The end of Help to Buy could increase Shared Ownership demand by over 15,000 homes per year

Shared Ownership
An established fixture on the housing landscape, Shared Ownership offers its residents an affordable route to home ownership

Shared Ownership (SO) has come a long way. Since its inception four decades ago it has become an established fixture in the housing landscape. Now, more than 200,000 households live in the tenure. There were over 13,400 Shared Ownership completions in 2018, and Rightmove listed around 2,500 second-hand Shared Ownership properties in Q4 2018: 69% more than in Q4 2010.

Those households represent a broad swathe of the population. Yes, Shared Ownership has helped many thousands of households to become first time buyers. It has also helped growing families, downsziers, divorces, and people moving regions for work into secure and affordable homes.

As it stands now, Shared Ownership occupies a similar but much smaller place in the market to the Help to Buy equity loan (HtB). Our analysis shows that, given the same deposit, monthly costs for the two schemes are similar. Shared Ownership offers lower barriers to potential homeowners, however, as the initial deposit can be as low as 1.25% of the total property value.

Due to these similarities, there is significant overlap in the target markets for Shared Ownership and Help to Buy. This has helped suppress take-up of Shared Ownership over the last five years. Once Help to Buy ends, as Government states it will in 2023, Shared Ownership will become the main route to home ownership for those unable to access the market. This could increase demand for Shared Ownership homes by over 15,000 homes per year.

This has implications for housebuilders, who will look to Shared Ownership when Help to Buy comes to an end. By providing alternative routes to market, either through bulk deals or individual sales, Shared Ownership helps increase sales rates and helps housebuilders recycle their capital faster.

The first step to achieving this must be educating new homes sales staff, so they’re able to offer Shared Ownership to potential buyers as part of a range of options where appropriate.

It could also have implications for institutional investors, whose demand for long-term, inflation-linked income makes Shared Ownership a natural fit. We believe that recent deals by Heylo, Sage, and ReSi are the first of many such private investments into this sector. This could drive opportunities for housing associations to unlock capital for more housing development.

The sector is not without its problems. For housing associations, taking on sales risk leaves them more exposed to fluctuations in the housing market, while for residents, contracted rent increases could mean their housing costs rise faster than the open market.

Despite these issues, Shared Ownership gives housebuilders a new route to market and helps them recover their capital quicker, provides investors with a long-term income stream, and gets Government closer to its aim of delivering 300,000 new homes per year. Most fundamentally, it offers its residents an affordable route to home ownership.

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**Figure 1** Ongoing costs of home ownership options

Assumptions for Figure 1 chart: Deposit is 5% of full property value, long-term house price inflation in line with RPI Includes repair & maintenance at 1% of property value per year. **Source** Savills Research using Oxford Economics, Bank of England
The heir apparent?

Shared Ownership is Help to Buy’s natural successor, which will lead to opportunities for housebuilders and investors

Profiling the costs

Given the same initial deposit and the same property, the monthly costs for Shared Ownership are substantially cheaper than full ownership. The costs for 50% Shared Ownership are in line with Help to Buy, and 25% Shared Ownership is cheaper still (See Fig 1).

The costs for 50% Shared Ownership remain aligned to Help to Buy for the first decade of ownership. This means that while the Help to Buy equity loan remains, buyers are likely to favour it over Shared Ownership as it gives them a higher proportion of their home’s equity. However, we expect that Shared Ownership will service the gap left behind when the Help to Buy equity loan scheme ends in 2023.

However, as the rent portion of Shared Ownership costs rises at a premium to inflation, monthly costs will rise faster than for full ownership. This ultimately leads to Shared Ownership becoming more expensive than full home ownership by the end of the mortgage term.

This point could come earlier in some parts of the country. While rental growth at a national level is roughly in line with RPI, this hides a great deal of regional variation. In many parts of England, private rents have shown little growth over the last decade. For example, rental growth in the North East was just 6.4% between 2008 and 2018 according to the ONS. RPI over that period was 31.1%. Applying that inflation plus a premium to Shared Ownership rents results in rental growth far in excess of the market.

It’s possible that households will use this initial period of lower housing costs to save up and purchase a greater share in their home. However, since households living in Shared Ownership tend to have lower incomes, their capacity to save up may be limited. To date, evidence from Shared Ownership portfolios suggests staircasing is relatively rare (see Page 11).

