Policy: discussion paper

The forgotten households

Is intermediate housing meeting affordable housing needs?

Shelter

Foreword

There is no doubt that our country is facing difficult times. Public spending is coming under more scrutiny than ever before and the Government will have to account for every pound it spends. Meanwhile, Shelter continues to see the devastating effects of unaffordable housing every day, with more and more vulnerable people pushed into debt or unable to access a decent home. In housing, as in every policy area, we must be prepared to look again at how funding is being spent, and who is benefiting, to ensure that the limited public resources available are invested to maximum effect.

In this context, Shelter has taken a closer look at the intermediate housing market. We believe there is a gap in the analysis of this market and that the voices of consumers are not being heard. Intermediate housing products have grown dramatically in scale and profile since 2005 as part of a drive towards increasing home ownership among those who cannot afford to buy a home outright. The intermediate market aims to bridge the gap between renting and owning, and over the past five years, it has taken up a huge amount of state subsidy and political rhetoric. Nonetheless it is important to remember that intermediate housing still only accounts for a tiny proportion of housing, accommodating fewer than one per cent of all households. More pertinently, it is clear that policy objectives for this market have been poorly articulated and there has been a notable lack of long-term vision as to exactly who the market should benefit, and why.

There is clearly a group of low-income households currently receiving little or no state support for housing: they are neither in the lowest-income bracket and thus able to access housing benefit and/or social housing, nor are they homeowners, who receive a range of tax advantages through their home ownership, nor can they afford or access low-cost home ownership. By Shelter's estimates, this group amounts to more than 866,000 working households. Constrained public finances mean that it is unfeasible to extend state-supported housing schemes to everyone in this group, so, Shelter asks, who should be prioritised, why, and what support should they be given?

In this discussion paper we aim to explore these questions and draw out a number of options for possible reform. We do not favour one tenure over another, but we do believe that the most vulnerable people must have access to a secure, decent, affordable home. Above all, we are driven by the need to ensure that housing policy as a whole prioritises those in greatest need.

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July 2010

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Summary

The scale and severity of public debt are well documented and, justifiably, all areas of spending must be subjected to intense scrutiny. Shelter believes that we must examine how government spending on housing is being directed in the immediate term and continue to protect and prioritise the most vulnerable members of our society. Shelter does not have an interest in one tenure over another, but we do believe that access to a decent, secure and affordable home is a fundamental right and, as such, we are driven to help those in greatest housing need.

We must, therefore, question whether promoting access to home ownership through intermediate housing schemes is the right policy goal, or the most cost effective one, for the future.

Background

Very few households owned their own homes at the start of the Twentieth Century, but this gradually changed. Since the 1950s in particular, home ownership has grown rapidly and successive government policies have favoured this tenure.

Nearly 71 per cent of households in England were homeowners in 2003, but since then the rate of home ownership has been in decline, despite a credit boom lasting until 2007. Now 68 per cent of households are homeowners: this is the most significant drop in the rate of home ownership on record. Over-inflated house prices and, more recently, a lack of mortgage finance have made it difficult for the majority of first-time buyers to purchase a home.

The intermediate housing market aims to bridge this 'gap' between renting a home and owning one. Recent governments have introduced a number of schemes involving low-cost home ownership (LCHO) options such as shared equity, shared ownership, and rent to buy, along with a small number of intermediate (or 'below market') rent programmes. The intermediate market is very small but takes up much state subsidy and political rhetoric: 45 per cent of affordable homes delivered in 2008/09 were intermediate.

Meeting needs and aspirations

Home ownership is widely believed to bring a range of benefits, including financial security and independence. In a self-perpetuating circle, policy-makers promote home ownership and the public aspire to it, with polling consistently showing that the majority of people would like to buy a house. Governments have sought ways to help people meet their aspiration to own, although home ownership is not without risk or expense.

Meanwhile, investment into the social rented sector has fallen and there is no clear vision for the unregulated and insecure private rented sector, in which housing conditions are worse than any other sector. Can intermediate housing provide the answer?

Of households who are not homeowners and are unlikely to access a social rented home, the vast majority will not be helped by the state-supported intermediate market, not least because it is far too expensive for them. We estimate that more than 866,000 working households who are currently renting from private landlords cannot afford even the very cheapest shared ownership homes and are receiving no help at all with their housing costs. Policy must recognise this group, to whom we refer as 'forgotten households', and start to address their housing needs, which, Shelter argues, are more pressing than the needs of first-time buyers higher up the income scale.

The average income of those accessing shared ownership is more than £28,000 per year – £32,000 for shared equity – while these forgotten households are on average incomes of less than £16,000 per year. To extend shared ownership to this group would cost well in excess of £20 billion. These forgotten households live in the private rented sector, where they are often not getting the long-term security and decent standards they deserve. The quality of life for the forgotten households could be vastly improved by reforming the private rented sector – and at low public cost.

Evaluating the intermediate market

Policy objectives for the intermediate market have been poorly articulated. A range of products has been introduced over the years to meet different gaps in the market, with varying success. There is no long-term vision as to exactly who intermediate housing should benefit, and why. Policies have often been driven by political need or producer interest, not by consumer need.

LCHO does allow housing associations to build homes more cheaply and to recycle money generated by sales, as the sector has been keen to point out. But public money is lost where households who could have bought on the open market have received assistance through such schemes.

The intermediate sector has not been sufficiently widespread or affordable to increase overall levels of home ownership, meet overall housing need, or drive down house prices. Intermediate housing has at times been used as a political smokescreen, while systemic failures have not been addressed. Waiting lists for social housing remain oversubscribed, with more than 1.8 million households waiting to access a secure and affordable social rented home.

For the few consumers who have been able to access intermediate housing, it has largely met their housing needs, providing a home that is more affordable than they could have bought on the open market and more secure than they could rent privately. Fewer than one per cent of households live in an intermediate home. There are concerns about mobility within the sector and data suggest that only a small proportion of consumers are increasing their shares (staircasing) or moving on to full ownership. Households buying through intermediate schemes are not immune to the risk of debt, arrears and repossession, and mortgage lenders have often been reluctant to enter this market.

Conclusions and recommendations

Addressing the needs of the forgotten households

- Promoting access to home ownership to all groups at all costs must be questioned as the dominant driver of housing policy and spending. A significant further increase in the number of homeowners will not be sustainable or affordable at present.
- The private rented sector must be reformed to provide better housing options to the forgotten households who are currently excluded from home ownership, social renting and the intermediate market. This could vastly improve the housing circumstances of private tenants, while being achievable at low cost to the State.
- A clearer definition of what constitutes affordable housing is essential and local authorities should be held to account for ensuring the delivery of homes that meet this definition.

Prioritising intermediate housing spend

- Disproportionate amounts of public money are being spent on the intermediate market without a clear policy goal. Public finances are extremely tight and Shelter believes that publicly subsidised new supply should be directed at helping those in the greatest housing need first, with social rented homes taking much greater priority. In the current climate, the national affordable housing grant should be concentrated on the provision of affordable rented homes, rather than homes to own.
- If the Government is committed to maintaining spending on the intermediate market, there are two options:
  - Either the Government must radically redesign the market so that it can be focused towards households at the lower-income range of the gap between renting and owning, those who currently receive no subsidy towards their housing. Full or part home ownership is unlikely to be sustainable for these households. The development of more affordable schemes such as intermediate rent could be appropriate, but this needs testing first.
  - Alternatively, the Government must maintain existing schemes but be clear that they are being used primarily as a means to help to generate supply and cross-subsidy. Existing schemes could be simplified and the programme made more consumer friendly, for example through improving advice and information.

Background

Home ownership has grown rapidly over the last century, dominating housing policy. As house prices have increased, accessing it has become harder and successive governments have tried to bridge the gap with new low-cost home ownership options. Here we examine how successful this has been.

Home ownership has dominated housing policy in England for more than 30 years. It is the tenure that most of us live in – more so than many other European countries – and that most of us say we aspire to live in.[1] However, a seemingly endless house price bubble[2] has stretched affordability and a more recent lack of mortgage availability has put access to home ownership out of reach for the majority of first-time buyers, particularly those who cannot get financial assistance from their families. More than two-thirds of households in England are homeowners and – depending on when and where they bought – many have seen their assets grow substantially, enabling them to pass on their housing wealth to their children by helping them to raise a deposit.[3]

Others are not so fortunate: indeed the divide between housing 'haves' and 'have-nots' has been a major contributor to wealth inequality.[4] Meanwhile, a lack of social rented housing has left many of the poorest and most vulnerable members of society unable to access a decent and secure home. This affordability crisis has been one cause of growth in the private rented sector, which now accommodates more than 14 per cent of all households. The sector has grown by 50 per cent, or one million households, since 2001.[5] Attitudes to the private rented sector have shifted. While private renting was once viewed as a positive option, it is often now seen as a transitory, undesirable choice – if a 'choice' at all.[6]

Successive governments have tried to improve access to home ownership through various measures, one of which was the creation of an 'intermediate housing market'. This loose term refers to financial products or tenure types that aim to bridge the gap between owning and renting a home. The market is small: it is estimated that fewer than one per cent of households in England currently reside in an intermediate home[7] and housing associations[8] owned fewer than 138,000 low-cost home-ownership (LCHO) properties in

1 Sixty-eight per cent of households in England lived in owner-occupation in 2008/09. Source: Communities and Local Government (CLG), *English Housing Survey Headline Report 2008-09*, 2010.

2 Although this over-inflation has abated in the wake of the economic crisis, the drop in house prices has been modest in most parts of the country, relative to incomes, while availability of mortgages has declined sharply.

3 Willetts, D, *The Pinch: How the Baby Boomers Took Their Children's Future – And How They Can Give it Back*, Atlantic Books, 2010; Hamnett, C, *Winners and Losers: home ownership in modern Britain*, UCL Press, 1999.

4 Dorling, D and Thomas, B, 'Know your place: inequalities in housing wealth', *The Great Divide*, Shelter, 2005.

5 In England: 14.2 per cent of households in 2008/09, up from 10.1 per cent in 2001. Source: CLG, *English Housing Survey Headline Report 2008–09*, 2010.

