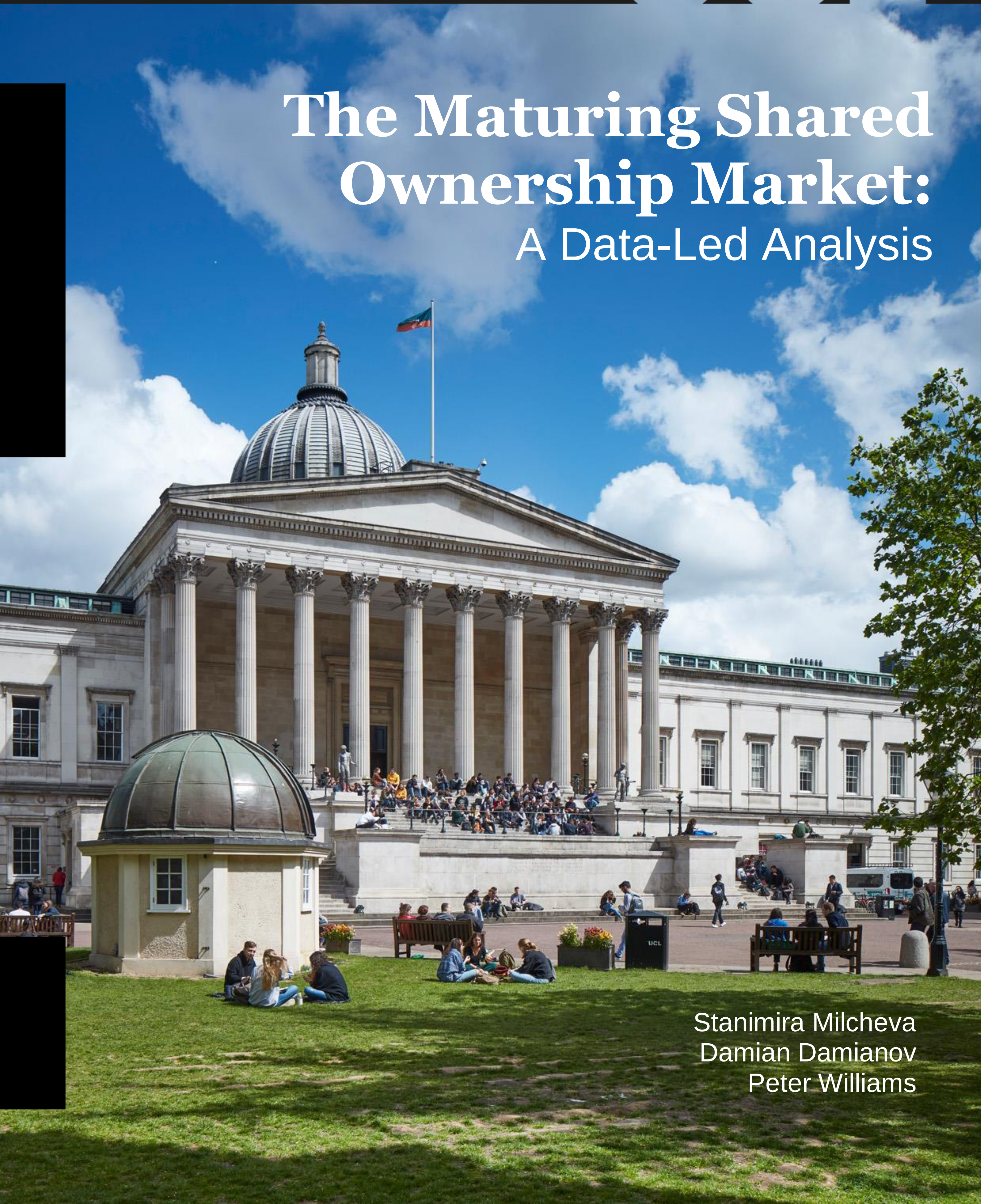

# The Maturing Shared Ownership Market:

## A Data-Led Analysis

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## Acknowledgements

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We're The Bartlett, UCL's Faculty of the Built Environment. We're here to build a better future. Combining architecture and planning with other disciplines such as energy and sustainability, innovation and public policy, we explore human spaces. Not just physical structures like homes, office blocks and cities, but also the invisible structures that govern them: our laws and political systems, our family groupings and social norms. Even how these things affected by the structure of time: past, present and future.

By sharing our research with leading thinkers from industry, government and beyond, achieving true diversity of perspective and expertise, we can understand how these structures affect the way we live. And we can create a vision of a fairer and more prosperous society.

