BuildEast Shared Ownership Technical Consultation Response

December 2020

About Us

We're BuildEast. We are an informal alliance of the **15 largest developing housing associations** based across the **East of England**. Together we combine our individual strengths to make a bigger difference. Through partnership working, we champion our sector, our communities and our members. We collaborate, by sharing knowledge, experience and information. We lead, on policy, insight and expertise. We support our communities to grow, thrive, and achieve. And, we provide housing that is fit for the future in the East. Together we meet the needs and ambitions of people and communities in our region.

Members

Catalyst Housing Association
Catalyst Housing is a housing association operating in London and the south- east of England. It currently manages 32,000 rented and leaseholder homes including a wide range of affordable housing. They are also a member of the G15 group of London housing associations.

Bpha Ltd
Bpha is a housing association located in the Oxford and Cambridge arc. They currently manage 19,000 homes and have 400 employees.

Broadland Housing Association
Broadland have been providing quality affordable homes across Norfolk and North Suffolk since 1963. They provide 5,000 quality homes.

Cross Keys Homes
Cross Key Homes is the largest housing association in Peterborough. They manage over 11,500 properties which include social housing, shared ownership, private rent and leasehold.

CHP
CHP is a locally and governed managed housing association based in Chelmsford, Essex. Established back in 2002. They currently manage 10,00 homes and provide services for over 20,000 customers.

Estuary Housing Association
Estuary is a Essex based Housing Association. They work within every district in Essex, the three outer East London Boroughs and in the Suffolk Coastal District. The organisation manages just over 4,600 properties in total and have just over 300 employees.

Flagship Group
Flagship provide 28,000 homes for affordable and market rent, and for shared ownership and sale across the East of England. They have a turnover of £160m, employ over 1,033 people and are proud to have an A1 Moody's rating.

Grand Union
Grand Union Housing Group was formed in 2008 they currently own and manage over 10,000 homes across Bedfordshire, Northamptonshire and the surrounding counties.

Eastlight Community Homes
A new 12,000 home social housing provider which is striving to meet the housing need of our communities in Essex and Suffolk. We are proud to be the largest Community Gateway Association in the country, ensuring residents help make key decisions about their homes, services and communities

Havebury Housing Partnership
Havebury, a specialist in affordable housing in Suffolk, offers social housing in the Bury St Edmunds and Haverhill areas. They manage over 6,400 houses and flats in towns and villages around Bury St Edmunds and Haverhill.

Hightown Housing Association
Hightown operates in Hertfordshire, Bedfordshire, Buckinghamshire and Berkshire. They currently manage almost 6,600 homes and employs over 1,000 staff. With an annual turnover of £84 million, the organisation is committed to developing 1,000 new affordable homes over the next two years.

Saffron Housing
Saffron are a housing association based in Norfolk providing quality homes and services to people across the county and in Suffolk. They manage over 6,000 homes including affordable homes for those in housing need who cannot afford to rent or buy in the open market. Saffron offers specialist homes for older and vulnerable adults and are committed to providing new homes to help solve the housing crisis.

Settle
Settle is a not-for-profit housing association which provides homes across eight local authority areas in Hertfordshire and Bedfordshire. It currently manages over 9,000 homes.

Swan
Swan Housing association first formed in 1994 and it aims to provide high-quality and affordable homes to rent and buy in the Essex and East London Area. They locally manager over 11,000 homes and have a secure development pipeline of 8,000 homes and an ambitious corporate strategy which aims to deliver an additional 10,000 homes by 2027.

Watford Community Housing Trust
Watford Community Housing Trust is a housing association providing around 5,000 affordable homes and additional services to over 20 local communities throughout Watford and parts of Three Rivers.

Consultation Responses

Questions

1. What steps could we take to prevent shared owners from being exposed to unfair lending terms?

We suggest that Government broker a national arrangement with a number of lenders who welcome and actively support lending on low cost homeownership products. This gives purchasers a reputable and trusted lender market to go to. It should be a product that funders **want** to lend against, and it needs to be attractive and simple to understand. It could be brokered through the CML. Another suggestion is for local authorities to be encouraged back into the mortgage lending market.

We are concerned that 10% initial shares and 1% staircasing tranches could be financed via personal loans rather than mortgage finance. Whilst housing associations assess people's financial circumstances when they apply, further Government guidance on affordability may be helpful.

The government intention appears to be that staircasing in increments of 1% is paid in cash and one of our members suggested that this 1% purchase should not be secured through lending because this may put at risk the affordability of the initial purchase. Another member suggested that they would favour development of a product with built in staircasing (as one option) so that affordability can be better modelled into the future.

2. How will a smaller initial stake impact the relationship between lenders and providers and are there any steps we need to take to address this?

