Policy: report

Homes for forgotten families

Towards a mainstream shared ownership market

Shelter

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Executive summary

England's homes shortage now affects families up and down the income scale.

The high cost of buying or renting a home in much of the country is squeezing household budgets like never before. Housing is now a main factor in the stagnant and declining living standards of families in England.

England's poorest families have suffered from the lack of good affordable housing for some time, but over the last few years Shelter has seen increasing numbers of low to middle income families frustrated at their housing options, as the homes shortage affects more people further up the income scale.

Shelter believes that strong government action is needed to provide decent affordable homes for those without the means to do so themselves, but also to ensure that low to middle income families who are priced out of the market and unable to access social housing, are able to buy a decent home.

Owning a home used to be an achievable aspiration for low to middle income families, but now they are more likely to be renting privately. Home ownership has been in steady decline for this key group since 2003 – long before the credit crunch and subsequent recession.

Low to middle income families are working households, earning the average salary and below. A family with two earners typically earns £20,000 to £40,000 a year through a mixture of full and part time work. There is significant variation regionally in the low to middle income span: for example the range is around £28,000 to £60,000 in London.

Shelter estimates that there are 2.5 million low to middle income families in England.

These families have seen their living standards decline over the last decade: their wages have stagnated and the rising cost of living means they are feeling the squeeze.

In new analysis, Shelter finds that the high cost of homes means that the vast majority of low to middle income families simply can't afford the costs of a large mortgage.

Almost three quarters (1.8 million) of low to middle income families cannot afford the mortgage on a three bedroom home in their area. These are England's 'forgotten families'

A family earning £26,000 between them in Chorley, Lancashire, would need to earn an extra £12,000 a year to afford a 90% mortgage on the average local three bedroom home in their area.

Now low to middle income families' most realistic option is to rent in England's insecure private rented sector, raising their children with a backdrop of short term tenancies, never getting the chance to put down roots and settle in their home.

Low to middle income families want to own a home of their own. They have good reasons for this preference in the current environment.

Polls consistently show that people want to own a home of our own, even if they accept that it will be more difficult than for previous generations. More than three quarters of England's 9 million private renters' preference is to be a home owner.

People have strong reasons for wanting to own a home:

- They want stability and control over their home to raise their children in, and to feel confident that they can put down roots in the place their children go to school.
- Owners are more likely to feel part of their community: to vote, volunteer and know their neighbours.
- Renters resent paying "dead money" to landlords; they would prefer to build up an asset as they pay their monthly housing costs.
- Building up an asset makes sense for later life: to supplement pensions, pay for care costs and help their children out with their education and housing costs.

While social housing offers more stability, control and lower rents than private renting, social homes are in too short supply for most of England's low to middle income families to stand a realistic chance of getting one – 1.8 million households are on the waiting list, and less than 60,000 3+ bedroom homes became available in 2011/12.

The Government's Affordable Rent programme is also changing the nature of the social housing offer, meaning higher rents and shorter contracts, making the tenure less distinct from private renting.

In the absence of widely available, good quality social housing, the desire for home ownership among low to middle income families is a rational response to their housing options.

England's low to middle income families need a game-changing offer.

The mainstream housing market is failing England's low to middle income families. They need a better deal, one which gives them affordable housing options throughout their life, as their families grow and their incomes fluctuate. The deal needs to offer options for the full range of people priced out of the mainstream market, and who are unlikely to access social housing.

From our analysis of the needs and expectations of low to middle income families, and successive governments' attempts to help them, we know that a policy to really improve their options must meet the following criteria:

- Meets their needs and aspirations.
- Affordable for the full range of low to middle income families.
- A simple and comprehensible consumer product.
- A buying, selling and owning experience aligned with their expectations.
- Long-term commitment from policy-makers.
- A scalable offer that contributes to resolving the shortage of homes by increasing the supply of new homes.

We have used these criteria to appraise past and present schemes to help low to middle income families, and to inform our recommendations for how a successful programme would work.

Successive governments, worried about the signal that declining home ownership gives about the nation's prospects, have launched a number of schemes to boost ownership. Nevertheless, ownership rates have continued to decline.

Over the last three decades, governments have tried to help low to middle income families own a home, with varying levels of success and commitment, and some unintended consequences.

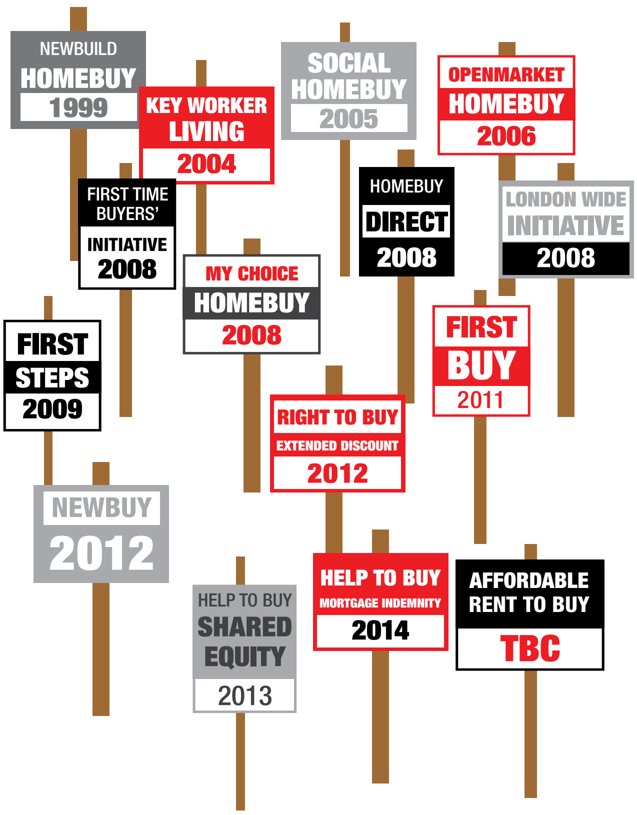
The Right to Buy has helped 1.8 million people become owners, but sales slumped from a peak of 167,000 a year in 1982/3 to a low of 2,500 in 2009/10. Even with the Government recently extending the discount for council tenants, there were only 6,000 sales in 2012/13. A further consequence of the Right to Buy was a significant drop in the number of affordable homes, as the social homes sold were not replaced.

Shared ownership has been a key response to the challenge, offering people the chance to pay a mortgage on part of a home and pay rent on the remainder. There are now 174,000 shared owners in England - but at 0.8% of all households, this is nowhere near filling the gap in the market for England's priced out families.

Billed as a stepping stone, a low proportion of shared owners have actually moved on to full ownership, suggesting that it needs to be more of a long term market than it was originally intended to be. Yet, restrictions on buying, selling and moving on within the shared ownership market make it very unlike the markets that low to middle income families are used to.

Shared ownership has failed to reach its potential, despite successive governments launching a number of schemes over the years.

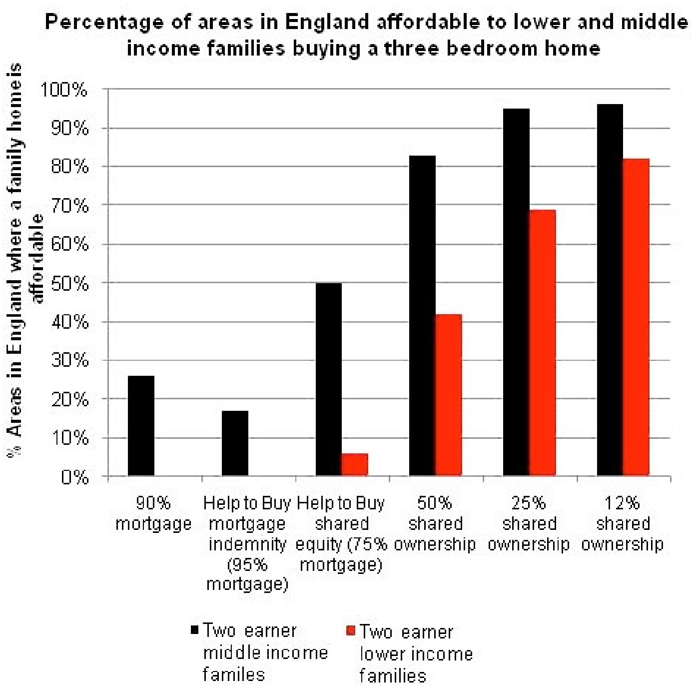
A succession of piecemeal ownership schemes



Eligibility criteria have changed between schemes and across different areas, making it confusing for prospective buyers. The churn of initiatives has also been bad for lenders, who have had to keep updating their lending processes in response to each change.

In summary, government led low cost home ownership schemes have repeatedly changed the rules of the game, making it hard for families to know their options and make an investment in their future. Despite all these schemes, home ownership rates have continued to decline.

The Government's current Help to Buy scheme offers little hope of reversing these trends – it will not help many low to middle income families own a home of their own.



Help to Buy does little to change the situation for England's low to middle income families. Our analysis looks at the affordability of three bedroom homes, and so applies not just to would-be first time buyers, but also second steppers unable to move up the ladder from a starter home that is too small for their growing family.

Help to Buy does not address the fundamental problem of high house prices leading to high mortgages costs.

Almost 8 in 10 of England's low to middle income families could not afford a family home with a 95% Help to Buy mortgage.

Simply lowering the deposit amount, as the mortgage indemnity part of the scheme does, only makes the monthly costs more unaffordable because the mortgage required is larger.

Without a direct link to new supply, the Help to Buy mortgage indemnity scheme is likely to push up prices making it even harder for low to middle income families to afford a home.

Even the Help to Buy shared equity scheme, which covers 20% of the cost of the home, only helps half of England's low to middle income families, and is small in scale.

Shared ownership offers the most hope for low to middle income families to be able to afford a stable home, especially where families have the option of buying smaller shares in their home than the current average of 35%. Only in expensive inner London areas would this be unaffordable to middle income families, while more expensive parts of the South East would still be unaffordable for lower income families.

A family earning £42,000 in Eastleigh, with a full time and part time worker earning the local median wage, would need to earn an extra £18,500 a year to afford a three bedroom home in their area with the Help to Buy 95% mortgage indemnity. They would need to earn an extra £5,500 a year under the Help to Buy shared equity scheme. But a 25% share on a shared ownership three bedroom would be affordable for them.

Shared ownership offers the most potential for low to middle income families, but we need to learn from historic and current low cost home ownership schemes, to make sure it meets our criteria for success for low to middle income families.

- The programme needs to offer more homes on smaller ownership shares so that a wider span of low to middle income families can afford shared ownership family homes.
- There needs to be a consistent set of eligibility criteria that covers to the full range of low to middle income families who can't afford the open market.
- It needs major scale and long term political commitment to become a fully fledged, mainstream market, available through all high street lenders, agents and brokers, that will help low to middle income families now and in the future get what they need from housing as their circumstances change.
- It needs to have a direct link to new supply, to address the root causes of unaffordable housing costs: England's decades-long shortfall of new homes.

Shelter's vision is for a major, mainstream shared ownership market – a large-scale, permanent intermediate market that provides decent homes for priced out families throughout their lives.

For some it may be a stepping stone to full ownership if their circumstances change, but it needs to be good enough, and flexible enough, that people who don't have that choice are well served by this market for the long term.

This new market will focus purely on the shared ownership model – allowing families to buy a share in a home and pay rent on the remainder. This is pragmatic – it contains an element of ownership, which is key to the aspirations of this group, and greatly improves upon the stability and certainty offered by England's private rented sector.

Alongside programmes to build more social and affordable homes for rent, the Government should follow the Business Secretary's 'no brainer' proposal to spend 1% of GDP on building additional homes: the Government should commit £12 billion for shared ownership.

This could build 600,000 shared ownership homes for low to middle income families over four years, helping a third of England's 1.8 million forgotten families, and taking us closer to the one million homes we need to build in that time.

Only a large-scale, long-term programme will give England's families the reassurance they need to put down roots and be settled for the future.

Building homes for shared ownership will help make headway on the decades-long shortfall of new homes, offer promise to those families who are working and saving but still find the dream of owning a home fading away, and reduce pressures elsewhere in the housing system.

It will also reduce the future housing benefit bill, which faces a crisis if Generation Rent continues renting into retirement. If just half of today's Generation Rent never buy a home, the housing benefit bill for them alone will amount to an additional £16 billion per year.

Shared ownership can't help everyone - we need to build affordable rented homes too, and improve the private rented sector.

Shared ownership may not work for all families – some may not want the responsibility of owning, others may find that their employment is too precarious to get a mortgage, or that their circumstances prevent them from working. In the most expensive markets, particularly in London, it may be difficult to make homes affordable to lower income families without additional interventions.

Alongside a major shared ownership programme, policy-makers will need to build more affordable and social homes for rent, and commit to improving private renting to make it a more stable and predictable option for families in the meantime.

Nevertheless, shared ownership offers real hope for most of England's low to middle income families. As the 2015 General Election approaches, political parties considering their pledge to improve families' living standards should commit to a major, mainstream shared ownership programme.

Introduction

England's housing shortage has had damaging consequences for lower income families for quite some time. Many of England's poorest households have been struggling with bad conditions, high housing costs, and a lack of stability as successive governments have failed to ensure enough affordable homes have been built over recent decades.

But over the last ten years housing has become an ever more pressing concern for families slightly further up the income scale. The rapidly rising cost of renting and buying a home has become a key part of the 'squeeze' on low to middle income working families, who have seen their living standards stagnate and decline over this time.

Thanks to high housing costs, low to middle income England is on the road to becoming a nation of renters. The number of people with a mortgage has been slipping for almost ten years, while the number of families renting privately has more than doubled.[1] Renting has become the only option for a growing number of low and middle income families.

Unlike in other countries, England's private rented sector does not meet the needs or aspirations of ordinary working families. A standard offer of six to twelve month tenancies is destabilising for parents, who worry about keeping their child at their local school and near to their family support networks. Meanwhile, rising rents are a worry for people who are feeling the squeeze as their incomes show little sign of rising.

The shift towards renting is not a lifestyle choice. Most of England's families are only renting because they can't afford to buy a home.[2] Many are worried that they will be renting for the long term, unable to give their children the stability they need to flourish at school.

Shelter believes everyone should have a decent, stable home that they can afford. Many low to middle income families are now sadly united in suffering bad, expensive and insecure housing that is holding them back in life. This report is focused on policies that will improve the lives of low to middle income families, complementing wider work to improve housing for those on very low incomes.

Families are working hard and saving where they can, but – unless something changes – it is unlikely that many low and middle income families will get what they need from housing. These families need better housing options now, and the next generation of families will do too.

Families are increasingly looking to politicians to meet them halfway, so that they can afford a decent, stable home that meets their needs throughout their life. Housing as a key issue facing the country has climbed steadily in opinion polls over the last two years.[3] The pressure for strong, effective government action is building.

It matters politically because low and middle income voters are a key swing voter group. The voting preferences of this growing group strongly match opinion polls as a whole, and renting families are disproportionately concentrated in the key marginal seats that political parties need to win at the next general election. Unsurprisingly, all three of the main political parties have set out visions in which families who work hard can own a home of their own.

Meanwhile, if Generation Rent continues renting into retirement, policy-makers of the future will have to grapple with a large additional housing benefit bill, and be faced with the care costs of millions of people with few assets to draw on. There are strong short and long term reasons for policy-makers to address this issue.

But what can be done? The long term solutions for our homes shortage can seem too complex and daunting for policy-makers to tackle – at least in one term of government.

Shelter believes the situation *can* be dramatically improved. And solutions must start with the correct diagnosis of the problem: that we have not been building close to the 250,000 homes needed a year for decades.[4] The consequence is the high cost of housing, which means that millions on low and middle incomes are struggling to afford a home too, in addition to England's poorest households.

This report focuses specifically on understanding what would help low to middle income families afford a home that meets their needs and their aspirations, and makes firm recommendations to politicians on the steps they need to take to improve housing for low to middle income families. This report will:

- Analyse the housing needs and aspirations of low to middle income families.
- Examine the extent to which the housing market responds to their needs.
- Appraise the effectiveness of current government interventions to help low to middle income families get what they want from housing.
- Establish what a successful housing programme for low to middle income families would have to do, and set out how it could be implemented.

Introduction footnotes

1. Office for National Statistics, 2013. Census 2011.
2. Shelter, 2013. Growing up renting.
3. Ipsos Mori, 2012. Economist/Ipsos MORI December Issues Index.
4. Shelter, 2013. Briefing: Solutions for the Housing Shortage.

1. What do low and middle income families want from housing and what stands in their way?

Who are low to middle income families?

Much political debate in recent years has focused on the 'squeezed middle': low to middle income households who are experiencing a steady decline in living standards, as their incomes stagnate and the daily costs of living increase.

Shelter is concerned about this group because, over the last few years, we have seen more and more low to middle income households come to Shelter for advice on bad housing. In addition to policies to help the most vulnerable get a decent, affordable home, we need to understand these families' needs and develop policies to improve their housing options too. Our work won't stop until everyone has a decent home.

