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The Maturing Shared Ownership Market: A Data -Led Analysis

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Executive Summary

- This study brings together current public and private data sources to provide a picture of the performance of the Shared Ownership (SO) market over time starting as early as 2012 and going up to 2022.
- We obtained proprietary granular data in various dimensions, including granular administrative data from seven major registered providers (RPs) representing 10-13% of the total SO stock by RPs. In addition, we analyse SO loan level data as well as key mortgage indicators from lenders.

- The mortgage market for SO loans is small and concentrated among a limited number of lenders. Lenders to SO homes are covered by the Mortgage Protection Clause (MPC) in the SO lease reducing their exposure to credit risk and shifting costs of repossession to the RPs.
- Overall, we do not find that lenders differentiate SO mortgages from conventional mortgages beyond the loan-to-value (LTV) ratio. LTV ratios for SO loans are around 80-90% of the value of the share purchased, which is 5-13 percentage points higher than for conventional mortgages.
- Struggling SO owners first stop paying rent before they go in mortgage default. The lender will normally agree to set up a capitalisation arrangement with the RP to cover rent arrears until the SO owner is able to resume making rental payments.
- Between 2013 and 2018, the share of monthly rent arrears out of total rent roll has been fairly steady at ca. 2%. With the onset of the Covid-19 pandemic, we have seen the share doubling.
- Rent arrears are often of a technical nature with median monthly values around £100-150. The share of SO tenants in monthly rent arrears higher than £400 can be as high as an average of 11% increasing in the last two years following the Covid pandemic.
- Repossessions happen in less than 1% of total stock between 2009 and 2019 and clearly remain a last resort resolution.

Chapter 1 : Introduction

Investors and mortgage lenders play an important role in providing the financing for the building and purchasing of shared ownership (SO) homes by households. Having a good evidence base on the SO investment and mortgage market is essential for analysing and understanding the underlying pricing and risk allocation which will take place in any investment or lending decision.

There is a not insignificant amount of research on the SO market which is unsurprising since the product has been in place since the early 1980s. Some of this work is within general reviews of affordable home ownership and the role of SO in the provision of affordable homes (e.g., Home Ownership Task Force [1], Bramley[2], Walker[3]). Other more specific work has drilled down into the consumer understanding of SO, the secondary market (Clarke et al., 2016[4]), the market for SO outside London, the transitions from SO to full home ownership and most recently risk allocation and SO[5].

[1] Home Ownership Task Force (2003) A Home of My Own, London, the Housing Corporation
[2] Bramley, G and Morgan J (1998) Low -cost home Ownership initiatives in the UK, Housing Studies, 13, 4 pages 567-586
[3] Walker, C (2016) Government housing schemes: Accid5 Tm W* n B5 Tm

The majority of the reports on SO have used the limited publicly available data alongside survey data. What becomes apparent is that despite the not inconsiderable volume of work, there remain significant weaknesses in terms of data and understanding and not least around the dynamics of the SO mortgage market, rent and mortgage arrears (and repossessions) and leaseholds buying extra shares (staircasing) towards becoming full owners and how this works over the market cycle in any detail. Most of these weaknesses reflect the lack of data ±both over time and across housing associations (HAs) and regions.

In addition, while there is a much bigger amount of research, academic or otherwise in mortgage markets and mortgage loans, the question remains, how transferable this wider research is to the rather more specialist SO mortgage market.

Aside from briefly highlighting what exists in terms of the evidence base, in what follows

The analysis we present in this report will be based around descriptive statistics of the data. In addition, we compare the findings for the subsample of RPs with the publicly available market data. We also sense check our findings through informal discussions with industry stakeholders.

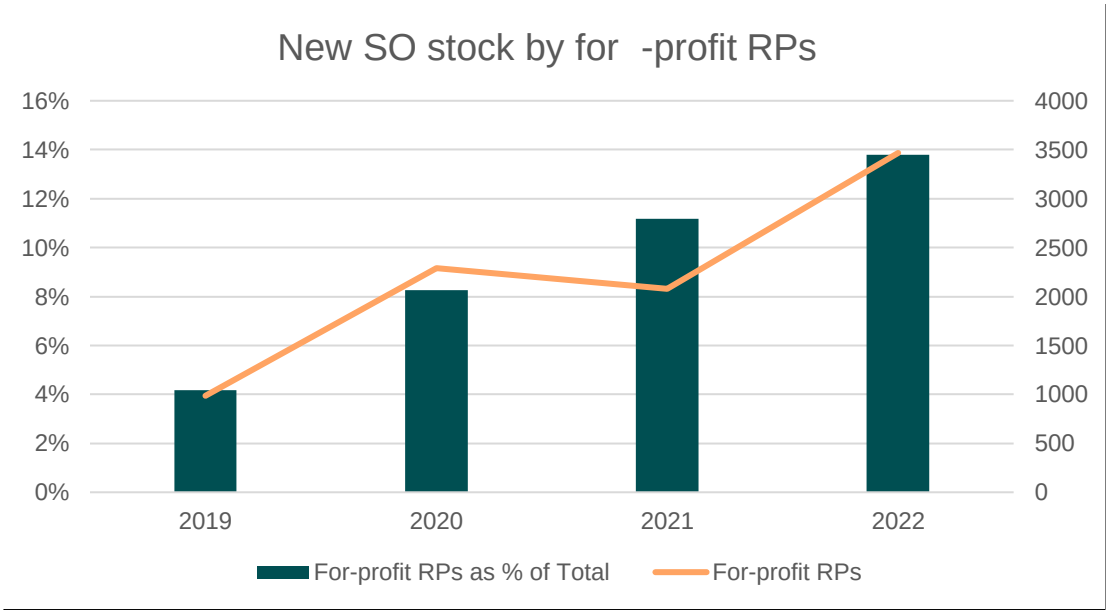
This report is structured as follows:

- x

Supply o f Shared Ownership

Therefore, for 2021-22, about 44% of the completions were delivered by RPs via the AHP, while 46% of the additional supply of SO homes was delivered by private de

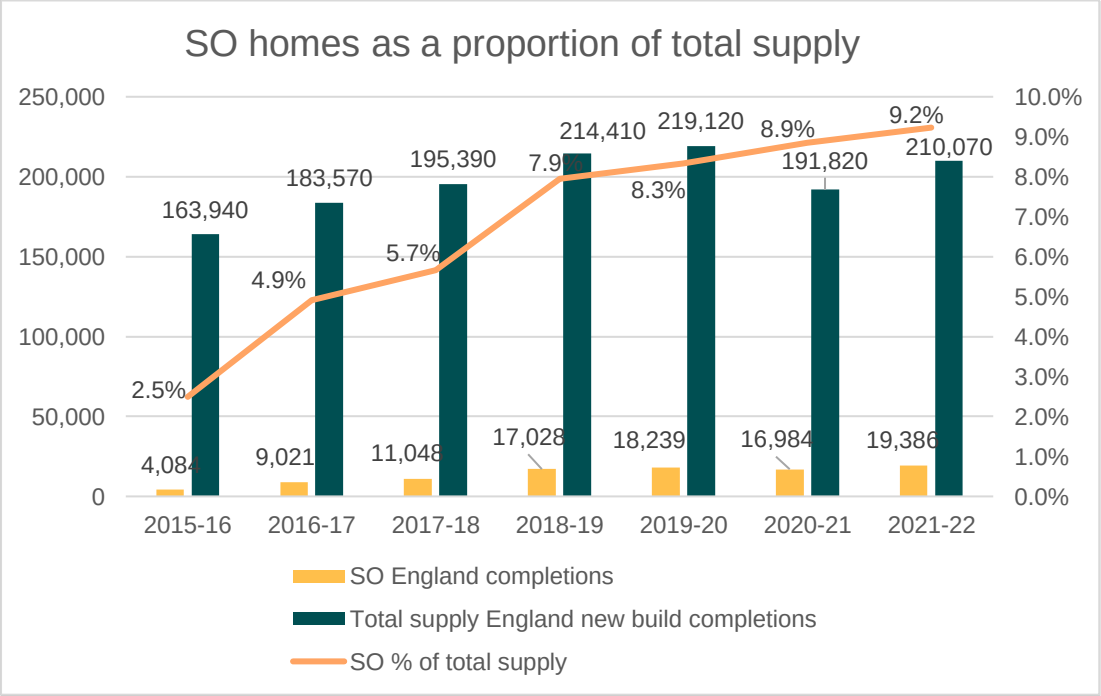
Panel B: New SO st ock provided by for -profit RPs between 2019 -22



The delivery of SO has generally increased since 2015 reaching its peak of 18,239 in 2019-20 (see Figure 2.2). Until 2020 we observe a general increase both of homes delivered by RPs and as part of Section 106 agreements with developers. Supply then levelled off and slightly declined in 2020-21 most likely because of COVID-19 restrictions on the construction industry and much reduced market activity. As illustrated in Figure 2.3, SO as a proportion of total new housing supply has steadily increased and exceeded 9% in 2021-22. However, SO makes a large part of the affordable housing stock, with the AHP 2021-26 aiming to fund almost half of the entire new supply of affordable housing for SO developments.

Another emerging trend is the increase in the delivery of SO units by for-profit RPs over the last four years. Figure 2.2 Panel B shows a gradual increase in the number of new SO units delivered by for-profit RPs, going up from nearly 1000 in 2019 to nearly 3,500 at the end of 2022. What is striking is that the share of new SO supply delivered by for-profit RPs has grown substantially from 4% in 2019 to almost 14% in 2022. It remains to be seen how the change in the interest rate environment and the inflationary pressures in the UK will affect private funding and financing of SO homes.

Figure 2.3: SO homes as a proportion of total supply



Sources: DLUHC and MHCLG, Live Table 1000C; Table 118

https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing

https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply

There is a substantial regional variation in the supply of SO which is largely driven by affordability pressures and national and local planning policy (see Figures 2.2 and 2.4). While in the South East of England (where the average home value in 2022 was £390,057), East of England (£351,059) and London (£532,132) the share of SO supply exceeded 10% of total supply, in the North East (£157,104), North West (£210,631) and Yorkshire and the Humber (£204,970) this share was closer to 6%.[16] In 2021-22, in the northern regions (North East, North West and Yorkshire), a total of 3,461 SO homes were built. By way of comparison, in London a total of 4,257 SO homes were built in the same period. Proportionately more SO homes are provided in areas of high home prices as one might expect (see Table 2.1).

