

Policy briefing

Home ownership

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This briefing examines the increasing dominance of home ownership as a policy aim. It questions the growing assumption among politicians and policy-makers that increasing home ownership is key to tackling problems of inequality and social mobility, and argues for a more balanced, cross-tenure approach to addressing Britain's housing crisis. It also considers the impact of the Government's low-cost home-ownership programmes, and highlights the need for new ways to improve protection for homeowners on low incomes.

Shelter

Key facts

- Seventy-one per cent¹ of UK households now own their own homes. In the 1940s it was 44 per cent.²
- There is a further group of households currently outside home ownership who aspire to enter it.³ However, home-ownership aspirations among people under 25 have fallen from 60 per cent to 37 per cent since 1997. Research for Shelter suggests that people on low incomes place living in a safe neighbourhood, and affordability, above the desire to own their own home.⁴
- The average house price in the UK in 2005 was £190,760.⁵ This represents an 88 per cent increase since 2000.
- Housing is the single greatest financial asset held by individuals in the UK. Its value has risen to £2.4 trillion and accounts for 42 per cent of national wealth.⁶
- The divide between children whose families have most housing wealth, and those who have least, is approaching the levels of the Victorian era. It is beyond the point where the disparity can be addressed by children gaining well-paid employment in adulthood.⁷
- In most areas of southern England, around 30 per cent of young households in employment, who would normally form the next generation of homeowners, cannot afford to buy even the cheapest housing in their district based on their incomes.⁸
- Half of all households in poverty are in the owner-occupied sector.⁹ In the UK, 36 per cent of children in poverty live in home-owning households. Yet only six per cent of state subsidy for housing goes towards this group.
- After a decade of falling repossessions, the number of possession actions for mortgage arrears is now rising sharply, increasing by 55 per cent over the last 12 months.¹⁰
- Since 1980, around 1.7 million local authority homes have been sold under the Right to Buy in England.¹¹ Over the same period, the number of new units of social housing built each year has fallen from 110,000 to 18,000.¹²
- More than 100,000 homeless households are living in temporary accommodation, an increase of nearly 150 per cent since 1997 and a 20-fold increase since 1980.¹³

1 Survey of English Housing 2003–04

2 Anderson, S (ed): *The CML Mortgage Market Manifesto – taking the past into the future*, Council of Mortgage Lenders, 2004

3 Smith, J: *Understanding demand for home ownership: aspirations, risks and rewards*, CML, 2005. This research puts total aspiration to home ownership at 81 per cent of all households in Britain. Other studies have suggested aspiration levels at up to 90 per cent (see page 6)

4 Edwards, L: *Home truths: the reality behind our housing aspirations*, Shelter, 2005

5 Figures from the ODFM, using a simple unadjusted average house price

6 Dorling, D: *Know your place: inequalities in housing wealth*, Shelter, 2005. This paper also appears with others in *The great divide: an analysis of housing inequality*, ed Regan, S, Shelter, 2005

Summary

Most people want to own their own home. Home ownership can confer benefits of increased security, stability within communities, and a greater sense of control and belonging. This briefing does not question these realities, but instead highlights some of the complexities underlying them. It also argues that the undoubted benefits of home ownership are being allowed to dominate housing policy to an undesirable extent.

Home ownership is now seen as the only tenure of choice; renting, whether in the social or private sector, has become stigmatised and government policy has lacked a positive vision of the benefits that it can offer. We have short memories about the difficulties of negative equity and repossessions in the early 1990s; several years of steep growth in house prices have created a climate where housing is seen as much as an investment as a place to live. People are stretching themselves to get on the housing ladder, driven by the twin incentives of hope of capital gains, and the fear of being left behind.

This approach fails those who have little hope of buying their own home. Nearly four million households are either economically inactive, or have an income at such a level that they cannot afford to pay their full rent without Housing Benefit.

A wealth gap is growing ever wider between those who have been able to access housing wealth and those who have not. This must not be allowed to continue. If the level of wealth polarisation in Britain today is not addressed, a generation of children will grow up permanently disadvantaged, unable to work their way out of the social and financial position given them by their parents' housing tenure.

Also losing out are the people at the margins of home ownership. Younger households who, a generation ago, would have been able to buy a home, are now priced out of the market.

Those who have stretched themselves to buy a house are at risk of poverty and repossession leading to homelessness if their circumstances change. The state safety net for low-income homeowners is inadequate; private insurance, intended to fill the gap, is poorly targeted and unreliable.

Large numbers of low-income homeowners, many of them elderly, live in poor and deteriorating housing without the resources to bring them up to the decent homes standard.

