown) who have a good income and aspire to home ownership but are unable to afford unsubsidised house prices. This group would include Key Workers as currently identified, and would generally be regarded as ineligible for social housing.
6. Registered Social Landlords
7. Communities at a broader level

1. Applicants and potential applicants for social housing, including homeless households and those on housing waiting lists

We recognise that the Government is viewing the Homebuy proposals as a way in which the supply of social rented lettings can be increased in order to meet the commitment to this group¹. We believe that some of the assertions in the consultation paper need to be analyzed further.

- One basis of the claim that the proposals will increase the number of social lets is that households already in social housing will move out of the sector to take up low cost home ownership (rather than using Social Homebuy to buy a share in their current home). The consultation paper states that figures show, on average, this group of people would have stayed in their current home for 10 years before moving out of the sector, and so concludes that one of the key benefits of Homebuy will be to bring forward these new lets and increase the availability of social housing. This aspiration is, however, undermined by the weighting of the programme. Social housing units for rent will only be freed up for letting if a large proportion of the funding available for New Build Homebuy (NBH) and Open Market Homebuy (OMH) goes to existing social housing tenants, and the subsidy is set up in a way which will encourage larger numbers of social housing tenants to take up the offer. The figures on p17 indicate that the majority (45,000) of proposed sales under NBH and OMH between now and 2010 are intended to go to key workers or other first time buyers, whilst only an unspecified

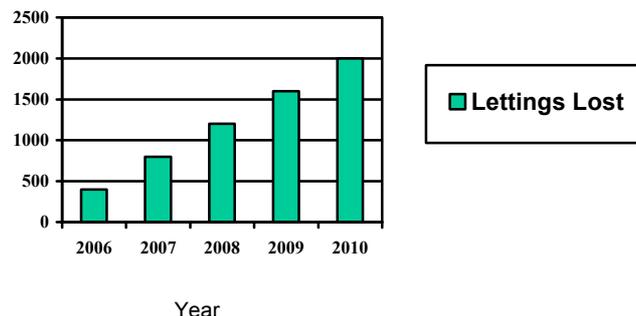
¹ As set out in *Sustainable Communities: settled homes; changing lives*, ODPM, 2005, and the subsequent *Policy Briefing 11 – Providing More Settled Homes*.

proportion of another group of 26,000 sales will be prioritised for social housing tenants. Even if 90% of this last group of sales end up going to social tenants (and there are no proportions guaranteed), social tenants would then be getting 23,400 out of total projected sales of 71,000 - ie around one third.

- The number of social lettings becoming available as social tenants take up OMH and NBH, is likely to be offset by the number of units being taken out of the social housing sector as tenants who can afford to buy 100% of the equity in their homes take part in Social Homebuy. We have attempted to calculate the likely numbers of units that could be lost under Social Homebuy. The consultation paper, p41, estimates that 10-15% (42,000-63,000) of tenants who would become eligible if Right to Buy were extended to RSLs could afford to take it up. The level of discount on offer under Social Homebuy is lower than under Right to Buy, so there would be fewer households able to afford purchase of 100% share under the new scheme, than under Right to Buy. We therefore assume affordability at the lower end of the numbers given ie that 42,000 households could afford to buy a 100% stake in their homes under Social Homebuy. We also assume that a fairly high proportion of these potential sales would go ahead, since there will be a level of pent-up demand within the sector. For the purposes of this illustration, we have assumed that half of those who could afford to purchase outright (amounting to 21,000 households) would choose to do so within the first 4 years of the scheme's operation. So over the period to 2010, around 21,000 units are likely to be sold to existing tenants through Social Homebuy, a similar figure to the number of social housing units which are likely to be freed up as tenants exercise the other Homebuy offers. There is therefore likely to be no net gain in units available from this aspect of the scheme.