[16] Source: UK House Price Index available at https://data.london.gov.uk/dataset/uk-house-price-index. The reported home values are averages across months for the period January ±December 2021.

Figure 2.4: Housing supply by region in 2021 -22

Sources: DLUHC and MHCLG, Live Table 1007bC; Live Table 118

https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply
https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing

Table 2.1: Financial data on SO sales over time

Shared Ownership Affordability

Because SO buyers are purchasing only a share[17] of the property and are financing this purchase with a mortgage, they are able to get onto the property ladder with a minimal cash deposit. The average initial share (or equity stake) bought has been stable over time hovering slightly above 40%. SO owners on average take out mortgages with a LTV ratio at or above 80%.[18]

SO also means sharing of house price risk between the SO owner and the RP. Because SO owners only own a share of the property, they have a leverage factor that is smaller than that o f a conventional owner occupier. They thus benefit from the risk sharing arrangement that SO provides. Using the introduced example of a 40% share, SO owners would be exposed to only 40% of the impact of house price movements relative to an owner occupier with a similar LTV ratio (though of course that works in both directions). SO owners need to weigh this benefit against downsides of SO, such as, there being three parties to the contract ±the leaseholder, the freeholder and the mortgage lender ±and that the secondary SO market is potentially less liquid.

Demographics of Shared Ownership

Figure 2.5 shows the household composition of SO buyers. Since 2015-16, the proportion of single person households compared to other types of households in that

Chapter 3 : The Shared Ownership Mortgage Market

According to Clarke et al. (2016) [23], 1.3% of all mortgages and around 0.7% of the total value of mortgages held in 2016, or some £4bn of SO mortgage stock, are SO mortgages. Given the expansion of the SO market in subsequent years these figures are likely to be higher now. There are about 25-30 lenders of SO loans. This includes major high street lenders such as Halifax/LBG, Nationwide Building Society, Barclays, Santander alongside a large number of specialist lenders (Leeds Building Society, Kent Reliance, Skipton Building Society) and adverse lenders (Together Monies, Kensington, Pepper Monies). The market is highly concentrated with 3-4 lenders providing most of the SO mortgages. Other lenders would provide only a small number of SO loans.

Given the complexities of SO and the arrangements surrounding it, it is necessary for lenders to invest quite a lot of time and expertise in order to minimise the risks of this lending. Because the regulations around affordable housing and SO are both complex and keep changing, lenders in this market tend to have become specialists in order to stay on top of the latest developments. There are enough lenders to ensure competition

Loan-to-Value Ratios for Shared Ownership Loans

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product, with LTVs on average being 80-90% of the share bought. Using the data for 2021-22 from the mortgage broker, we observe that the median LTV ratio is 89.6% (see Figure 3.3 Panel B). In addition, using data provided by the RPs, we can calculate further LTV ratios. The median LTV ratio across the RPs is depicted in Figure 3.3 Panel A;

Figure 3.3: Loan-to-value ratios

Panel A: Median LTV ratios for a sample of RPs over time

Panel B: Median LTV ratios for SO mortgages across England for 2021-22 using mortgage broker data

Source: Own calculations. Data are from CORE recoe CID 10

Mortgage Rates

While some lenders do not distinguish between SO mortgages and first-time buyer mortgages when they set the mortgage rates but rather the pricing and terms are based on the LTV. This means that SO mortgages which have higher than average LTV ratios,

Re-mortgaging

Anecdotal evidence from mortgage lenders and mortgage brokers suggests that when SO borrowers remortgage, they tend to stay with their existing mortgage lender. We also have asked lenders to share information about their remortgage LTV ratios. Some large lenders did so with respect to average re-mortgage LTV ratios for SO properties for 2021-22; they were reported to be around 77-78%. As comparison, remortgage LTV ratios for all mortgages are much smaller, at around 54%. Anecdotal evidence suggests that the remortgage LTV ratios for SO properties are higher partly because of the very nature of the product and also because of the new-build premium, which varies over time but is typically somewhere between 5% and 15% of the property value. Given depreciation over time, this could mean that a re-valuation at the point of remortgage might not result in an increase in the value of the share though of course much depends on timing and length of time in the home before the remortgage arises. LTV ratios can increase when staircasing occurs if an increased mortgage is raised to support buying an additional share. However, these data are to be interpreted with caution, as we cannot verify these numbers ourselves.