The opportunity to buy a 10% initial share of a home may encourage people into shared ownership who cannot sustain home ownership in the long term. We are concerned about how we assess household's eligibility and affordability in the long term. There is a danger that people will buy 10% and then never be able to afford to staircase and then be hit by repair obligations from year 11 onwards which they may be unable to afford. There may also be issues with resale for such small stakes. We need clarity about how defaults on mortgages are handled because providers will have a much bigger share. The provider, as majority owner, needs the right to step in before mortgage lenders. We note too that lenders may not have a full view of the tranche of shared ownership owned by the mortgagee unless there is an obligation to keep the lender informed. Help to Buy Agents could be used to perform the assessment work for affordability checks when they register/apply. Finally, we would like to see some substantive evidence that the reputable lenders are prepared to offer mortgage products at competitive rates based on initial 10% purchases.

3. **Do you agree that HPI valuations should be valid for 3 months, if no, then how long should they be valid?**
a. **Yes – 3 months**
b. No – 1 month
c. No – 6 months
d. No – 12 months

e. No – Other

4. **Please give your reasons.**

One of our members states that HPI valuation should NOT be used and a modified RICS valuation should be used instead. However, if HPI is used, then three months seems a reasonable period of time for the resident to secure any additional lending that may be required to enable them to buy further shares in the property. Any less than 3 months will make it very difficult for the resident to secure lending on time and will lead to repeated HPI valuations in a short period time meaning more administrative burden for providers. Three months is the usual lifespan of residential property valuations.

5. **Are there any specific circumstances where local authority HPI data may not be appropriate and regional HPI data or other would be preferable?**

We are mindful that, even within local authority areas, there are differences and local influences on prices. There is a risk with HPI that it does not take into account location characteristics at micro level, it will not reflect the state of repair, and there could be a situation that there will be a lack of transactional evidence (e.g. rural areas). We have seen cases where the property is located on a new development which has 'made its own market', and values achieve a premium over the local resales market. In such a situation, a bespoke valuation will be needed to establish true open market value.

One of our members suggested that the Government could implement a system in partnership with RICS for a desktop or 'light' valuation applicable to 1% staircasing.

Concern was also raised that lenders could value the home at a point in time (eg for remortgaging) which could conflict with HPI valuation.

Finally, the legal process also needs to be considered. The shared owner should not need a solicitor each time they staircase.

6. **Is there a risk that 1% gradual staircasing will conflict with housing associations charitable obligation to sell assets at best value?**

a.Yes
b.No
No shared view

7. **If yes, then please provide evidence.**

Across the BuildEast partnership we did not generally see this as an issue but one of our members raised concern that if HPI valuations are used, then this may cause conflict (see the points above about HPI). This BuildEast member has analysed a sample of shared ownership RICS valuations (at first sale and staircase) and compared to the LA HPI measure. They are concerned that this shows variation in the difference between the two measures of between -8% and +6%. Negative differences suggest 'undercharging' and therefore open charitable registered providers to risk of charitable resources being used to unduly benefit an individual.

8. **Do you have any further views on how best to implement the 1% gradual staircasing model?**

The new model will incur a cost of administering gradual staircasing at 1% each year (rent review etc) and covering the costs of 'essential' repairs and maintenance over the first ten years. One of our members reports that they do not have a dedicated 'shared ownership sales' team, and would almost certainly look to try and outsource this work which will add to costs.

It would be helpful if Government could made it clear how housing associations will be protected from claims by lenders where the HPI valuation does not reflect the true value of the property.

We would like to see guidance from the government that staircasing would not be open to any shared owners who are in rent or service charge arrears on the rental proportion of their property.

9. Should any of the specified repairs, inside the home, not be within scope for this policy?

a. installations for the supply of water
b. installations for the supply of gas and electricity
c. installations for sanitation (including basins, sinks, baths and sanitary conveniences, but not other fixtures, fittings and appliances for making use of the supply of water, gas or electricity) pipes and drainage
d. installations for space heating and heating water
e. the suggested scope is fine

We do not have any strong views on the list of repairs, but we envisage this could be difficult to manage and involves a lot of administration and interpretation about what qualifies and what does not.

It could give rise to disputes and added complexity in practice, and it is difficult to see how the new model SO lease will reflect the split of obligations. There needs, for instance, to be clarity around repair responsibilities, warranties, insurance, and the meaning of 'essential' and how to determine 'improper use'. As currently worded, there is the potential for dispute between the customer, provider, builder and warranty insurer.

10. **Please give your reasons.**
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We welcome the suggestion that there is a £500 per annum limit as this helps providers to calculate risk and expenditure. We have many examples of trying to resolve 'grey areas' and therefore this needs to be as tightly defined as possible. We suggest that housing associations should have first refusal to repair the house that they potentially own 90% of. We query how a workable lease can be devised to include these repairs provisions where the owner organises but does not pay for day to day repairs for ten years. As the proposals are worded there is room for disputes about repair responsibilities, warranties, insurance etc and we would suggest this be made clearer to reduce the scope for dispute. Finally, we request clarity on when the contributions for the sinking fund can be collected.

11. **Are there any further repairs, inside the home, that should be within scope for this policy?**
Most of our BuildEast members suggest not. However, one member suggested that flooring should be within the scope because it is outside of the warranties.