There have been many attempts to define this group. Shelter's particular concern in this report is the span of families who are not well served by the housing market, nor tend to live in or aspire to social housing: the group of people most likely to be renting privately through necessity rather than choice, or stuck on the lower rungs of the housing ladder – not the poorest families, but those typically earning around £20,000 to £40,000 a year. We estimate that 40 per cent of England's 6.3 million families with children are in this income bracket - around 2.5 million families.[5]

This sizable group of ordinary hard-working families are the subject of debate because, unlike in other recent difficult economic times, they form part of a wider group – not just the poorest – who are facing declining living standards. That housing is a key part of this decline for low to middle income families is clear from the change in the way they are housed over the last decade.

What do low to middle income families need and want from housing?

Before looking at how they live now, it is worth considering what low to middle income families need and want from housing.

Shelter commissioned focus groups of low to middle income families across England, asking participants about their housing needs and wants for themselves and their children.[6]

Owning a home was not just a preference for these groups, but an expectation: they felt that it ought to be achievable if they were able to work and save up a deposit.

These low to middle income families strongly resented the "dead money" of renting, and wanted to put their housing costs to good use, building up an asset for their family's future security.

The preferences of the low to middle income families in our focus groups are reflected in wider polling: some 76 per cent of private renters, 43 per cent of social renters and, unsurprisingly, 91 per cent of homeowners would prefer to own a home of their own.[7]

It's not hard to understand the popularity of homeownership. As owning a home expanded over the last century, more and more people have grown up in owner occupied homes. Some 64 per cent of today's private renters spent their teenage years in a home that their parents owned.[8] This experience has a strong bearing on preferences in later life – owning a home is seen as an achievable, desirable, sensible aspiration.

Aspects of owning a home currently offer strong advantages for both families and government:

- Building up an asset in a home offers the possibility of releasing equity in later life, helping children buy their own first home, helping with their education costs, or providing for themself in old age.
- Owning a home outright can mean fewer housing costs in old age, and less welfare spend for the state. The annual housing benefit bill would be increased by £16 billion if just half of today's private renters remained renters into retirement.[9]
- Owners are less exposed to changes in government policy – reforms in recent years show that policy-makers are more likely to fundamentally alter policies affecting social housing tenants or people receiving housing benefit than home owners.

Social housing and the private rented sector house a significant number of households, so it is worth considering why preferences for these tenures are so much less strong.

Indeed, social renting offers many of the advantages of ownership: long term stability – until recent policy changes, a reasonable amount of control of the home, and more affordable housing costs than in the private rented sector.

Given these advantages, you would expect it to feature higher up in people's preferences. Yet only four per cent of private renters and two per cent of homeowners would prefer to have a social home. Surprisingly, only 44 per cent of people who have a social tenancy cite it as their preferred tenure in the future.[10]

This is reaffirmed by low to middle income families in our focus groups. When asked about social housing being an option for their children, participants considered it as being for welfare recipients. This included adults who grew up in social housing themselves, suggesting that this group has an ingrained perception of social housing as no longer relevant to their families' lives.

Private renting, in theory, offers flexibility to its tenants, but little longer term stability or control over the home, with short tenancies, expensive rents and no restrictions on how much rents can rise once a tenancy has started.

While private renting suits people at particular stages in their life, such as young professionals or students, it is only the preferred long term tenure of a few – just 12 per cent of private renters would prefer to rent privately, compared to one per cent of home owners and two per cent of social renters.[11]

Beyond this, the desirability of home ownership has been a dominant part of political rhetoric for at least three decades. This reaffirms an embedded cultural preference for home ownership in England, complementing the strong practical reasons for people to own a home.

What has changed about the way low to middle income families live?

Despite strong preferences for ownership, ownership rates among low to middle income families have declined significantly in the last decade.

Until recent decades many on middle incomes would have expected either to rent from a private landlord or live with parents while they started out on their adult life, before buying their first home. As their income rose and they built up equity in their home, many would be able to 'trade up' to a family size home, where they would have enough space to raise a family. Once their children had left home, they may have downsized to a smaller home.

For people on lower incomes, they may have expected to have lived at home or rented privately for a while before getting a social home with a rent they could afford. Many households within this group may have expected to exercise their Right to Buy and become homeowners.

These 'housing journeys' that low to middle income families have come to expect have now been disrupted, as demonstrated by the comparison of households living in different tenures in 2001 and 2011. Families are now significantly less likely to have a mortgage and more likely to be private renting.

A picture of low to middle income tenure change over ten years

Sources: 2001 and 2011 Census data, Office for National Statistics, 2003 and 2013.

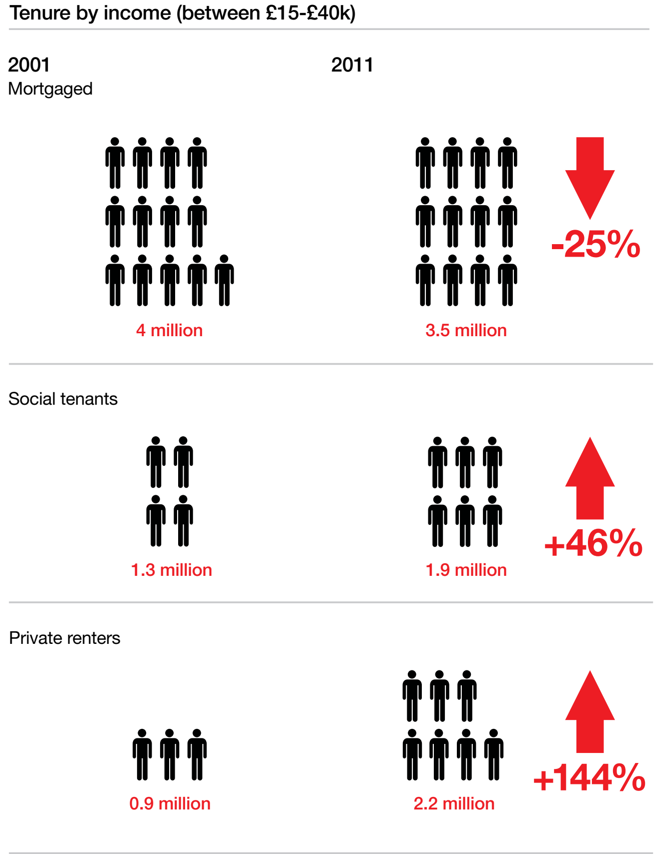
Younger generations are also less likely to have a mortgage or have social housing and more likely to be private renting. While much of the debate has focused on 25 – 34 year olds facing difficulties getting on the housing ladder, there has been a significant increase in 35 – 44 year olds private renting too.

A picture of low to middle income tenure change over ten years

Sources: Department for Communities and Local Government, 2003 and 2013. Survey of English Housing 2001/2 and English Housing Survey 2011/12.

People earning low to middle incomes are now less likely to be home owners and are more likely to be renting privately or from a social landlord. Combined with the wider analysis, this suggests that low to middle income families under 45 are more likely to be excluded from ownership and social housing, and therefore finding themselves renting privately.

A picture of low to middle income tenure change over ten years



\Sources: Department for Communities and Local Government, 2003 and 2013. Survey of English Housing 2001/2 and English Housing Survey 2011/12. Figures from Income brackets from 2001/2 have been converted from weekly to annual figures, and inflated by 29 per cent to account for wage inflation over the period.

The overall picture is that low to middle income families' housing options have changed substantially over the last ten years. Families with children, low to middle income households, and 25 – 44 year olds are all now much more likely to be renting privately than ten years ago.

The overall decline in homeownership over the last decade has come disproportionately from low to middle income families.

What is holding low to middle income families back from getting what they need and want from housing?

Much debate has focused on explaining the decline in home ownership for low to middle income families. This section will explore the factors holding low to middle income families back from owning a home.

Changing lifestyles?

Some commentators point to a rise in 'lifestyle' renting: the idea that as people 'enjoy' their 20s and 30s, settling down later in life, they appreciate the freedom and flexibility that renting offers them.

But polling of England's renters dispels this assertion:

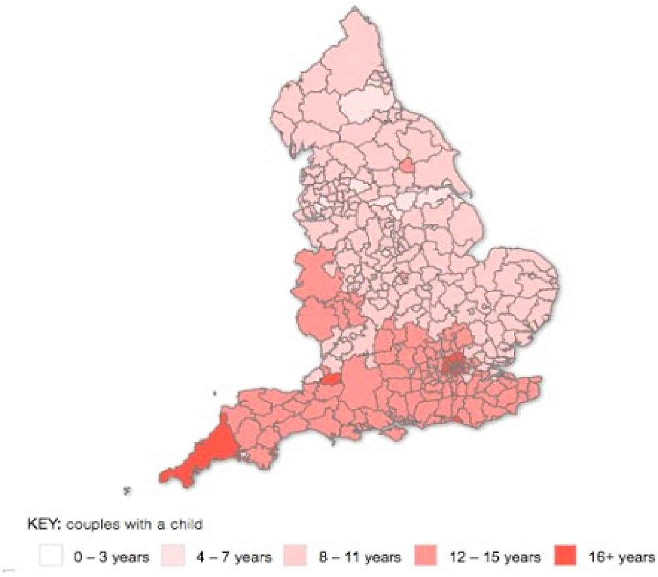
- 1 in 10 of England's 1.3 million renting families with children and 2 in 10 of all England's 9 million renters, agree that they like the flexibility of renting.
- More than 6 in 10 renters are only renting because they can't afford to buy a home in their local area.[12]

Big mortgage deposits?

Large deposits required by mortgage lenders are the most widely understood reason why people on normal incomes aren't able to buy a home. The long term average first time buyer deposit was 10 per cent and is currently 20 per cent. At the peak of the credit boom, the average first time buyer deposit was 5 per cent.

Research commissioned by Shelter shows that saving for a deposit is certainly one barrier for would-be first time buyers. The research shows that, taking into account earnings and outgoings, the average earning couple with a child would take almost 12 years to save up a 20 per cent deposit on a local two bedroom home. For the average single earner without children, it would take 18 years.[13]

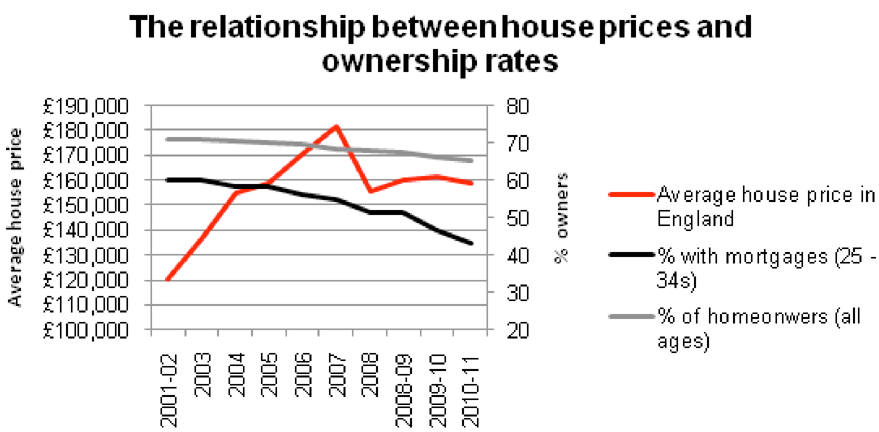
How long will it take the average earning couple with a child to buy their first home?



Source: Shelter, 2013. Report: A Home of Their Own

The analysis shows that the high and rising cost of renting makes it very hard for families on low to middle incomes to save up a deposit, backed up by wider Shelter research which finds that more than half of renters are only able to save less than £100 a month.[14]

But it is also true that the decline in home ownership started while deposit percentages were at their record low during the credit boom.



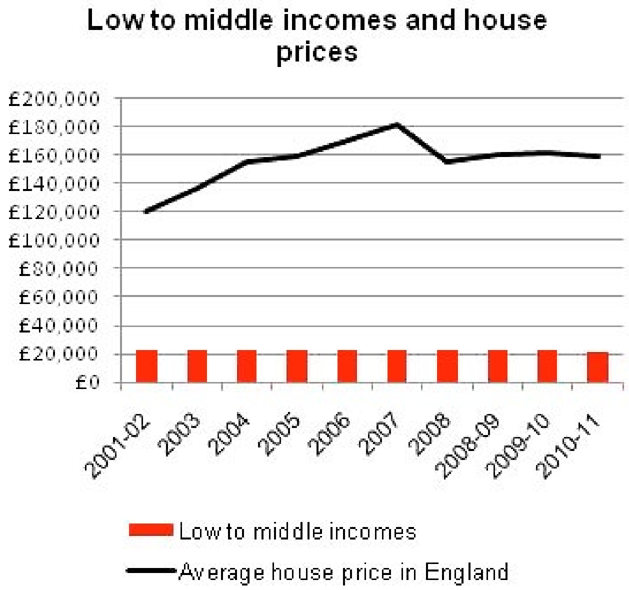
Sources: Land Registry house price data. Department for Communities and Local Government, English Housing Survey, Survey of English Housing ownership data.

The fall in home ownership would likely have been sharper, were it not for the support of the Bank of Mum and Dad. Shelter commissioned research has found that parents have gifted £1.2 billion and leant £800 million a year to homebuyers since 2005.[15]

Deposits may be one issue holding low to middle income families back from owning a home, but cannot explain the full decline.

Stagnant incomes and rising house prices?

Over the last decade, house prices have risen, while low to middle incomes have remained flat.



Sources: Land Registry house price data. Department for Communities and Local Government, English Housing Survey, Survey of English Housing ownership data.

Resolution Foundation's wider analysis of low to middle income Britain shows that low to middle income households move up and down and in and out of the income span.[16] Resolution Foundation highlights factors which are associated with a household's situation improving or getting worse. Earning a degree, acquiring property and building up savings are associated with an improved position, while having children, becoming a carer or becoming unemployed are associated with a worsening financial position.

Shelter's particular concern is families, especially those who are living in England's insecure private rented sector. As both non-home owners and having to arrange childcare for their children, these families are less likely to see their disposable incomes increase.

In the absence of rising salaries, loose lending was the main way that many of the low to middle income families in the past decade were able to get on the ladder. Borrowers were able to take out interest-only mortgages, and high loan-to-value mortgages on high multiples of their salary. This would have helped entry level homeowners trade up to family homes, as rising house prices would have increased their equity. Combined with loose lending, they could have borrowed enough to cover the costs of a family home.

But this was not sustainable. More than 2.6 million people in Britain now have an interest-only mortgage – meaning they only pay interest on the mortgage, rather than paying back the amount they borrowed. More than half of those do not have plans to fully repay the capital on their home.[17] 320,000 households have had their homes repossessed since 2008,[18] and 160,000 households currently have significant arrears on their mortgage.[19]

Since the credit crunch, the mortgage market has changed for the better. Unsustainable practices, such as lending high multiples of people's incomes, 100% mortgages, and interest only mortgages have more or less disappeared. Sensible rules governing 'responsible' lending are being introduced by the Financial Conduct Authority with cross-party backing, meaning rigorous affordability checks need to be carried out on borrowers.

In the absence of reckless lending, stagnant wages and house prices on the rise again, low to middle income families now and in the future will be unable, even as 'entry level' homeowners, to get the size of home they need for their growing families.

High house prices in relation to wages seems to be the strongest reason explaining the decline in low to middle income families' home ownership rates. The next section will explore their buying power in today's market in more detail.

What can low to middle income families afford in today's market?

To establish what low to middle income families can afford in today's market, we have modelled the costs of paying a mortgage on local 2 and 3 bedroom homes, using Hometrack house price data[20] with local earnings data[21] to identify the areas where low to middle income families could afford a local home.

The first level of analysis looks at how affordable the long term average 90% mortgage would be for a family buying a home today that meets their needs.