7 Dorling, D: *Know your place: inequalities in housing wealth*, Shelter, 2005

8 Wilcox, S: *Limits to working households' ability to become homeowners*, Joseph Rowntree Foundation (JRF), 2005

9 Wilcox and Burrows: *Half the poor: homeowners with low incomes*, University of York, 2000. This report uses less than 50 per cent of mean incomes after housing costs as the measure of poverty

10 DCA Mortgage Possession Statistics, October 2005

11 ODPM live housing tables on Right to Buy sales by local authorities

12 ODPM live tables on house-building, table 241: Permanent dwellings completed by tenure in the UK

13 ODPM homelessness statistics

We need a vibrant and good-quality private rented sector, where anyone can rent a home that is in good condition, well managed, and which offers the possibility of long-term security. Instead the private rented sector has become a tenure of last resort. Public perception of it focuses on buy-to-let arrangements, the purpose of which is not to provide good-quality accommodation for tenants, but to give homeowners more opportunity to realise capital gains. Tenants face rents set at levels beyond what Housing Benefit will cover, and no security of tenure beyond six months. Management standards and quality of accommodation remain extremely variable, and recent government measures to improve both are piecemeal and inadequate.

Households who cannot manage the financial costs or other responsibilities of home ownership also need to have a reasonable chance of accessing housing in the social rented sector. This offers affordability and the security of tenure for life, as well as the supportive management and community development which is so vital to enabling the most vulnerable households to live well and access services.

The focus on building more housing for low-cost home ownership is preventing the level of growth so urgently needed in the social rented sector.¹⁴ In the lifetime of the current government, the number of homeless households living in temporary accommodation while waiting for a permanent tenancy in social housing has risen from 40,000 to more than 100,000.¹⁵

We need a more balanced, cross-tenure approach to housing policy, which acknowledges the role rented housing should play in addressing the nation's housing requirements – an approach that focuses on meeting people's housing needs rather than seeing housing as a generator of personal wealth.

We need to find new ways of enabling those on low and middle incomes to build up assets outside of home ownership.

The supply of social rented housing must be increased and the private rented sector reformed.

The problems of poverty and insecurity in marginal home ownership should be addressed by a stronger state safety net.

14 Monk, S, Crook, T, Lister, D, Rowley, S, Short, C and Whitehead, C: *Land and finance for affordable housing: the complementary roles of Social Housing Grant and the provision of affordable housing through the planning system*, JRF, Housing Corporation 2005. This research shows that an increasing proportion of new homes being delivered through Section 106 agreements (planning regulations designed to ensure that private developments include some affordable housing) are shared ownership and intermediate accommodation. In the south east, the proportion of shared ownership in the overall total of affordable housing built via s106 agreements rose from nine per cent in 1999/2000 to 29 per cent in 2002/2003

15 ODPM P1E statistics

Policy context

The pattern of home ownership in the UK

Home ownership in Britain has changed enormously in the last 40 years. In the 1960s, six million households (43 per cent) were homeowners. By 2003, the number of home-owning households had risen to 17 million (71 per cent). In the 1960s, only 22 per cent of unskilled manual workers owned their own homes. By 2002, this figure had trebled to more than 60 per cent.¹⁶ This growth and diversification in the sector can be attributed partly to the Right to Buy, which has added around 1.7 million households to the total number of owner-occupiers since 1980,¹⁷ but has also been the result of wider availability of finance to purchase, Mortgage Interest Tax Relief (now abolished), and broader social and cultural shifts.

The current level of owner-occupation in the UK is similar to that of the US (68 per cent) and Australia (70 per cent) and is markedly higher than in other northern European countries – in France the rate is 56 per cent, in the Netherlands 53 per cent, and in Germany 41 per cent.¹⁸ At the same time, the UK level is lower than that of some southern and eastern European countries (Portugal at 76 per cent, and Lithuania at 84 per cent, for example).¹⁹

Home-ownership levels vary across Britain²⁰ – 75 per cent of the housing stock in the south east (excluding London) is owner-occupied, whereas in Scotland it is 62 per cent. There are also significant variations among different ethnic groups – 72 per cent of white households and 73 per cent of Pakistani households are owner-occupiers, compared with 46 per cent of Black Caribbean households and 37 per cent of Bangladeshi households²¹ – and by household type – 35 per cent of lone-parent households with dependent children are homeowners, compared with 81 per cent of two-parent households with dependent children.²²

Affordability

The average house price in the UK in 2005 was £190,760.²³ Average male full-time earnings are £29,085pa,²⁴ giving an average house price to income ratio of 6.6. In the five years since 2000, the average price has increased by 88 per cent from £101,550. A generation ago, in 1975, the average UK house price was £11,787. At that time average male full-time earnings were £3,161.60pa,²⁵ giving a house price to income ratio of 3.72.

16 Council of Mortgage Lenders: *The CML Mortgage Market Manifesto*, February 2004

17 ODPM live housing tables on Right to Buy sales by local authorities

18 Scanlon, K and Whitehead, C: *International trends in housing tenure and mortgage finance*, Council of Mortgage Lenders, 2004

19 Ibid

20 Council of Mortgage Lenders: *The CML Mortgage Market Manifesto*, February 2004

21 Survey of English Housing 2003–04

22 Ibid

23 Figures from the ODPM, using a simple unadjusted average house price. Latest figures available by this method of calculation are for 2005; this simple average is used rather than a weighted or adjusted average of the sort more commonly in use, to allow comparison with 1975