6 CLG [online], *Live tables on housing*: Table S187 (accessed April 2010): http://shltr.org.uk/a4

7 Exact numbers of intermediate renters and shared-equity purchasers are unknown. For shared ownership, the sample number of shared owners interviewed in CLG's annual housing survey is much too small to deliver a reliable annual estimate. Consequently the latest estimate of 86,000 households is based on an average over the last five years: 2004/05 to 2008/09. This equates to approximately 0.4 per cent of households. Figures for 2004/05 to 2007/08 were derived from the *Survey of English Housing* and for 2008/09 from the *English Housing Survey*. Source: CLG [online], *Survey of English Housing and English Housing Survey* (accessed April 2010) http://shltr.org.uk/9v

8 See Terminology and scope on page 9 for the definition of housing association as used in this report.

9 Includes shared ownership, leasehold schemes for older people and other shared-equity housing. The Tenant Services Authority (TSA) [online], *Regulatory and Statistical Return* (accessed April 2010): http://shltr.org.uk/9w

2009.[9] However, it remains a major priority for politicians and policy-makers, forming a central part of housing strategies and attracting nearly a quarter of affordable housing subsidy.

Purpose of this discussion paper

As the UK enters a period of constrained government spending, we must step back and critically examine the nature and role of intermediate tenure before new spending commitments are made. All too often the needs of consumers have been left out of the equation and products have been developed as a means to help developers and housing associations to generate revenue. Consumer interests must be put back at the heart of the debate and the needs of those priced out of home ownership and unable to access social housing must be addressed. There has been a lack of clarity as to what policy objectives intermediate tenure is trying to achieve and who its intended beneficiaries are. Politicians frequently promote a 'property-owning democracy', where all those who aspire to own a home can do so[10], but who exactly are these aspiring owners and is intermediate tenure the best way to help them?

This discussion paper explores:

- the history and development of the intermediate market
- the housing needs and aspirations of non-homeowners
- the success of the intermediate market in meeting those needs and aspirations.

Box 1: Terminology and scope

Intermediate market is an umbrella term encompassing discount products and forms of tenure that aim to ease access to home ownership, usually for first-time buyers, and **intermediate-rent schemes** that offer cheaper rents than private sector rent levels, but not as heavily subsidised as social rents. Intermediate market schemes are sometimes run by private housing developers, but the majority are operated by housing associations funded by government grants via the Homes and Communities Agency (HCA).

HomeBuy is the collective brand for the state-funded intermediate housing products that are currently available (note that previously the term only referred to shared-equity schemes).

Intermediate tenure refers broadly to shared-ownership, shared-equity and intermediate-rent schemes (see Box 2 on page 12 for further definitions and Appendix 1 on page 25 for details of specific schemes).

Low-cost home ownership (LCHO) refers specifically to products within the intermediate market that involve **shared ownership** or **shared equity**, rather than to intermediate-rent products with no linked ownership/equity element.

Affordable housing is defined by the Government as 'social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market'.[11] Affordability is a complex term and can be defined in a number of ways. Throughout this paper, affordability mainly refers to housing where outgoing housing costs are no more than 33 per cent of the household's gross income.

Housing associations: for ease of reference in this paper we refer to providers of intermediate housing products as 'housing associations'. Many of these providers were formerly known as registered social landlords (RSLs). The Tenant Services Authority (TSA), which registers and regulates providers of affordable housing, provides full details of terminology for providers.[12] Private companies – such as developers – may also offer intermediate housing products.

Scope of this paper

This discussion paper focuses on intermediate housing that is directly publicly subsidised. We refer primarily to intermediate housing over the last decade. We exclude other types of housing subsidy for homeowners, such as tax advantages.

Discount schemes for social housing tenants, notably the Right to Buy (RTB) scheme for local authority tenants and the equivalent Right to Acquire (RTA) for housing association tenants, are also excluded because they lead directly to full, rather than part, ownership and are as such distinct from the other forms of intermediate tenure.

Leasehold schemes for older people are also excluded from the analysis, unless otherwise stated.

This paper focuses on England, but may be relevant to other UK countries.

10 Historically and more recently: the 2010 General Election manifestos of Labour and the Conservatives featured explicit reference to increasing the number of homeowners, and the Liberal Democrat and Conservative Coalition Agreement also commits to promoting shared ownership.

11 CLG [online], *Definition of General Housing Terms* (accessed April 2010): http://shltr.org.uk/9x

12 TSA [online], *Guidance for applying for registration as a provider of social housing* (accessed May 2010): http://shltr.org.uk/9y

Shelter believes that the primary objective of any housing policy should be to ensure that everyone can access and keep a home that is secure, decent, and affordable, in a place where they can thrive. We will assess intermediate tenure on this basis. This is an independent review and, unlike others writing in this field, Shelter is tenure neutral and does not have a vested producer interest. We do, however, represent people in housing need.

The history of housing tenure

Home ownership was a minority tenure at the start of the Twentieth Century, but the proportion of households who own their homes has grown from 23 per cent in 1918 to a peak of 70.9 per cent in 2003.[13] Tax advantages and major house building programmes saw ownership rise through the 1950–60s. Politicians looked to home ownership as a means of promoting civic responsibility and independence, and the public was increasingly attracted to the potential capital gains that they could realise by 'getting a foot on the housing ladder'. By the 1970s, 'the qualities of home ownership that politicians had attached to it had become normalised in the vocabulary of tenure'.[14] The 1980s saw deregulation of credit and, critically, the initiation of the Right to Buy scheme, which established a role for the State as a direct enabler for home ownership and was a precursor to today's intermediate market.

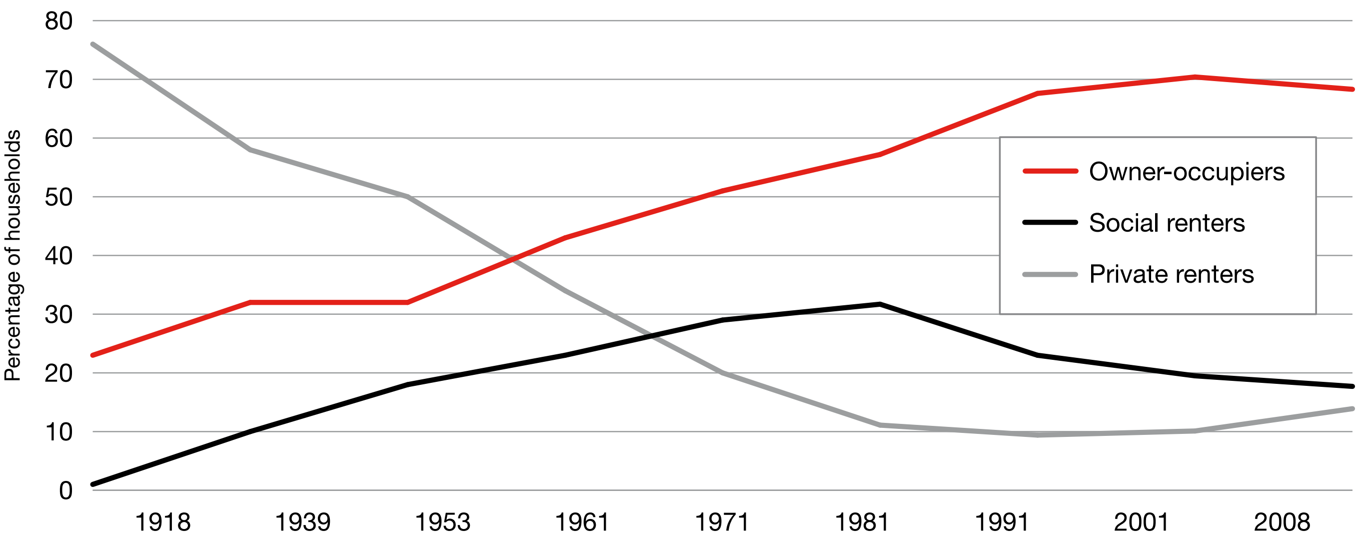
The role of Right to Buy

The Right to Buy (RTB) scheme helped to popularise the view that home ownership is a 'right' that should be available to all and further embedded the aspiration to own a home. It also drove up numbers of homeowners in real terms: more than 1.85 million households in England have purchased their council homes at a discounted price.[15] RTB both exemplified and promoted asset-based welfare and independence from the State through home ownership as a means of lifting low-income households out of poverty, a view that still pervades housing policy today.