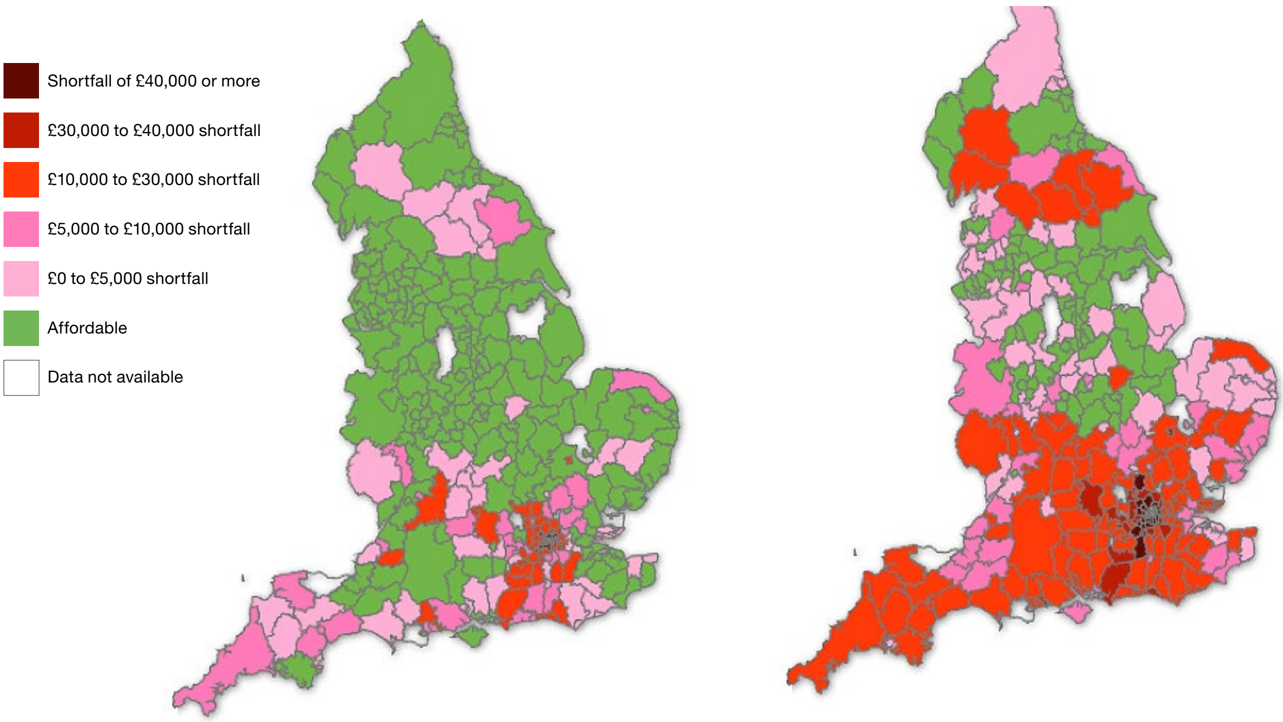
The analysis carries the following assumptions:

- We have **multiplied 10th percentile, lower quartile and median local full time incomes by 1.5** to give an idea of what different low to middle income families with one person working full time and one person working part time might earn.
- **25 year mortgages, with 6% interest rates** to stress test for a rise interest rates. This is based on both capital repayment and interest rate costs, as demanded by forthcoming regulation.
- **35% of take home pay as the maximum 'affordable' amount to spend on housing costs.** While some people may be willing to spend more, 35% is a commonly used housing affordability benchmark.[22] It is also a fair reflection of the maximum affordability thresholds that mortgage lenders will apply to potential borrowers when assessing how much they can afford to borrow.
- We looked at **median priced two and three bedroom homes for median income and lower quartile households,** but **lower quartile priced two and three bedroom for 10th percentile income households**. The focus on median house prices is to reflect the reality that new build homes are priced closer to the median, and often above. Lower specification homes, priced at the lower quartile, give an indication of how homes can be made more affordable for the lowest income groups.

The following maps show where different low to middle income families would be able to afford a local home.

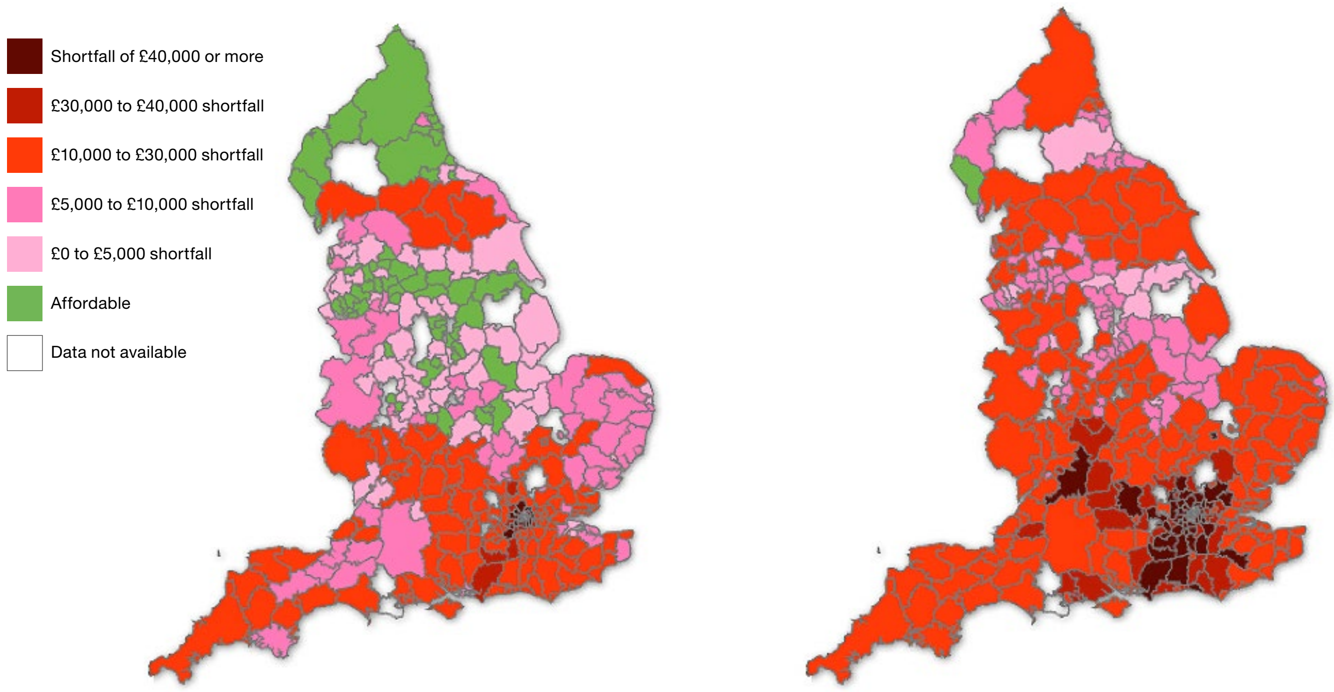
Areas affordable to median earning families with a 90% mortgage

Average local two bedroom home | Average local three bedroom home



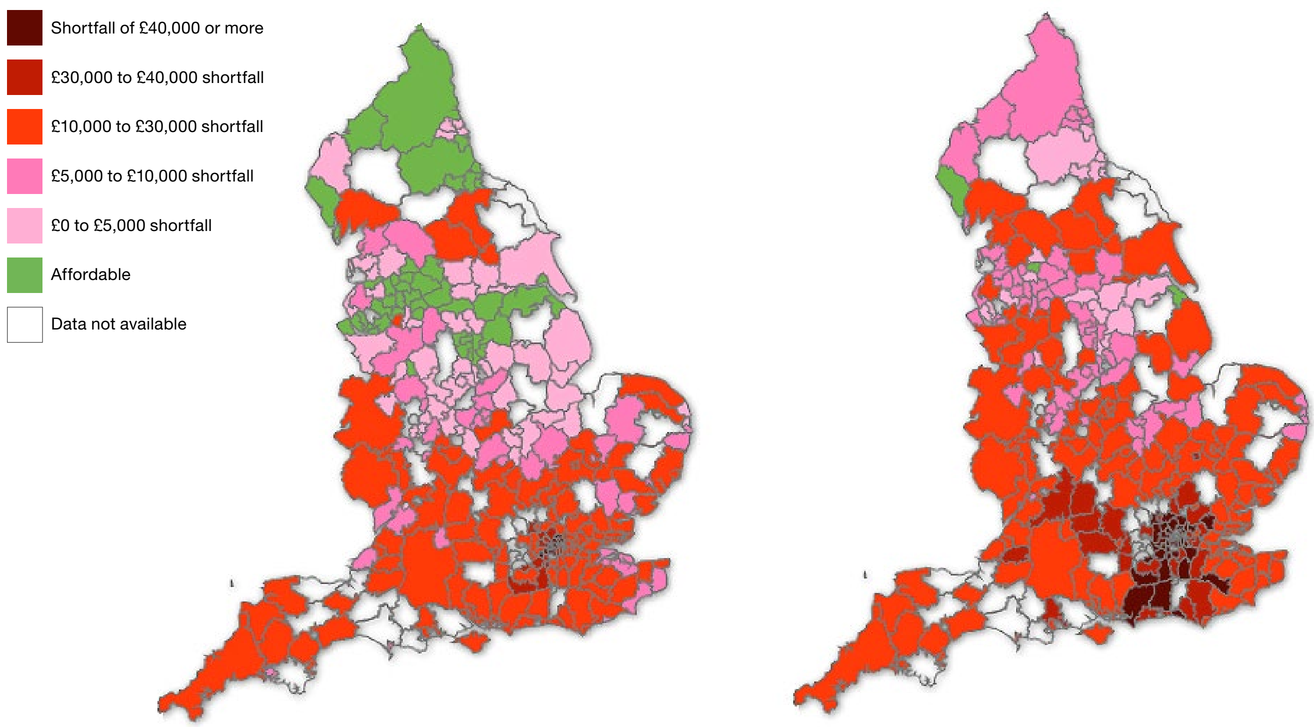
Areas affordable to lower quartile earning families with a 90% mortgage

Average local two bedroom home   Average local three bedroom home



Areas affordable to 10th percentile earning families with a 90% mortgage

Lower quartile local 2 bedroom home   Lower quartile local 3 bedroom home



Lower quartile income families would struggle even more with the cost of large mortgages. Lower quartile earning families could afford the monthly costs of a 90 per cent mortgage on a lower quartile two bedroom home in 18 per cent of England. But only in one area of England would they be able to afford the mortgage on the average three bedroom home.

Abi and Jason live in Eastleigh and earn £42,000 between them – 1.5x the local median salary.

Abi and Jason would need to earn an extra £15,500 a year to afford the average local 3 bedroom home with a 90% mortgage.

Jo and Dan live in Dudley and earn £25,000 between them – 1.5x the local lower quartile salary.

They would need to earn a further £13,000 a year to afford the average local 3 bedroom home with a 90% mortgage.

	Areas in England where families can afford 90% mortgage on a 2 bedroom home	Areas in England where families can afford 90% mortgage on a 3 bedroom home
Median family	59%	26%
Lower quartile family	18%	0%
10th percentile family	16%	1%

The analysis shows that buying a three bedroom home is unrealistic for low to middle income families across the income range.

Looking across the full span of low to middle income familes (deciles two - five), just 27% could afford a 90% mortgage on the average three bedroom home in their area.

The high cost of family sized homes across England means that low to middle income families will be unable to buy a home, as the mortgage costs are simply too unaffordable for mortgage lenders to lend.

Median income families could afford the monthly costs of a 90 per cent mortgage on the average two bedroom home in their area in more than half of England, but this drops to a quarter of England when looking at mortgage costs for the local average three bedroom home.

Lower quartile income families would struggle even more with the cost of large mortgages. Lower quartile earning families could afford the monthly costs of a 90 per cent mortgage on a lower quartile two bedroom home in 18 per cent of England. But only in one area of England would they be able to afford the mortgage on the average three bedroom home.

Even if families are able to save enough money to put down a reasonable 10 per cent deposit, and get a 'starter' two bedroom home in the small number of areas where this is affordable based on their incomes, more than half would struggle to afford the trade up to a three bedroom home in their area.

England's low to middle income families want and expect to own a home. They have a firm preference for ownership. But over the last decade they have seen their housing options change substantially. The monthly costs of paying a 90 per cent mortgage on a local three bedroom home is just too expensive for most low to middle income families in England.

This suggests that any attempts to make home ownership affordable for low to middle income families would need to dramatically reduce high mortgage costs on local family size homes. Any policies that do not substantially lower monthly mortgage costs are unlikely to benefit most low to middle income families.

Chapter 1 footnotes

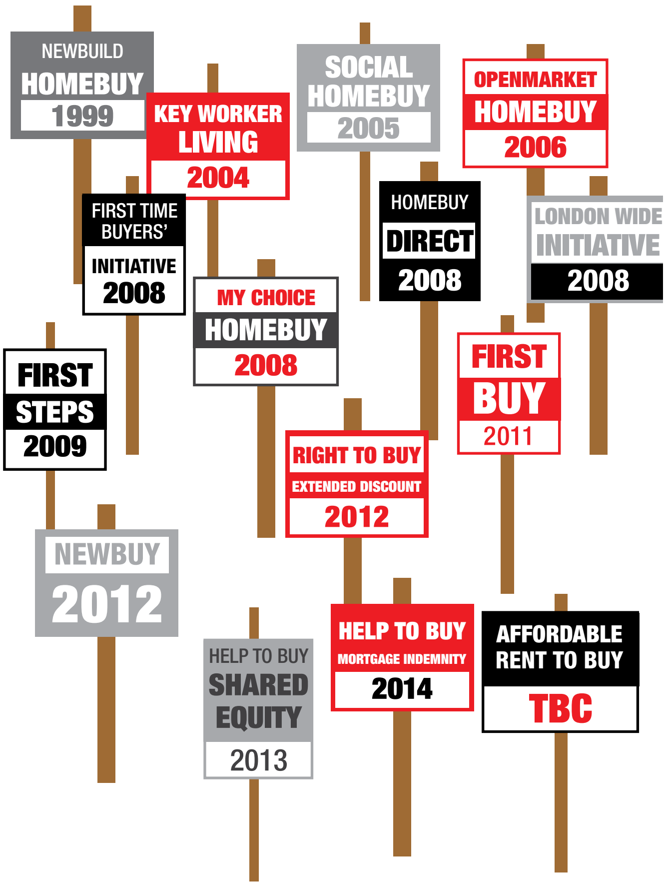
5. Shelter analysis of family disposable income quintiles, Office for National Statistics, 2012.
6. Focus groups conducted by Britain Thinks on the following dates: Corby (4 September 2012), Thurrock (22 January 2013), Chorley (29 January 2013).
7. Council of Mortgage Lenders, 2012. Maturing attitudes to home-ownership.
8. Strategic Society Centre, 2013. Understanding Landlords: A study of private landlords in the UK using the Wealth and Assets Survey
9. If just half of today's 3.8 million private renting households carry on renting into retirement, assuming a fixed rent liability of £700 a month, the total housing benefit bill for them alone would equate to £16bn a year.
10. Council of Mortgage Lenders, 2012. Maturing attitudes to home-ownership.
11. Ibid.
12. Shelter, 2013. Growing up Renting.
13. Shelter and Fionnuala Earley Consulting, 2013. A home of their own.
14. Shelter, 2013. The rent trap and the fading dream of owning a home.
15. NatCen, 2013. Support for first time buyers.
16. Resolution Foundation, 2013. Squeezed Britain.
17. Financial Conduct Authority, 2013. Review of Interest Only Mortgages.
18. Ministry of Justice, 2013. Mortgage and landlord possession statistics quarterly, January to March 2013.
19. Council of Mortgage Lenders, 2013. Arrears and repossessions data, Q1 2013.
20. Hometrack, 2013 . Local two and three bedroom house prices, February 2013.
21. Office for National Statistics, 2012. Table 8.7a Annual pay - Gross (£) - For full-time employee jobs United Kingdom, 2012.
22. Shelter, 2013. The rent trap and the fading dream of owning a home.

2. Government support for low to middle income families

Given low to middle income families' strong preference for home ownership, and the struggle that most now face in affording to buy a family home, it is unsurprising that policy-makers are concerned.

In response, successive governments have launched high profile housing policies to help low to middle income families buy a home.

A succession of piecemeal ownership schemes



There have been at least 13 home ownership initiatives in almost as many years, and yet home ownership has declined steadily in this time, particularly among low to middle income families.

This section will start by setting out the criteria Shelter that thinks is needed to develop a successful programme for low to middle income families, before looking at how historic and current schemes have worked to plug the gap between what families need and what they can afford.

What do government interventions need to do to genuinely help and appeal to low to middle income families?

While helping some families get a decent, stable home, there hasn't arguably been a policy since the initial Right to Buy that has made a seismic impact in helping England's low to middle income families own a home.

We believe that a successful programme to help low to middle income families afford what they need and want from housing must meet the following criteria:

- **A product that meets people's aspirations.** Polling confirms a strong public preference for ownership, while focus groups commissioned by Shelter confirm that low to middle income families respond most positively to policies aimed at ownership. Products which do not offer this group ownership are therefore less likely to see high take-up, limiting the electoral appeal of the policy.
- **An experience that fits their expectations.** For example, the process of acquiring a shared ownership home can be confusing and complicated for consumers, with contradictory eligibility criteria in different schemes and areas, as well as restrictions on selling the home. A policy that is to appeal to middle income groups, used to dealing in conventional 'high street' markets, will need to emulate these more closely.
- **An affordable offer for a wide range of households.** A policy to help low to middle income families should be open to as wide a range of households in low and middle income brackets as possible.
- **A simple and comprehensible offer.** When people buy a home, they tend to take advice from family and friends. The offer would need to be as comprehensible as a mortgage or social housing, as these concepts are well understood, even if there is significant variation in product terms.