Figure 2 Minimum deposit and income requirements for a £230,000 home

<table>
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<tr>
<th></th>
<th>Deposit</th>
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<td>£48,600</td>
<td>£38,800</td>
<td>£27,600</td>
<td>£21,600</td>
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<tr>
<td>Help to Buy</td>
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<tr>
<td>50% Shared Ownership</td>
<td>5% of 50% share £5,750</td>
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<tr>
<td>25% Shared Ownership</td>
<td>5% of 25% share £2,875</td>
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Minimum income required

£48,600  £38,800  £27,600  £21,600

Source: Savills Research
1.25% **Minimum deposit required for Shared Ownership, as proportion of property value**

**Figure 3** Monthly home ownership costs in Year 1*

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<th>London</th>
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<th>England</th>
<th>Burnley</th>
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<td>Full ownership</td>
<td>£2,286</td>
<td>£2,125</td>
<td>£1,238</td>
<td>£444</td>
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<tr>
<td>50% Shared Ownership</td>
<td>£1,672</td>
<td>£1,555</td>
<td>£906</td>
<td>£325</td>
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</table>

The pattern of housing costs is largely the same across England. The exception is London, where the higher equity loan allowance brings the initial cost of Help to Buy below that of 25% Shared Ownership. Help to Buy remains the cheapest option in London for most of the 25-year mortgage term. Just over 5,000 households took up a Help to Buy loan in London in the year to September 2018. One advantage of Shared Ownership is that it enables households to access home ownership with a much lower deposit: 5% of the share, which could be as low as 1.25% of the full property value. Help to Buy, by contrast, requires a minimum 5% of the full value as deposit.

The lower deposit requirement for Shared Ownership significantly reduces the barriers to home ownership for households without existing savings, and the lower mortgage borrowing requirements and discounted rent open it up to households on lower incomes.>

**Figure 4** Distribution of Shared Ownership and Help to Buy users by income

<table>
<thead>
<tr>
<th>Proportion of SO purchasers</th>
<th>Proportion of HTB purchasers</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>25%</td>
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<tr>
<td>30%</td>
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<td>25%</td>
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<td>5%</td>
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<td>10%</td>
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*See Figure 1 footnote for assumptions

Source: Savills Research

Source: CORE 2016/17, Evaluation of the Help to Buy Equity Loan Scheme 2017 (Whitehead & Williams, 2018)
Shared Ownership

Profiling the buyers
Despite similarities in entry and ongoing costs, there are significant differences in the types of households taking up Shared Ownership and Help to Buy. Shared Ownership is more popular with those on lower incomes. The scheme is only available to households with incomes below £80,000 (£90,000 in London), and buyers must demonstrate they couldn’t afford to buy a home without support. By contrast, Help to Buy users have a wider variety of buyer incomes, as the scheme has no income restrictions.

More than 10% of those using Help to Buy are currently excluded from Shared Ownership simply by having incomes above the cap.

More than half of all Shared Ownership sales in 2016/17 were to single person households, a far higher proportion than for Help to Buy. However, the profile of Heylo’s buyers is weighted more towards families, demonstrating how Shared Ownership can appeal to different demographics depending on how it is marketed.

There are substantial parts of the country where take-up of Shared Ownership and Help to Buy don’t overlap. Shared Ownership is more prevalent in the South, Midlands, and London, with limited take-up in the North or the outer parts of the East of England. Help to Buy take-up is much higher in the North, but less prevalent in London and south of the capital. However, take-up in London is increasing as more buyers take advantage of the more generous equity loan there.

After April 2021, each region bar London will be subject to a new, lower Help to Buy value cap. In some local authorities average Help to Buy property values already exceed these caps, so housebuilders will need to build cheaper homes if they want to continue using the scheme. Where this isn’t possible, we could see more of these homes coming to market as Shared Ownership.

Figure 5 Household characteristics using Shared Ownership and Help to Buy

Source CORE 2016/17, Heylo via Outra, Evaluation of the Help to Buy Equity Loan Scheme 2017 (Whitehead & Williams, 2018)
Shared Ownership accounted for 5% of new housing delivery between 2013 and 2018.

Figure 6: Shared Ownership as a proportion of new homes.
Death (of HtB) and taxes

Until recently, Shared Ownership buyers had a substantial disadvantage relative to Help to Buy users: Shared Ownership buyers were excluded from first time buyers’ stamp duty relief. The 2018 Autumn Budget brought Shared Ownership into line with other first time buyers. This should help bolster Shared Ownership demand.

Help to Buy will become more restricted from 2021, cutting out home movers, and applying regional house price caps. These buyers excluded from HtB are likely to find themselves ineligible for Shared Ownership, as they are likely to be more affluent and therefore able to buy a home without support.

However, should Help to Buy come to an end in 2023, as announced in the 2018 Budget, Shared Ownership may be the only remaining avenue to low cost home ownership.