To get a full picture of the effect on supply of the Social Homebuy proposals, we should also consider the long term effect of the loss of lettings resulting from stock being sold off. The rate of turnover in RSL stock was running at around 80 per 1000². At this rate, out of the 21,000 units sold under Social Homebuy, about 400 could have been expected to come available for letting in each year. By 2010, this would result in a loss of around 2000 lettings to the sector. This is represented in the table below:

Figure 1: Lettings lost over time as a result of sales under Social Homebuy



² ODPM (2004) HSSA 2004

- Social homebuy is also described as adding to social housing supply by ensuring that new units are built with the sale proceeds of the houses sold. To look at the scale of this effect:

Taking the replacement rate of 1 new unit to every 3 sold (as estimated by the financial modelling in the Supporting Document), we can only estimate the number of new houses built by estimating the number of tenants who will choose to exercise Social Homebuy at less than 100% share, on top of the 21,000 who may exercise 100% Homebuy. The figures in the Supporting Document estimate that out of a 10,000 unit stock for an individual RSL, 3,000 tenants can afford Homebuy, but could not have afforded Right to Buy or Right to Acquire, and that 5% of this number of 3000 would go ahead with purchase each year. This would mean that out of 10,000 units, in the four years from 2006-2010, 600 homes would be sold under Social Homebuy at shares of less than 100%. We have attempted to extrapolate this figure across the whole of the RSL sector by assuming that two-thirds of RSLs with more than 2,500 units of stock would choose to participate in the Homebuy scheme, and that none of the RSLs with stock of less than 2500 units would choose to participate. This level of participation by RSLs and their tenants would result in approximately 55,000 sales³. Adding this to the 21,000 purchased at 100% share, gives a total number of sales generating money for building new units of 76,000. At a 1 in 3 replacement rate, this allows for 25,333 new units built as a result of Social Homebuy⁴.

Figure 2: Summary of the effect on housing supply of Homebuy:

Net gains and losses taking Homebuy in isolation		
Units added to rented social housing stock 2006-2010	Units lost out of rented social housing stock 2006-2010	Net loss or gain of units 2006 - 2010
23,400 (maximum estimated number of social tenants moving out of the sector to take up OMV or NBH)	21,000 (Estimated number purchased outright under social homebuy)	
25,333 (maximum estimated number of new social rented homes built if all net sale proceeds go towards building new units)		
Total gain = 48,733	Total loss = 21,000	Net gain of units reflecting Homebuy in isolation = 27,733

³ Based on figures from Housing Corporation Dataspring tables – Profile of the Housing Association Sector in 2004 - a total of 1,405,000 units are held by RSLs with stock of more than 2500. $1,405,000 \times 0.66 \times 600/10000 = 55,638$

⁴ This calculation is based on the assumption, made in the ODPM's financial modelling, that 100% of funds realised after payment of debts would be used to build new social rented housing. As stated elsewhere in this consultation response, we do not believe that this will be the case in practice, but will work with the assumption for the purposes of this illustration.

Our calculation shows that there may be a net gain of over 27000 units due to Social Homebuy during the period 2006-2010. However Social Homebuy is not running in isolation, it is running alongside the continuing Right to Buy and Right to Acquire. The aspiration of increasing housing supply through the proposals, and particularly through Social Homebuy, is undermined by this. Although recycling of funds from sales under Social Homebuy should successfully increase supply, taking into account stock losses through the Right to Buy, (currently running at 70,000 per year⁵), there is likely to be a net loss of units of rented social housing over the years 2006-2010. Even estimating conservative levels for Right to Buy sales, this stock loss may amount to over 100,000 units.

Figure 3: Summary of the effect on housing supply of Homebuy running alongside Right to Buy

Net gains and losses including the effect of RTB		
Net gain from Homebuy proposals (see figure 2) = 27,733	Stock losses through RTB = 140,000 (annual sales under Right to Buy in England in 2003/4 were 70,000. Assume drop to 35,000pa over next 4 years as house prices slow)	Net loss of units reflecting both Homebuy and the RTB / RTA = 112,267

When stock losses under the Right to Buy are taken into account, the overall picture is that all the stock gains secured by rebuilding under the Homebuy proposals are wiped out. The loss of available lettings is correspondingly serious. Taking turnover in the RSL sector as around 80 units in every 1000 as in the previous lettings calculation, the reduction in available lettings because of retaining the Right to Buy will be a further 2,800 lettings every year.