- **Long-term commitment from policy-makers.** Unless something changes, many low to middle income families will need options outside of the mainstream full ownership market throughout their life. They need to to know that there is a long term programme to support their housing needs as their circumstances change.
- **A scalable offer.** If the policy is to take off it needs to offer quick assurance for low to middle income families, to build up experience and trust around it, and to deliver stability quickly for the 1.3 million families frustrated with the instability of private renting.
- **Resolving the homes shortage.** The principal reason that governments need to help low to middle income families access ownership is that the decades long shortfall of house building has led to house prices rising far above wages. Any help for buyers has to also contribute to resolving the homes shortage by having a direct link to new house building.

Designing a programme that works for low to middle income families must meet these criteria, otherwise it will not help the growing group of people who need a better deal from housing.

Historic policies targeted at low to middle income families

Government action to expand home ownership is not new. Over the entire post-war period policy-makers have launched a number of initiatives to help low to middle income families priced out of the conventional mortgage market get a home they can afford, that meets their needs and aspirations.

Right to Buy

The most significant example in recent decades is Right to Buy, which allowed council tenants to buy their rented council home at a discount. This was launched at a time when a wider cross-section of society rented a council home, and house prices and incomes were far closer together.

Almost 1.8 million people have used the Right to Buy to buy their council home, although sales reduced from 167,000 at their peak in 1982-3 to 2,500 in 2009-10, suggesting that the scheme – as it was – had run its course.[23]

The Government has extended the discount on Right to Buy with a view to encouraging more council tenants to buy their home. Although sales have increased as a result, only 6,000 council tenants have bought their home since April 2012, despite a £900,000 marketing campaign.[24] This is more than twice as high as 2009-10, but 28 times lower than the peak in 1982-3. [25]

As the scheme is only open to council tenants, it is unlikely to help many of today's low to middle income families, who are more likely to be private renters.

Shared ownership

The shared ownership model is the second most significant intervention to help low to middle income families in recent decades. The model is relatively simple: you buy a share of a home with a mortgage and pay rent on the remaining share, which is typically held by a housing association. The size of share you buy varies according to the provider and your income, and there is the option of increasing your share (by buying additional shares) over time if your circumstances improve.

Some 174,000 households in England are now shared owners, comprising 0.8 per cent of all households in the country.[26] Some areas have higher concentrations of shared owners – Milton Keynes, one of England's fastest growing economies, has the greatest proportion of shared owners at 6.1 per cent.

Shared ownership was billed as a stepping stone to full ownership. The idea was that households would start with a modest share, increase their shares as their circumstances improved, and be in a better position to buy the home outright or move into the open market as a result.

But shared owners face difficulty in moving on to full ownership and within the shared ownership market.[27] Many individuals have not seen their incomes grow sufficiently to increase their share or afford a home on the open market. Some schemes restrict shared ownership sales to people who have previously owned a home – which includes existing shared owners, preventing those who bought a shared ownership starter home from moving to a larger property within the tenure.

Shared ownership has also been subject to frequent rebranding by politicians, who have announced piecemeal variations on the shared ownership model over the years. Some have been targeted at social tenants; others were targeted at 'key workers' such as nurses and teachers. Some London boroughs' local scheme eligibility criteria has contradicted the Mayor of London's criteria. The result is a lack of consistency across schemes and models, which makes it difficult for shared experience to build among consumers, and for trust in the long term future of schemes to develop.

This confusion was demonstrated in an IpsosMori poll of Londoners eligible for the Mayor's shared ownership schemes.[29] 75 per cent incorrectly thought that the income threshold was £30,000 when it was £60,000, and 50 per cent incorrectly thought they had to be a key worker to be eligible. Interestingly, 86 per cent of eligible households had heard of the overall concept of 'shared ownership'; twice as many as had heard of the flagship initiative at the time 'MyChoiceHomeBuy', suggesting that broad concepts have a greater resonance than short-term initiatives.

Piecemeal government schemes do not help the industry respond to buyers' needs either. Mortgage lenders carry out comparatively high volumes of lending on straightforward mortgage products – more than 150,000 mortgages were granted in 2012/13, ten times the number of shared ownership sales.[30] Each time governments change ownership schemes, lenders have to develop new under-writing practices. This can make participating costly for lenders, which can make interest rates and product fees higher than comparable mainstream mortgage products.

Policy makers do not meet their own objectives as a result of this approach. Too many schemes means lower take up, fewer homes built, fewer families helped. Shared ownership continues to be developed by housing associations and other providers, but is not an explicit priority for the Government.

High loan to value lending

High loan to value mortgage lending with no restrictions on affordability was arguably an implicit policy of the previous government. With few regulations on mortgage lending, people were able to borrow high multiples of their income, on interest only mortgages, and with loan to value lending peaking at 125 per cent of the property's value.

Rapidly rising house prices correlated with declining home ownership rates, suggesting it was ultimately unsuccessful at boosting low to middle income families' chances of owning a home.

How effective are the main policy interventions to boost home ownership among low to middle income families?

Like successive governments, the Coalition Government has put forward measures to improve the housing options for low to middle income families, primarily with their Help to Buy initiative. This includes two main components: a shared equity scheme and a mortgage indemnity scheme, detailed below.

Initiative	How does it work?	Aimed to help over three years	Success rate in the last year
Shared equity scheme	Introduced first through FirstBuy, and then integrated into Help to Buy. The customer buys the home, using a mortgage to buy most of it (70 – 80%) with an equity loan (10% to 20%) and a deposit (5 – 10%) covering the remainder. The equity loan is typically interest free for five years, after which a fee is payable at a favourable rate.	FirstBuy was aimed to help 16,500 first time buyers buy a new build home with an equity loan. The shared equity element of Help to Buy is mooted to help 74,000 first and existing owners buy a new build home.	7,000 FirstBuy homes were completed in 2012-13 From April to July 2013, 7,000 new build homes have been reserved under Help to Buy equity loans
Mortgage Indemnity scheme	First made available through the NewBuy scheme, exclusively on new build homes to first and existing owners, and from January 2014, on new and old homes worth up to £600,000. The customer buys the whole home with a mortgage of up to 95% of the property's value. Part of the mortgage (up to 15% of the property's value) is under-written by the government, meaning they will cover mortgage lenders' losses if the home is repossessed and sold at a loss of up to 15% of the property value.	NewBuy was aimed to help 100,000 buyers. The Help to Buy mortgage indemnity scheme is aimed to help 600,000 buyers.	2,291 new build homes were sold through NewBuy. Help to Buy mortgage indemnity does not launch until January 2014.

This section will analyse how effective the main Help to Buy schemes are, along with different shares of shared ownership in helping low to middle income families. It will not consider Right to Buy further, on the basis that it is not open to most low to income families, who are now less likely to be council tenants.

Our analysis will repeat the 'state of the market' analysis of the previous chapter, [31] looking at how low to middle income families earning 1.5x the local median, lower quartile and 10th percentile salaries would be able to afford a two or three bedroom local home under the following scenarios:

- Help to Buy's mortgage indemnity scheme with a 95 per cent mortgage.
- Help to Buy's shared equity scheme with a 75 per cent mortgage.
- Shared ownership at 50, 25 and 12 per cent shares.

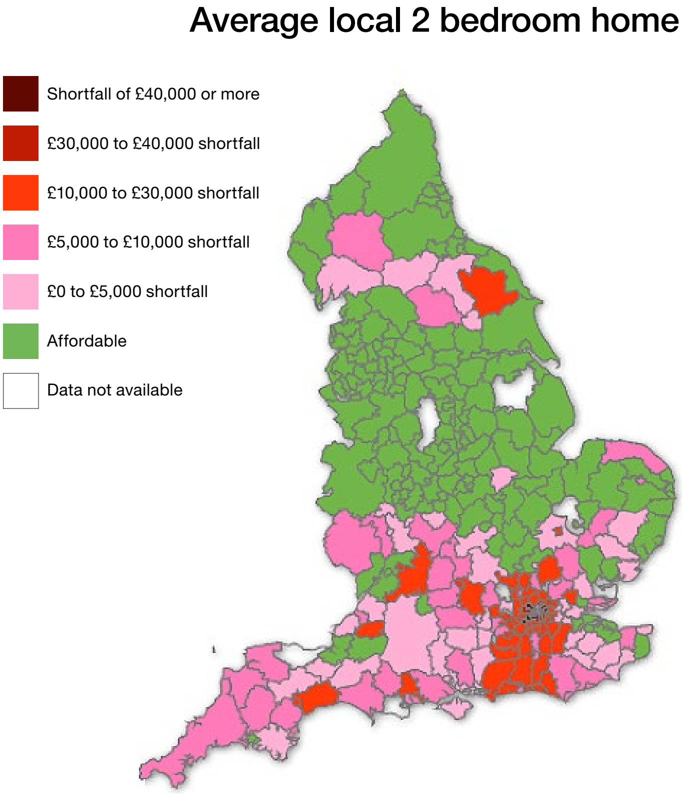
Help to Buy mortgage indemnity

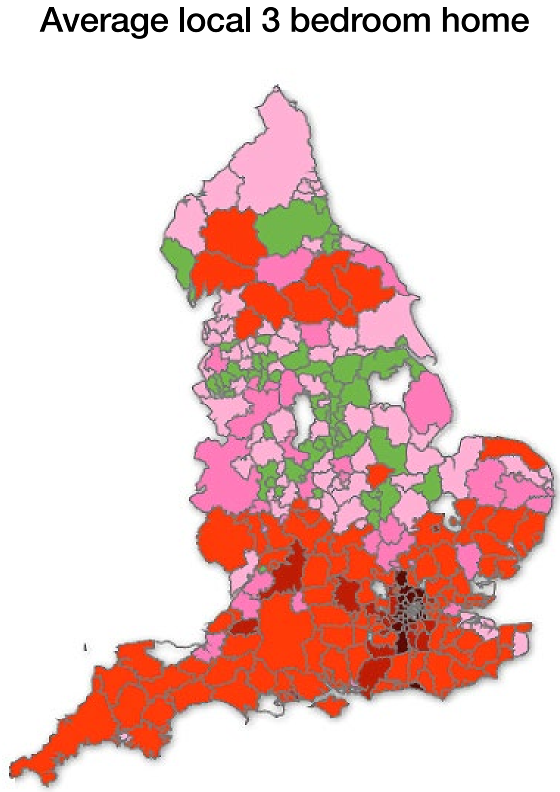
The Help to Buy mortgage indemnity scheme will enable prospective buyers to take out a 95% mortgage on any local home up to the value of £600,000. This is the most significant part of the Government's Help to Buy scheme, and is aimed to help 600,000 people take out a large mortgage. Commentators believe the vast majority helped will be existing home owners, and have raised concerns about it being likely to push up house prices.

This scheme was introduced due to widespread perceptions that lenders' requirements for large deposits were holding first time buyers back from getting on the housing ladder.

These charts show how affordable areas in England are for local low to middle income families taking out a 95 per cent mortgage to buy a local two or three bedroom home, and how much more families would need to earn.

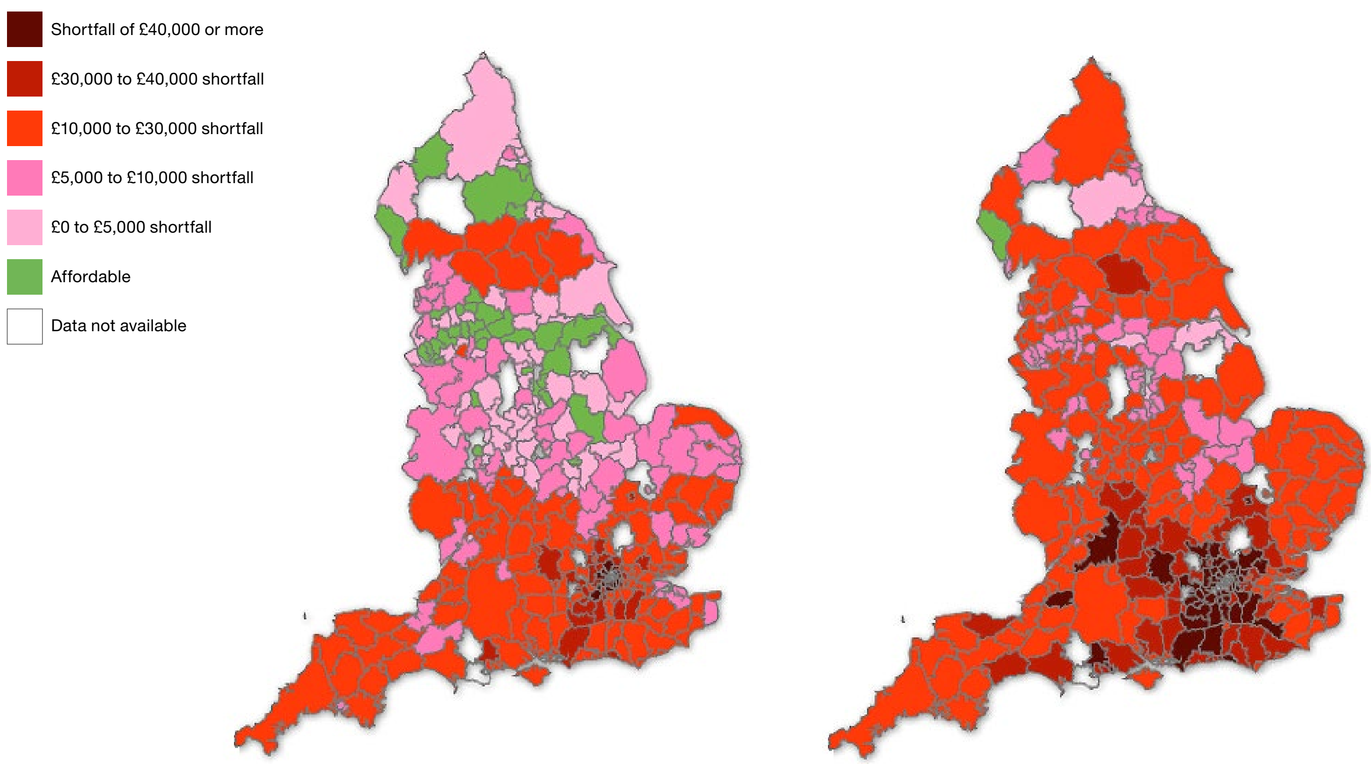
Areas affordable to median earning families with a 95% mortgage





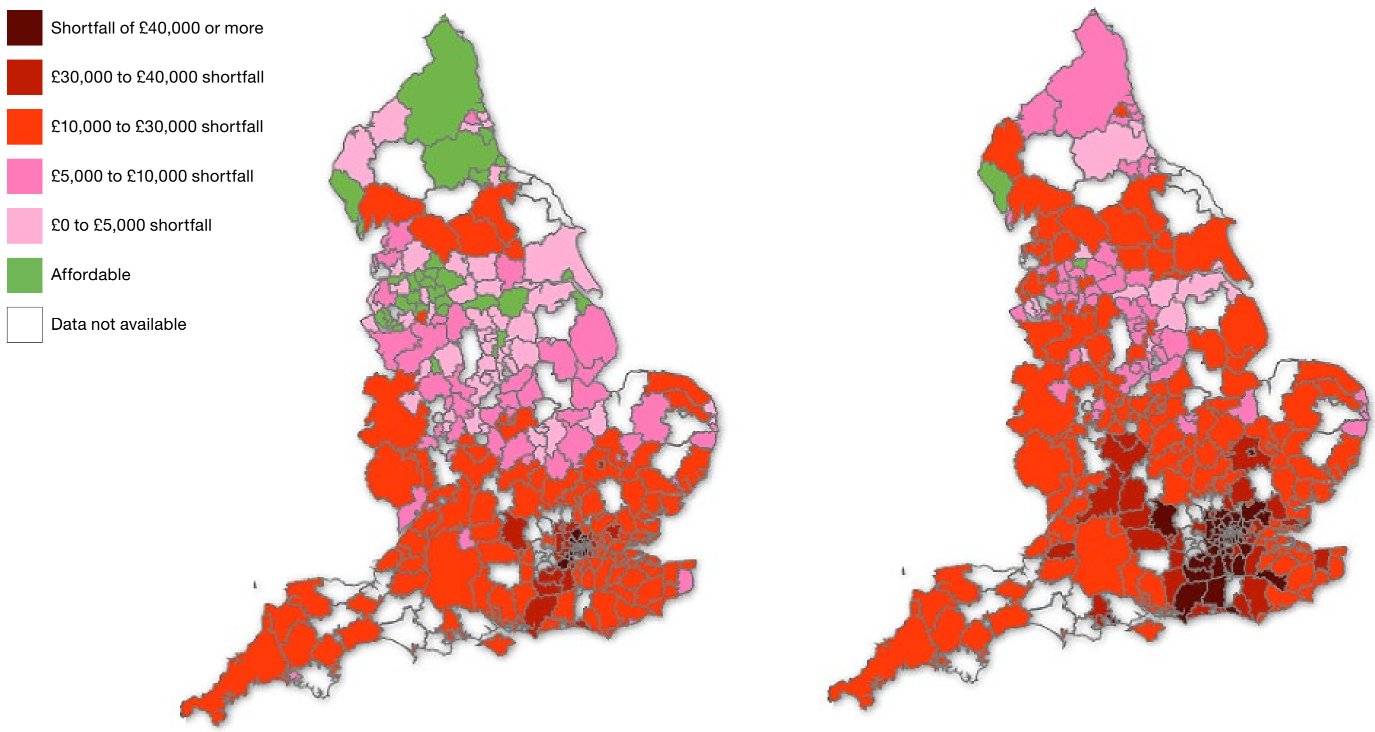
Areas affordable to lower quartile earning families with a 95% mortgage

Average local 2 bedroom home | Average local 3 bedroom home



Areas affordable to 10th percentile earning families with a 95% mortgage

Lower quartile local 2 bedroom home | Lower quartile local 3 bedroom home



Help to Buy mortgage indemnity (95% mortgage)	Percentage of England affordable to family buying a 2 bed home	Percentage of England affordable to family buying 3 bed home
Median income 1.5 earner families	49%	17%
Lower quartile income 1.5 earner families	12%	0%
10th percentile income 1.5 earner families	11%	1%

Abi and Jason live in Eastleigh and earn £42,000 between them – 1.5x the local median salary.