24 Wilcox, S: UK Housing Review 2004/5, table 2, CIH/CML, 2005

25 Ibid

Younger households, even those on good incomes, are being priced out of the housing market. The average age for first purchase is now 34 and rising.²⁶ Recent studies have found that house prices are unaffordable to buyers on average incomes in Greater London, the south east, the south west, and the east of England.²⁷ Research, casework from Shelter's Housing Aid Centres, and contacts within local authorities in the north of England indicate that affordability is also becoming a major problem in the north and Midlands. This is contributing to rising homelessness as the younger generation who might have expected to buy their first home turn instead to the council for housing when they can no longer live in the parental home.²⁸

Further work by the University of York's Professor Steve Wilcox has identified what he calls an intermediate housing market of younger working households who can afford to rent without the aid of Housing Benefit, but who cannot afford to buy even the cheapest properties for sale in their areas. This market comprises just over a fifth of all younger working households in Great Britain, ranging from 35 per cent in London to seven per cent in the north east of England.²⁹

Aspirations to home ownership

Much of housing policy is based on the finding that 90 per cent of households in Britain aspire to become homeowners, and the drive to meet that aspiration.³⁰

However, research carried out by the Council of Mortgage Lenders³¹ (CML) and Shelter³² identifies a more complex picture of aspiration with regard to housing.

The CML's research indicates that while aspiration to home ownership among those aged over 35 continues to rise, this is not the case among the young – it has fallen sharply among those aged under 25, and there has also been a slight fall among those aged 25–35. The number of people under 25 wanting to become homeowners within two years fell from 79 per cent to 37 per cent between 1983 and 2003.

26 Smith, J: *Understanding demand for home ownership: aspirations, risks and rewards*, Council of Mortgage Lenders, 2004

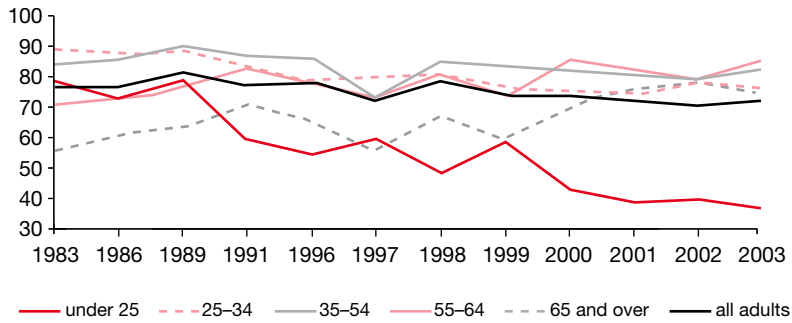
27 Joseph Rowntree Foundation findings: *Affordability differences by area for working households buying their homes – 2003 update*, published October 2004. Confirmed by the affordability index devised for *ROOF* magazine by Professor Steve Wilcox of University of York Centre for Housing Policy

28 Grannum, C: *On the up: the housing crisis in the north*, Shelter, 2004

29 Wilcox, S: *Affordability and the intermediate housing market: local measures for all local authority areas in Britain*, Joseph Rowntree Foundation, 2005

30 *Housing policy: an overview*, HM Treasury, 2005. The 90 per cent figure quoted in that report comes from the British Social Attitudes Survey, 2001–02, National Centre for Social Research

Two-year home-ownership aspirations by age, 1983–2003



Source: BMRB except 1996–01, MORI (1996–03)

Notes: All UK except 2003 GB, 2000 data excludes cases where no answer given, 2000–2003 respondents not head of household. 2002 includes 6 per cent not asked.

Source: Council of Mortgage Lenders³³

The reasons for this are unclear, but another CML study shows that Britain is experiencing a faster rate of decline in numbers of first-time buyers than many other countries.³⁴ The same study also found that home ownership seems to have reached a plateau internationally.

Shelter’s report *Home truths* confirmed that home ownership is considered by many to be the optimum tenure, but its advantages are questioned by some. For many, other priorities, such as living in a safe area or having enough space for their children, come first. In a survey carried out for the research, people identified feeling safe in their neighbourhoods as their top priority in a home. Home ownership was seen as a priority by only five per cent of people in the social rented sector and by eight per cent of those renting privately.³⁵

31 Smith, J: *Understanding demand for home ownership: aspirations, risks and rewards*, Council of Mortgage Lenders, 2004

32 Edwards, L: *Home truths: the reality behind our housing aspirations*, Shelter, 2005

33 Smith, J: *Understanding demand for home ownership: aspirations, risks and rewards*, Council of Mortgage Lenders, 2004

34 Scanlon, K and Whitehead, C: *International trends in housing tenure and mortgage finance*, Council of Mortgage Lenders, 2004

35 Edwards, L: *Home truths: the reality behind our housing aspirations*, Shelter, 2005

Policy issues

The prime benefit of housing is as a place to live. It also offers related benefits such as safety, health, comfort, security, belonging, and social connection. If people buy the home they live in and its value increases, then housing may also offer the possibility of an increase in capital and wealth, although this is difficult to realise until such time as the household no longer needs the home to live in.