From its inception, Shared Ownership’s goal has been to help struggling first time buyers into the market. As Help to Buy winds down, and following the Stamp Duty equalising, it may see greater attention from buyers and investors alike.

Alternatives to Shared Ownership

While Shared Ownership is the most obvious replacement for the Help to Buy equity loan when it ends in 2023, there are other candidates. All these options offer a hybrid between buying and renting, to varying degrees.

Several proptech firms are beginning to offer alternative routes to home ownership. Firms such as StrideUp are broadly similar to Shared Ownership, offering buyers the chance to buy a share of a new or existing home and pay a fee on the remaining equity; Heylo offers a corresponding product called Your Home. Firms such as Proportunity offer a second charge equity loan to effectively boost prospective buyers’ deposits.

Rentplus is an institutionally funded scheme offering discounted rents to affordable housing tenants, with the chance to buy a property at a discount at five-year intervals.

Unmortgage proposes a hybrid product, where the resident puts down a 5% deposit and pays rent on the remainder, with the option of increasing their stake through overpayments.

These alternative schemes are currently much less mature than Shared Ownership, but it’s likely that they’ll form part of a range of options to aspiring homeowners once the equity loan scheme comes to a close.
Residents win
Savings in monthly housing costs for 50% Shared Ownership versus full ownership of the same property

Housebuilders win
By selling at discounts up to 15%, housebuilders can recycle capital and move to the next site faster

Government wins
Shared Ownership supported more than 15% of new homes in five local authorities

Jump-starting supply
Shared Ownership offers developers an alternative to selling their homes on the open market. This drives higher sales rates and accelerates housing delivery

We’ve seen in the previous section how Shared Ownership appeals to a different market from open market sale. Developers can sell homes in bulk to registered providers or investors, who then sell the equity stakes on to individual households.

This is a win-win scenario. Aspiring homeowners will enjoy a broader range of housing options to choose from. Housebuilders benefit from freeing up their capital faster. Government will come a step closer to achieving its housing delivery ambitions.

1 Residents win
Our modelling shows that the monthly cost of buying a 50% Shared Ownership property could be 27% lower than using the same deposit to buy outright. This widens the range of households who can afford to buy.

Increasingly, affordability stress testing is limiting the number of households able to access home ownership. Unless those stress tests are relaxed or removed, they will only get more restrictive as interest rates rise over the next five years. Shared Ownership offers access to the same property with lower monthly housing costs, lowering that affordability barrier for households who can’t afford to buy outright.

Alternatively, households could use Shared Ownership to purchase a larger home than they could afford to buy outright. This is similar to how many households currently use the Help to Buy equity loan scheme. This approach will grow in popularity as the equity loan scheme wraps up, particularly from April 2023 when Government intends to end it entirely.

Around 40,000 households become first time buyers each year through the Help to Buy equity loan. Of those, 38% or around 15,300 purchasers, could not have bought a home without the scheme.

If all this demand were to switch to Shared Ownership homes after the equity loan scheme ends in 2023, Shared Ownership supply would have to increase by more than 150%.

2 Housebuilders win
Shared Ownership offers housebuilders a way to broaden the range of products they bring to the market. That’s attractive at a time of slowing sales rates. Our analysis shows that sales rates have levelled off for the eight largest UK housebuilders since 2016, with falls over the last three months of 2018.

We’ve seen developers announce a flurry of bulk deals for Shared Ownership over the last six months, including Taylor Wimpey and Bovis. Some of these deals represent a discount to gross development value of up to 15%.

Part of this discount reflects the finance and marketing cost savings the developer makes by selling in bulk, which will become even more important as interest rates rise over the next few years. But it also demonstrates the scale of housebuilders’ appetite to recycle their capital and move onto the next site quickly. Whether selling in bulk to housing associations or directly to...
Supply

150% Increase in Shared Ownership supply needed to meet demand after HtB ends

Figure 8 Housebuilder sales rates and buyer confidence

Source Housebuilder trading updates and HBF

buyers, Shared Ownership can help housebuilders increase their rate of housing delivery.

3 Government wins

Government remains committed to delivering 300,000 homes per year in England by the mid-2020s. Energy Performance Certificate registrations suggest that 238,200 new homes were completed in England in 2018, a 12% increase on the previous year.

These figures are encouraging, but it’s difficult to see how delivery can accelerate much further without developing a broader range of housing tenures and types, as suggested in the Letwin Review.