In order for the Homebuy proposals to genuinely improve the supply of social housing in England, they must replace, not run alongside, Right to Buy and Right to Acquire.

- The proposals promote the idea that receipts from sales under Social Homebuy will be reinvested into building new social housing, thus increasing supply. Firstly, we would highlight the fact that the replacement rate given in the main consultation paper is only around 1 new unit for every 3 sold⁶, even making the assumption that all of the sale

⁵ ODPM Housing statistics for 2003/4 give the figure for Right to Buy sales across England as 69,577

⁶ Homebuy – expanding the opportunity to own, consultation paper April 2005, Supporting Document, issued May 2005. This document revised the expected replacement rate of one in two to nearer one new home for every 3 lost to social homebuy. The reduction in replacement rate is to take into account the debt which HAs will have to repay using part of the sale proceeds.

proceeds are invested in building new social housing for rent. However, using all the sale proceeds for building new social housing for rent is far from certain to happen, making even this 1:3 replacement rate look optimistic. Receipts from sales may not be directed by RSLs into building new social housing for rent. Although this is advocated as part of the proposals, no compulsion is proposed, and RSLs have many other competing demands on their finances. Section 5.4 of the proposals, which deals with reinvestment of sale proceeds, is littered with caveats allowing for the possibility of not spending proceeds in this way. Building replacement units will take place “where it makes sense”; proceeds are to be quickly reinvested “as far as possible”; the strong preference is for reinvestment in social housing “where it is needed”. The proposals state that RSLs may use the proceeds for regeneration projects, for improvements to pre-1988 housing stock, or for other low cost home ownership products. Of particular concern is the extent to which new homes built may be for further shared equity units intended to be sold under the Homebuy scheme, rather than built for social renting.

Shelter does acknowledge that there are some limited circumstances where building replacement rented social housing may genuinely not be the best use of disposal proceeds. A limited number of grounds for exception which will justify spending proceeds elsewhere will be acceptable, however these grounds for exception must be clearly set out, and RSLs’ use of them monitored.

- Even where a RSL is minded to spend receipts on building new social housing for rent, there may not be land available for building this housing. Recent proposals for RSLs to have access to English Partnerships’ land banks may improve the situation to some extent, however in many areas, land for housebuilding is in extremely short supply and RSLs are unable to compete successfully for sites with private developers. We welcome the proposal in this consultation paper (p24) for the exemption of rural areas from Social Homebuy, but of course the problem of land supply is not confined to rural areas.
- The Supporting Document to the main consultation paper contains a worrying statement⁷: “Social Homebuy would also result in social housing being turned into intermediate housing allowing those who could not otherwise have afforded to move into partial home ownership to do so. The net result would be an increase in the size of the affordable housing sector (ie social plus intermediate housing) *albeit with a shift in the balance between the social and intermediate sectors*” (my italics). At a time when there are more than 100,000 households in temporary accommodation waiting for rented social housing, any shift in the balance that takes units out of social rented housing must be questioned.

⁷ Homebuy – expanding the opportunity to own, consultation paper April 2005, Supporting Document, issued May 2005. p4

2. Tenants of social housing who are on a low income (including those who are economically inactive) and have no prospect of being able to afford home ownership

This group of people will be affected by the Homebuy proposals in so far as the character of the areas they live in and the quality of the management services they receive will be changed, as their neighbours exercise Social Homebuy and move into partial or full home ownership. Estates and areas may benefit from a greater proportion of home owners because a more diverse neighbourhood is created. In some areas, this has been a positive impact of the Right to Buy. This prospect needs to be approached with caution, however. In some cases anti-social behaviour on local authority estates happens as a result of owners who have exercised Right to Buy, or their successors, letting out properties and becoming bad landlords who take little interest in the condition of the property, or the support needs and behaviour of their tenants. With Social Homebuy, the same thing may now happen on RSL estates. There may also be an issue of new owners being unable to afford to (or simply choosing not to) maintain their properties adequately, thereby reducing the overall appearance and health and safety standard of a neighbourhood. We do welcome the proposals to set up sinking funds to ensure that new homeowners can afford maintenance and repair - this is clearly a step forward from the position under Right to Buy - however, a risk still remains.