Negative Equity

Another risk to consider is substantial house prices declines and the effect on SO owners. If house prices were to go down by 20%, the homeowner might enter into negative equity. The effects might be stronger for households that have bought at the peak of the housing boom. Table 3.1 looks at a household who has purchased a 25% share using 10% deposit. We assess various house price categories, based on the income needed to pass the SO affordability criteria. We assess a worstuse price categories,%

Shared Ownership -Specific Credit Risk

In addition to the market risks to which any mortgage is exposed, there are some risks specific to SO mortgages which are not typical of conventional mortgages. For example, repayment risk can be enhanced due to the hybrid nature of the property, having a lease attached to it (and a rent payment). For example, if the SO owner stops paying rent on

Figure 4.1: Rents by tenure over time, England

Panel A: Monthly rents in England by tenure

Panel B: Median payment for the rent of a SO unit for our sample of RPs over time

Source: Data for Panel A come from DLUHC and MHCLG, Table 704, and Statista for market rent, house prices and

Rent Arrears

Rent arrears for affordable tenures, which includes not only SO, but also affordable rent and social rent, are reported for September-November 2021 for 27 RPs by the National Housing Federation[29] using survey data. Median rent arrears as a percentage of the rent due are at 2% of non-universal credit tenancies. The median share of residents in any form of arrears is more than 35% for tenancies not using Universal Credit to pay for rent. Average arrears for households in arrears are reported to be £313-339. These figures can give an indication of the upper boundary of what rent arrears can get to in the affordable/social housing sector.

In addition to above information, we have received granular data on monthly rent arrears for SO properties from a handful of large RPs for 2020-2022. One RP has provided data going back to 2013. Figure 4.2 shows rent arrear data for the RPs, most of which own properties in London and the South East. We report the share of SO tenants in rent arrears out of all SO residents, the share or SO arrears our of SO rent roll, the share of SO arrears per SO tenant out of average SO rent per SO tenant, the average monthly SO rent arrears per SO tenant in arrears. We define rent arrears as tenants not being able to pay their rent and service charge in full in any month. This can be as low as £0.01, which will flag a SO resident as being in arrears.

Tenants in Arrears

On average, for three of above RPs, between 14-29% of the SO owners are in arrears at a given month during the sample period. The ratio appears to be high because, as mentioned above, we are counting tenants with very low amounts of arrears (below £10). 7 K R V H Z R X O G technical arrears G ³Z K L F K F D Q i.e., a standing order date or amount being out of alignment with the rent due period or rent amount.

Panel A shows that for one RP, the share of SO owners in rent arrears between 2020 and 2022 varies between 17% and 34%. Panel B shows data for another RP and a very similar pattern emerges, with a monthly share of SO tenants in arrears between 14% and 29% for 2021-22. Panel C shows arrears for a major London RP being between 14% and 33% between 2013 and 2022, with large seasonal variations due to adjustments in service charges. Panel D shows an RP with a much lower share of residents in arrears ± between 3% and 7.3% for 2021-2022 which can be due to their young portfolio of SO units. Since autumn of 2021, we see a shift up with more SO residents being in rent arrears, which can be associated with the end of the eviction moratorium in mid-2021.

It is important to keep in mind that the timeline for which we are mostly reporting above data, 2020-2022, is capturing the Covid-19 pandemic and post pandemic periods, during which, a higher proportion of residents have been unable to pay their rent. During 2020-2021, the Covid pandemic, landlords were not allowed to evict tenants due to the eviction moratorium. So, for these two years, we are reporting on the upper boundary of rent arrears during an exceptional period.

Figure 4.2 Panel C gives us a better historical perspective showing data on rent arrears for one London RP dating back to 2013. The share of SO residents being in rent arrears has been steady prior to the onset of the Covid-19 pandemic showing however strong seasonal patterns. We observe some seasonality in arrears overall across the RPs. Within a year, residents in arrears vary substantially from as low as 14% to as high as 27% in 2014, for example. In Panel C, we see that the share of SO owners in arrears goes up in October of each year which might be due to how service charges are applied. The highest share prior to the pandemic is in October 2015 of 30%. During the pandemic,

[29] National Housing Federation, 2022. Universal credit and rent arrears, April.

the share has gone up to 33% in February 2021. As of September 2022, the share has gone down to 18%.

Above share of SO owners in arrears counts all SO owners who are registered to owe any amount to the RP. Looking at the share of SO residents who are in monthly arrears of more than £400, a much smaller share is observed across the board. The share ranges between 5% and 13.5% for three of the RPs. For a younger RP (panel D), these values are much smaller of up to 2.8% in autumn of 2022. The somewhat lower share might be due to the short track record of owning SO units. It seems that the share has gone up during and post-Covid-19 and for some RPs it has most recently started to go down.