12. **Do you agree with the maximum costs (£500) that can be claimed by a shared owner for essential**

repairs inside of the home? If no, then what should the maximum be?

a. Yes – should be capped at £500
b. No – should be capped at £250
c. No – should be capped at £750
d. No – should be uncapped
e. No – other amount

13. **Please give your reasons.**

We agree that £500 is sufficient to cover repairs in a shared ownership property and it provides us with a level of certainty when it comes to appraising cost and risk.

14. **Do you agree with the maximum roll over period (1 year) for unused repairs expenditure? If not, then what should the roll over period be?**

a. Yes – you should be able to roll over 1 years' worth of expenditure (i.e. £500)

b. No – repair expenditure should be used within the given 12-month period

c. No – you should be able to roll over 2 years' worth of expenditure (i.e. £1,000)

d. No – you should be able to roll over for 3 years or more (i.e. £1,500 or more)

Repair expenditure should be used within the given 12-month period. Rolling over budgets causes administrative problems for providers including budget-setting and forecasting. A capped annual figure with no roll over would give providers some certainty. Any roll over provisions would create additional administrative burden and could lead to confusion and dispute.

15.What process should be put in place to enable shared owners to reclaim eligible repair expenditure from their landlord and resolve disputes?

Suggestions from our BuildEast members included:

- A clear procedure for the handling of shared owners' repairs and maintenance claims. If the customer is ultimately unhappy with the outcome, they would be offered the landlord's normal complaints process and would ultimately be able to seek redress from the Housing Ombudsman.
- The organisation's existing complaints process should be followed to resolve dispute.
- A new and simple process consistent across all providers should be developed. The shared owner should use this to submit claims, supported by appropriate evidence (photos, statements from tradespersons, invoices etc.). Also, standard timescales for decision-making and settlement of claims (say 28 days).

- For disputes or more complicated issues, an investigation by the landlord (in-house Surveyor, or their agent – perhaps an Employer's Agent) may be necessary to resolve the matter. If not, the landlord's complaints procedure should provide recourse for disputes.

16. **What steps should be taken to ensure claims are genuine?**

We suggest that housing associations should be asked to do the repairs so there is no room for dispute on the genuine nature of claims.

Failing that, thoughts from our members included:

- desk top review of receipts and photographs
- details of the contractor should be provided so checks can be made on their suitability to carry out the work
- Post repair receipts will need to be provided to ensure the work has been carried out satisfactorily.
- Repairs must be undertaken by reputable and competent persons (i.e. not a friend or relative being paid cash in hand),
- Responsibility for the repair will remain with the shared owner – if the work is unsatisfactory, sloppy (or dangerous) then the landlord is not responsible for any further repairs or damage that this causes.

17. **Do you agree that we should apply the same transitional arrangements to Shared Ownership as the one proposed for First Homes?**

a.Yes
b. No

18. **Please give your reasons.**

Transitional arrangements should ensure that where a scheme has reached an advanced stage of negotiation that the shared ownership model to be implemented is not changed as this has an impact on the amount we can pay to developers and the assumptions we make in our scheme's financial modelling.

19. **Are there any further delivery issues we should consider ahead of implementing this approach?**

As a principle, BuildEast are committed to delivering homes at various price points and achieving a balanced housing market. We are active developers and plan to collectively deliver **over 15,000 new homes over the next 3 years.** We are significant providers of shared ownership in the East of England.

One of our members posed the question of whether it is right for the housing association sector to bear the risk associated with this product and whether Government should consider underwriting the scheme with a simpler government-backed mortgage scheme.

Our summary / concluding comments are:

- We are concerned that these proposals could make shared ownership less attractive to housing association developers compared with other tenures unless more grant per unit is made available for the new model. Housebuilders are likely to get lower offers from housing associations for shared ownership properties on S.106 sites under this new model as our costs and risks increase and our income from the initial share falls.

- We think that the proposals on shares/staircasing are workable. However we foresee potential problems with new repairs obligations because we may need to build in extra costs and risk into our financial models to guard against high maintenance bills for the exterior works and structure and to cover the £500 per annum repairs bill and the administrative costs. The view of the Council of Mortgage Lenders will be important.
- One of our members cited experience of working on large sites and raised concern that shared owners may experience a vastly different product on the same property / same development. They suggest that transitional arrangements should be extended to future phases of existing sites.
- The source of funding for both initial share purchase and staircasing needs to be considered in every case, to ensure purchasers are not subject to unregulated practices, usurious interest rates etc.
- The lending industry (particularly the Council of Mortgage Lenders) view on the proposed model will be key.
- Long-term affordability for purchasers needs to be considered.
- On S106 projects, lower offers on shared ownership units (due to providers receiving lower initial income and accounting for higher ongoing costs) may affect financial viability and lead to a reduction in the number of affordable homes.
- The proposed model may reduce providers' willingness to deliver shared ownership. This could be mitigated by enhanced grant rates to support shared ownership and compensate for the reduced initial income and higher ongoing cost and risk.
- It is essential that there is clarity on repairs obligations, including the split of responsibilities between purchaser and provider and the annual cost cap.

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