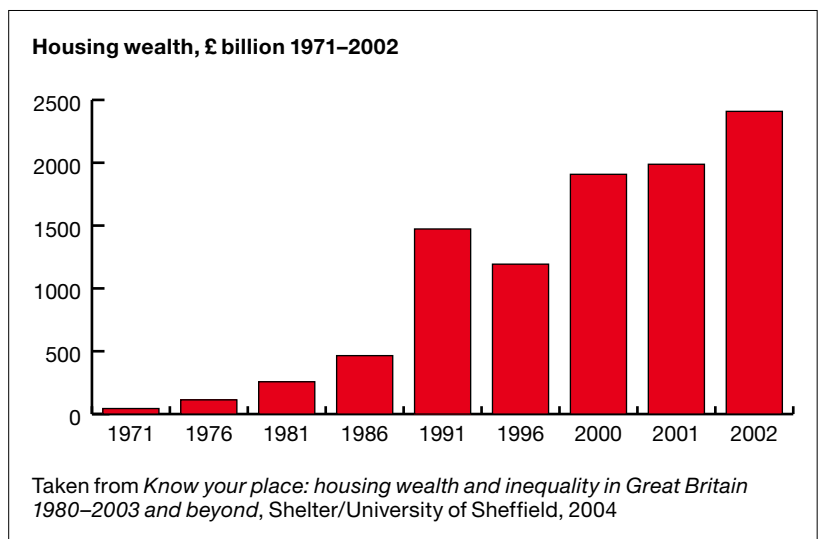
Shelter is not against home ownership. Sometimes, it can provide more of the benefits referred to above than renting can. However, the way housing policy has developed means that housing's ability to create wealth has come to dominate over its other benefits. The home-ownership policy issues that need attention all revolve around this.

Wealth and inequality

The share of national wealth held in the form of housing has almost doubled from 22.1 per cent to 42 per cent since the 1970s.³⁶ Housing is the single greatest financial asset held by individuals in the UK. In 2002, almost twice as much wealth is being held in housing as in life assurance and pension funds, more than five times as in securities and shares, and more than three times as much as in other forms of savings.³⁷

36 Social Trends for 1971 to 1989; dwellings net of mortgage debt, and for 1991 to 2002, non-financial assets less loans secured on dwellings, Office of National Statistics. Calculation of these figures formed part of the research below

37 Dorling, D and Thomas, B: *Know your place: housing wealth and inequality in Great Britain 1980–2003 and beyond*, Shelter/University of Sheffield, 2004



A worrying picture is emerging of divisions in Britain between those who are able to benefit from housing wealth and those who are not. Research for Shelter by the University of Sheffield³⁸ shows that the current generation of children are divided more by their parents' wealth (arising from their home-ownership status) than at any time since the turn of the twentieth century. As the report states: '...the implications of our now huge inequalities in housing wealth are extremely far-reaching. A slowdown in the housing market will have little impact on those implications. A child will not easily be able to earn their way out of their social position in the future. Their position will be increasingly determined by their parents' housing wealth, which will be determined mainly by where they happen to live: a postcode lottery to life writ large.'³⁹

An opportunity exists to explore ways in which public subsidy can be directed towards building up assets for those on low incomes in order to narrow this wealth gap. However, at present this opportunity is being sidelined while public subsidy focuses instead on enabling as many households as possible to access home ownership.

The levels of aspiration to home ownership, and what factors influence this, form a more complex picture than is readily acknowledged in government statements on housing policy. The capital gains made by homeowners over the past 20 to 30 years, and the fact that the rented sector, both private and social, has become marginalised and stigmatised over the same period, are oversimplifying the complex reality of what people need from a home.

Shelter believes that what people aspire to in a home can be met through social or private renting, provided issues such as security of tenure, quality of neighbourhoods and increase in supply can be addressed. The only aspect of home ownership that these tenures cannot replicate is the prospect of capital gains and the accumulation of assets. This is highly significant because research by the CML shows that investment opportunity (ie hope of capital gains) is the most frequently mentioned factor driving people to aspire to home ownership.⁴⁰

There are likely to be other ways in which the housing priorities of people on low incomes – including the hope of capital gains – could be met outside of their entering home ownership. This is essential given that around four million households in Britain currently depend on Housing Benefit to meet their housing costs⁴¹ and have little prospect of buying their own homes.

38 Dorling, D and Thomas, B: *Know your place: housing wealth and inequality in Great Britain 1980–2003 and beyond*, Shelter/University of Sheffield, 2004

39 Ibid

40 Smith, J: *Understanding demand for home ownership: aspirations, risks and rewards*, Council of Mortgage Lenders, 2004

41 Housing Benefit and Council Tax Benefit Quarterly Summary Statistics, May 2005, DWP

Shelter recommends

Shelter and the Chartered Institute of Housing are working together to develop proposals for ways in which social housing tenants – so often left with no assets at all and excluded from mainstream financial products – could be offered the chance to invest in the social housing activities of RSLs.⁴²

Alternative financial products such as the proposed Real Estate Investment Trusts, would allow investors to benefit from the growth in house prices without having to raise enough to buy a whole house, or to manage the letting of it. Their development should be encouraged.

It would also be beneficial to encourage broader innovation in the field of housing finance, looking at options such as Community Land Banks, and a range of Trusts based on commonhold tenure, or Limited Liability Partnerships, which have potential to create flexibility in ownership of housing assets way beyond what is currently available.⁴³

All these options are aimed at encouraging asset accumulation and savings among households for whom home ownership is not a feasible option.