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## About the Funder

Sage Homes was created in 2017 with the aim of helping to address the country's affordable housing crisis. It is proud to help its customers access high quality, energy efficient affordable, newly-built homes. In 2022 it was named the largest provider of new-build affordable homes in England for the second year running and is committed to continuing to deliver at scale for the long term.

## Citation

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**The Maturing Shared Ownership Market: A Data-Led Analysis**

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## Executive Summary

- This study brings together current public and private data sources to provide a picture of the performance of the Shared Ownership (SO) market over time starting as early as 2012 and going up to 2022.
- We obtained proprietary granular data in various dimensions, including granular administrative data from seven major registered providers (RPs) representing 10-13% of the total SO stock by RPs. In addition, we analyse SO loan level data as well as key mortgage indicators from lenders.
- The research' focus was on SO mortgage market indicators, rent arrears and repossessions, and staircasing, in addition to general SO market dynamics.
- Since the Affordable Homes Programme (AHP) 2016-21, SO starts per year have been increasing rapidly averaging about 18,000-23,000. This contributes between 6-11% to the total supply of new housing stock depending on the region, with the highest supply in London and the South East.
- The share of grant-funded SO homes out of total SO homes has substantially shifted over time, ranging from 67% in 2014-15 to between 25% and 43% for 2015-22.
- The average share in a SO property being purchased is around 40% and is worth about £110,000, with a mortgage amount of £90,000. The average rent payable by a SO owner ranges between £300 and £400 per month.
- SO mortgages are half the size of those of a conventional mortgage. SO buyers typically have about half the income of open-market buyers and are, in general, not able to afford a property on the open market in the same location. This makes SO the main gateway to home ownership for households on incomes between £30,000-47,000, who otherwise would not have been able to access the mortgage market.
- Initially, when no staircasing is assumed, monthly housing costs of SO are lower than home ownership with a mortgage or renting on the open market, subject to certain assumptions outlined in the report.
- In terms of staircasing, public data is available only for staircasing ratios to 100% which however often captures back-to-back sales. The 100% staircasing ratio is therefore not a good enough indication of affordability of the share. We provide unique insights into partial staircasing ratios, which are substantially lower (less than 1%) as compared to 100% staircasing (ca. 2%).
- Over the last 7 years, the value of the staircased share has increased by 60% reflecting higher house prices, which carries the implications that SO is becoming less affordable.
- Our findings suggest that while buying a more expensive SO property or locating in a more expensive area is associated with less affordability and a smaller staircasing share, SO residents respond positively to rising house prices.

- The mortgage market for SO loans is small and concentrated among a limited number of lenders. Lenders to SO homes are covered by the Mortgage Protection Clause (MPC) in the SO lease reducing their exposure to credit risk and shifting costs of repossession to the RPs.

- Overall, we do not find that lenders differentiate SO mortgages from conventional mortgages beyond the loan-to-value (LTV) ratio. LTV ratios for SO loans are around 80-90% of the value of the share purchased, which is 5-13 percentage points higher than for conventional mortgages.

- Struggling SO owners first stop paying rent before they go in mortgage default. The lender will normally agree to set up a capitalisation arrangement with the RP to cover rent arrears until the SO owner is able to resume making rental payments.

- Between 2013 and 2018, the share of monthly rent arrears out of total rent roll has been fairly steady at ca. 2%. With the onset of the Covid-19 pandemic, we have seen the share doubling.

- Rent arrears are often of a technical nature with median monthly values around £100-150. The share of SO tenants in monthly rent arrears higher than £400 can be as high as an average of 11% increasing in the last two years following the Covid pandemic.

- Repossessions happen in less than 1% of total stock between 2009 and 2019 and clearly remain a last resort resolution.

## Chapter 1: Introduction

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

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

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[1] Home Ownership Task Force (2003) A Home of My Own, London, the Housing Corporation
[2] Bramley, G and Morgan J (1998) Low -cost home Ownership initiatives in the UK, Housing Studies, 13, 4 pages 567-586
[3] Walker, C (2016) Government housing schemes: Accident or Design? London, Council of Mortgage Lenders
[4] Clarke, A, Heywood A and Williams, P (2016) Shared Ownership: Ugly sister or Cinderella? Council of Mortgage Lenders, London
[5] Wallace, A (2019) Exploring shared ownership markets outside London and the South East, CAST, York, University of York;
Heywood, A. (2016) A study of the prospects for shared home ownership in the North West, London: The Smith Institute

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

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

Aside from briefly highlighting what exists in terms of the evidence base, in what follows we aim to develop new insights about the SO market and the SO mortgage market, in particular looking at rent and mortgage arrears and repossessions, SO mortgage loans and leaseholder staircasing. Our focus is on the experience in England as the evidence base is strongest there. This is also the dominant SO market in the UK. SO exists in Wales and to a lesser degree in Scotland. A different scheme operates in Northern Ireland.