A further problem may arise for RSL tenants on small estates or in street properties, which are desirable enough to ensure that those tenants who can afford to do so to exercise their right to purchase under Social Homebuy. The tenants who cannot afford to buy may find themselves left as only 1 or 2 units of rented housing on a close or estate where all other units are owner-occupied. This may lead to these tenants receiving a poorer management service from the landlord, who will find it uneconomical to devote much time to visiting or managing the estate in order to service a couple of isolated units. This is especially so at a time where housing associations are being expected to make efficiency savings and reduce management costs. Along with the reduced management service will be reduced opportunities for community development and participation for the remaining tenants.

3. Tenants of social housing who have a reasonable income and might be able to afford home ownership, depending on the details and degree of subsidy available under low cost home ownership schemes

This is clearly a group of people who stand to benefit from the Homebuy proposals. They may be able to exercise Social Homebuy in their existing home, either to full or part ownership, or to move out of their current home into either a new build unit, or a property on the open market, purchased under the shared equity schemes of NBH or OMH.

We consider that the way the proposals are set out does well in addressing the unmet home ownership aspirations of this group. We welcome the various ways in which the proposals set out alternatives and invite suggestions for precise figures and details of subsidies, to decide the size of this group, and the level at which their income will start (including the choice between options 1 and 2 for shared equity purchasers on pages 19 and 20 of the consultation document). We do not propose to give an opinion as to these detailed questions, but instead make the general point that social mobility and a redressing of the current situation where a great gulf exists between those who have

housing assets and those who do not is a desirable end. We are not convinced that home ownership is the only way to do this⁸. These sorts of social ends will be best effected if subsidies are targeted at a smaller number of less well-off households who would otherwise have little chance of home ownership, rather than spread amongst a larger group of households who were only just outside the margins of being able to afford un-subsidised home ownership.

We do make 2 specific recommendations:

- Firstly, it should be a key aim of these proposals to ensure that risks are minimised for those who enter into home ownership based on the subsidies offered. Possession actions entered by mortgage providers are currently rising at an alarming rate. They were 35% higher nationally in the first quarter of 2005 than they were in the first quarter of 2004, and in London the corresponding rise was 60%⁹. This rise is taking place after a period of over a decade when possession rates were on the way down. Running alongside this rise in mortgage arrears is a slowdown in the housing market – prices in the South are almost static, and rises in the North are starting to slow down from the excessive levels of the last few years. In this climate, home ownership offers no guarantee of capital growth or security – in fact it is a risky venture involving costs which many first time buyers do not adequately foresee, coupled with an absence of any benefits safety net which compares to the security offered to tenants by Housing Benefit. Caution must be at the forefront of any initiative which aims to encourage low or average income earners into home ownership.

We are pleased to see the proposals in section 6 of the document specifying that applicants would undergo assessments of their financial position and the affordability of the purchase before they were allowed to continue. We also welcome the setting up of a sinking fund to pay for the cost of repairs and improvements. However if difficulties did arise, it is worrying that there is no compulsion on RSLs to offer an option of staircasing down to equity share owners experiencing financial problems. We recommend that such a provision is made compulsory.

We would also highlight the uncertainties in the consultation document over the legal status of shared equity arrangements under Homebuy. It seems that the shared equity purchaser would be buying a long leasehold in the entire property, and then simultaneously granting the landlord a charge over the property to cover the value of the relevant percentage to be retained. This has implications for affordability and sustainability of ownership in two ways.

- **Stamp Duty:** under the arrangement above, it seems likely that 100% liability would be with the purchaser, as opposed to the existing liability under shared ownership schemes where the purchaser would only have to

⁸ Shelter and the CIH have recently published proposals for Homesave, a collection of measures designed to help low income tenants to save or invest in property without individually purchasing the home they live in, and we recommend these proposals for further development. See HomeSave – Increasing choices for tenants to own assets, by Rachel Terry, Merron Simpson and Sue Regan, Shelter/CIH, 2005.