Home ownership in the 1990–2000s

The house price crash of the 1990s appeared not to dampen aspiration to ownership. Home ownership hit its peak in 2003, but has been falling ever since, despite a huge credit boom and favourable government policy. In its Pre-budget Report in 2005, the Government set out its explicit target to increase the proportion of households owning a home to 75 per cent of the total. However, resources to do so were already starting to run out. As Figure 2 (on page 11) shows, households required ever

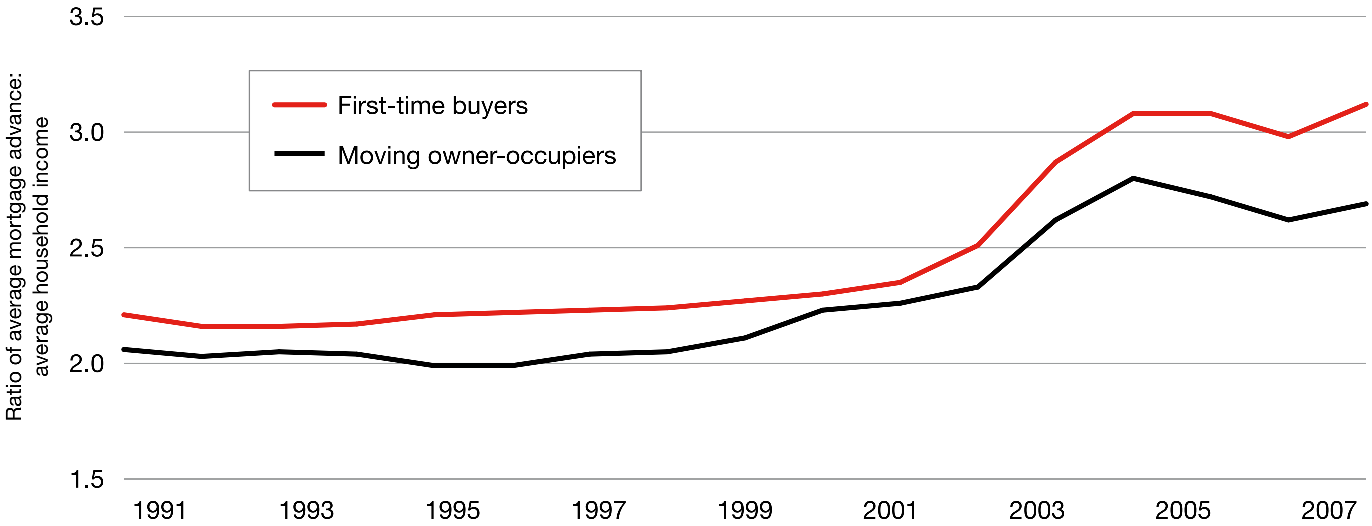
Figure 1: Trends in tenure type from 1918 to 2008



Note: Data available is inconsistent until 1991; this chart illustrates trends using the most regular time periods possible.
Source: CLG [online], *Live tables on housing*: Table 801 (accessed April 2010): http://shltr.org.uk/9z

13 In England. CLG [online], *Live tables on housing*: Table 801 (accessed April 2010): http://shltr.org.uk/9z
14 Ronald, R, *The Ideology of Home Ownership*, Palgrave Macmillan, 2008.
15 CLG [online], *Live tables on housing*: Tables 670 and 675 (accessed April 2010): http://shltr.org.uk/a0 and http://shltr.org.uk/a1

Figure 2: Average mortgage advance compared to average household income



Source: Wilcox, S, *UK Housing Review 2008–09*, Chartered Institute of Housing and the Building Societies Association, 2008.

larger mortgage advances to be able to afford to buy a property. Aspirations remained high all the same. From here, the perceived need for a bigger intermediate market grew.

Introducing the intermediate market

Schemes within the intermediate market have traditionally been positioned as a 'stepping-stone' towards full home ownership. Participants of both shared equity and shared ownership schemes are usually given the opportunity to gradually increase the proportion of the property they own (known as 'staircasing'), giving the housing association a return and increasing the participant's asset.

Although such products have existed since the 1970s, they have, as a proportion of new affordable homes, grown dramatically in scale and profile since 2005. Following the findings of a home ownership task force[16] in 2003, which highlighted a need to address the growing affordability gap, and the Government's 2005 five-year housing plan[17], the consultation paper *HomeBuy: Expanding the Opportunity to Own*[18] set out plans to increase intermediate supply. It outlined the objective as helping people to 'achieve their aspirations' and also:

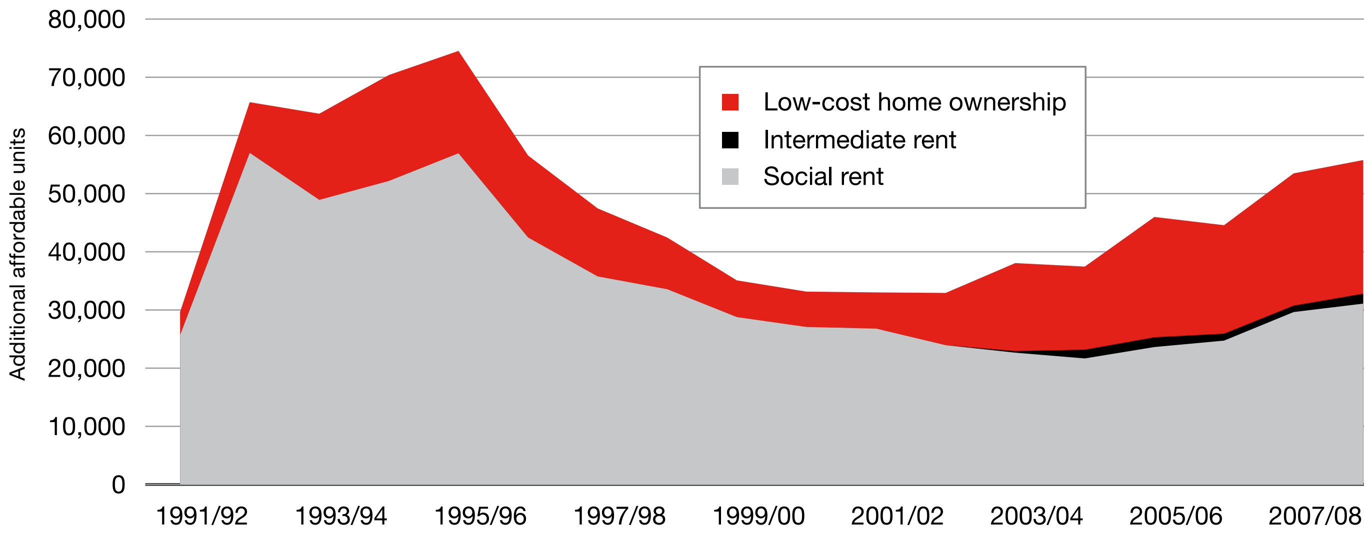
- to create mixed, sustainable communities by encouraging a mix of incomes and tenure types
- to achieve value for money – both for the Government and for individual households
- to free up social housing by targeting schemes at existing social tenants
- to increase overall supply through new build and cross-subsidy and so lower house prices
- to help recruitment and retention of key workers
- to spread housing asset wealth more widely.

The intermediate market has grown since then. In 2008/09, just under 25,000 intermediate homes were completed in England, making up approximately 45 per cent of the total 'affordable' stock delivered that year.[19] In some regions, the number of intermediate homes built exceeded the number of social rented homes built.[20]

Figure 3 (on page 12) shows the growth of intermediate tenure, divided into low-cost home ownership and intermediate rent, as a proportion of new affordable supply. In the next chapter (page 13) we explore the development of the market in more detail and examine the policy objectives underpinning it.

16 Housing Corporation, *A Home of My Own: The report of the Government's Low Cost Home Ownership Taskforce*, 2003.
17 Office of the Deputy Prime Minister (ODPM), *Sustainable Communities: Homes for All*, 2005.
18 ODPM, *HomeBuy – expanding the opportunity to own: Consultation Paper*, 2005.
19 CLG [online], *Live tables on housing*: Table 1,000 (accessed April 2010): http://shltr.org.uk/a2
20 For example, of the total affordable housing units delivered in London in 2008/09, 6,610 (51 per cent) were intermediate units and 6,270 were social rented units (49 per cent). Ibid.

Figure 3: Affordable homes provided by type of scheme



Source: CLG [online], *Live tables on housing*: Table 1,000 (accessed April 2010): http://shltr.org.uk/a2

Profiling the intermediate market

Exact numbers of shared owners, shared equity buyers and intermediate renters are not clearly understood[21] and the picture is confused by the fact that some will have exited the market. Of the three types of intermediate housing, shared ownership is the oldest and most common. The intermediate market is largely concentrated in areas where house prices are higher: 50 per cent of LCHO sales in 2008/09 were in London or the South East.[22] Average household income is £28,255 per annum for New Build HomeBuy, the current major shared ownership scheme, and £32,110 for Open Market HomeBuy, a recent shared equity initiative, which has now closed. Average incomes are noticeably lower on targeted schemes such as Shared Ownership for the Elderly (£13,501).[23] Unsurprisingly, average incomes for LCHO purchasers are higher in London and the South East than other regions.

Box 2: Forms of intermediate tenure

The range of intermediate market products is broad, aimed at a diverse spectrum of users. The main schemes are outlined in Appendix 1. Although branding and specific target audiences have changed, there are essentially three approaches to the intermediate market:

Shared ownership: Also referred to as 'part-buy, part-rent', the shared-ownership model allows eligible buyers to purchase a share of their property, usually between 25 per cent and 75 per cent, and pay rent on the remaining share. Purchasers are normally granted a long leasehold.

Shared equity: This involves an interest-free or low-interest equity loan covering a portion of the value of the property, used in conjunction with a conventional mortgage. The purchaser is the full owner of the property and has the freehold; however, when the property is sold, any increase in value of the property must be shared with the equity loan provider.

Intermediate rent: Intermediate-rent schemes offer homes to rent at a cheaper rate than private landlords (market rent) would provide. They are often tied to an intention to own, with the tenant using money saved on rent to raise a deposit or purchase a share in the home.

21 See footnote 7.

22 Note: includes RTB/RTA sales. TSA [online], *CORE Annual Digest 2008–09* (accessed April 2010): http://shltr.org.uk/a3

23 Ibid.

Housing needs and aspirations

In contrast to positive, popular attitudes and aspirations to home ownership, evidence suggests that ownership is not universally beneficial. Moreover, emphasis on access to ownership through LCHO schemes has resulted in the neglect of households lower down the income scale. More than 866,000 working households receive no housing subsidy and cannot afford to access even the cheapest LCHO properties.

It is tempting to evaluate the intermediate market solely on its own merits, considering the successes of different schemes in relation to their objectives, consumer satisfaction and value for money. As we will see in the next chapter (page 17), LCHO does, for the most part, deliver positive outcomes for developers, housing associations and the Government – and for many of the purchasers who have been able to access it.

However, too often the interests and aspirations of the people in real need of housing have been left out of the debate. A number of evaluations have considered the success of LCHO products, but few have assessed why the products are necessary or the underlying policy problems. In this chapter, we examine housing needs and housing aspirations. We ask which groups are currently excluded from housing that meets their needs and what more can be done to help them.

Why do most people aspire to home ownership?