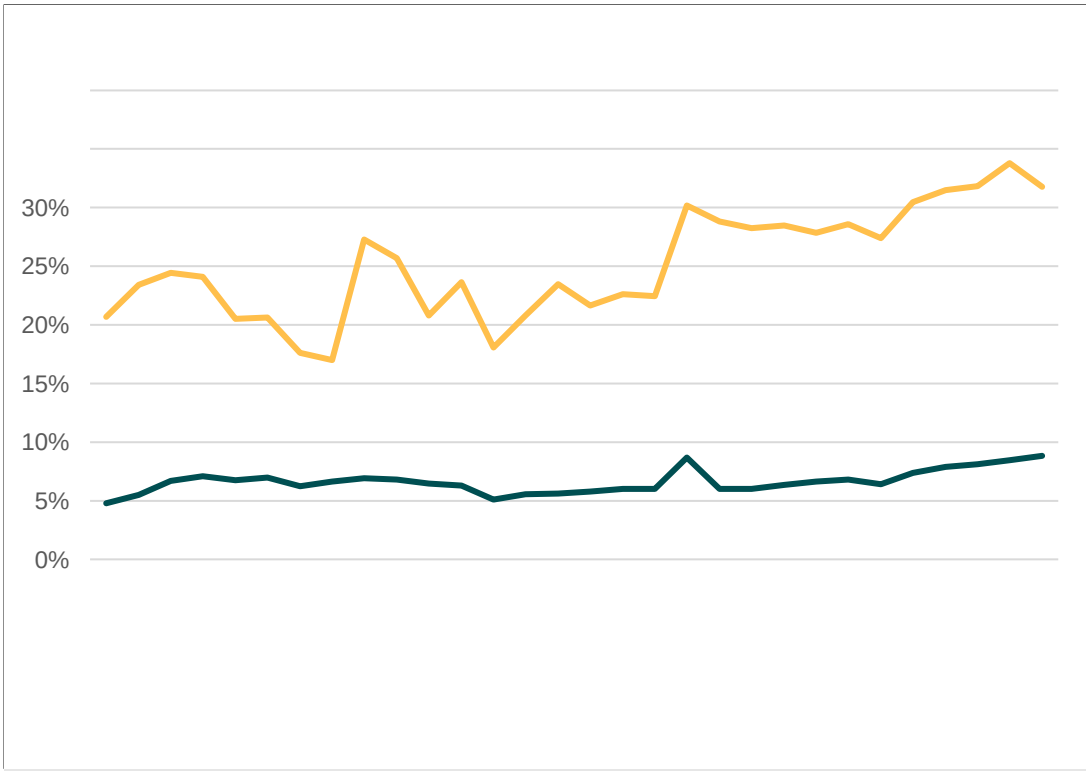
Above figures suggest that although a not inconsiderable proportion of SO residents may be in monthly rent arrears, for the most part these arrears are for small amounts , often be ing of a technical nature . This includes reasons such as wrong standing orders, direct debit not adjusted for an increase in rent, etc.

Figure 4.2 Panel E shows that in more than 50% of the cases, the SO tenant is in rent arrears no longer than one year. About 13% of the arrears are for only one month. This is a sign of technical rent arrears. 17% of the SO tenants are in arrears for more than three years.

Figure 4.2 Panel F reports information on the median and average amount in rent arrears per tenant in arrears between 2013 and 2022 for a London RP. What is striking is that the median value is substantially lower than the average value. This is a sign of some abnormality in the distribution of the data. Given that averages are so much larger than medians, we can regard the data as skewed, with a small number of residents having very high rent arrears, while the majority having rent arrears of no more than £200 on average. Average rent arrears per tenant have been gradually going up; rent arrears per SO resident double between 2013 and 2020. Panel F also shows values for the 95th percentile of the rent arrears. This means that we look at the 5% of the residents with the highest monthly rent arrears. The 95th percentile value has increased gradually over time from £1,250 in April 2013 to £4,000 in September 2022. The above goes to show that

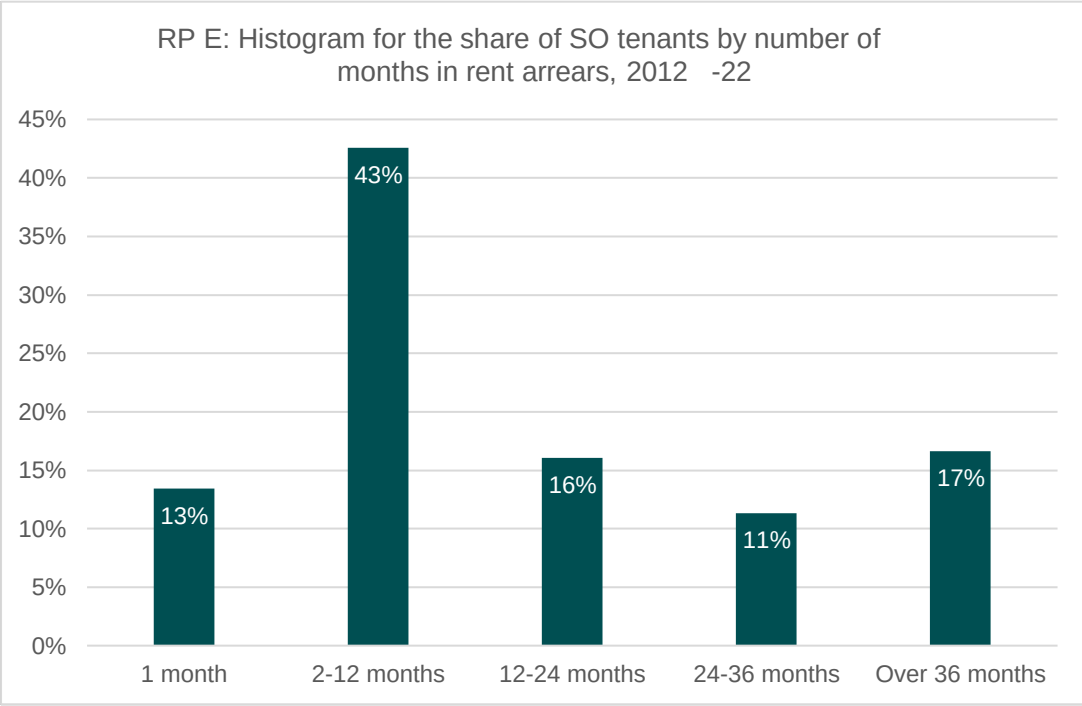
Figure 4.2: Rent arrears for SO properties by RPs