⁹ Department for Constitutional Affairs statistics released April 2005

pay Stamp Duty on the share they purchased. This extra cost of purchase would have effects on affordability for lower-income purchasers.

- **Availability of Housing Benefit:** If a shared equity owner under Homebuy lost their job after purchase, the element they are paying to the landlord for the share not purchased (referred to in the proposals as the “charge” on the property of around 3% of its value) may not be eligible for Housing Benefit because it is not rent. This removes a benefit safety net currently available to shared owners under existing schemes and will affect the sustainability of home ownership.
- Secondly, the fact that New Build Homebuy will only be available at a 50% equity share will make the scheme unaffordable to a large proportion of middle income tenants, especially in London and the South. Figures obtained informally from landlords imply that over 80% of shared ownership applications in London under the current programme are for shares below 50%. We recommend a flexibility in the minimum available equity share, ranging from 25% to 50% to take into accounts local housing market conditions and affordability.

4. Tenants of social housing who have a good income, and who would have been in a financial position to exercise the Right to Buy, had it been available to them

One of the criticisms often levelled at the Right to Buy is that it is inequitable in terms of only being available to certain groups of tenants in social housing. There is a significant group of tenants in Housing Associations (the consultation document estimates between 42,000 and 63,000¹⁰), who would be able to exercise the Right to Buy if they were eligible for it. We must assume that the numbers able to exercise 100% purchase under Social Homebuy would be smaller, because the discount regime is less generous, however the lower figure of 42,000 is not unreasonable as an estimate of its size. Clearly this group will be able to benefit from the Social Homebuy proposals by immediately acquiring 100% equity in their home at a discount.

We believe it is worth questioning the extent to which this group of relatively well off tenants should be subsidised to buy social housing using public funds. We would consider it more equitable if this group of tenants were encouraged to exercise low cost home ownership through New Build Homebuy, or Open Market Homebuy, and not through Social Homebuy, which would remove the home they live in from the social housing sector. If they were to exercise NBH or OMH, then their existing home would be freed up for a new social letting, creating some immediate benefit. As discussed in section 1 of this response, the weighting of the NBH and OMH programmes towards current tenants of social housing is insufficient. We view the idea of keeping better-off households in social housing as a means of furthering mixed and sustainable communities as a desirable end, and if Britain were in a situation of less severe housing under-supply, would unequivocally support it. However in the current housing crisis, the need for rented social housing is so acute that encouraging the top tier of better-off

¹⁰ p41 gives a figure of 42,000 as 10% of the numbers of HA tenants who would be eligible for Right to Buy were it to be extended to HAs, and the number which is estimated would be able to afford to exercise it.

tenants to move out of the social housing sector using low cost home ownership products must be encouraged.

We suggest that the overall picture of the financial incentive offered for social housing tenants to take up one of the 3 homebuy proposals is reviewed, and weighted to give greater incentive for this group to exercise OMH or NBH. One of the consultation questions asks whether the level of discount for Social Homebuy has been correctly assessed in the consultation paper. This discount provides a considerable incentive for tenants to exercise Social Homebuy, rather than one of the other options. We would not object to a lower level of discount than that proposed. Indeed, to remove some of the discount available on Social Homebuy, and use the saving to make a similar amount of money available as a cash grant on exercising OMH and NBH might well be a useful tool in re-weighting the programme between the 3 options.

As mentioned in section 1 above, we also recommend that the Homebuy proposals do not run in parallel to the Right to Buy and Right to Acquire, but instead replace these inefficient, inequitable and outdated schemes. The benefits available to high income social housing tenants through the Homebuy proposals, are both fair and generous, and are an adequate substitute for the Right to Buy and Right to Acquire. Given the aims of the Homebuy proposals to simplify and rationalise low cost home ownership measures, it seems perverse to keep Right to Buy and Right to Acquire going in tandem with this simplified suite of measures.

5. Households (often newly formed households made up of young people, or people following relationship breakdown) who have a good income and aspire to home ownership but are unable to afford unsubsidised house prices. This group would include Key Workers as currently identified, and would generally be regarded as ineligible for social housing.