Polling usually reveals that the vast majority of people in England either are, want or expect to become homeowners.[24] This trend tends to decline slightly among younger people[25] and among social renters[26], and can be lower in times of recession, when public awareness of the risks of home ownership is heightened. Nonetheless it is reasonable for politicians to conclude that housing policy should aim to allow as many people as possible to achieve their aspiration of home ownership and create schemes that help to achieve this.

What the home ownership approach fails to address are the reasons behind people's aspiration to ownership. Looking beyond the surveys, why do we continue to believe so strongly in the merits of owning a property? Perceptions include:

- 'A place of my own': home ownership is associated with freedom and independence, without reliance on landlords. People want to live somewhere where they are in control, and can decorate and renovate the property as they choose.[27]
- 'Greater security': homeowners have, theoretically, a lifetime home, unlike households in the private rented sector who can be evicted with very little notice.[28]
- 'The done thing': owning has become a cultural norm for most people.[29]
- 'It's not dead money': renting is seen as a waste of money as monthly payments go to the landlord, not into an investment. Home ownership appears to be a rational economic choice where people can grow their assets and eventually be left with no housing costs once they have paid off their mortgage.[30]

24 CLG [online], *Live tables on housing*: Table S187 (accessed April 2010): http://shltr.org.uk/a4

25 Chartered Institute of Housing [online], Press release: 'Young people move away from home ownership', 14 June 2009: http://shltr.org.uk/a5

26 In a TSA survey, most social renters (72 per cent) stated a preference for remaining in the sector over the next 10 years. Source: TSA, *Existing Tenants Survey 2008: Tenant mobility and aspirations*, 2009.

27 Shelter, Qualitative consumer insight research, 2010 (unpublished).

28 Shelter, *Safe and secure? The private rented sector and security of tenure*, 2005.

29 Ronald, R, *The Ideology of Home Ownership*, Palgrave Macmillan, 2008.

30 Smith, J and Pannell, B, *Understanding First Time Buyers*, Council of Mortgage Lenders, 2005.

- 'A foot on the ladder': owning a first property is the first step to owning subsequent, larger and more valuable properties and gradually accumulating more housing wealth.[31]
- 'Not being left behind': people do not want to miss out or be left behind while others gain housing wealth.[32]
- 'To live in a better neighbourhood': ownership is often associated with higher-quality properties in safer, more affluent areas, while renting is associated with poor-quality estates.[33]

Research has shown that private renters, and particularly those on lower incomes, have major concerns about rent levels, the uncertainty or insecurity of their housing situation, and poor regulation in the sector.[34] Similarly, respondents to Shelter research believed that feeling safe in the home and being able to afford it were the most important aspects of housing to them.[35] These attributes are most commonly associated with ownership – rightly or wrongly – but increasing access to ownership at any cost is not necessarily the only way to address them.

Tenure choices

Fundamentally, people want to own their own property because the alternatives are unattractive or inaccessible. For too long policy-makers have neglected the rented sectors in favour of increasing ownership levels. This has helped to enshrine the belief that ownership is the 'best' tenure and that those who by choice or necessity are outside of the 'property-owning democracy' are economically, socially or civically inferior in some way. Private renting is often the only option available to people, yet it is rarely seen as a priority within housing policy.

Risks of home ownership

The home ownership approach also fails to recognise the inequality within the tenure and that the risks of home ownership are most acutely felt by poorer households. Higher-income households usually get better mortgage deals and more capital benefit from home ownership, while lower-income households have to stretch further and get fewer financial gains.

The recent rise in repossessions, concentrated among lower-income households in the sub-prime sector, illustrates this point. There were 48,000 mortgage repossessions in 2009[36], a figure that would undoubtedly have been higher without government intervention and a historically low interest-rate environment. Many thousands more households are in mortgage arrears or will struggle to maintain their payments over the coming year. Clearly home ownership has not benefited this group and the strategy of pushing more and more households into unsustainable ownership and allowing irresponsible lending has not worked. As one report puts it, 'Wider access to credit is not a proxy for addressing poverty'.[37]

Meeting aspiration: who is missing out?

The political will to meet these aspirations, or at least to appear to, has been a major driver behind the growth of the intermediate sector, and demand has grown accordingly.[38] But, as Figure 4 (on page 15) illustrates, intermediate housing has done little to help many of those in the 'gap'. Using data from the Department for Work and Pensions family resources survey and a standard affordability calculator for the cheapest shared-ownership properties, we estimate that at least 866,000 'forgotten' households who fall between social renting and market home ownership would be unable to access even the cheapest quartile of shared-ownership properties.[39]

31 Ibid.

32 Ibid.

33 CLG/Ipsos MORI, *Attitudes to Housing: Findings from Ipsos MORI Public Affairs Monitor Omnibus Survey (England)*, 2009; CLG/Ipsos MORI, *Attitudes to Housing: Findings from Focus Groups*, 2009.

34 Ibid.

35 Shelter, *Home truths: The reality behind our housing aspirations*, 2005.

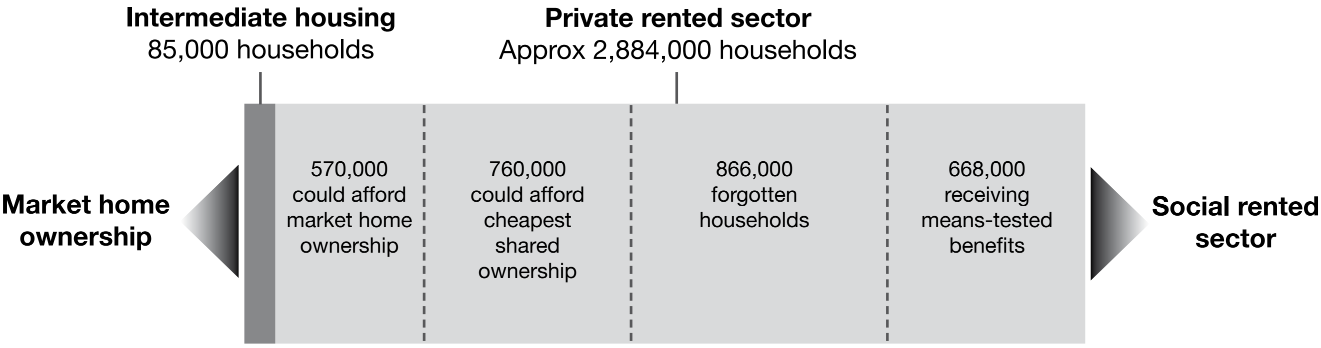
36 Council of Mortgage Lenders [online], Press release: 'Mortgage arrears and possessions declined in fourth quarter of 2009', 11 February 2010: http://shltr.org.uk/a6

37 Ben-Galim, D and Lanning, T, *Strength Against Shocks: Low-income families and debt*, Institute for Public Policy Research, 2010.

38 Calculating housing demand and need is complex: for example calculations may not account for mobility between different areas. A household might not be able to afford to buy in the area in which they currently live, but they may compromise on size, quality or location in order to purchase a home. Demand and need differ, and indeed affordability can be defined in a number of ways.

39 See full methodology in Appendix 2 on page 27.

Figure 4: Distribution of private renters across the intermediate and private rented sectors



The 866,000 forgotten households do not receive means-tested benefits and are unlikely to be able to access social housing. They are living in the private rented sector, probably on short-term assured shorthold tenancies, and potentially in poor conditions: nearly half of the homes in the sector do not meet basic standards, a proportion that is worse than in any other sector.[40] Unlike homeowners, who benefit from tax advantages, and those on benefits or in social housing, who receive direct subsidy, these forgotten households receive no assistance at all with their housing.

Even if these forgotten households could afford shared ownership, they would struggle at present to find available properties that meet their needs and are in the right location. More than half of shared ownership homes are one- or two-bedroom flats[41], making it difficult for households with children to find shared ownership accommodation large enough to house their family. Such properties have typically been marketed at younger couples.

The figure 866,000 is a conservative estimate[42]: there will be additional 'hidden' households who are currently living with friends or family. Furthermore, a rise in interest rates would push even more households out of being able to afford shared ownership – a one per cent rise would render a further 158,000 households (private renting and not in receipt of means-tested benefits) unable to access the very cheapest shared-ownership properties. Shared-equity products, which require more money upfront, would be even further out of their grasp.

The average household income of this excluded group is £15,719 per annum or £17,475 for households with children. The average income of a new shared-ownership buyer on the Government's flagship scheme is substantially higher at £28,255.[43] Figure 5 (page 16) provides more details about the demographic profile and geographical spread of the forgotten households.

All of those who could afford the lowest quartile of shared-ownership properties, based on their gross household income, have been excluded, but in practice even those who can afford the cheapest properties may struggle to find an intermediate home due to the relatively low supply or higher levels of household expenditure, such as childcare costs or existing household debts.

Does the intermediate market meet the needs of the forgotten households?

The intermediate market could be one solution to meeting the needs of these forgotten households. At present it fails in this respect because it is inaccessible or unaffordable to them. More may be able to access LCHO if credit conditions improve, although tighter regulatory controls could restrict lending in the future. Market ownership is not affordable for this group without significant overstretching into a risky mortgage deal and is unlikely to be sustainable. Furthermore, it is unlikely to become affordable without either an increase in the household income or substantial growth in housing supply and, in terms of the latter, it is doubtful whether the volume of new homes required can be delivered in the current economic climate. The huge budgetary deficit would make it impossible for any government to finance access to home ownership for this group of households. For example, to expand the New

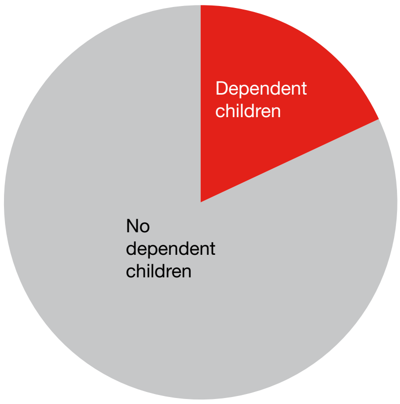
40 46 per cent classified as 'non-decent': CLG, *English House Condition Survey 2006 Annual Report*, 2008.