Panel A



Panel B

Panel E: Histogram for the share of SO tenants by the number of months in rent arrears between 2012 and 2022



Panel F: Size of monthly SO arrears

Panel G: Size of monthly rent arrears for SO residents if arrears exceed 5 years

statistics, we do not observe major differences between the two types of households. Looking at averages, it is thus hard to disentangle differences between the two cohorts.

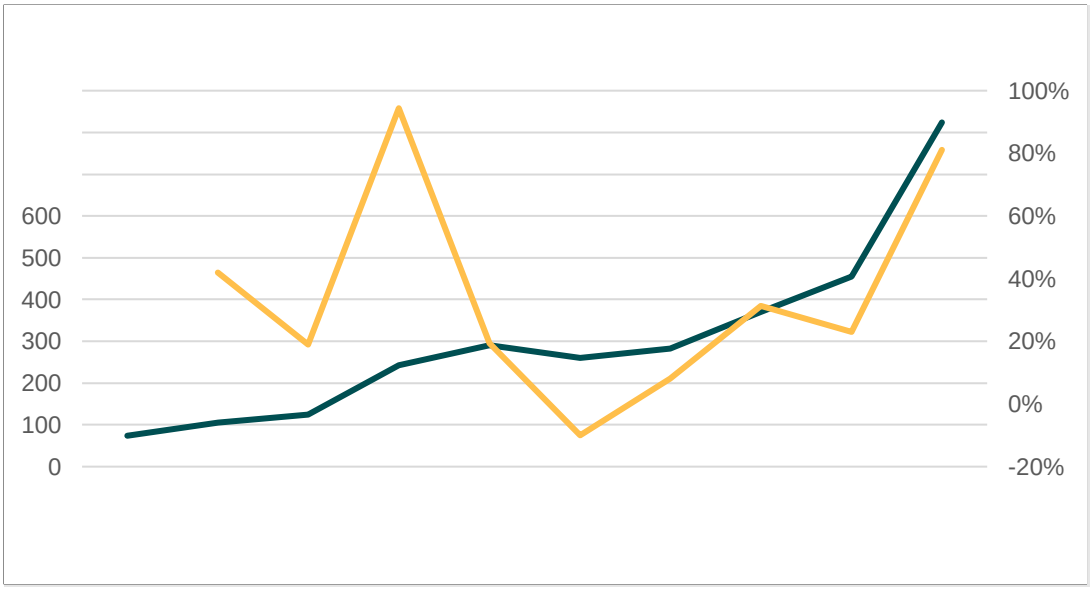
Chapter 5 : Staircasing

Given the lack of information about partial staircasing, we complement the analysis above using

As noted above, RPs can use the proceeds from the SO sales to reinvest the capital back into the development of new SO units, with about 2.5% of the stock being replenished each year, as reported by one of the surveyed RPs.

Figure 5.2: Staircasing over time for major RPs

Panel A: Number of staircased units and year -on-year staircasing growth for a sample of up to six RPs



Panel B: Number of staircased homes by RP and overall average

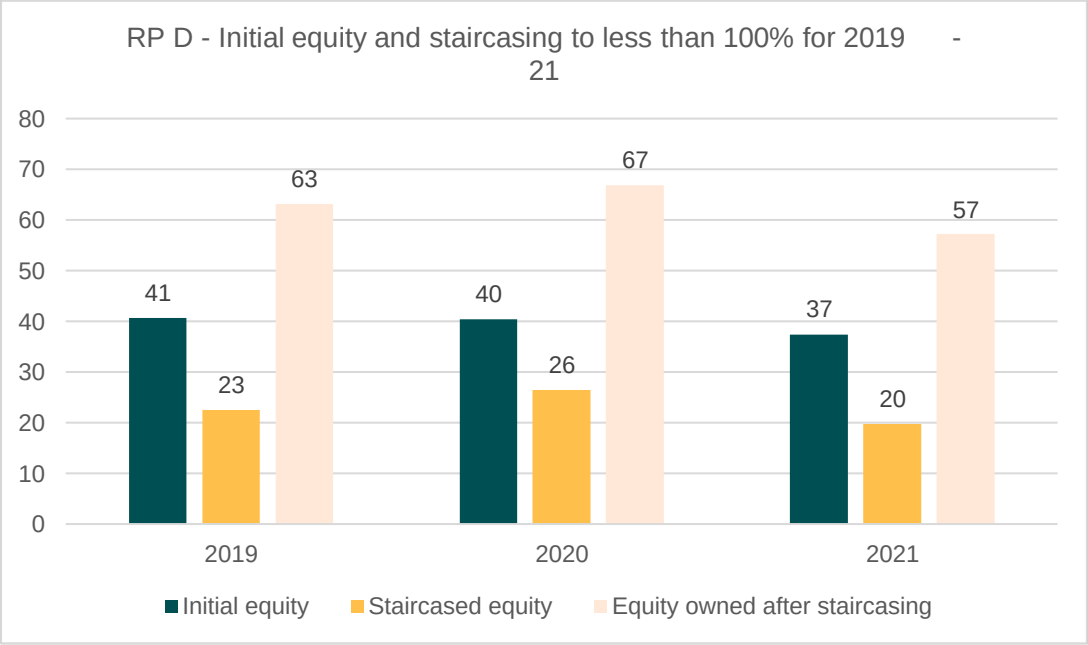
Panel C: Total staircasing ratio (partial and 100%) by RP for 2021 -22