Low-cost home ownership

Since the Right to Buy was introduced in 1980, programmes that provide capital subsidy to enable lower-income households to buy their own homes on a large scale have been a feature of the policy landscape. As house prices have spiralled, widening the affordability gap, these programmes have taken on a higher public profile.

The Right to Buy

The Right to Buy has directed public subsidy into enabling individuals to buy their council home at a discount for the past 25 years. The number of homes sold is difficult to quantify but is estimated as at least 1.6 million and probably more than two million. Even more difficult to quantify is what the receipts from sales – likely to be around £40 billion – have been used for. What is clear is that they have not been used to replace the housing lost to the social sector. Despite reforms to the scheme introduced by the Labour Government since 1997, it remains the case that around five times more houses are being sold under the Right to Buy than are being built to replace them in the social rented sector.

In 2001, Shelter set out the consequences of the Right to Buy in social housing.⁴⁴ Undoubtedly many households have benefited from

42 Terry, R, Simpson, M, and Regan, S: *HomeSave: increasing choices for tenants to own assets*, Shelter/ CIH, 2005

43 See *Community land trusts and mutual housing models: a research report for the Mayor of London*, GLA Housing and Homelessness Unit, 2004, and *Common Ground – for mutual home ownership*, New Economics Foundation and CDS Cooperatives, 2003

44 South, P: *Time for a change*, Shelter, 2001

it, financially and in terms of social mobility. However, the policy has reduced the total stock of available social housing; it has unbalanced the type of housing stock held by social housing providers; it has financially disadvantaged local authorities, which have lost rental income and potential capital receipts; and it has acted as a magnet for exploitation by both individual tenant purchasers and private speculators who target more vulnerable tenants.

The Government has acted to bring in restrictions on the amount of discount available in certain high-demand areas, and the Housing Act 2004 contained further restrictions on repayment of discounts and qualifying periods, as well as measures to prevent fraud and exploitation of the Right to Buy scheme.

In recent years, the Government has entered into a process of review of the options available for low-cost home ownership. A research study and evaluation was published in 2002.⁴⁵ This was followed by the setting up of a Home-Ownership Task Force. The Government asked the Task Force to review the existing range of low-cost home-ownership products and, particularly, to look at what could be done to help tenants and those on housing waiting lists move into home ownership without the loss of social housing.⁴⁶ The Task Force also looked in a broader way at sustainability of home ownership in terms of public subsidy and also in terms of difficulties faced by individual low-income homeowners.

In April 2005, the Government announced a simplification of low-cost home-ownership schemes, referred to as Homebuy. From 2006 onwards, the Right to Buy and the Right to Acquire⁴⁷ will remain available and all other existing schemes will be replaced by the following three options:

Social Homebuy

This scheme allows some social housing tenants to buy a share of the equity in their existing social home at a discount. Eligibility will be restricted to tenants whose landlords choose to take part in the scheme. Discount levels are equivalent to those offered under the Right to Acquire.

New Build Homebuy

A share (minimum 25 per cent) of the equity in a new home built with public subsidy, or on public sector land, or under the First-Time Buyers' Initiative (see below) can be purchased. Those eligible will be key workers, existing social tenants, people on the housing register, and other first-time buyers identified as a priority for assistance through Regional Housing Boards. The First-Time Buyers' Initiative is part of New Build Homebuy and makes surplus

45 Bramley, G and Morgan, J: *Evaluation of the low-cost home-ownership programme*, ODP, 2002

46 *A home of my own: the report of the Government's Low-cost Home-Ownership Task Force*, Housing Corporation, 2003

47 The Right to Acquire allows tenants of RSL-owned property built since 1997 to buy their homes at discounts set at levels generally lower than those available under the Right to Buy. It was introduced by the Housing Act 1996

public land available to either social housing organisations or private developers who are required to build housing on it at a competitive cost (ideally £60,000 per property). The aim of the scheme is to keep final sales costs down for first-time buyers by excluding the costs of the land.

Open Market Homebuy

Eligible purchasers will be able to buy a share (minimum 75 per cent) of the equity in a home bought on the open market. Eligibility will be as for New Build Homebuy.

Social Homebuy, in many respects, is an improvement on the Right To Buy. It is voluntary, so councils and housing associations can assess whether it is appropriate for them given their stock position and levels of housing need. It includes provision for landlords to keep the receipts and spend them on new homes. There is a significant question mark over whether or not this will happen in practice, and whether the new homes built will be replacement social rented units or instead end up as more housing for low-cost home ownership. Nonetheless, the position on replacement is an improvement on that under the Right to Buy. Landlords also have a right to re-purchase the home if the owner wants to sell.

Shelter has questioned why the proposals for Social Homebuy have been introduced to run alongside the Right to Buy rather than replacing it, allowing the latter system to continue to remove units from the social housing stock with no hope of replacement. It seems there is no political will to remove the Right to Buy, even though a valid alternative has been developed, and its damaging effect on housing supply is widely acknowledged.