41 58 per cent according to 2007/08 CORE data. Accessed via http://shltr.org.uk/a7 [April 2010].

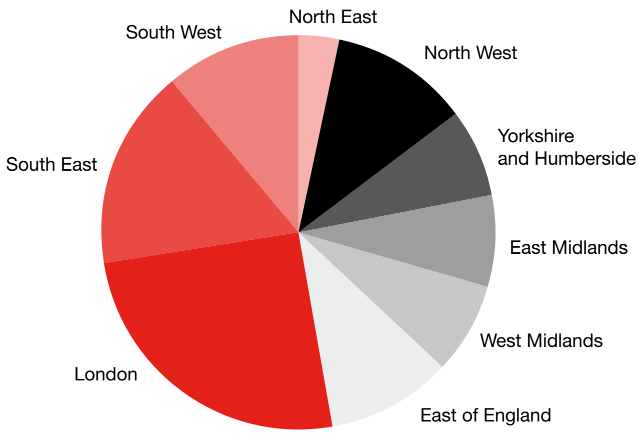
42 Only 2007/08 data were available at the time of writing and the figure may have changed subsequently.

43 For New Build HomeBuy. TSA [online], *CORE Annual Digest 2008–09* (accessed April 2010): http://shltr.org.uk/a3. The figure is slightly lower for the comparable year (2007/08) at £27,549 per year: TSA [online], *CORE Annual Digest 2007–08*: URL as above.

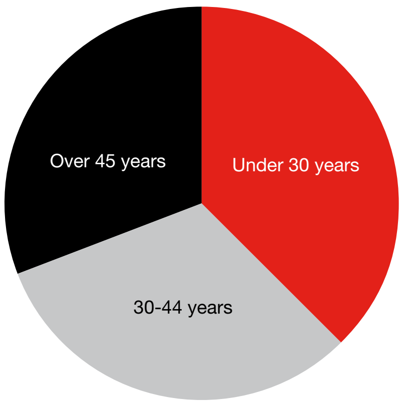
Figure 5: Characteristics of forgotten households



Forgotten households and dependent children



Regional distribution of forgotten households



Age distribution of forgotten households (head of household)

Source: Shelter analysis.

Build HomeBuy scheme by 866,000 properties would cost, conservatively, in excess of £20.9 billion, based on current average grant per unit rates.[44]

Of course, many of these forgotten households may find that the private rented sector meets their needs. It is generally affordable to them: they are paying, on average, 28 per cent of their household income in rent.[45] However, there are significant problems in the private rented sector that cannot be ignored. Legal rights are heavily weighted in favour of the landlord and households can be evicted with only two months' notice outside a fixed-term contract. This lack of stability is especially problematic for families with children: among other issues, moving house can disrupt schooling. Nearly one in five (158,000) of the forgotten households have dependent children.

The social rented sector is largely inaccessible to these households, but could potentially meet their needs – if there was enough social housing to go round.

Box 3: Options to assist the forgotten households

- The private rented sector could be dramatically improved at relatively little cost to the State. Better enforcement of regulation and security of tenure could vastly improve the quality of life for new and existing private tenants, yet neither would require the level of resources needed to make either the intermediate or full ownership housing market accessible to this group. The Government could also help to stimulate new, good quality, private rented supply.
- If intermediate tenure is deemed to be the best option for this group, it must be reformed so that it is much more affordable to them. This could mean the development of more intermediate-renting or rent-to-buy offers, although the efficacy of such schemes has yet to be proved. Inevitably such offers would need to be means-tested to some extent to avoid offering subsidy to those who do not need it.
- Alternatively shared ownership could be made cheaper, for example by lowering service charges or rents, or allowing smaller ownership shares. However, such an offer may not be a viable business proposition to mortgage lenders or housing associations.
- The Government could also consider ways to help this group through tax and benefit levers, or alternative models of investment in housing and asset-building opportunities.

44 Basic calculation of £24,173 (average grant rate per New Build HomeBuy unit) times number of forgotten households (866,000). Because households are lower income, smaller shares would be needed, pushing the grant rate up.

45 See methodology in Appendix 2 on page 27.

Evaluating the intermediate market

The range of intermediate products introduced, each with differing intentions, has caused confusion. Although no single model has been able to meet fully the competing priorities of the parties involved, schemes have generally worked well for the few consumers who have accessed them. In this chapter we examine the success of the intermediate programme as it stands.

Firstly, it is necessary to understand how well the policy has been targeted and articulated. Secondly, we examine intermediate housing in relation to key policy goals: value for money for the taxpayer, promoting mixed communities, creating new housing supply, and dampening housing inflation. Finally, we assess the extent to which intermediate housing works for those who have taken up schemes in relation to security, mobility and affordability.

Target audiences and objectives of intermediate housing

The plethora of intermediate market schemes all have slightly different objectives, developing as needed to suit different audiences and policy goals. Figure 6 (below) shows the development of the tenure and gives examples of key objectives and audiences.

It is appropriate that products have been tailored to meet different goals, but the resulting range of

Figure 6: Objectives of intermediate housing

Objective	Example programme
Until 2008, LCHO schemes were mainly directed towards key workers, amid fears that high house prices were hampering recruitment and retention of frontline public service staff on low-middle incomes, particularly in London and the South East.	The Key Worker Living programme was launched in 2004, allowing defined, eligible key workers access to a range of intermediate products.
Over time the focus shifted away from key workers to the wider cohort of first-time buyers (FTBs). In 2008 HomeBuy schemes[46] were opened out to all FTB households with an annual income of less than £60,000, subject to other qualifying criteria.	A key development was the Open Market HomeBuy scheme, which made equity-loan products available for FTBs purchasing on the open market. This scheme tended to benefit households who could afford a higher equity stake and had slightly higher incomes than those across other LCHO schemes.[47] It was so popular that funding was quickly exhausted and the scheme closed.
Social tenants, and those on waiting lists for social housing, have been targeted at various stages in the development of intermediate housing, but particularly after the introduction of the HomeBuy schemes. Take-up of schemes by social tenants has been very low.	Social HomeBuy, a shared ownership product, is explicitly and exclusively aimed at social tenants.
In the wake of the credit crunch, developers were finding it hard to sell stock and the Government committed funds to boosting the lagging housing market.	The HomeBuy Direct product is a recent shared-equity innovation, allowing FTBs to purchase a new-build property using an equity loan co-funded by the Government and the developer.
Throughout the history of intermediate housing, some schemes have been aimed at specific, excluded demographic groups.	Shared Ownership for the Elderly is designed for people aged 55 or over, and offers shared ownership arrangements on new-build properties.
Intermediate tenure has also been used as a way out of home ownership for struggling mortgagors who cannot maintain full ownership.	The 2008 Mortgage Rescue Scheme, offering both shared-equity and below-market-rent products to eligible homeowners, was introduced to help prevent repossessions in the wake of the economic crisis.

46 In April 2006, the Government launched three schemes under the collective brand ‘HomeBuy’. Prior to this, HomeBuy had been an equity-loan product. The newly branded HomeBuy schemes were handled by HomeBuy Agents, regional housing associations responsible for providing a one-stop shop for consumers interested in LCHO.

47 £32,110 as compared to the average of £28,697 across all schemes; TSA, *CORE Housing Association and Local Authority Lettings and Sales – Key Findings Digest 2008–09*, 2009.

schemes and associated brands has caused considerable confusion, despite attempts to simplify. Research for the Greater London Authority, for example, revealed that consumers often did not understand LCHO, nor realise they were eligible: 47 per cent of those surveyed believed that LCHO was just for key workers and 76 per cent underestimated the income threshold by at least a half.[48]

The constant development of new schemes also reveals the lack of a long-term strategy and vision for the sector and what 'gap' it is intended to fill:

- Is it a stepping-stone to full home ownership or a long-term tenure in its own right?
- Is the target audience primarily social tenants or private renting lower-middle income households?
- Should it help those who would never become homeowners without it or those who would eventually become owners but need a helping hand in the short term?
- Should it aim to help people into ownership – or out of it?

Given the complexity of the schemes, the need to balance risks and benefits to a wide range of parties, and the cost to the public purse, it is crucial that the Government articulates a clear policy vision. In the past it has struggled to resolve the tension between targeting households considered to be most in need and targeting those who are more likely to sustain home ownership over the long term. Correspondingly, the allocation system for LCHO properties has been unclear at times.[49]

Value for money

Undoubtedly, LCHO schemes and shared ownership in particular allow housing associations to build more homes with less government subsidy, although this does not necessarily demonstrate good value over the long term, because in some cases money will have been spent on those who do not require subsidy. LCHO can also enhance housing associations' ability to borrow private finance. The HCA spent around 23 per cent of the social housing grant fund on intermediate housing in 2008/09: £620 million compared to just under £2 billion on social rented homes.[50] On average, the grant rate per intermediate home is about half that of a social rented home, but only affordable rented homes provide social stock in perpetuity. Figure 7 (opposite) sets out average regional grant costs per unit, as allocated by region for Quarter 3 of 2009/10.

More of the cost is transferred to the consumer and the housing association benefits from upfront sales receipts, as well as incremental receipts, if/when the buyer purchases additional shares in the property. These receipts can then be recycled into new stock for rent or purchase. The model is predicated to a large extent on the idea that purchasers will be available and have access to mortgage finance, and that house prices will continue to rise. Until the recent economic downturn, this has been sustained, but evidence suggests that recent changes in the housing market have affected the viability of this model.[51] Demand for products is high, but the model is sensitive to market changes and particularly mortgage availability.

Some value for taxpayers is being lost where schemes are poorly targeted and where those who could have bought on the open market are benefiting from subsidies, also known as 'deadweight'.[52] Schemes in more expensive areas have very little deadweight: we estimate that just two per cent of current shared owners in London could buy on the open market. In cheaper areas, more value is lost: for example, in the North East, 27 per cent of shared owners could afford market prices.[53] Money spent on these properties could have helped homeless households elsewhere and is clearly a poor use of taxpayer funds. Although evaluations of specific schemes have often been positive, there remains a need for a long-term, independent impact assessment to establish how well the market provides return on investment across economic cycles.