Panel D: Staircasing ratios of a major London RP

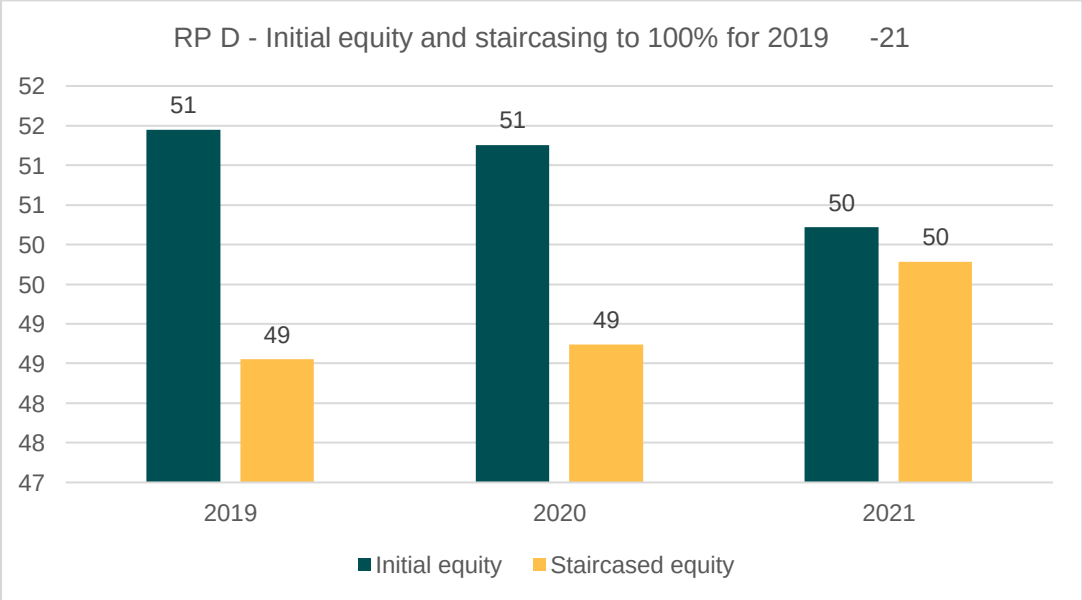
Source: This is based on administrative data from a sample of RPs. Where RPs have not provided data for some years, it shows values as zero

Figure 5.4. shows data for two RPs for the initial equity in a SO unit, the additional share bought and the average equity for staircased SO units over time, starting as early as 2012. We distinguish between partial staircasing and staircasing to 100% as those might be driven by different factors and have different impact on SO turnover and SO demand. Looking at partial staircasing first (Panel A and C), the initial equity ranges between 32% and 43%; the additional share purchased ranges between 20% and 26%. And the equity after staircasing ranges between 56% and 67%. Looking at 100% staircasing (Panel B and D), the picture looks different. The initial equity is higher, between 44% and 51%; the additional share purchased is also higher, between 49% and 57%. This means that SO owners who are interested in growing their equity in the SO property are also the ones that have started off by having less equity in it. This might suggest that they are less likely to buy anytime soon a property on the open market.Figure 5.4: Initial equity and staircased equity