The way in which public subsidy towards those who cannot enter the housing market is targeted has shifted. The motivation for the programme is now inclined more towards improving recruitment and retention in public services and appealing to middle-income aspirations to home ownership, and less towards helping those in the greatest housing need.⁴⁸

When first introduced, shared ownership and other low-cost home-ownership schemes were targeted towards those eligible for, or in many cases already housed in, the social housing sector.⁴⁹ One of the aims of the programme was to free up social housing by allowing working households to move on to home ownership. So for every payment made, the housing circumstances of two households would be improved; the one entering home ownership, and the one (from the waiting list or currently homeless) that would take over the vacated social housing property. When given to a key worker or other

48 A major concern of the current Government is that lack of affordable housing is causing a problem for public sector services, which are experiencing high staff turnover and vacancy rates. The Government has tried to address this with the Starter Home Initiative in 2001, replaced by the Key Worker Living programme (subsidised housing for those in particular jobs) and now with elements of the Homebuy proposals, in which subsidies will be targeted towards key workers

49 Cousins, L et al: *An appraisal of shared ownership*, Department of the Environment, 1993

first-time buyer, each payment benefits only that one household and has no effect on available social housing lettings.

This trend can be seen in another developing area of subsidy. In the Office of the Deputy Prime Minister's (ODPM's) five-year plan published in January 2005,⁵⁰ the Government proposed a new First-Time Buyers' Initiative, a Low-Cost Home-Ownership Programme of home-building on public land to subsidise the cost of the housing when completed. While the chosen sites may also include some social housing (and non-subsidised private housing), units will have to be fully financed through public grants or through Section 106 agreements.

An opportunity to prioritise building of social housing for rent by using this 'gifted' land to subsidise the cost is being lost, in favour of subsidising key workers and other first-time buyers. As under the Homebuy proposals, there is no indication that many of the First-Time Buyers' Initiative homes will go to existing social housing tenants, so even the chance to create more social housing lettings indirectly, by allowing tenants to move into home ownership, is being lost in favour of housing key workers.

Shelter also questions the effect the subsidising of first-time buyers may have on the housing market. As discussed elsewhere in this briefing, scarcity, uncontrolled demand, and a speculative climate that encourages buyers to get on the ladder before they get left behind, have led to a situation where around 30 per cent of younger households now cannot afford unsubsidised home ownership. At some point the market should begin to correct itself as the pool of available buyers dries up. Providing subsidies to enable more people to afford current prices discourages this self-corrective mechanism from taking effect and may exacerbate unaffordability.

Other concerns exist about the way in which low-cost home-ownership schemes have, to date, been operated. Research suggests that, in comparison with the building of social rented housing, these schemes do not offer very good return for public funding in terms of improving the lives and housing circumstances of tenants.⁵¹ It seems that, because strategic planning is inadequate, developments fail to attract the level of demand from applicants in the highest priority, leading providers to let some units to those in low-priority categories. There is also some concern over the inability of local authorities to set their own criteria for what constitutes a key worker and thus give eligibility for the scheme according to their own local economic and social priorities. Monitoring of key worker housing activity lags behind that for the social rented sector; given the large sums of public money involved, better monitoring and regulation is vital.

50 *Sustainable Communities: homes for all – a five-year plan from the ODPM*, ODPM, 2005

51 *Evaluation of the Low-Cost Home-Ownership Programme*, ODPM, 2002

Shelter recommends

Shelter has already argued that the new Social Homebuy proposals should replace the Right to Buy, rather than being introduced to run alongside it. Even if this is not done, then the Right to Buy still needs to be further curtailed. A review of the housing pressures around the country (even in previously low-demand areas of the north and Midlands) should be undertaken urgently, and caps on discount levels introduced, in line with the measures taken in 41 high-value areas in the south in 2003.

The priority of the Low-Cost Home-Ownership Programme should be to enable existing social housing tenants and those on waiting lists to access home ownership where they can afford it, rather than to subsidise key workers and other first-time buyers. In this way, units of social housing will be freed up, and individual households helped into home ownership.

Greater transparency and better monitoring of the low-cost home-ownership programmes needs to be introduced to ensure that social gains are maximised and the programme is directed in a strategic way.

Poverty and risk

Large numbers of homeowners live in poverty and insecurity. They spend an unaffordable proportion of their income on their mortgage, are vulnerable to repossession and homelessness in the event of changes in circumstance such as unemployment or relationship breakdown, and are unable to maintain and modernise their homes to an adequate standard. Problems are particularly severe among black and minority ethnic (BME) homeowners. Although evidence is patchy,⁵² the broad picture is that BME homeowners are more likely than white homeowners to be overcrowded, to live in run-down, low-demand areas, to live in property in poor repair, and to have a low income with related problems in meeting mortgage payments.⁵³

While those in poverty form a only small percentage of all owner-occupiers, because of the size of the sector, in absolute numbers they make up around half of all British households living in poverty.⁵⁴ Although a large number of these households is comprised of elderly people, research also shows that 36 per cent of children in poverty live in the owner-occupied sector.⁵⁵ The way in which children from home-owning families are affected by poverty has been clarified by a recent study carried out for the Department for Work and Pensions (DWP), which found that many low-income homeowners with the worst affordability problems were families with children.⁵⁶