Abi and Jason would need to earn an extra £18,500 a year to afford the average local 3 bedroom home with a 95% mortgage.

Jo and Dan live in Dudley and earn £25,000 between them – 1.5x the local lower quartile salary.

Jo and Dan would need to earn a further £15,000 a year to afford the average local 3 bedroom home with a 95% mortgage.

The maps show that different low and middle income familes would struggle to afford a home with Help to Buy's 95 per cent mortgages. **Looking across the full span of low to middle income familes (deciles two to five), just 22 per cent could afford a 95 per cent mortgage on the average three bedroom home in their area.** Help to Buy's mortgage indemnity scheme will help only a handful of low to middle income families afford a family home in their area. **The high cost of big mortgages on expensive family homes are simply too unaffordable for most low to middle income families.**

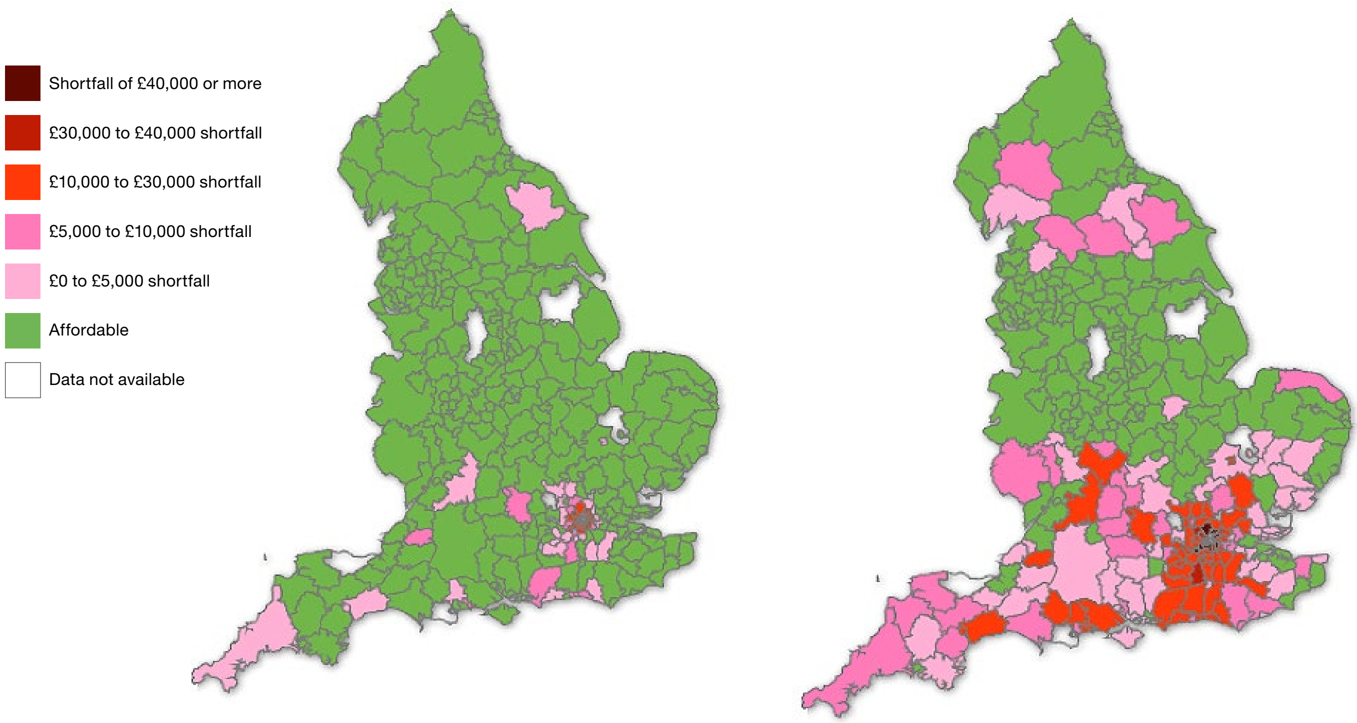
Help to Buy shared equity

A secondary aspect of the Government's Help to Buy scheme is the shared equity element. Here, the Government offers equity loans of up to 20 per cent of the property value on new build homes only, and buyers can put down a 5 per cent deposit. Buyers then need to take out a mortgage covering 75 per cent of the property's value.

These charts show how affordable areas in England are for local low to middle income families taking out a 75 per cent mortgage to buy a local two or three bedroom home. This does not account for the interest payments that would be payable on the 20 per cent equity loan after five years at RPI+1%.

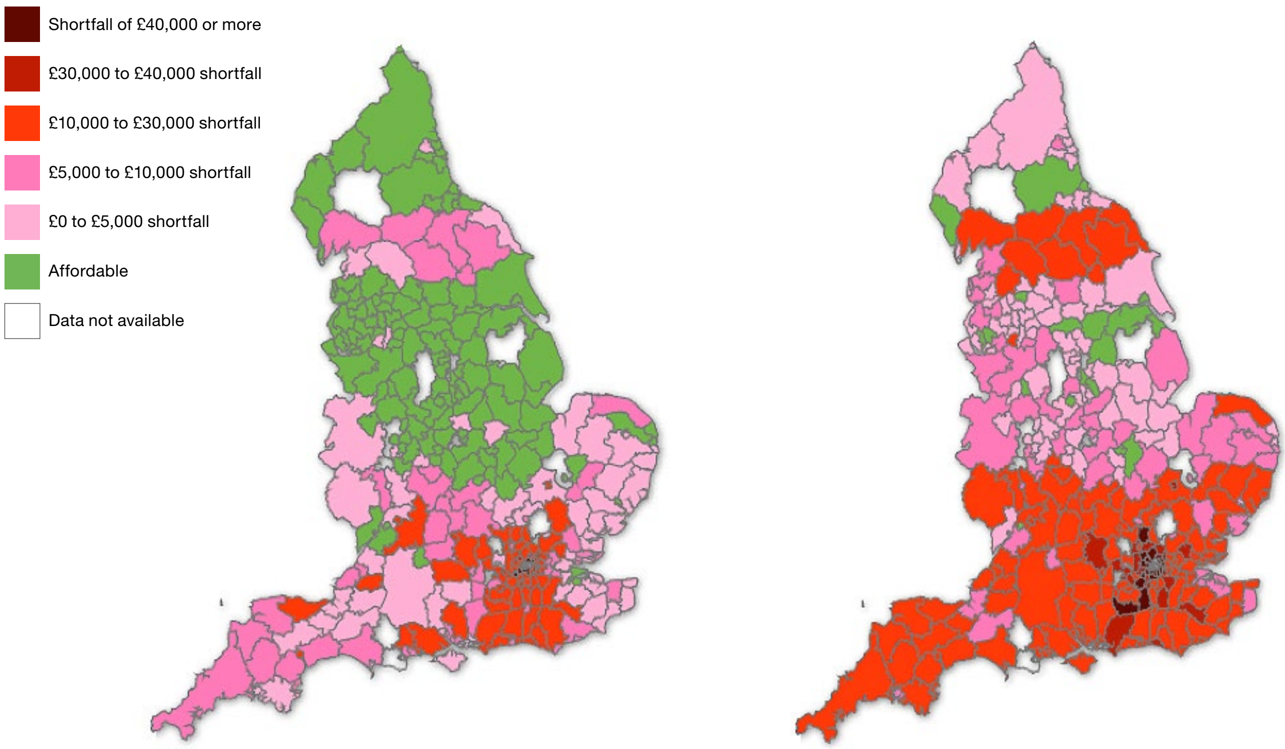
Areas affordable to median earning families with a 75% mortgage

Average local 2 bedroom home | Average local 3 bedroom home



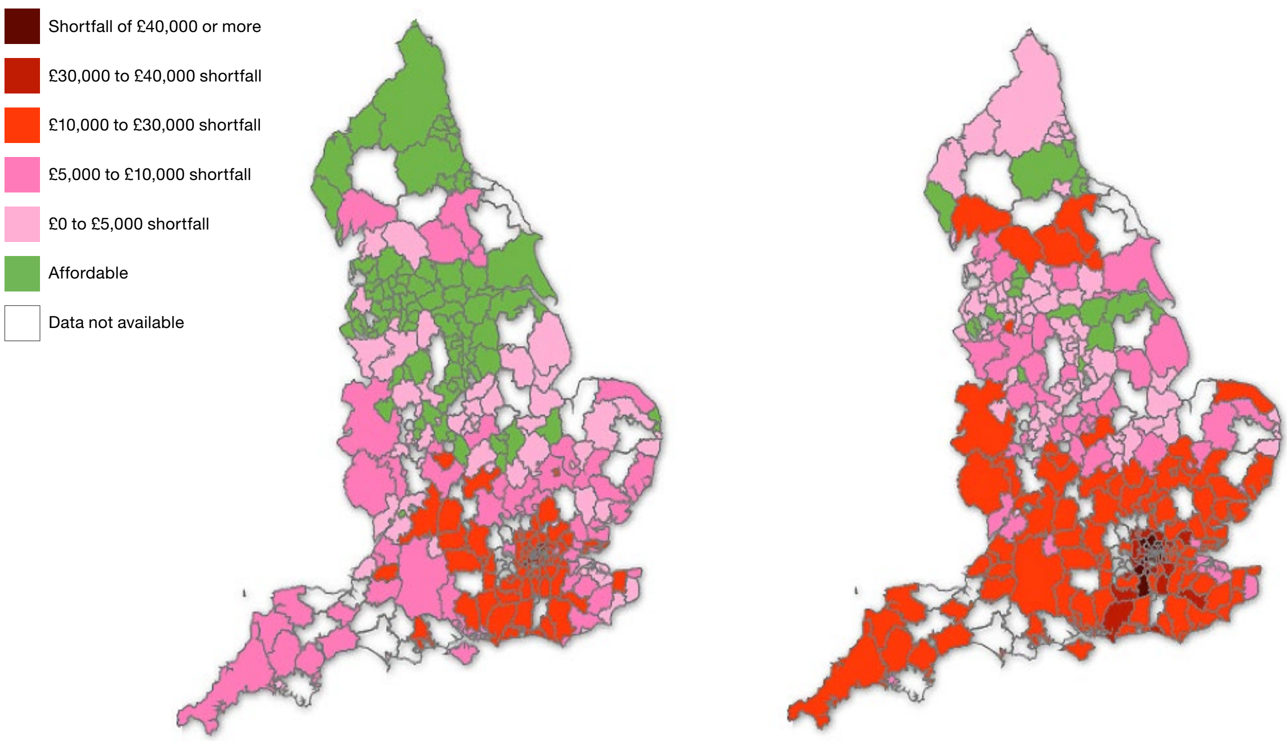
Areas affordable to lower quaritle earning families with a 75% mortgage

Average local 2 bedroom home | Average local 3 bedroom home



Areas affordable to 10th percentile earning families with a 75% mortgage

Lower quartile local 2 bedroom home | Lower quartile local 3 bedroom home



Help to Buy shared equity (75% mortgage)	Percentage of England affordable to family buying a 2 bed home	Percentage of England affordable to family buying 3 bed home
Median income 1.5 earner families	83%	50%
Lower quartile income 1.5 earner families	40%	6%
10th percentile income 1.5 earner families	31%	7%

Help to Buy's shared equity scheme will be more affordable to more low to middle income families than the Help to Buy mortgage indemnity scheme - **looking across deciles two to five, 49 per cent of low to middle income families could afford a three bedroom home in their area.**

However, the 20 per cent equity loans are only interest free for five years, is limited in scale, and the high cost of homes mean the model could only help substantial numbers at the top of the scale. Very few lower income families will be able to afford a family home in their area with Help to Buy shared equity.

Abi and Jason live in Eastleigh and earn £42,000 between them – 1.5x the local median salary.

Abi and Jason would need to earn an extra £6,000 a year to afford the average local 3 bedroom home with a 75% mortgage.

Jo and Dan live in Dudley and earn £25,000 between them – 1.5x the local lower quartile salary.

They would need to earn a further £6,500 a year to afford the average local 3 bedroom home with a 75% mortgage.

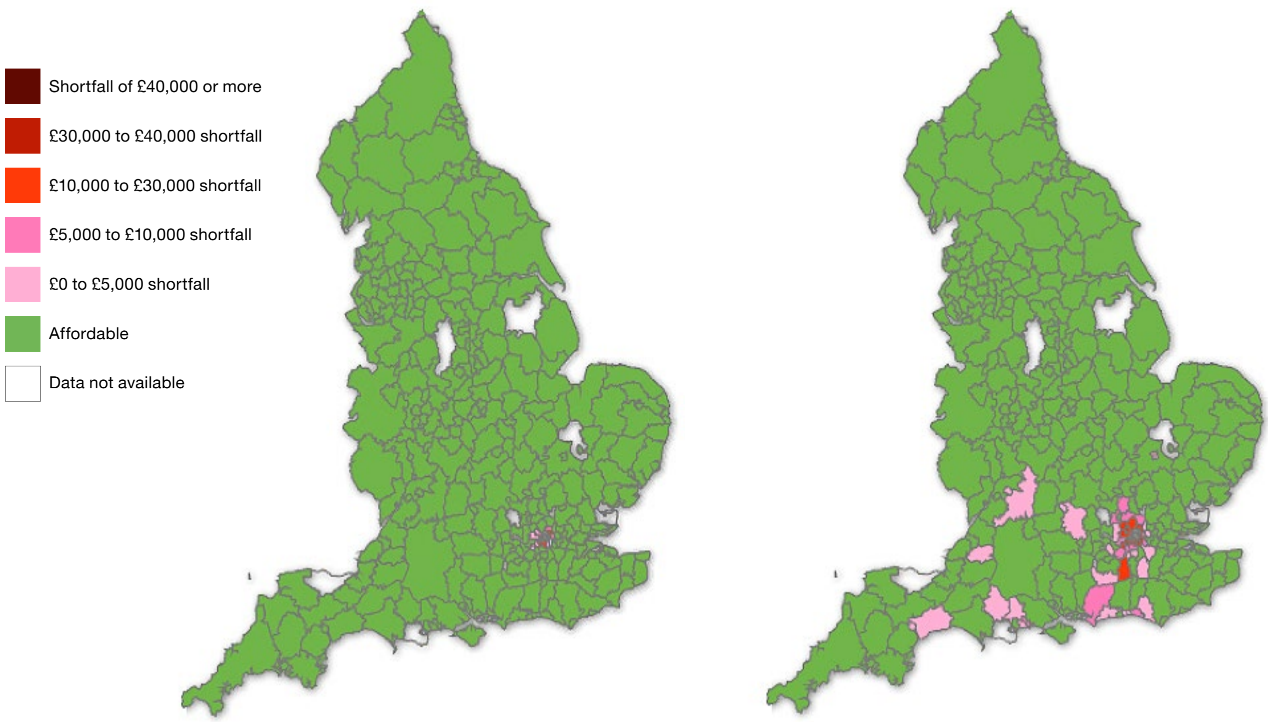
Shared ownership

Shared ownership allows buyers to take out a mortgage on a share of their home and pay rent on the remaining share. The current market average for a new shared ownership would see a buyer paying a mortgage on 35 per cent of the home, and paying rent on the remaining 65 per cent.

In practice, buyers are encouraged to take out the maximum share they can afford on a mortgage, based on the headline value of the home they want to purchase. To consider a range of shared ownership homes, the analysis will look at the affordability of 50 per cent, 25 per cent and 12 per cent shared ownership homes.