It is the needs of this group of households which drives much of the Government's policy around housing. Shelter has regularly argued that meeting the thwarted housing aspirations of this group is a less important goal than addressing the acute housing need faced by those households who are homeless, or severely overcrowded, or otherwise living in extremely poor conditions.

We continue to caution that providing subsidies to potential first time buyers who cannot presently afford purchase will serve to push up house prices even further. At the moment the unaffordability of house prices to first time buyers has potential to act as a brake on rising prices (albeit that first time buyers' influence on market prices has been weakened by the growth of the buy to let sector). If this potential brake is taken away by providing subsidies, then the market will become further distorted, and prices will move further out of reach for those on average incomes. Increasing supply is a better long-term solution to the problem of unaffordability.

We would make the following recommendations on the proposals for initiatives to help the first time buyer and key worker group as they appear in this consultation document.

- As mentioned in section 1 of this response, nearly 50,000 out of the 70,000 households to be helped into home ownership under the OMH and NBH proposals are key workers and other first time buyers. Helping these

households to become home owners will not contribute towards meeting the housing needs of homeless households and those suffering appalling housing conditions; none of the receipts from sales under NBH and OMH will be used to build new social rented units. The programme should be weighted more in favour of encouraging current tenants of social housing to move out of the sector, thus freeing a social housing unit for re-letting.

- Notwithstanding our comments above about the effect of subsidy on house prices, the new initiative of the Shared Equity Mortgage Scheme, where private sector mortgage providers match government subsidy to shared equity purchasers, is a promising development in terms of bringing in new sources of funding and partnership with the private sector. We would like to see this initiative explored further, with a view to moving towards a point where any subsidy to enable the key workers and first time buyers group to access home ownership comes from mortgage providers, who stand to gain so much in terms of opening up new markets for their products, rather than out of public funds.

Shelter recognises the arguments put forward by advocates for Key Worker programmes, ie that unaffordability of housing is contributing to recruitment and retention difficulties in the public sector. Sadly, the housing market in many areas of the country (particularly in London and the South East) is so distorted that even with the level of subsidy proposed under Homebuy and the Shared Equity Mortgage scheme, prices will remain unaffordable to those on average incomes¹¹. As a better means of serving the needs of the key worker and other first time buyer group, we recommend:

- A review of the regulation and subsidy of the private rented sector, encompassing a statutory code of management practice for landlords and a revision of security of tenure. This would serve to eliminate the worst features of private renting ie the insecurity of tenure, and the unreliability of landlords' standards of management and maintenance of the property, and would give this group of households access to the sort of aspects of housing to which they aspire – security, flexibility, good repair.
- The development of the intermediate rented sector. This sector receives little attention, but in fact is able to offer right now all the housing goods mentioned above, whilst at the same time providing a potential cross –subsidy for Housing Associations as landlords because of the higher rents charged, which could go towards building new social rented units.

6. Registered Social Landlords

We do not consider that we are best placed to comment on the effects which the Homebuy proposals will have on RSLs, and so will not address these in detail. We would, however, say that the financial uncertainties forced on participating RSLs should be addressed before these proposals are finalised. We are particularly concerned that funding for RSLs to re-purchase units sold should be secured. Although, under the

¹¹ This argument has been raised in the housing press in response to the Shared Equity Mortgage initiative, see “First time buyer scheme is unaffordable in cities” – Inside Housing 3 June 2005.

proposals as they stand, the RSL has a right to re-purchase, there is no guarantee of funding availability to make this purchase, particularly given the need for the RSL to cover any rise in value on re-purchase.

Even where RSLs have the money to re-purchase, we believe that there will often be an incentive for the RSL not to do so. For example, where most units on an estate have been sold off, management of any re-purchased units would be expensive and inefficient, and in the current climate where efficiency in management and operating costs are monitored so narrowly, this will act as a severe disincentive to re-purchase. We suggest that RSLs should be restricted as to the circumstances in which they are allowed to opt out of re-purchasing units.