52 Harrison, M and Phillips, D: *Housing and black and minority ethnic communities – review of the evidence base*, ODPM, 2003

53 Garvie, D: *The black and minority ethnic housing crisis*, Shelter, 2004

54 Wilcox, S, and Burrows, R: *Half the poor: homeowners with low incomes*, University of York, 2000. This report uses less than 50 per cent of mean incomes after housing costs as the measure of poverty

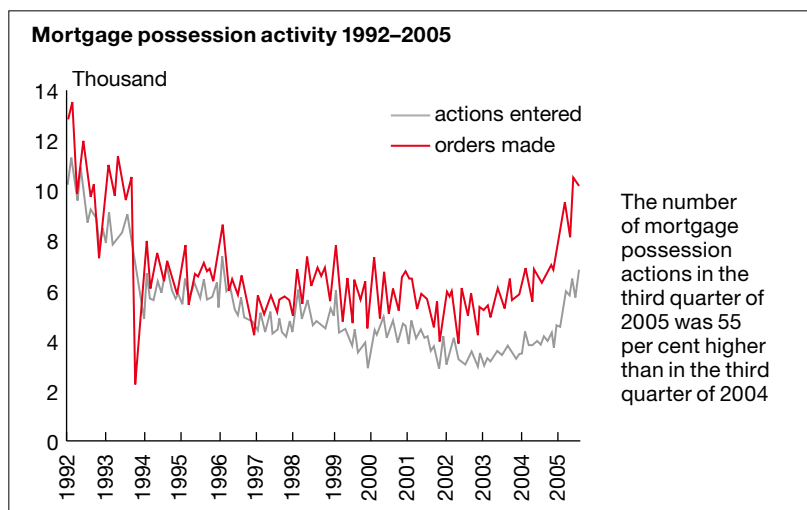
55 Ibid

56 Meadows, P and Rogger, D: *Low-income homeowners in Britain: descriptive analysis*, DWP, 2005

The existing Income Support for Mortgage Interest (ISMI) scheme pays the interest payments (not capital repayment) on a mortgage up to £100,000 only, at a fixed rate of interest which is often below the rate paid to the lender. For mortgages taken out after 1995, no payment at all will be made for the first nine months. This compares unfavourably with the Housing Benefit safety net available to renters. Academics and commentators have criticised the low level of welfare support available to homeowners, believing that it will prove inadequate to deal with the consequences of any economic downturn.⁵⁷

The Government has rejected a call by the Home-Ownership Task Force to review the safety net for homeowners on low incomes, stating that it does not wish to give incentives that will prevent homeowners from taking out private insurance policies. This response ignores the fact that such policies are an insecure and inadequate way of dealing with risks associated with home ownership. They do not adequately cover the self-employed or public sector workers, and do not address the problems of a fall in income following relationship breakdown, which is a common cause of homeowners being unable to meet mortgage payments. The ODPM's own research has shown that those most likely to need payment protection – the insecurely employed and those on low incomes – are the least likely to take out insurance under the current voluntary scheme.⁵⁸

Many homeowners face the threat of repossession and homelessness if they are unable to meet mortgage payments. The number of homeowners being taken to court for mortgage arrears started to rise in 2004, after a long period of falling numbers since the early 1990s, and by 2005 was increasing rapidly.



57 See Wilcox, S: *Home-ownership risks and sustainability in the medium term*, JRF, 2005; and Ford, J et al: *Widening the mortgage safety-net: some questions of effectiveness*, Benefits Number 40, vol 12, issue 2, April 2004

58 Ford, J et al: *Homeowners risk and safety-nets: Mortgage Payment Protection Insurance (MPPI) and beyond*, ODPM, 2004

Source: ODPM Housing Market Report, October 2005

Interest-rate rises since November 2003 have added approximately £60 per month onto payments to service a £100,000 mortgage⁵⁹ at a time when other costs associated with home ownership, such as maintenance and repair, and Council Tax, are all increasing at rates above inflation.

Shelter recommends

New financial products should be developed to close the gap between the inadequate state safety net (ISMI) and private insurance (MPPI). Any such new products would have to meet the following criteria:

- Uniform cost and coverage under different providers' policies.
- Broadening of the circumstances under which payment would be made, ie to include the self-employed where the business is not wound up but earnings reduce, and people who continue in employment but experience a drop in earnings.
- Removal of existing shortfalls in payment, ie the time delay before first payment, the restrictions on the amount of the loan, the limitation of payment to interest only, and the restrictions on interest rate in use.⁶⁰

Better advice and information should be given to prospective purchasers about the costs of home ownership and the limited nature of the public support available. While we welcome the Government's plans to provide this type of information to all Right to Buy and Social Homebuy applicants, we believe it should also be offered routinely by mortgage providers at the application stage, and that mortgage providers should be required to increase the availability of debt counselling and renegotiation of mortgage terms to all purchasers.

In the long term, a flexible-tenure model should be developed that would allow shared owners, or even outright owners, to staircase up and down as their financial circumstances change.