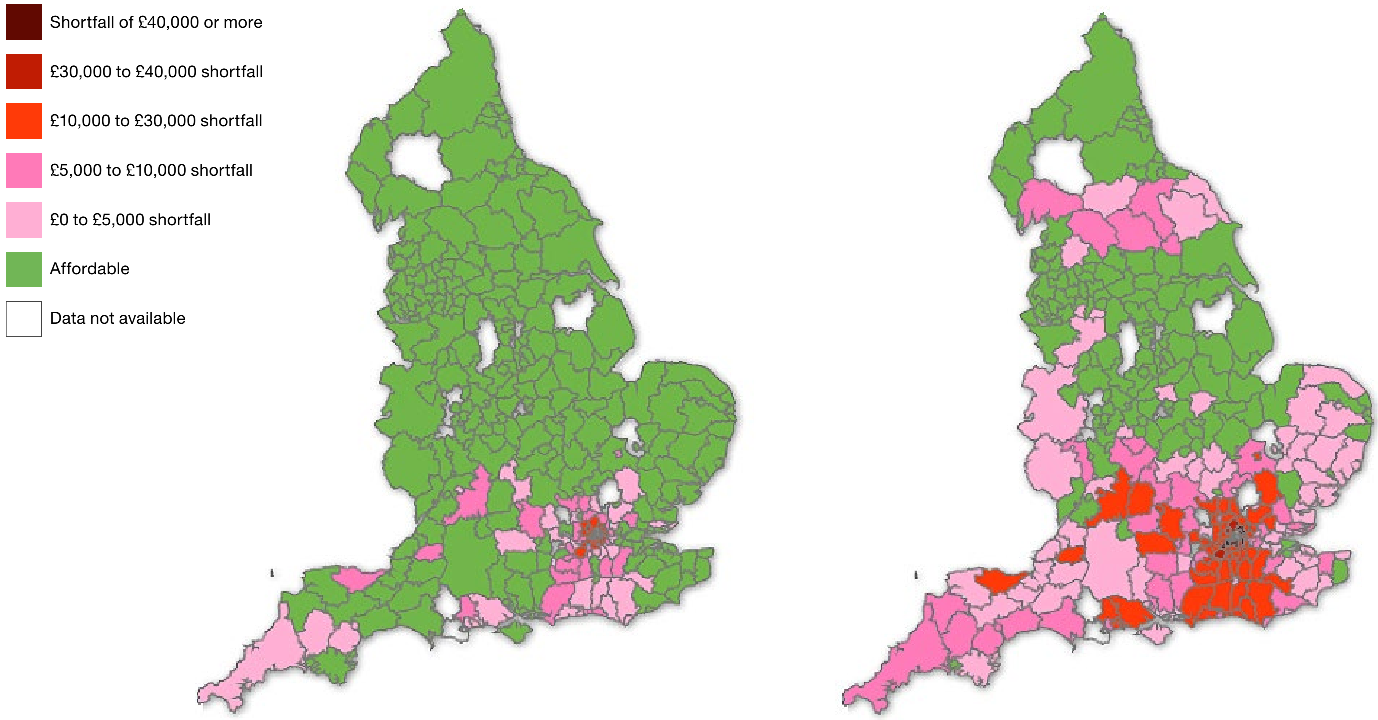
Areas affordable to median earning families with 50% shared ownership

Average local 2 bedroom home | Average local 3 bedroom home



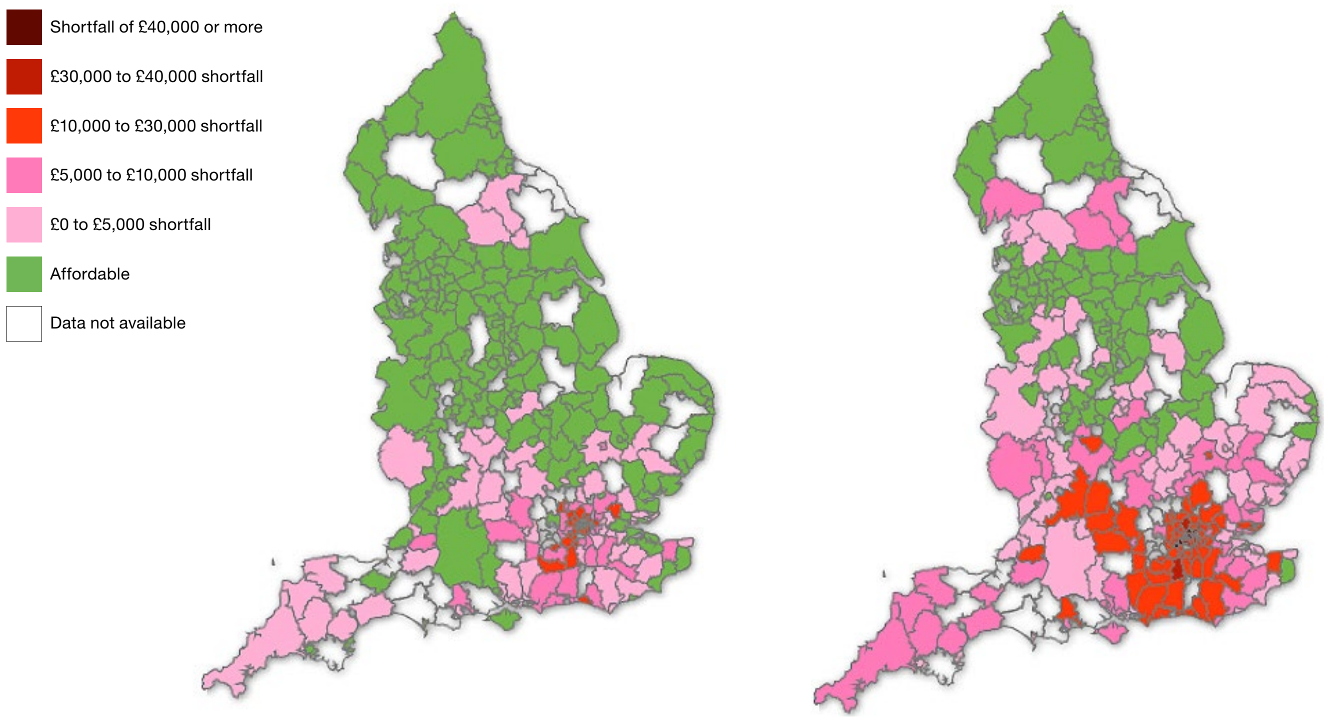
Areas affordable to lower quartile earning families with 50% shared ownership

Average local 2 bedroom home / Average local 3 bedroom home



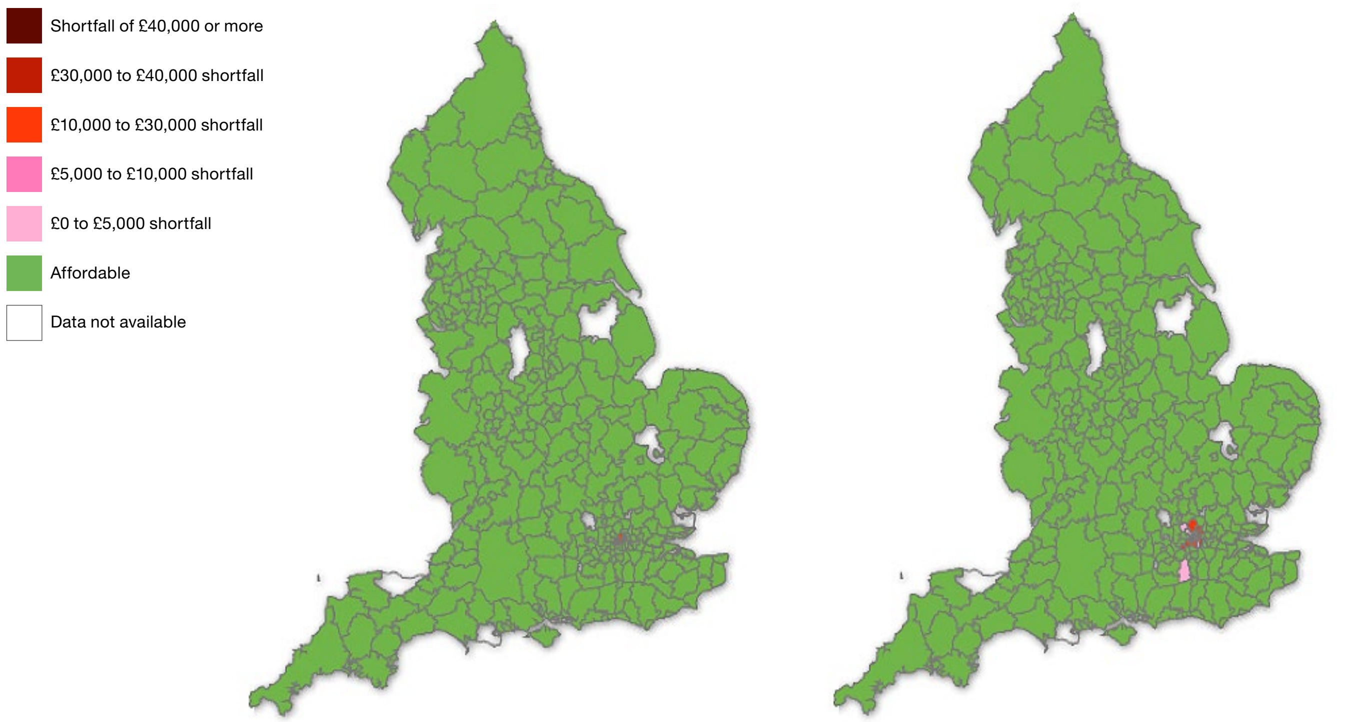
Areas affordable to 10th percentile families with 50% shared ownership

Lower quartile local 2 bedroom home / Lower quartile local 3 bedroom home



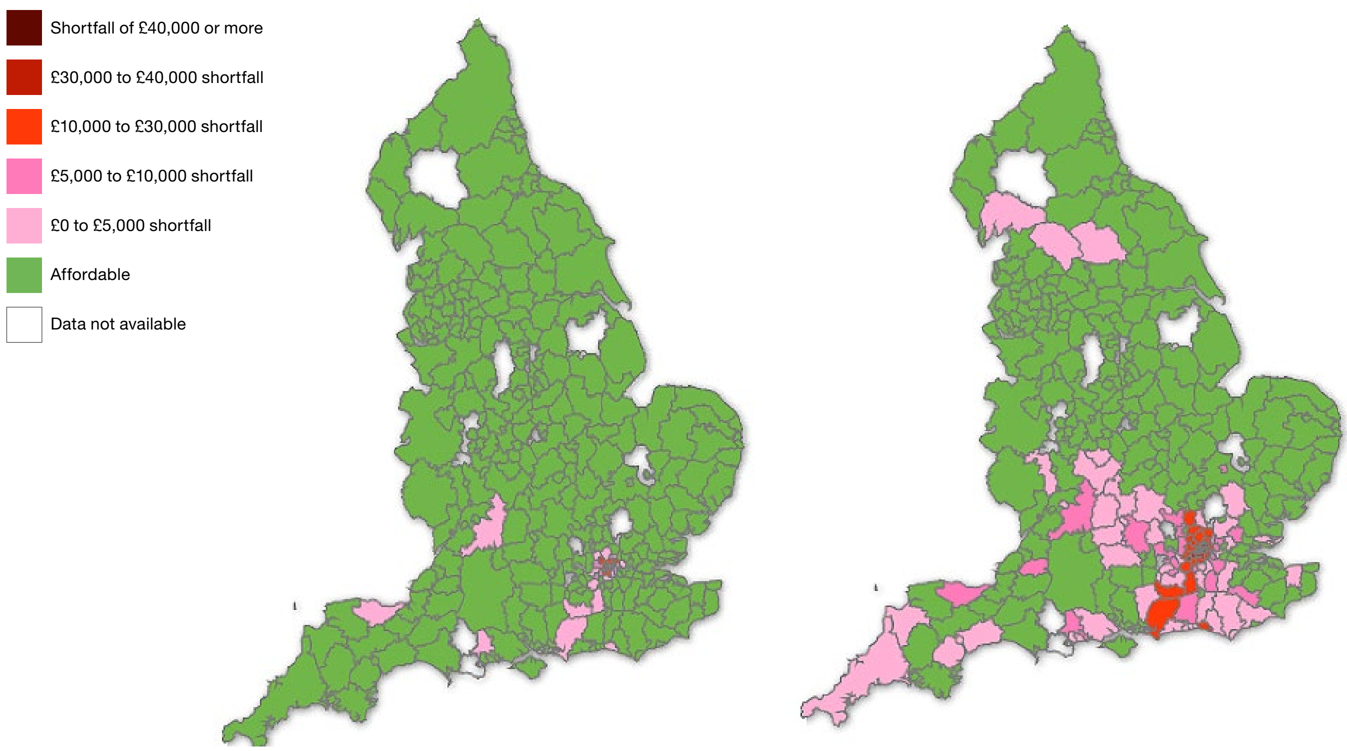
Areas affordable to median earning families with 25% shared ownership

Average local 2 bedroom home — Average local 3 bedroom home



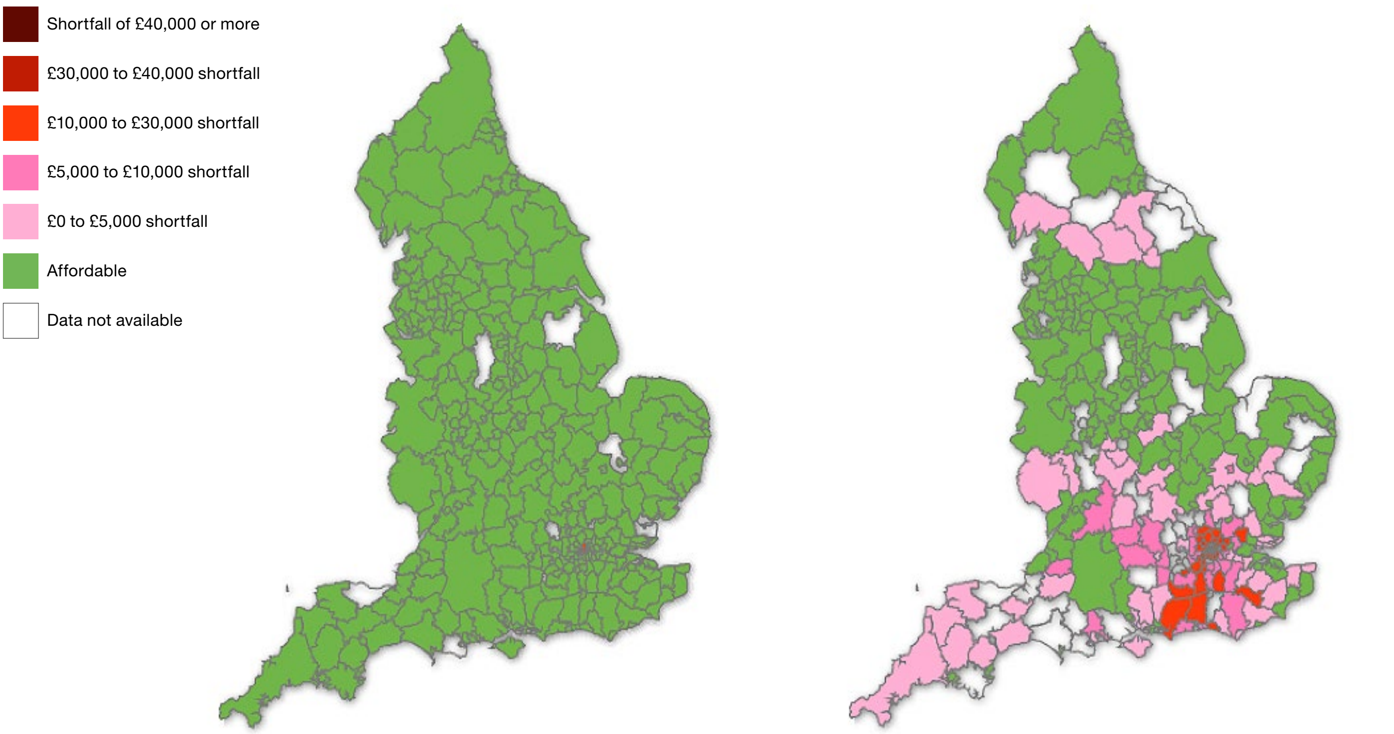
Areas affordable to lower quartile earning families with 25% shared ownership