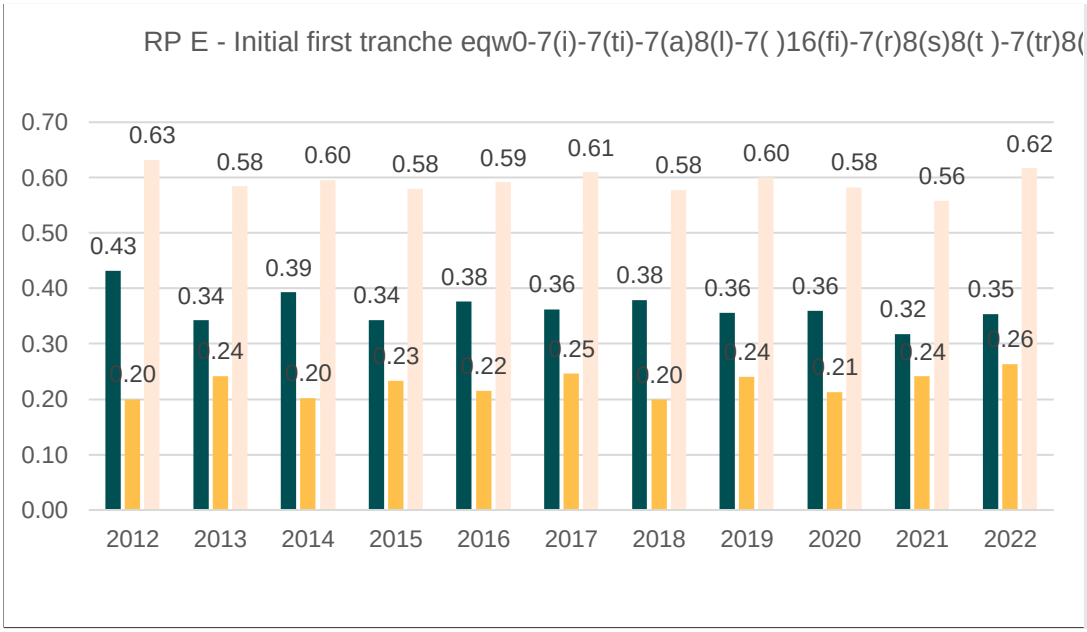
Panel A: Partial staircasing for a large RP



Panel B: Staircasing to 100% for a large RP



Panel C: Partial staircasing for a large London RP



Panel D: Staircasing to 100% for a large London RP

Source: Based on administrative data from two RPs.

Figure 5.5 Panel A shows the average value/price of the staircased share for a major national RP since 2015. This includes partial staircasing and staircasing to 100%. While the average staircased share was valued at around £75,000 in 2015, between 2016 and 2020, the value was higher but steady, around the £100,000 mark. The value has increased in 2021-22 reaching £120,000. Over the last 7 years, the value of the staircased share has increased by 60% reflecting higher house prices which

Staircasing Correlation with Other Factors

Income and savings seem to be the key factors in the decision of households to staircase according to SO surveys from the Gateway Housing Association[32] and the London Home Ownership Group. However, up-front fees for staircasing are a major disincentive.

We use granular administrative data from a major London RP to assess the correlation between SO properties where staircasing takes place and the local housing market. For the period from 2012 to 2022 we collected average house price data for the local authority and the respective year in which the staircasing transaction occurred. The house price data comes from the Price Paid Dataset (PPD) by the Land Registry. We examin the correlation between the size of the first staircased share in relation to (a) LA house prices, (b) total value of the property, (c) the LA annual house price return.

We find small correlations of about -8% for (a); -10% for (b); and +20% for (c). With regards to (a), the interpretation is that more expensive LAs are associated with smaller staircasing shares, which is to be expected as property is in general less affordable. This is confirmed by the finding in (b) where we relate it to the actual property price. We find that if the SO property purchased is more expensive, the SO resident will staircase a smaller proportion.

The correlation between LA house prices and SO property prices is 96% and the two values follow a similar pattern as evident in Figure 5.6, although the growth in SO prices over time is more muted. From Figure 5.6 it is interesting to note that until 2016-17, the rise in the partial staircasing ratio closely followed the increase in ho the p(mu)8(t)-7(e)8(d)8(.)d78(ke)8(s)-7(

Finally, we close with an examination of staircasing, 100% staircasing and partial staircasing. The data suggest the staircasing rate has closely followed house price growth. SO residents preferring to stay in their SO homes during the Covid-19 pandemic. Over the last 7 years, the value of the staircased share has increased by 60% reflecting higher house prices which carries the implications that SO is becoming less affordable. Looking at total staircasing, especially is less affordable areas, might not be a good indication of affordability of the share but rather of its unaffordability or unsuitability. We show that the partial staircasing rate is substantially lower (less than 1%) as compared to 100% staircasing (circa 2%). The rate that is more relevant is partial staircasing as the latter can be affected by back-to-back sales and might skew the interpretation. We show that staircasing rates are closely related to what happens on local housing markets. While buying a more expensive SO property or locating in a more expensive area is associated with less affordability and a smaller staircasing share, SO residents respond positively to rising house prices.

Our granular analysis indicates that when analysing the performance of the SO market, it is worth analysing granular data, ideally at the property level as average values might hide a lot of the heterogeneous information in the data. Variation exists across locations and providers. We find overall less of a variation over time, at least when assessing data from 2015.

However, easily accessing disaggregated data for SO buyers and their properties has been difficult. Partially, the problem stems from the continued failure to bring a comprehensive dataset together. Clearly there is more to do and not least around better data and better access to data and not least from mortgage lenders themselves via their data returns to UK Finance and the FCA. Significant information is collected which in recent years has included SO as a category. However, none of this is published and only the lender providers can access it. There is much more we could say about the data gaps that exist but that is not the focus of this report. As will be apparent, we have sought here to provQ q 0.000008866 0 595T 0 0 1 89.8 4] TJ ET Q q [(p)8(oe* 0.00e)8(e)8(r)8(f)-7( )-7(t)-7(h)8(i)8(s -