59 CML monthly repayment tables, August 2004

60 Shelter supports the Joseph Rowntree Foundation's inquiry into home ownership, risks and sustainability, which reported its initial findings in December 2005. The inquiry's proposals for a Sustainable Home-Ownership Partnership (SHOP) meet all the criteria for a product to fill the gap left by the current welfare safety net, and should be developed. See Wilcox, S: *Home-ownership risks and sustainability in the medium term*, JRF, 2005

Poor housing conditions

The poverty and insecurity experienced by some homeowners leads inevitably to poor housing conditions, as households experiencing financial difficulties are unable to maintain their homes. The problem often goes unreported, but many homeowners live in damp, overcrowded, unmodernised housing. For tenants and landlords, Housing Benefit covers the element of rent that pays for repairs, but even when owner-occupiers become eligible for ISMI payments, they receive nothing towards the costs of repair and maintenance. The English House Condition Survey⁶¹ found in 2003 that the majority (63 per cent) of homes across England that do not come up to the decent homes standard are owner-occupied, whereas the social rented sector accounts for only 22 per cent of these homes, and the private rented sector 15 per cent.

Measures in place to help low-income homeowners with maintenance costs – a combination of grants and loans from local authorities – are inadequate. Budgets are very limited, and information for applicants on availability tends to be poor.⁶² As well as the general measures, there is a national network of Home Improvement Agencies funded by central government whose purpose is to help vulnerable homeowners to secure funding for repairs and adaptations. Again, provision by these agencies is far from universal,⁶³ and not well publicised.

A pool of low-income homeowners, mostly elderly, would be able to obtain extra income and capital to maintain their homes by drawing on the equity held in their property. This would work if equity-release schemes could be tailored to meet their needs, and they could overcome their reservations about loss of security.⁶⁴ Availability of such schemes is currently inadequate, although the Government is looking into expanding and regulating the sector.⁶⁵

61 ODPM: English House Condition Survey Bulletin no 4, July 2003. No subsequent breakdown has been given of the number of non-decent homes in the owner-occupied sector. However, Bulletin no 6, issued in March 2005, stated that the social housing sector was making faster progress than the private sector (encompassing both owner-occupation and private rented housing) in reducing the number of non-decent homes

62 For details of the measures, see ODPM Circular on Housing Renewal, 05/2003, ch 3

63 The ODPM's Directory of Housing Advice and information services for older people 2002 acknowledges that 100 LA areas are not covered by any Home Improvement Agency

64 Council of Mortgage Lenders: *The market for equity release schemes*, October 2001

65 *Regulating home reversion plans*, HM Treasury consultation document, November 2003

Shelter recommends

The network of Home Improvement Agencies should be broadened so that they are accessible in all local authority areas, and their advice and advocacy role is extended to all homeowners to address the problem of bad housing conditions for low-income homeowners.

A cross-tenure housing tax credit could subsidise low-income homeowners so that they could afford to pay for repair and maintenance work. It is readily acknowledged that the development of such a tax credit would be extremely complex, because it would be required to interact with the Housing Benefit system and other tax credits already in place. However, it is a proposal worthy of attention, because of the urgent need to address poverty and bad housing conditions in the owner-occupied sector.

We also recommend that more attention is given to developing new models of equity release, to enable capital-rich but income-poor homeowners to maintain their properties to a good standard. This is not the same as advocating that older homeowners should be forced to fund their retirement by running down the equity available in their homes. The ownership of housing equity should in no way be a bar to adequate state support in retirement. Equity-release products should be targeted specifically at funding the maintenance of the property in a similar way to the mortgages that local authorities are empowered to offer their leaseholders.⁶⁶

66 As empowered under The Regulatory Reform (Housing) (England and Wales) Order 2002. For details of the scheme see *Mortgage sales guidance for local authorities and Registered Social Landlords*, ODPM, 2005

Conclusion

The Government must investigate alternatives to home ownership as a means of asset accumulation. This will reduce the gap between those who have housing wealth and those who do not, and help tackle the social and financial exclusion of those who have little prospect of home ownership.

The pattern of capital subsidy enabling people to move into home ownership must be revised to deliver better outcomes for households who are homeless or on waiting lists for social housing. This can be done by re-weighting the proposed Homebuy programme away from key workers and other first-time buyers and towards those currently living in social rented housing but who could afford to move into home ownership, and by allowing Social Homebuy to replace the Right to Buy.

Development of a flexible-tenure model; more flexibility, advice and approachability from mortgage lenders; and better independent advice before purchase would remove some of the risk of poverty and homelessness from those on the margins of affordability who have managed to buy their own homes.

An improvement of the income safety net for homeowners, whether by state subsidy or the development of better coverage by the private insurance market, is badly needed and would also help address poverty and insecurity. At the time of writing, interest rates are rising, and the housing market is stalling. There is a rapid rise in the number of mortgage repossession actions being taken through the courts, which adds urgency to the need to review the current position.

More social housing and more intermediate rental housing needs to be built, and the private rented sector subject to better regulation and improved security.

A more balanced, cross-tenure approach should be taken to housing policy, so that everybody has access to a good-quality, affordable home, regardless of tenure.

Bad housing wrecks lives

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