Average local 2 bedroom home — Average local 3 bedroom home



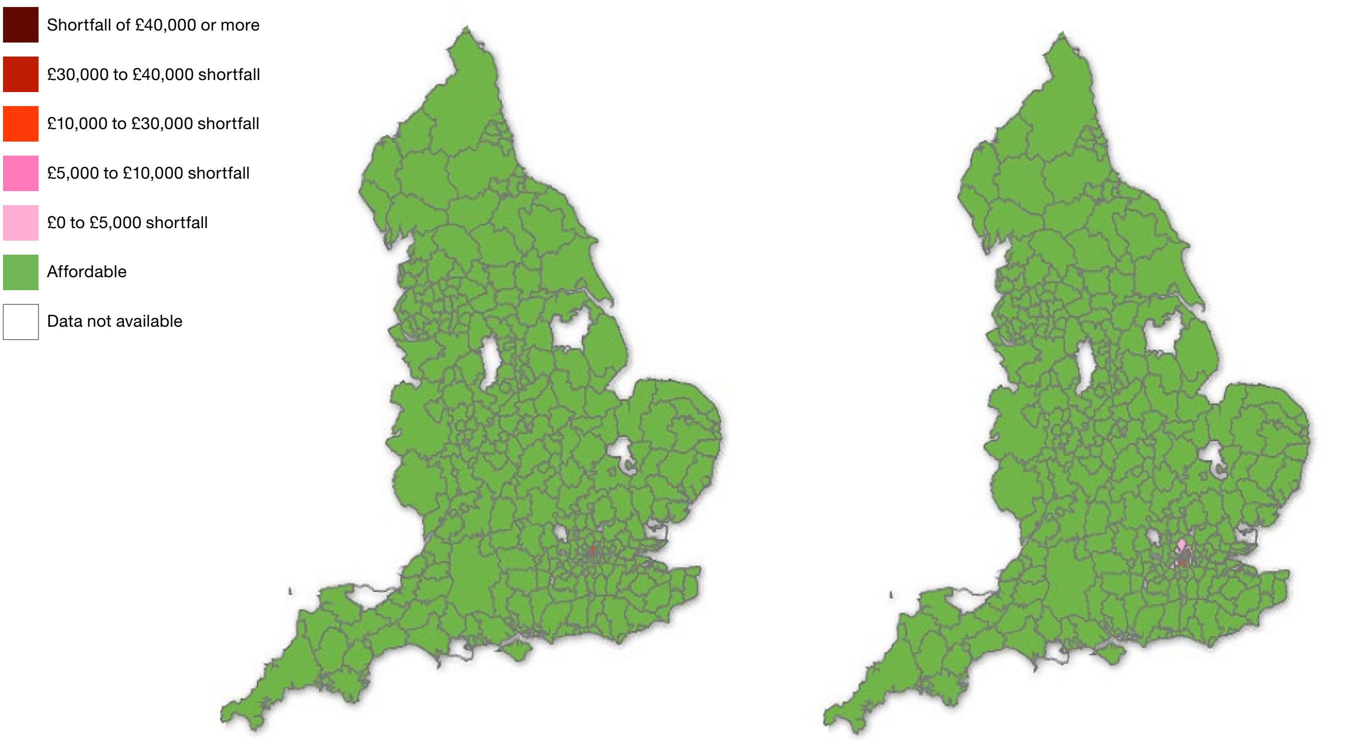
Areas affordable to 10th percentile families with 25% shared ownership

Lower quaritle local 2 bedroom home | Lower quartile local 3 bedroom home



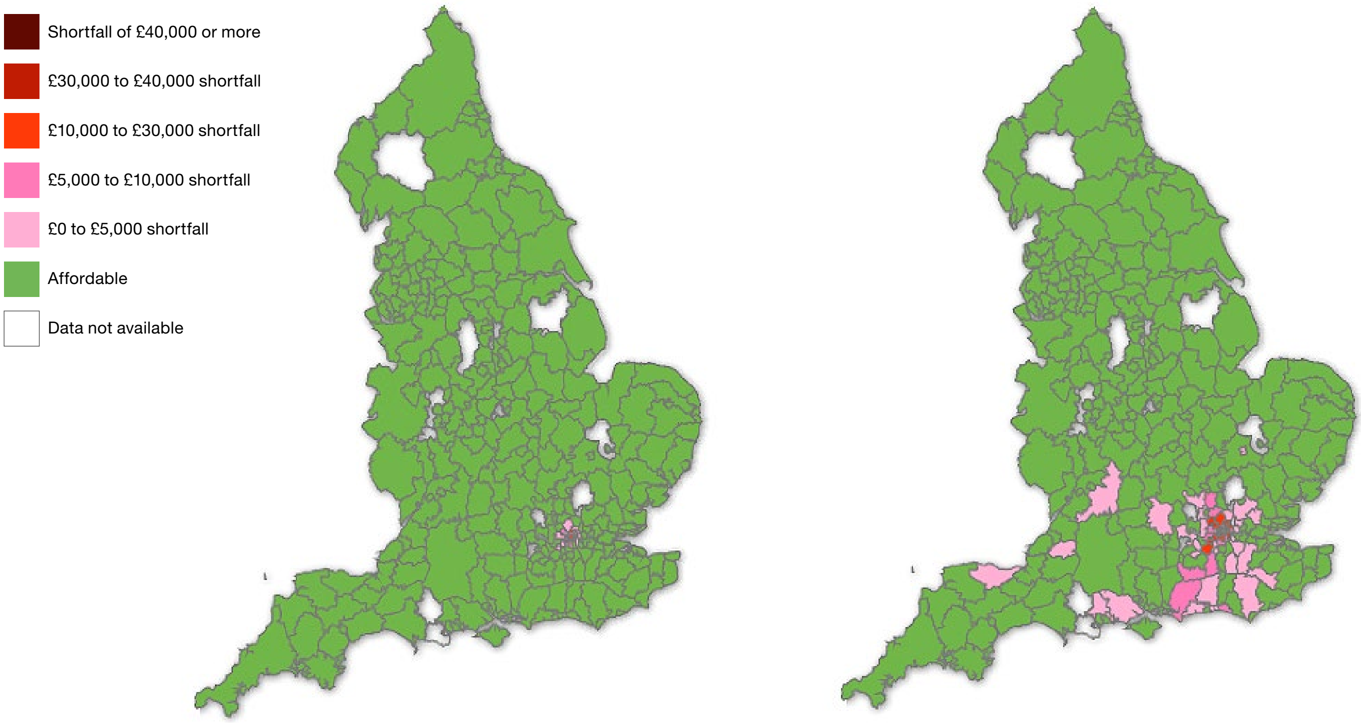
Areas affordable to median earning families with 12% shared ownership

Average local 2 bedroom home | Average local 3 bedroom home



Areas affordable to lower quartile earning families with 12% shared ownership

Average local 2 bedroom home   Average local 3 bedroom home



Areas affordable to 10th percentile families with 12% shared ownership

Lower quartile local 2 bedroom home   Lower quartile local 3 bedroom home

	Areas where a two bed home is affordable with 50% share	Areas where a three bed home is affordable with 50% share	Areas where a two bed home is affordable with 25% share	Areas where a three bed home is affordable with 25% share	Areas where a two bed home is affordable with 12% share	Areas where a three bed home is affordable with 12% share
Median income 1.5 earner families	96%	83%	98%	95%	98%	96%
Lower quartile income 1.5 earner families	74%	42%	91%	69%	95%	82%
10th percentile income 1.5 earner families	59%	35%	81%	58%	91%	73%

The shared ownership model offers the most hope of an affordable family home for England's low to middle income families.

Looking across the full span of low to middle income households (deciles two to five), almost three quarters (73 per cent) would be able to afford a three bedroom home with a 50 percent share - but 95 per cent would be able to afford a three bedroom home with a 12 per cent share.

With the flexibility to offer smaller shares, a substantial number of lower income households could afford a home that meets their needs and aspirations.

Abi and Jason live in Eastleigh and earn £42,000 between them – 1.5x the local median salary.

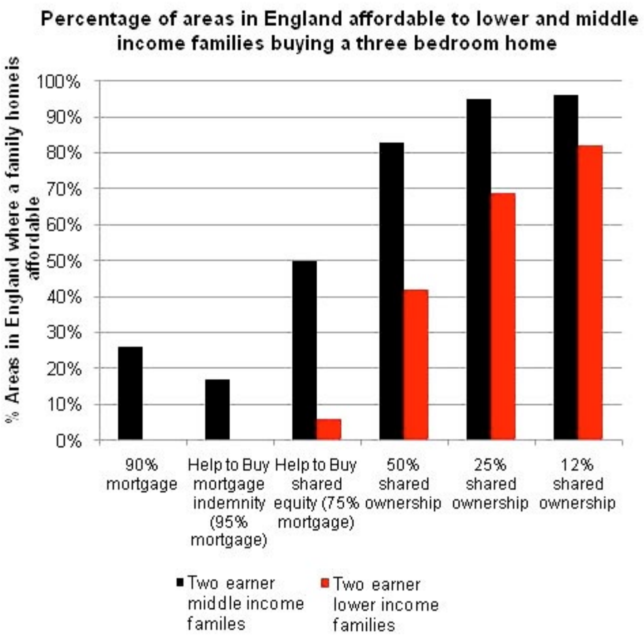
Abi and Jason would be able to afford the average local three bed home with 50% shared ownership.

Jo and Dan live in Dudley and earn £25,000 between them – 1.5x the local lower quartile salary.

Jo and Dan would be able to afford the average local three bedroom home with 50% shared ownership.

Which interventions are most affordable for low to middle income families?

The following chart summarises information presented in the maps on the percentage of areas in England that low to middle income families can afford a three bedroom family home, through a range of ownership schemes and products, using the conventional 90 per cent mortgage as the baseline scenario.



Help to Buy will not help many low and middle income families afford a family home in their area. The main component, the mortgage indemnity scheme, actually makes the monthly costs of the mortgage less affordable than the long term average 90 per cent mortgage.

Help to Buy's mortgage indemnity scheme is supposed to help 600,000 households, but given the high costs involved, only a small proportion of these will be low to middle income families buying family size homes

The 20 per cent equity loans available through the government's Help to Buy shared equity scheme do, in the short term, make monthly mortgage costs more affordable than for 90 per cent mortgages, as a result of borrowing lower amounts.

But after five years, borrowers will have to pay a fee on the equity loan, equating to 1.75 per cent of the loan's value. This would lead to additional monthly costs averaging at £50 a month for a two bedroom and £75 for a three bedroom after five years, which will have an impact on ongoing affordability. Families would typically need to earn an additional £2,000 a year before tax to comfortably absorb these additional costs.

But shared equity is the more limited part of the Help to Buy scheme – with fewer than 25,000 households likely to benefit each year.

Shared ownership is the most affordable option for the widest range of low to middle income families. Where lower shares are available, a significant majority of lower income families can afford the average family home in their area.

Some of the more expensive areas of London and the South East are still unaffordable for low to middle families, even with a lower share. On its own, shared ownership cannot meet the needs of all low to middle income families, and so policy-makers will need to ensure enough affordable homes are built to meet their needs too.

While shared ownership offers the most hope, its current offer is small scale compared to Help to Buy.

Low to middle income families can't afford to own a home because of the high cost of big mortgages on family homes

Mandy and Joe live in Chorley, Lancashire. They earn £26,000 between them as a part time paramedic and a call centre worker. What are their options for affording a 3 bed home for their family?

Implications for policy

The Government's Help to Buy scheme will not help substantial numbers of low to middle income families afford a family size home because it is focused on borrowing large amounts on high house prices. Most low to middle income families in England will struggle to afford a family home with it.

The high headline values of family homes across England mean that large mortgages are needed to buy them. The larger the mortgage, the more expensive the ongoing monthly costs for the family. Schemes targeted at full ownership therefore fail the test of being affordable for a majority of low to middle income families.

Shelter's analysis shows conclusively that low deposits alone do not enable low to middle income families to afford a home that meets their needs in most of the country. Large mortgages on high house prices are the principal barrier to families getting what they need from housing throughout their life.

To develop a more effective policy for helping low to middle income families, we need to revisit our criteria for a successful programme, and learn from the successive governments' attempts, in order to really improve housing options for low to middle income families.

Do current initiatives to help buyers meet the crtieria for low to middle income families?

	A policy that meets people's aspirations.	An affordable offer for a wide range of households	A simple and comprehensible offer	A consumer friendly process	Offers scale and long term commitment	Addresses housing shortage
Help to Buy shared equity						
Help to Buy mortgage indemnity						
Shared ownership (current offer)						

All models focus on ownership, so are consistent with the established needs and aspirations of low to middle income families. But full ownership is too unaffordable, so shared ownership is the only model that genuinely, affordably extends ownership to these families.

The analysis of shared ownership schemes and policies to date highlights how complex and confusing it has been for consumers. The model itself is not complex, but the presentation and frequent rebranding has not helped build confidence in the offer. Developing a successful ownership scheme in the future would need to be based on a consistent, clear brand and offer.

Help to Buy schemes appeal because they feel 'mainstream' – they are sold via developers and agents, and the criteria are clear and consistent. Shared ownership on the other hand can involve navigating complex local authority websites and contradictory criteria. To genuinely appeal to low to middle income families, shared ownership would need to emulate more closely the mainstream market.

None of these policies offer any long term commitment from government. Both the Help to Buy schemes may not be available after the initial three years. For example, a family that could afford a two bed home with a 20 per cent equity loan may not be able to afford a three bed home without an equity loan. Meanwhile, no government has made long term pronouncements about the shared ownership market's role in providing for families throughout their lifetime.

Families who benefit from Help to Buy or shared ownership in the short term may find themselves stuck in the future if the schemes end or the market is too small for them to have real options. A longer term commitment is needed.

The biggest failing of the major Help to Buy mortgage indemnity scheme is the lack of a direct link to new supply. Help to Buy shared equity and existing shared ownership programmes do have a direct link to new supply, but only are likely to see around 100,000 homes built over a three year period.

Government has suggested that stimulating demand (through easily available mortgages) will help encourage supply. This is unlikely to be the case: between 1995 and 2007 house prices rose 191 per cent in real terms due to high demand created by easily available mortgage credit. The number of homes we built per year rose just 12 per cent in that time.[32]

Without a direct link to supply, a housing programme focused on increasing demand for mortgages will not significantly increase new supply. Worse, many commentators fear it will push up house prices, making it even harder for low to middle income families to afford a home.

More effective policies to help low to middle income families need to take into account the lessons of Help to Buy. Ensuring affordability for a wide span of low to middle income families is absolutely vital, and they need a long term solution, not a quick fix that could leave families stranded on the bottom rung of the housing ladder with no option but to move back to insecure private renting if their circumstances change.

Ensuring that low to middle income families can afford new homes is of wider significance too. If our efforts to build new homes and address the homes shortage only result in homes available for outright ownership, then they will only be affordable to wealthy buyers with Help to Buy, or cash-rich investors who can afford large upfront deposits and then rent the home out to receive rental income. This would mean new homes contributing to a bigger private rented sector rather than expanding owner occupation.

This presents a real difficulty for policy-makers who know how important it is to build more homes.

Research conducted for Shelter finds that the key reasons local communities do not support new homes in their area is due to a perception that they are too expensive, and so are bought up by wealthy incomers rather than local people.[33] If new homes are simply too expensive for local families with normal incomes, local communities are less likely to support new homes being built.

Overall, shared ownership is much more effective at making family homes affordable for local families on low and middle incomes.

Building new homes for a bigger, more mainstream shared ownership market, offering lower shares to reach a wider range of households, could help the vast majority of England's low to middle income families to buy, while helping help local councils make a more persuasive case to local communities for new development.

An effective policy would need major, long term commitment, and must ensure the offer functioned more like the mainstream market in order for it to truly appeal to this important group.

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3. Developing better housing policy for low to middle income families

Our analysis has shown that shared ownership offers the most potential in helping the full range low to middle income families afford a family home that meets their needs and aspirations.

We have seen how current and past initiatives fail to meet our criteria for a truly effective programme for low to middle income families.

This section will make detailed consideration of the different factors needed to create a more successful programme to dramatically improve housing for low to middle income families would need.

How would a programme work?

Tenure

Shelter believes everyone should be able to have a decent, stable home that they can afford. Different tenures have the potential to offer this to families, but in the current environment, low to middle income families will not get what they need from the current options.

Many low and middle income families are stuck in a private rented sector that is less likely to be 'decent', almost certainly not stable (with short tenancies as standard), and with market rents that are not affordable for the average family, let alone lower income families, in half the country.[34]

Meanwhile, the Government's 'Affordable Rent' programme is unlikely to deliver for this group. It is not aligned with their needs and aspirations, and – perhaps correctly – they don't expect to be eligible for a social rented home.

We know from polling, that if they did have a choice, they would choose to own a home of their own. But full ownership, with big mortgages on high house prices, is unaffordable. Help to Buy will not help many low to middle income families afford a family home.

Our analysis shows that the shared ownership model, developed around consumers' needs and expectations, should offer the most sensible compromise between what makes a good home (stability, affordability, good conditions), and what most people aspire to – some form of ownership.

Recommendation:

- **Shelter believes government policy to help low to middle income families who aspire to own should focus chiefly on shared ownership.**

Reach and flexibility

There is currently wide local variation in eligibility criteria for shared ownership. Some councils restrict access to only the lowest incomes within the low to middle income group, while some schemes have barely served any lower and middle income households. In high value areas, such as London and the South East, this can leave a significant gap between who can access the intermediate market and the mainstream market.

A successful programme would need to offer affordable options for the full range of low to middle income households who are priced out of the housing market and typically renting in an insecure, expensive private rented sector. We consider this to be family income deciles two to five, which loosely spans households earning £20,000 to £40,000 although this varies significantly between areas. For example, in London the average 1.5 earner income extends to around £60,000, and a wider range of households are unable to afford what they need from the local housing market.