7. Communities at a broader level

We have already mentioned under section 2 the likelihood that the properties which will be bought first under Social Homebuy will be the ones in the most desirable areas. Whilst in the short term, Social Homebuy may result in more mixed tenure communities, in the long term there is a risk of further polarisation. With estate-based properties, the most desirable properties (eg those in small closes, or established 1970s estates), are likely to be sold to sitting tenants under Social Homebuy, leaving the most attractive estates comprising mostly owner-occupied housing, with only a minority of tenanted units left. This is likely to act as a disincentive to RSLs to re-purchase units when their owners decide to sell, because management will become high-cost and inefficient. It will be more cost effective for the RSL to allow the entire estate to pass into owner occupation, and instead to use the funds from sales to build new estates elsewhere, where management costs per dwelling will be cheaper. We would like to see a broader approach taken by the ODPM and the Housing Corporation towards how operating costs and efficiency are measured. At the moment, RSLs have a strong incentive to take purely financial costs and benefits into account out of all proportion to social costs and benefits.

Street properties are also likely to be in high demand by their tenants to exercise Social Homebuy, thus in time removing these units from the social, and indeed the 'affordable' housing sectors as they are sold on through the open market. As with desirable estates, RSLs will have little incentive to exercise their right of buy-back for these units, which are isolated, and often old and expensive to maintain or bring up to the Decent Homes Standard. Street properties owned by RSLs often provide the only social housing in some neighbourhoods or areas with few social housing estates. Their loss via Social Homebuy would result in these streets or areas becoming exclusively owner-occupied or rented privately at unaffordable rent levels; resulting in less mixed communities. At present, RSL tenants live side by side with wealthy owner-occupiers; this social mix would gradually disappear.

There are likely to be more positive effects for mixed and sustainable communities arising out of Open Market Homebuy, particularly as it is extended by the Shared Equity Mortgage Scheme. This will continue to allow first time buyers on average incomes to live alongside established higher income homeowners.

As with all home ownership schemes which target social housing tenants, it is likely that the proposals as a whole will lead to the tenants with the highest incomes gradually moving out of social housing estates, as has happened with the Right to Buy, leaving

social housing more residualised than it was before. To a certain extent this situation could be prevented if RSLs are both financially able and incentivised through a broader approach towards efficiency and operating costs, to exercise their right to re-purchase sold units (see above).

We would also draw attention to the point made in section 2, about the potential effects on social housing estates of units moving into owner-occupation. The subsequent letting of these newly owner-occupied units with associated problems of nuisance and poor maintenance, and the costs and difficulties of managing mixed tenure estates, are likely to have adverse effects on these communities.

Questions in the Consultation Document

The consultation document asks a number of specific questions, and we address each of these below.

1. Do you agree that, other than where assistance is targeted at key workers, social tenants or those on the housing register, it should be for Regional Housing Boards to identify those categories of first time buyers they consider a priority?

Please see section 5, p13-14

2. What factors should Regional Housing Boards take into account when deciding which further groups of first time buyers should be a priority for assistance?

Please see section 5, p13-14

3. What are your views on the affordability and impact on outputs of Options One and Two for (i) purchasers and (ii) providers? We would welcome views both in respect of Social HomeBuy, where the Government has indicated its preference in 'Sustainable Communities: Homes for All', and New Build and Open Market HomeBuy.

Please see section 3, p 11

4. Bearing in mind the core principles outlined here and in 'Sustainable Communities: Homes for All', do you have any alternative proposals to Options One and Two?

Please see section 3, p 11

5. Under what circumstances, and for which client groups, should there be flexibility for purchasers to buy less than 50% of the home?

Please see section 3, p12

6. To what extent should there be different charges for different groups and how will they encourage part owners to buy a greater share of their property?

We have not answered this question

7. How might the Government encourage take-up of Social HomeBuy by housing associations and local authorities? What levels of discount, up to the maximum of Right to Acquire levels, are appropriate to make this an attractive offer to tenants whilst retaining value for money?

Please see section 4, p13

8. Do you support the proposal that housing associations should put forward plans to participate as part of the ADP bidding round?

We have not answered this question

9. Do you agree that those benefiting under HomeBuy should have the opportunity to staircase up in minimum 10% tranches, on the basis of the market value of the home at the time?

We have not answered this question

10. Do you think there would be circumstances in which staircasing up should be restricted? If so, in what circumstances might this be desirable?