First tranche Shared Ownership sales have averaged just under 10,000 per year over the last three years. That’s a substantial increase on the 2012-15 average, 7,700, reflecting the scale of Government support in the 2016-21 Affordable Homes Programme: over £4 billion to fund 135,000 new Shared Ownership home starts by 2021.

As well as purchasing Section 106 stock, registered providers are developing their own Shared Ownership homes on land-led schemes. The receipts from these first tranche sales can help them cross-subsidise other affordable housing tenures.

Private investors are already involved, acquiring both Section 106 stock and doing bulk deals with housebuilders to build portfolios of scale. With Government inviting proposals for how to unlock more Shared Ownership development through private investment, this trend is set to continue.

Our analysis suggests that Shared Ownership sales supported just under 5% of new housing delivery between Q2 2013 and Q1 2018. In some local authorities this proportion is far higher: in the Test Valley first tranche Shared Ownership sales accounted for 19% of new home EPC registrations. Shared Ownership supported more than 15% of new homes in a further four local authorities.

Shared Ownership can also help support the Letwin Review’s recommendations through increasing the supply of housing for older people. Shared Ownership for Older People is a distinct scheme offering homes for the over-55s.

Our previous research has shown there are 150,000 older households who own some housing equity but could not afford to buy a purpose-built retirement apartment outright. Shared Ownership, whether specifically for older people or not, could unlock this market, releasing the equity stored in their former homes and freeing up family housing for younger households.
Investing in the future

Shared Ownership is an attractive long-term investment proposition, but investors face challenges building portfolios at scale

Whoever acquires the unsold equity in a Shared Ownership scheme can expect to see a steady, secure rental income rising above inflation. It’s the kind of long-term investment you’d expect to see pension funds and institutions taking serious interest in.

To date, private sector involvement in this asset class has been driven by a handful of entrepreneurial investors such as Heylo, Blackstone, and ReSI. Housing associations develop and retain the vast bulk of Shared Ownership homes, using any profits it may generate to cross-subsidise other affordable housing delivery.

As Shared Ownership matures into an established housing tenure, voices across Government, the housing sector and private investors have started calling for a different approach.

**Housing associations**

Shared Ownership is big money for housing associations (HAs). Shared Ownership sales have added a total of £5.9 billion to HA turnover since 2016. First tranche Shared Ownership sales delivered over £1.2 billion to HA turnover in 2018 alone.

On top of that, the unsold equity on these Shared Ownership homes delivers a rental income. While the initial yield may appear low at up to 2.75%, it looks more attractive considering this is net income, residents being responsible for any repair and maintenance costs, and that this rent grows at or above RPI.

Evidence from the National Sales Group suggests 39% of staircasing in 2018 was partial, meaning those residents still pay rent on the rest of their property value.

The remaining 61% of staircasing was to full ownership, which means those residents are no longer required to pay rent.

These sources of income come with relatively little risk. The repossession rate for Shared Ownership properties was just 0.02%, less than half the level for general owner occupation at 0.05%, according to UK Finance.

To date, HAs have shown little interest in selling the retained equity in their Shared Ownership homes. But the low-yield, low-risk nature of these income streams may be better suited to long-term income investors, such as pension funds, than HAs with development aspirations: especially if the vendor retains management of the scheme.

There may be an opportunity for HAs to unlock the value of these income streams to enable more affordable housing development.

**Government**

Currently, Government supports the majority of Shared Ownership housing:
83,000 households used an equity release loan in 2018

Either through grant funding or imposing Section 106 contributions on developers. This could be set to change.

For years, private investors and developers have been able to hold a long-term interest in Shared Ownership housing. And now Government is assessing the proposals for privately funded Shared Ownership that it called for in the 2018 Budget.

These measures pave the way for private investors to fund the development of Shared Ownership homes and retain the unsold equity, with the associated rental income stream, for the long term.

Descending the staircase

Most discussion of staircasing in Shared Ownership is around households buying more of their home. It’s far less common for registered providers to offer the reverse: buying back shares of the property from the resident.

Currently, this is only allowed for households in financial difficulties who are struggling to meet their mortgage obligations and maintenance costs. However, as the market for Shared Ownership matures, one demographic group in particular looks like it could benefit from downward staircasing: older people.

83,000 households used an equity release loan in 2018, according to the Equity Release Council. This demonstrates the demand from older people to release some of the wealth tied up in their homes. Registered providers could offer a similar scheme to their older Shared Ownership residents, whether or not they live specifically in Older People’s Shared Ownership. This would help their residents release cash while retaining the homes within the same tenure. And by designing and marketing Shared Ownership homes specifically to older people, providers can help older owner occupiers unlock their housing equity.
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Research

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Shared Ownership

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