The programme would need to ensure that it really offered families appropriate sized homes for their needs. The average number of children in a family is just under two, and most families live in three + bedroom homes. [35] To work for families needs, the litmus test of the programme must be ensuring that a wide span of low to middle income families can afford a three bedroom home, although a two bedroom home may meet the needs of some families with one child or two younger children of the same gender.

It will be important, too, that a wide span of families can afford a share in a three bedroom home from the outset, given the average £9,000 transaction costs of selling and buying a home. [36] While some families may prefer to start with a higher share in a two bedroom home before selling and buying a lower stake in a three bedroom home as their circumstances change, the high cost of moving may make this a prohibitive option.

Nevertheless, the programme should allow families to make trade-offs on the size and location of their home, and how much of an ownership stake they choose to buy. The programme shouldn't be too prescriptive about what choices people can make; rather allowing them to make choices based on their income and their preferences.

Recommendations:

- **The upper limit of the national eligibility criteria should be a household income of £50,000 a year to allow for local variation in incomes.**
- **More expensive areas, such as London and pockets of the South East, may need higher income thresholds to ensure that there are products to meet the needs of a wider range of families who are priced out of the local market.**
- **Particularly in more expensive areas, where shared ownership is unviable for lower income households, it will be important for councils to ensure that there is sufficient investment in new affordable rented housing too.**
- **Families should have the choice to buy low shares (as low as 12 per cent) to allow lower income families in more expensive areas the chance of a decent, stable three bedroom home.**

Brand

One of the defining features of successive governments' attempts to help people into ownership has been the multiplicity of piecemeal schemes, each with a different identity and twist. This has been confusing for consumers and made it difficult for the housing industry to develop a long term, large scale offer.

Buying a home is one of the biggest financial decisions that most people make. People are most likely to seek advice from family and friends when they make these decisions, so peer experience and knowledge is vital for the programme to earn the endorsement of prospective buyers' peers.

The identity of the programme needs to be explicit about what the product is, so that it is easy for consumers to build trust and experience around it. Policy-makers would need to make a long term commitment to the programme so that consumers know that the market will continue to serve them in the future, and won't be at risk from future government policy changes.

It also needs to make explicit that ownership is a key element of the programme; otherwise it will not appeal to the full breadth of low to middle income families.

Recommendations:

- **The programme needs to single-mindedly focus on the one overarching product that can help the full span of low to middle income families afford a family-size home: shared ownership.**
- **All political parties need to make a long term commitment to a bigger shared ownership market targeted primarily at low to middle income families.**

Buying and selling process

Considering that most low to middle income families aspire to own, the success of a new programme will depend on its ability to emulate the mainstream ownership market. Currently, the process for buying a shared ownership home can feel bureaucratic.

Instead of browsing Rightmove or Zoopla, calling up a broker and visiting an estate agent, would-be shared owners may find themselves raking through multiple pages on a local authority website, trying to establish whether they meet the local criteria for different schemes. Awareness of the official sources of shared ownership information is poor.[37]

Likewise, if shared owners have bought the home through a housing association and wish to sell, they are typically required to advertise it to a defined list of eligible local buyers for three months before they can sell it on the open market.

While these processes are sensible mechanisms to ensure that subsidy goes to the people it is intended for, the experience can deter people who are used to operating in more open and consumer-friendly markets. This is not helped by complex, locally variable eligibility criteria.

As a result of the complex local variation in eligibility and perceived risks in shared ownership lending, mortgage lenders typically have more stringent deposit requirements.

The process for buying and selling shared ownership homes must emulate more closely the mainstream market in order for a major programme to have a broad appeal. It will remain important to ensure that the subsidy goes to the right people, but this could be addressed by having clear, national criteria for eligibility that allowed all low to middle income families to access it.

Meanwhile, significantly increasing the scale of shared ownership to serve the size of market that can only afford a home through the product would reduce the need for the tight rationing that exists at present.

Recommendations:

- **All homes should be advertised through mainstream portals such as Rightmove and Zoopla.**
- **Homes must be able to be sold back into a larger secondary market that is less restricted than the current secondary market. Mainstream estate agents should be encouraged to understand, and serve, this market.**
- **Government and opposition parties should commit to a standard model to encourage mortgage lenders to make longer term plans for serving this market.**

Scale

A successful policy to build more homes will only have momentum and make a notable difference to long term affordability if it delivers at scale. The Government would therefore need to ensure that a significant number of new shared ownership were built quickly, to make immediate headway on the backlog of homes affordable to people on normal incomes.

In order to instigate a major shared ownership programme, Shelter believes that immediate investment is needed. There is potential for further private investment in shared ownership, but the Government's Build to Rent scheme, focused on institutional investment in the private rented sector, has shown that progress can be slow and is unlikely to deliver the scale needed.

Instead, Government should initially fund a major shared ownership programme for low to middle income families through direct capital spend. This was advocated by the Business Secretary Vince Cable, who argued that one per cent of GDP should be spent on direct capital investment in house building.[38]

At present, providers of shared ownership are able to develop homes with an average share of 35 per cent with a grant of approximately £15,000 per home. Shelter estimates that an average grant of £20,000 would be needed per home to allow providers the flexibility to offer a lower average share and help a wider range of households.

A £12 billion budget to develop shared ownership homes could provide new homes that are affordable for and meet the aspirations of 600,000 low to middle income families over four years.

The justification for direct spend is clear. First, it can deliver at scale a significant improvement in the living standards of low to middle income families – a key electoral group. Secondly, spending on infrastructure can create jobs and boost the economy, reducing the benefit bill in the short term.

Finally, helping Generation Rent to become shared owners can save on their housing benefit bill in retirement. If just half of today's 3.8 million private renting households carry on renting into retirement, assuming a fixed rent liability of £700 a month, the total housing benefit bill for them alone would equate to £16bn a year. If all of these renters bought a shared ownership home and their rents in retirement were halved, the retired renters' housing benefit bill would also be halved. This would be a key way of shifting subsidy towards bricks and away from benefits. [39]

The need for subsidy could be reduced in the future through a range of mechanisms. The Government should develop long term investment mechanisms to supplement direct capital investment, to ensure a more sustainable funding stream. Shelter is developing proposals for investment funding for housing and will publish these in due course.

Some housing associations already fund shared ownership homes through cross-subsidy from full market ownership homes. Meanwhile, finding more cost-effective ways of acquiring land for development could reduce the need for subsidy.

Recommendations:

- **Political parties should commit significant direct capital investment to deliver a large-scale programme of shared ownership homes for low to middle income families.**
- **Policy-makers should further explore ways of supplementing a capital investment programme through cross-subsidy and more cost-effective ways of acquiring land for development. Policy-makers should also consider the potential of funding shared ownership development through private investment.**

Design and price

The analysis has shown that shared ownership can work for a wide range of low to middle income families when based on local median house prices. But, as shared ownership is largely, appropriately, available on new build homes, and new build homes can attract a premium of approximately 10% above average market homes,[40] this can mean families get less for their money, and are at more risk of immediate negative equity.

For shared ownership to be a sensible deal for consumers, it needs to be priced fairly for the local market. Pegging prices to the average local market square foot costs would mean that the homes are less likely to depreciate from a higher initial price, putting fewer shared buyers at risk of negative equity, and making it easier for people to move if their circumstances change. If new build continues to be sold at a premium price, it will only be accessible to higher income households.

If shared ownership is to be a good long term option for families throughout their life, it needs to be designed and built to good specifications. Shelter has called for minimum space standards,[41] and we believe that using these to inform the design of new shared ownership developments would make them more appealing to a wide group of people, and increase public support for new homes.

The criteria for setting headline values for homes and the requirement to meet sensible space standards could be set as a condition of the grant. Building enough family size homes will also be important, as local councils must ensure that any new homes meet the needs of local families. Guidance for local authorities to establish and plan for local housing needs is available from howmanyhomes.org.

Recommendation:

- **New home prices should be pegged to local market price per square foot, as a condition of grant, removing the new build premium.**
- **Minimum space standards should be a requirement for all new build shared ownership homes funded by grant.**
- **Local authorities should carry out needs analysis to inform the proportion of three bedroom homes to build for local families using howmanyhomes.org**

Integration with other tenures

Historically shared ownership has been portrayed as a stepping-stone tenure – an intermediate stage in the journey between renting and owning. But in practice few people significantly increase their shares and move on to full ownership.[42]

The context of flat wage growth for low to middle income families means it is unlikely that many will be able to ‘trade up’ from an equivalent size shared to full ownership home in their local area. The tenure needs to operate as a permanent intermediate market rather than a stepping stone, so that as people’s lives change they can choose to move from smaller to larger and larger to smaller homes within the shared ownership market.

Some people may wish to shift between tenures. For example, a person whose circumstances change such that they can no longer afford a mortgage may wish to move to a social tenancy, whereas an older person whose children have left home may wish to trade a 60 per cent share in a three bedroom home for a 100 per cent share in a one bedroom home.

Likewise, families who rent socially and aspire to own, or people who own a small home and want to own a bigger home, may wish to move into shared ownership. Currently, some local authorities heavily prioritise non-owners – due to the scarcity of affordable homes. But there are many existing owners who cannot afford the size of home they need for their family on the open market.

Many families currently in different tenures could benefit from shared ownership, so there should be no restrictions on existing owners moving into shared ownership, and policy-makers should investigate whether it would be more cost-effective for households to do Right to Share Buy rather than Right to Buy, as long as the receipts from such sales are reinvested into building more social homes.

It is also important to acknowledge that shared ownership will not be affordable for all lower income households in all areas. Some may have poor credit ratings and may not be eligible for a mortgage, others may not have enough working life left to commit to a mortgage, and, with the rise in 'zero hour' and fixed term contracts, a growing number won't have the income security to commit to even a small mortgage.

This means there is a strong continued need to build more decent, affordable, secure rented homes for people who do not want or are not able to get a shared ownership home. This is particularly important in high value markets where it is less viable for shared ownership to work for the lowest income groups.

Policy-makers will need to bring forward proposals for building social rented homes in addition to shared ownership homes, to ensure that all families are able to get a decent home that meets their needs. Shelter has set out a wide range of proposals to increase the supply of new affordable homes in a mix of tenures. [43]

Recommendations:

- **There should be no restrictions on people moving from owner occupation to shared ownership.**
- **Policy-makers should investigate the possibility of a Right to Share Buy as a cost-effective replacement for the Right to Buy.**
- **Policy-makers must ensure that proposals to build shared ownership homes sit alongside plans to build affordable, decent rented homes, to ensure that there is still a real choice between renting and owning, and for people who cannot afford or are not able to take on a shared ownership mortgage.**

Shelter's vision for a successful housing programme for low to middle income families

A better deal for England's low to middle income families needs to give them affordable housing options throughout their life, as their families grow, as their incomes fluctuate, and as they prepare for retirement. It needs to offer options for the full range of people who are priced out of the mainstream market, and won't be eligible for, or don't aspire to, social housing.

Shelter's vision is for a major, mainstream shared ownership market – a large-scale, permanent intermediate sector that provides decent homes for priced out families throughout their lives.

For some it may be a stepping stone to full ownership if their circumstances change, but it needs to be good enough, and flexible enough, that people who don't have that choice are well served by the new offer for the long term.

This new intermediate market will focus purely on the shared ownership model – allowing families to buy a share in a home and pay rent on the remainder. This is pragmatic: it contains an element of ownership, which is key to the aspirations of this group, and greatly improves upon the stability and certainty offered by England's private rented sector.

This market will have a consistent, long-term brand and consumer offer of shared ownership. Intermediate housing options have been rebranded and redefined time and again by successive governments, creating confusion and changing the goalposts for low to middle income families who aren't served by the market.

This new market will offer families the flexibility to buy different levels of share, depending on their income, the size of the home, and local house prices, so that they can get the size of home they want for their family, and can choose to make trade-offs. For example, a family with an income of £32,000 in Watford might choose to buy a 50 per cent share of a two bedroom home, or a 25 per cent share of a three bedroom home. That choice would be theirs to make.

This new shared ownership market will operate much more like the mainstream mortgage market than it does at present. People who choose to enter the shared ownership market should be able to search for new shared ownership homes on property portals like Rightmove and Zoopla, speak to a mainstream broker who can help families understand the options open to them, and have access to a range of mortgages offered by mainstream lenders.

When the time comes for people to sell their home, the selling experience will also resemble the mainstream mortgage market. People will be able to sell it back into the market at the level of share they have acquired, without having to market it to a waiting list for a defined period. They will have the choice to sell it via conventional estate agents – some of whom are already active in this market.

There will be no complex, locally variable income restrictions on who can buy a home – as enforcing these restrictions can make the process off-putting and confusing for prospective buyers. The reality is that huge numbers of low and middle income families are priced out of the mainstream housing market up and down the country – especially for family homes. Nevertheless, the litmus test of the market should be its ability to offer affordable options to low to middle income families in family income deciles two to five, typically earning £20,000 to £40,000, but up to around £60,000 in London. To allow for local variation in incomes, the national limit should be £50,000, with higher income criteria for London and other particularly expensive markets. Local councils will need to demonstrate that they have genuinely affordable options for the full span of this group.

Making this market, bigger, more consumer-friendly, and a proper long term option for millions of low to middle income families will require large scale investment from the Government. The Government needs to commit to a major shared ownership programme – as part of a wider drive to build affordable homes. An initial commitment of £12 billion could build 600,000 shared ownership homes over a four year period, creating enough scale to reassure consumers and lenders that the market is mainstream and offers choice and flexibility in the long term.

Quality and value will be important in reassuring families that shared ownership is a sensible option for them. Homes should be built to the minimum space standards that Shelter has advocated. Headline values on which shares are calculated should be pegged to the local market average per square foot. This would help negate a new build premium that can be charged when buyers have additional assistance in the market.

Direct capital investment would save a lot more money over the long term. The housing benefit bill per year – purely of retired private renters, and based on today's rents – would equate to more than £16 billion a year if just half of today's nine million renters never bought a home. If all of these renters bought a shared ownership home and their rents in retirement were halved, the retired renters housing benefit bill would also be halved.

To make a real difference to low to middle income families, struggling now in the insecure and expensive private rented sector, or stuck in a mortgaged home that is too small for them, government action is needed to get this bigger, better, long-term shared ownership market up and running as soon as possible. Shelter calls on the Government to significantly invest in shared ownership for low to middle income families as a matter of urgency.

Next steps

There is an immediate need for better housing options for low to middle income households. The route to either full home ownership or social housing has been broken. Today's low to middle income families, on the whole, cannot afford to buy a family home for full ownership like they would have done in previous generations.

Likewise, policies allocating social housing to people with the greatest need – in the context of a lack of supply of social housing – mean that many lower income households are unlikely to get a social home, even if that is what they aspire to.

But government action to help low to middle income families afford a home that meets their needs and aspirations has so far failed. A succession of confusing piecemeal schemes over the last decade have prevented a coherent intermediate market developing and becoming a genuine, mainstream option for these forgotten families.

The Government's flagship Help to Buy scheme will not help many low to middle income families achieve that once attainable aspiration of owning a family home. The headline prices of family homes are simply too high for large mortgages to be affordable for this group. While it offers scale and appeal, it will not improve most low to middle income families' chances in the market.

Without the Government meeting them half way, low to middle income families' housing options are unlikely to improve: the market will not fix itself, and the only realistic alternative is that more and more hard working families will raise their children in insecure private rented accommodation.

A bigger, better shared ownership market could provide these families with the balance of affordability, flexibility and stability that they need in their home. But it cannot be done by halves.

A functional middle market needs scale to work like a proper market and move from being a rationed, niche part of housing in England. Shared ownership needs a bold, long term commitment from policy-makers to make this happen.

With the root causes of the high cost of housing lying in the decades-long shortfall in new homes being built, policy-makers should bring forward proposals for a significant house building programme focused on shared ownership for low to middle income families.

Policy-makers are already aware that spending on infrastructure, including housing, is a strong boost for jobs and growth. Building homes for families will directly improve people's lives, earn political capital, and lead to savings in the long term, reducing the need for housing benefit for Generation Rent in retirement.

Shared ownership won't work for everyone – some people's employment is too unstable, or their credit rating is too poor to secure even a small mortgage, and some may prefer not to take on the additional responsibilities involved in ownership. In some markets even modest earners would struggle to afford the lowest share properties because headline values are so high, while some would-be owners may not have enough working years left to pay a mortgage.

A significant expansion of shared ownership would need to take place alongside programmes to deliver more affordable homes for rent. It is vital that low to middle income families have genuine choice between quality tenures.

More work is needed to understand how a major shared ownership programme could extend low stakes ownership to the lowest income groups with less stable employment, particularly in high value areas, and how it integrates with social housing. Shelter will bring forward policy ideas responding to these considerations in the coming months.

These considerations aside, the huge number of low to middle income families stuck in an insecure private rented sector or at the bottom rung of the housing market need better options now.

England's low to middle income families need policy-makers to deliver a major expansion of new build, quality, mass market shared ownership.

Shelter calls on policy-makers to take decisive action to support low to middle families, so that this generation and the next can afford a decent home to raise their family.

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