48 Ipsos MORI (on behalf of the Greater London Authority (GLA)), *Accessing Intermediate Housing*, 2009.

49 Wilcox, S and Williams, P, *Review of intermediate housing in London: A study for the Greater London Authority*, GLA, 2007.

50 HCA, *Annual Report and Financial Statements 2008/09*, 2009.

51 Burgess, G et al, *Low Cost Home Ownership: Affordability, Risks and Issues*, Cambridge Centre for Housing and Planning Research/Housing Corporation, 2008; Burgess, G et al, *Home Ownership and the Credit Crunch: A report on regional markets and competition with private developers*, Cambridge Centre for Housing and Planning Research/TSA, 2009.

52 For evaluations see Bramley, G et al, *Evaluation of the Low Cost Home Ownership Programme*, ODPM, 2002 and CLG, *Evaluation of Key Worker Living: Final Report*, 2006.

53 See Appendix 2 on page 27 for methodology.

Figure 7: Regional average grant rates per unit (£)

	Social rented housing	Low-cost home ownership
London	100,132	44,315
East Midlands	51,796	25,796
East of England	44,802	18,890
North East	51,179	27,282
North West	50,266	41,256
South East	63,240	24,174
South West	61,155	32,126
West Midlands	60,963	34,067
Yorkshire and Humberside	51,886	30,594
Average	59,491	30,944

Source: HCA, *Regional Investment Statements*, April 2010.
Note: Most regions exclude HomeBuy Direct, Open Market HomeBuy, Mortgage Rescue Scheme and Home Ownership for People with Long-term Disabilities from average grant rate calculations.

Creating mixed communities

An explicit aim of the HomeBuy programme was to 'create a better balance of housing types and tenures, and a mix of incomes, for instance if it encourages people on higher incomes to stay in predominantly social rented areas. This can help to promote more sustainable communities and to tackle concentrations of deprivation, which have a negative impact on people's life chances'.[54]

This aim has been met with varying success. In a survey by the TSA, 77 per cent of shared owners said that their neighbourhood was mixed in terms of income.[55] Evidence suggests, however, that some intermediate consumers would prefer not to live too close to social tenants[56] and the popularity of open-market schemes would appear to back this up.

Delivering new supply

Intermediate housing aims to increase the supply of housing by providing new homes, as well as by freeing up social rented units. In 2008/09, 24,680 intermediate housing units were delivered, although not all of these were new build.[57] Although this is not enough to meet demand, and may not directly contribute to housing those in greatest need, any additions to housing stock must be welcomed.

Freeing up social housing is achieved by encouraging existing social tenants into intermediate schemes, thereby releasing homes 'for households in greater housing need, such as households living in temporary accommodation'.[58] Intermediate housing is also offered as an option, where appropriate, for households on waiting lists for social housing. Targeting these groups – those households that can afford and sustain the costs – could be highly effective, but data suggest that only six per cent of households moving into LCHO schemes had previously been living in the social rented sector.[59]

To date, intermediate housing has not been affordable for the poorest households, nor sufficiently widespread to make an impact on social housing supply.[60] Nearly 1.8 million households are on the waiting lists for social housing in England[61] and this figure is projected to continue rising.

54 ODPM, *HomeBuy – expanding the opportunity to own: Consultation Paper*, 2005.

55 TSA, *Existing Tenants Survey 2008: Shared owners*, 2009.

56 Bretherton, J and Pleace, N, *Residents' Views of New Forms of High Density Affordable Living*, Joseph Rowntree Foundation, 2008.

57 Some may be open-market purchases, acquisitions etc. CLG [online], *Live tables on housing*: Table 1,000 (accessed April 2010): http://shltr.org.uk/a2

58 ODPM, *HomeBuy – expanding the opportunity to own: Consultation Paper*, 2005.

59 Once RTB, RTA and PRTB (preserved Right to Buy) are excluded: TSA [online], *CORE Annual Digest 2008–09* (accessed April 2010): http://shltr.org.uk/a3

60 The National Audit Office (NAO) found that 'the majority of low-cost home-ownership sales did not significantly reduce demand for social rented housing'. NAO, *A Foot on the Ladder: Low Cost Home Ownership Assistance*, 2006.

61 CLG, *Local Authority Housing Statistics, England, 2008–09: Housing Strategy Statistical Appendix (HSSA) & Business Plan Statistical Appendix (BPSA)*, 2009.

Improving housing affordability overall

Intermediate housing does increase overall levels of housing stock, which should improve access to, and affordability of, housing for all potential buyers over the long term. At present, the scale of the market is simply not large enough to have affected a downwards trend in house prices. Conversely, it is possible that if schemes were to become too large, this could push up prices as households who would not otherwise have bought a home move into the open market, although this is highly dependent on regional market trends. Schemes that do not create housing supply directly can increase demand and prices. Open market schemes, for example, could not be run on any significant scale without creating competition and running the risk that 'expenditure on such schemes will simply be capitalised into higher house prices, pushing the elusive goal of affordability ever further away'.[62]

Meeting the needs of consumers

Security of tenure

Consumers across all intermediate housing schemes benefit from a greater security of tenure than they would find in the private rented sector. As with outright ownership, this security can be threatened if costs are too high or household circumstances change, for example in cases of job loss. There is no conclusive evidence on the incidence of arrears in the intermediate sector, but some mortgage lenders have been reluctant to loan to LCHO buyers due to the perceived higher levels of risk and cost.[63] Conversely, the housing association lobby has claimed that repossessions are lower, proportionally, than in the fully mortgaged sector.[64] Theoretically, shared owners are guarded against risk by the possibility of reducing their ownership share, and by claiming housing benefit on the rented part of their share, if eligible. In cases of arrears and repossession, there is an added layer of complexity because of the multiple parties involved. There is also a lack of clarity around the legal rights of shared owners, as demonstrated by the case of *Richardson v Midland Heart*.[65] This case confirmed that where possession for rent arrears is sought by a landlord, a shared owner is treated as an assured tenant and loses their right to redeem any capital payments.

Increasing ownership shares and equity stakes

LCHO consumers occupy a relatively weak market position, with small shares and low-value properties: the average LCHO sale was worth £167,348 in 2008/09[66], compared with an average value of £219,566 across all homes.[67] This often means that there is a huge equity gap for LCHO participants to fill before moving on to the open market. There is little research on the housing journeys of shared-equity buyers or intermediate renters. Although there is no systematic data collection on staircasing for shared owners, survey evidence suggests that it is difficult for consumers to increase their stake in the property. For example, one survey suggested that only eight per cent of shared owners in the sample had increased their share at any stage[68] and another survey found that just 25 per cent of shared owners had increased their share.[69]

Inability to increase share amounts – perhaps because the household income has not increased or because the property shares have increased in value – makes it harder for households to move into full ownership. Staircasing can also be restricted by the design of the scheme, as is the case in some rural areas. If a shared owner does want to move home, limited supply means that they may not find a new LCHO home. If they wish to move to the open market, their share will need to be large enough to fund a deposit, which is problematic if the share was small to start with or values have decreased. In a study for the Joseph Rowntree Foundation, nearly one in three shared owners wanted to move house but were unable to do so, usually because the cost was too high.[70]

62 Munro, M, 'Evaluating Policy Towards Increasing Owner Occupation', *Housing Studies Vol. 22*, No. 2, Routledge, 2007.

63 See oral evidence to the CLG Committee, 1 June 2009: *Housing and the credit crunch: follow-up, Eighth Report of Session 2008–09*, The Stationary Office, 2009.

64 Graham, S, *The role of shared ownership in the future housing market – a discussion paper*, National Housing Federation (NHF)/Blue Sky, 2010.

65 *Richardson v Midland Heart* [2008] L&TR31. 'The householder was not, it seems, the owner of a half share in the property, paying a rent on the other half share that the association still owns. There is no shared ownership at all. What the householder owns is the lease and nothing else, and once the lease has gone then so has the householder's stake in the property'. Sefton, M, and Radley-Garner, O, 'Shared Ownership Leases: *Richardson v Midland Heart*', *New Law Journal*, No. 7310, 2008.

66 TSA [online], *CORE Annual Digest 2008–09* (accessed April 2010): http://shltr.org.uk/a3

67 Average for England in 2008/09. CLG [online], *Live tables on housing*: Table 581 (accessed April 2010): http://shltr.org.uk/a8

68 TSA, *Existing Tenants Survey 2008: Shared owners*, 2009.

69 Obertelli, J, 'NHF gives shared owners new hope', *Inside Housing*, 19 March 2010.

70 Wallace, A, *Achieving Mobility in the Intermediate Housing Market: Moving Up and Moving On?* Joseph Rowntree Foundation, 2008.

This apparent lack of mobility raises some concerns:

- LCHO may be a permanent tenure rather than a stepping-stone into full ownership. If so, the market is not designed to deal with this: if the household grows – as is likely given the number of young couples entering LCHO – or needs to move location for work, options may be limited. Among other problems, this could lead to overcrowding.
- The shared owner's asset is not liquid and so provides little real financial benefit to them in the short term.
- The longer it takes for households to purchase shares, the longer it takes for housing associations to realise receipts, which they may require for cross-subsidy.

Affordability

For those few households who have obtained an intermediate home, costs are generally lower than if they had bought on the open market. The National Audit Office (NAO) concluded in its assessment of the programme that '[LCHO] assistance has helped many households to buy a home they otherwise could not afford'.[71]

A study of Metropolitan Home Ownership and Tower Homes LCHO residents showed that the average household was paying around 30 per cent of their income on housing costs, which is generally considered to be affordable. However, the research also showed that six per cent of households were paying between 50 and 70 per cent of their income, and that lower-income households paid a higher proportion of their income on housing costs, with some research interviewees expressing reservations about the costs.[72] Costs such as repairs and service charges can add significantly – and sometimes unexpectedly – to a household's outgoings. Households in shared-equity or shared-ownership arrangements have all of the repair and service charge responsibility even if their share is small.