Please see section 3, p10-12, and section 2, p10

11. Do you agree that staircasing down should be an option where people face exceptionally difficult financial circumstances, but that this should be at the discretion of both the holder of the remaining equity share and of the mortgage lender?

Please see section 3, p11

12. Do you agree that sales proceeds should be reinvested in replacement social housing, with some flexibility to meet other housing priorities depending on local circumstances on the basis outlined above?

Please see section 1, p9

13. Do you agree that providers should have rights to buy back the home, or to nominate a buyer within eight weeks, at the point of resale?

Please see section 6, p15 and section 7, p15

14. Do you agree that properties in areas designated as rural for Right to Acquire purposes and properties in supported housing developments should be exempt from Social HomeBuy? Should any other exemptions apply?

Please see section 1, p9

15. Are there other ways in which we might ensure that homes sold under HomeBuy remain affordable to future buyers?

We have not answered this question

16. Are there other ways in which support for home ownership could be used to free up social homes where they are needed to meet housing needs?

Please see section 4, p13

17. Do you agree with the proposed expanded remit for Zone Agents? Is there scope to extend even further? What do you think are sensible geographical boundaries?

We have not answered this question

18. Do you think there are further opportunities to streamline access to low cost home ownership schemes and improve efficiency?

Please see section 1, p8 and section 4, p13

19. Do you agree with the proposed arrangements for HomeBuy providers to assess whether home ownership is sustainable and applicants can afford the ongoing costs before offering them assistance?

Please see section 2, p10 and section 3, p11

20. To what extent do you think that providers should be able to require buyers, as a term of the lease, to contribute to sinking funds to cover the costs of planned maintenance and repairs?

Please see section 2, p10 and section 3, p11

21. Are there other ways in which we might ensure that the ongoing costs of maintenance and repairs are covered?

We have not answered this question

22. Do you agree with the proposals for the provision of key information to buyers, some of which it is proposed to provide on a mandatory basis and some on a voluntary basis? Is there further information that you think should be provided?

We have not answered this question

23. Would landowners be interested in developing their own equity loan schemes, either on the same terms as the Government or through their own innovative schemes?

We have not answered this question

24. What potential issues do we need to raise in taking forward discussions on the detail of proposals for public/private equity loans; and how they might be resolved?

Please see section 5, p13-14

Summary of policy recommendations to improve the Homebuy proposals

1. These proposals should replace the Right to Buy and Right to Acquire, rather than running alongside them.
2. RSLs should have stricter regulations placed on them over how they spend receipts from sales under Social Homebuy. Spending of the receipts should be assumed to be on replacement rented housing units unless a specific set of pre-arranged criteria are met, and RSLs should be audited at the end of every year on how they have spent the receipts.
3. There should also be stricter requirements placed on RSLs to exercise their right to buy back units where the owner wants to sell, particularly when the owner is staircasing out to 100% ownership and wanting to move to full owner occupation in the open market. They should only be able to not buy back a unit if a specific set of criteria are met to do with the weighting of the economic and social costs of losing and retaining the unit. RSLs should be required to use units they have bought back for social rented housing rather than for another shared equity owner.
4. The weighting of the programme for New Build and Open Market Homebuy between social housing tenants and other first time buyers should be reconsidered, and the financial attractiveness of these options for social housing tenants compared to Social Homebuy should be reviewed. The aim of this would be to encourage higher income tenants to move out of the social housing sector and free up their homes for further social renting.
5. A provision for staircasing down when shared equity owners experience financial difficulties should be a compulsory element of Open Market Homebuy and New Build Homebuy.
6. The minimum equity share purchase under both Open Market Homebuy and New Build Homebuy should be set flexibly from region to region to take into account variations in housing markets and affordability. The minimum stake should be set at between 25% and 50% depending on local conditions.
7. There should be further development of the intermediate rented sector alongside these new proposals for further low cost home ownership.
8. A review is needed of the private rented sector to address the worst deficiencies of poor management and insecurity of tenure, in order to provide a genuine alternative to home ownership for middle income households.

**Shelter Policy Team
June 2005**