So, although LCHO homes are more affordable than full ownership in many respects, there are hidden costs that can make such schemes unsustainable for lower-income households.

71 NAO, *A Foot on the Ladder: Low Cost Home Ownership Assistance*, 2006.

72 Clarke, A et al, *Low Cost Home Ownership Affordability Study*, Cambridge Centre for Housing and Planning Research, 2007.

Conclusions and recommendations

Public spending is facing significant cuts across the board and housing will not be immune. The Government will have to scrutinise every programme to ensure maximum value is achieved. Here we explore ways to help the forgotten households and to refocus the intermediate market budget in the future.

In this climate it is right that we fully and frankly assess whether intermediate housing delivers the benefits claimed by previous governments and by providers. Shelter believes it is essential that we refocus the debate on consumer need rather than producer interest or perceived political appeal, and that public funds must be concentrated on those in most housing need.

Addressing the needs of the forgotten households

First and foremost, the Government must address the needs of the forgotten households – those who fall into the gap between renting and owning a home – as identified in this paper. This would be achieved most effectively and efficiently through reform to the private rented sector.[73]

Although the intermediate market provides a good housing option for the few households who manage to access it, it is largely unaffordable or unsuitable for low-income families who cannot access social housing. It will not, in its current form and with such a limited supply of properties, be enough to combat the affordability crisis. Providing new shared-ownership homes for all the forgotten households would cost, at the very least, a staggering £20 billion, which the State cannot afford at present.

Intermediate housing must no longer be used as a smoke screen and meaningful reform to the private rented sector and large-scale new supply in the social rented sector must be delivered. In particular, the three million households who live in private rented accommodation must be given more security and independence. This security is essential for households seeking to raise children in a long-term, stable home. We believe that these reforms would be a more effective use of funds than expansion of the complex and costly intermediate market, helping a far greater number of people.

Shelter does not believe that a policy based on a blanket increase in home ownership in the current economic climate is possible or sustainable for households or for the Government. The mortgage credit that would be required to increase home ownership significantly does not currently exist and the State cannot afford to fill the gap by subsidising first-time buyers. Furthermore, the risks of extending ownership without simultaneously creating better safety nets for homeowners have been demonstrated in the recent recession and must not be ignored. Although there are clear benefits associated with home ownership, stretching levels beyond 70 per cent of households is a highly risky strategy – as the Government's own research has highlighted.[74]

In any case, LCHO schemes are currently too small in scale to achieve a sustained increase in the number of homeowners and have not been shown to be the best or most cost-effective means of doing so. In 2009 the Communities and Local Government (CLG) Select Committee concluded: 'Current economic circumstances… demonstrate that there is no immutable law that owner-occupation should increase. The tenure is not appropriate for a significant proportion of the population who need

73 For a full discussion of issues in the private rented sector, see Shelter, *Fit for purpose? Options for the future of the private rented sector*, 2007.

74 CLG, *New Horizons Research Programme, Social Mobility and Homeownership: A Risk Assessment*, 2007.

homes, and much more attention needs to be paid to developing the roles of both the private and social rented sectors.'[75] One year on, this still resonates.

Recommendations

Access to home ownership and funding this access should cease to dominate housing policy. The housing options of the forgotten households can be improved at relatively low public cost by reforming the private rented sector and helping tenants within that sector to meet their needs and aspirations, including through:

- promoting longer-term tenancies in the sector so that tenants can live without fear of eviction
- raising standards and professionalism through regulatory enforcement of landlords.

In the longer term:

- The Government must work much harder to explore other ways to improve housing affordability and redistribute wealth, for example by reforming the outdated property taxation framework.
- The Government should not commit to increasing overall levels of home ownership significantly until it can be demonstrated that this would be equitable, affordable and sustainable.
- New models of housing delivery must be explored and investment pumped into house building. Not only would increased house building help the affordability crisis, it would also help to create jobs.

Options for the future of intermediate housing

Secondly, there is a need to question the future role and purpose of the intermediate market. Shelter believes that while funds are sparse, the new Government should stop using the affordable housing grant to deliver intermediate homes and concentrate more subsidy on generating housing supply that helps those in the greatest need. If intermediate housing spend is to continue, schemes must either be radically redesigned so that they help poorer households or are only used as an explicit mechanism for creating supply, where sites would otherwise be unviable.

Balancing funding for new supply

The intermediate market clearly helps housing associations to generate revenue and to grow their portfolios, and developers have been keen to emphasise the benefits of the market, particularly shared ownership.[76] Receipts from LCHO are a crucial part of their business plans, helping them to recycle money and to build more rented homes over the long term, but this is not a risk-free strategy and it is not supported by robust, data-driven assessment. There is insufficient evidence to show that LCHO can shift market dynamics.

Intermediate housing does not represent good value for taxpayers if the poorest households are being directly deprived of a home as a result. Directing spending to LCHO may appear to keep overall delivery outputs high, but the market is riddled with problems and, critically, diverts public money from providing secure, decent and affordable rented homes for households who are in direct and severe housing need right now. Social rented housing has a strong track record of providing such homes in perpetuity, making the best use of valuable and limited public land. More than 10,000 social rented homes could have been built with the money spent on LCHO in 2008/09. Evidence cannot clearly demonstrate that the same amount will be built with the resulting LCHO receipts, particularly if staircasing remains limited. Shelter urges the Government to commission independent, long-term financial modelling for a full assessment of return on investment in LCHO.

The current delivery ratio of 45:55 LCHO homes to social rented homes is clearly out of kilter with housing need. Given the dire state of public finances, we believe that the affordable housing grant should be spent primarily on affordable rented homes. This echoes other current public policy moves that are aiming to focus on tax and benefit subsidies for those who are most in need. This would not preclude provision of LCHO homes through other funding methods or by private companies and need not impact on the mixed-tenure communities agenda. In challenging times such as these, the State simply cannot afford such luxuries.

New supply is called 'affordable' without a common understanding of what this really means. The result of this is that intermediate housing is being classified automatically as affordable when vast swathes of the local population cannot afford it.

Recommendations

- In the immediate term, the subsidy within the affordable housing grant should be focused on social rented housing to ensure that the most acute housing need is being prioritised, unless it can be clearly demonstrated that publicly funded development sites would be unviable without LCHO provision.
- A consistent definition and measure of affordability is needed so that it is a meaningful

75 CLG Select Committee, *Housing and the credit crunch: follow-up, Eighth Report of Session 2008–09*, The Stationary Office 2009.

76 Graham, S, *The role of shared ownership in the future housing market – a discussion paper*, National Housing Federation/Blue Sky, 2010.

term. We urge the Government to revise the definition and measure local authorities' delivery performance against this.

As outlined, Shelter, as an independent and tenure-neutral organisation, believes that reform to the private rented sector and increasing the supply of social rented homes must be the priority for housing budgets in the short term and until public finances are recovered. However, should the Government remain committed to funding intermediate housing, as suggested in the recent Conservative-Liberal Democrat Coalition agreement, there are measures that could be introduced to target it more effectively.

Refocusing the intermediate market

A wide range of households fall into the gap between renting and ownership and they must be properly segmented and understood if intermediate schemes are to be effective. Shelter believes that households lower down the income scale should be prioritised. Schemes would need to be balanced so that these households do not enter into unsustainable or risky ownership. Intermediate rent models may be the best means of achieving this. However, there are unexplored issues with these schemes and investment into such models must be preceded by rigorous costing and analysis. Any move towards increasing intermediate rent schemes must not impact on the prioritisation of spending in the social rented sector, nor the security of tenants within that sector.

Recommendations

- If the LCHO budget is retained, spending should be focused on schemes for lower-income households. This would mean radical scheme design to make intermediate housing much more affordable and sustainable.
- Focus should be shifted away from higher-middle income first-time buyers, who are likely to achieve home ownership later in life without assistance.[77] In particular, we recommend that the Open Market HomeBuy scheme remains closed because it does not contribute to new supply and is clearly not accessible to the majority of low-income households.
- Tighter regional targeting of funds is required to avoid lost value for money. At present, value is lost most on schemes outside London, the South East and South West.

Improving existing products

If the Government remains committed to funding LCHO, it must be clear about why it is doing so and improve the LCHO offer for consumers. The schemes can be improved to make them more affordable, understandable, and sustainable. There are in essence three types of LCHO product, but the current wide array of branding, advice and sources of information is confusing for consumers.

Recommendations

- If intermediate housing continues to be used to prop up supply and generate revenue for cross subsidies, this should be its primary, defined aim.
- Existing products could be simplified to the three main product types and the HCA should ensure more consistent standards across housing associations, HomeBuy Agents, and other local and national sources of advice and information. Consumers must be made aware of the particular risks of this tenure and the relative lack of competition in mortgage lending for the market.
- Ways to make shared ownership more affordable for consumers should be explored – for example, lowering rent levels, shifting repair responsibilities to housing associations, or reforming service charge arrangements.
- Allowing smaller shares, in both shared-equity and shared-ownership schemes, could improve affordability. However, such shares would then be so small that they may not help consumers to move up the housing ladder. Language should reflect this – if the legal and financial status conferred is not 'ownership', then it should not be referred to as such.
- Mechanisms for better flexibility – both upwards and downwards staircasing – need to be built into scheme designs, so that the tenure can meet households' needs as their circumstances change. Flexibility could also be improved to help people move from one property to another within the tenure.

Understanding the sector

For an area that has occupied so much government time and cost, data collection on the intermediate housing sector is remarkably poor, making analysis and understanding of the market difficult.

Recommendations

The Government must explore ways to collect and monitor data where there are currently gaps, including data on:

- the long-term outcomes for households in intermediate tenure
- variations in rental and service charge costs
- arrears and repossessions
- staircasing
- the level of enquiries and take-up of rent-to-buy schemes, and on intermediate renters.

77 Bottazzi, R et al, *How do Housing Price Booms and Busts Affect Home Ownership for Different Birth Cohorts?*, National Housing and Planning Advice Unit and the Institute for Fiscal Studies, 2010.

Appendix 1: Summary of main HomeBuy schemes

The table below outlines the main HomeBuy schemes – the key features of the schemes and the eligibility criteria for entry into them.

LCHO schemes			Details	Further information and eligibility criteria
Shared ownership		**Social HomeBuy**	■ Shared ownership, discounted scheme ■ Introduced in April 2006 ■ Minimum purchase of 25 per cent share of social rented home with discount ■ Rent charged, up to three per cent of remaining capital value ■ Opportunities for staircasing with discounts included on additional purchases	■ HCA provides grant to housing associations to cover discount ■ General eligibility: purchaser must live in the property of a housing association or local authority participating in Social HomeBuy and will undergo a financial assessment
		New Build HomeBuy	■ Shared ownership ■ Introduced in April 2006 ■ Minimum purchase of 25 per cent of a new-build home ■ Rent charged, up to three per cent of remaining capital value ■ Opportunities for staircasing	■ New Build schemes generally part-funded by grant from HCA through National Affordable Housing Programme ■ General eligibility: households earning £60,000 or less
Shared equity	Open Market HomeBuy	**My Choice HomeBuy**	■ Shared equity ■ Introduced in April 2006, funding exhausted by June 2009 ■ Equity loan of 15 to 50 per cent provided by a partnership of eight housing associations known collectively as CHASE ■ Product must be used in conjunction with conventional mortgage	■ Available to use on the open market ■ Increase in value when sold must be shared with equity loan provider ■ General eligibility: households earning £60,000 or less
		Own-home	■ Shared equity ■ Introduced in April 2006, funding exhausted by June 2009 ■ Equity loan of 20 to 40 per cent provided by Places for People in partnership with Co-op Financial Services, used in conjunction with a conventional mortgage from the Co-op Bank	■ Available to use on the open market ■ Increase in value when sold must be shared with equity loan provider ■ General eligibility: households earning £60,000 or less

Shared equity (cont.)		**HomeBuy Direct**	■ Shared equity ■ Introduced in September 2008 ■ Equity loan of up to 30 per cent of purchase price on a new build property, co-funded by Government and the developer ■ No charge on equity loan for the first five years, 1.75 per cent from year six, increasing annually by RPI plus one per cent ■ Opportunities for staircasing – purchaser can redeem loan in instalments and buy additional equity at the market rate	■ Available on specific properties put forward by the developer ■ Increase in value when sold must be shared with equity loan provider ■ If value of the property has decreased at point of sale the Government and developer will only share in the proceeds left over once mortgage has been paid off ■ General eligibility: households earning £60,000 or less
		First-time Buyer's Initiative	■ Shared equity ■ Introduced in April 2006 ■ Equity loan of up to 50 per cent of purchase price on a new-build property ■ Yearly inflation of government contribution by 2.4 per cent per year ■ One per cent charge on this amount after first three years, going up to two per cent after four years, and stabilising at three per cent after five years ■ Purchaser encouraged to staircase in 10 per cent tranches	■ Available on specific properties ■ Increase in value when sold must be shared with the equity loan provider ■ General eligibility: mainly first-time buyers, households earning £60,000 or less
Rent to HomeBuy			■ Intermediate rent to shared ownership ■ Introduced in July 2008 ■ Buyer pays intermediate rent (around 80 per cent market rate) for up to five years while saving for deposit to buy under the New Build HomeBuy scheme (see above)	■ Enables purchasers to hold an equity stake in the property when they buy under New Build HomeBuy ■ General eligibility: households earning £60,000 or less

Appendix 2: Methodology

This appendix explains the methodology used to identify the forgotten households – those households that cannot access affordable housing – and the intermediate housing deadweight.

Identifying the forgotten households

This section explains the methodology behind assessing the number of households who fall into the gap between eligibility for social housing and the ability to buy intermediate housing – known as the forgotten households in this paper. It makes use of the *Family Resources Survey* (2007/08)[78], which provides an indication of the distribution of household characteristics, including household income and tenure. All figures are presented for England only.

1. Existing homeowners

All existing homeowners are excluded from the analysis as these households have already demonstrated their ability to purchase homes in the private or intermediate (or RTB) sectors.

2. Establish minimum income thresholds necessary to purchase intermediate properties

From the TSA's CORE data[79] it is possible to determine the price of shared-ownership properties sold in England during 2007/08. The prices were identified for lower-quartile properties (ie the 25 per cent least expensive) for each region.

The Housing Corporation Affordability Calculator[80] was used to identify the minimum income required to purchase a lower-quartile shared-ownership property within each region. The figures allow sensitivity testing around the minimum income levels to test how much the final figure will vary according to differing assumptions.

The minimum income was estimated on the basis of the purchaser paying a 10 per cent deposit on the equity stake and adopted the following assumptions:

Average interest rate:	five per cent
Rent:	2.75 per cent of non-equity share
Service charge (per annum):	£1,320
Net income cap:	33 per cent of net income (ie housing costs cannot exceed this proportion of net income)
Maximum income multiplier:	3.5 (only relevant if net income cap threshold is not met)
Mortgage period:	25 years

Any household with a total income exceeding this figure is excluded from the sample because they can afford to purchase a property, either on the open market or through a shared-ownership scheme.

The remaining sample consists of those households that cannot afford to purchase a property privately or through a shared ownership scheme. This is based solely on household income and does not consider other issues such as a poor credit rating or unaffordability due to high levels of expenditure in other areas.

It would also exclude individuals living in shared households (ie households consisting of a group of unrelated adults) where the combined household income exceeds the income threshold identified above.

About 4,600,000 households across England fall into this category, of which 1,300,000 have dependent children.

78 Department for Work and Pensions (DWP), *Family Resources Survey United Kingdom 2007–08*, 2009.

79 TSA [online], *CORE Data 2007–08* (accessed April 2010): http://shltr.org.uk/aq

80 Housing Corporation [online], Shared Ownership Affordability Calculator (accessed April 2010): http://shltr.org.uk/a9

3. Social renters

From this category it is also possible to exclude those living in social rented properties because current recipients of social housing clearly do not fall into the gap between eligibility for social housing and the ability to purchase in the intermediate housing market.

A total of 1,500,000 households do not have sufficient income to purchase intermediate housing and do currently access social housing.

Of these, 420,000 have dependent children.

4. Means-tested benefits

A proportion of private renters who cannot afford intermediate housing will be receiving means-tested benefits, including jobseeker's allowance, incapacity benefit, income support and housing benefit. As this group will be receiving at least some government support towards the cost of their housing, it is reasonable to remove them from the category of households who fall into the gap between renting and owning. Furthermore, it is reasonable to assume that home ownership will not be the most appropriate tenure type to meet the housing needs of households in receipt of means-tested benefits.

Overall there are 866,000 households in the private rented sector who do not receive any means-tested benefits and are unable to purchase even the cheapest intermediate homes.

158,000 of these households have dependent children.

Identifying intermediate housing deadweight

The previous section identified those households who fall within the gap between eligibility for social housing and the ability to purchase intermediate homes. Despite having insufficient income to purchase on the open market, these households cannot access either the intermediate or social rented sectors.

Conversely, given the £60,000 upper-income threshold for eligibility to intermediate housing, it is possible that purchasers of shared-ownership properties would be able to purchase housing on the open market (ie not all beneficiaries of intermediate housing schemes would have required public sector support to access private housing).

The approach for assessing the size of this group is consistent with the approach to assessing the forgotten households described above. It identifies the number of households who purchased an intermediate market property in 2007/08, but had an income high enough to purchase on the open market.

1. Purchasers of intermediate housing

Using the CORE data[81] it is possible to identify the number of households who purchased intermediate housing in the period 2008/09.

There were 11,500 intermediate sales reported by CORE in 2008/09.[82]

2. Establish minimum income necessary to purchase market properties

The 2008/09 lower-quartile house price (the price below which lie 25 per cent of all recorded house prices) was identified for each region from Land Registry published data.[83]

Using the Housing Corporation Affordability Calculator the minimum income required to purchase a lower-quartile property within each region was identified. The affordability assumptions are consistent with those used to identify the forgotten households. These are:

Deposit:	10 per cent of property value
Net income cap:	33 per cent (ie housing costs cannot exceed this proportion of net income)
Maximum income multiplier:	3.5 (only relevant if net income cap threshold is not met)
Mortgage period:	25 years

Any household with a total income below these income levels was excluded from the sample because it is assumed that they could not afford a property on the open market.

81 TSA [online], *CORE Data 2008–09* (accessed April 2010): http://shltr.org.uk/aq

82 CORE does not provide a census of all social and intermediate sales and so this figure will under-report the actual number of intermediate sales in 2007/08.

83 CLG [online], *Live tables on housing*: Table 583 (accessed April 2010): http://shltr.org.uk/aa

Figure 8: Intermediate housing deadweight, by region

	Total intermediate sales	Deadweight	
		Total units	% of total
North East	67	18	27
Yorkshire and Humberside	254	45	18
East Midlands	522	75	14
East of England	1,685	179	11
London	3,041	65	2
South East	3,417	249	7
South West	1,307	64	5
West Midlands	921	130	14
North West	342	70	20
Total	11,556	895	8

Source: Shelter analysis.

It is assumed that households would be able to raise a 10 per cent deposit. For households with income levels above the affordability threshold and limited savings, it is assumed that it will be possible for them to save sufficient funds in the future. In these cases it is assumed that intermediate housing allows them to purchase a property more quickly than would have been the case without support. However, they are still considered as part of total deadweight in this report.

CORE data include 895 households who purchased intermediate properties in 2008/09 and had incomes that would have allowed them to purchase on the open market. This is eight per cent of the total number of intermediate purchasers. However, deadweight varies considerably by region, as set out in the table above.

Policy: discussion paper

The forgotten households

Is intermediate housing meeting affordable housing needs?

Shelter