Our data analysis comprises aggregated data and granular data from various public and private sources. We have used four different routes for accessing data.

1. We were given access to granular data from a sample of seven RPs. Five of those RPs are in the top ten largest registered providers (RPs) as measured by the SO units[6] owned and managed directly by the RP. Two of the RPs are for-profit. This sample of RPs is estimated to own 11-14%[7] of the total stock of SO homes owned by RPs as of March 2022. Most data cover the period 2020-22, one RP has provided us with data going back to 2013. The data consist of CORE[8] records and administrative data on staircasing, rent arrears and repossessions, among other things. We are able to verify that our proprietary data are broadly in line with the publicly available market data.
2. We also have obtained loan level data at loan origination for 2021-22 covering almost the entire new supply of SO units for that period. The data come from a major mortgage broker operating in the SO market. We have loan level information for about 16,000 SO loans. Note that there are about 16,000 new SO completions for 2020-21, therefore, we can assume that the data we are given captures the entire SO mortgage origination market in 2021-22.
3. We were also provided ad-hoc information from participating RPs, key lenders and mortgage brokers operating in the SO market.
4. Finally, we use publicly available data related to the SO market, as well as mortgage data and data on repossessions beyond SO.

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Wallace, A (2008) Achieving mobility in the intermediate housing market, York, Joseph Rowntree Foundation
Wallace A, Rugg, J and Liu, J (2022) Do Affordable Homeownership Schemes Reduce Homeownership Risks for Lower Income Households in England? School for Business and Society, York, University of York;

[6] This is the definition “LCHO units where the purchaser has not acquired 100% of the equity - Accommodation owned and directly managed” from the Statistical Data Return.

[7] Data are for March 2022 and are calculated based on records from the Statistical Data Return (SDR) made available by providers to the Regulator of Social Housing. The data are on “LCHO units where the purchaser has not acquired 100% of the equity - Accommodation owned and directly managed”.

[8] CORE stands for the COntinuous REcording of social housing sales. It is a data collection run by DLUHC to record information on sales of properties by registered providers of social housing. Please note that CORE does not capture all SO sales.

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

This report is structured as follows:

- Chapter 2 presents an overview of the SO market, including supply, prices, rents, and affordability.
- Chapter 3 presents an overview of the SO mortgage market.
- Chapter 4 talks about SO rent arrears and property repossessions.
- Chapter 5 analyses staircasing patterns of SO residents.

The aim of this report is to provide, as far as possible, a comprehensive data-led analysis of the maturing SO market.

## Chapter 2: Shared Ownership Market Overview

As a result of the financial crisis and related factors, the homeownership rate in England has steadily declined from its all-time peak of 70.9% in 2003 to 62.9% in 2015-16 before rising back up to 65% in 2020-21[9]. The Coalition Government 2010-2015 committed to "promote shared ownership schemes and help social tenants and others own or part-own their home"[10]. SO is a product available for eligible applicants who would otherwise be unable to afford to buy on the open market.

SO has existed as a government backed policy model for over 40 years though the mix of properties and the guidelines around it have been changing over the years. The government utilised two types of partial ownership affordability schemes. The Help to Buy Shared Equity scheme, known also simply as Help to Buy (HtB), is a demand-based scheme in which the government provides a second charge equity loan to households who become full owners of the property at the outset. The HtB scheme, which was initiated in 2013, was closed to new applicants on 31 October 2022. The SO Affordable Housing Programme (SO AHP), on the other hand, is a supply-based scheme which grants funding to developers and RPs for the delivery of new homes. The last SO AHP, which operated between 2016-21 had a £9.1 billion budget of which £4.1 billion was intended for SO[11].

A recent [Scoping Report for the Affordable Homes Programme 2021-2026](#) by the Department for Levelling Up, Housing and Communities (DLUHC) (Milcheva et al. 2022) outlines the differences between the current AHP, operating between 2021-26 and previous affordable homes programmes in relation to SO.[12] The AHP 2021-2026 intends to provide additional £11.5 billion for the supply of approximately 162,000 homes, about half of which will be for SO over that five-year period, around 16,000 SO homes per annum (Milcheva et al. 2022)[13].

[9]See the English Housing Survey Headline Report 2020-21 available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1060141/2020-21_EHS_Headline_Report_revised.pdf

[10] See The Coalition: our programme for government, HM Government, Cabinet Office, May 2010, p. 12, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/83820/coalition_programme_for_government.pdf

[11] See Cromarty, H. (2021, p. 25). Shared ownership (England): the fourth tenure?, House of Commons Library, available at https://commonslibrary.parliament.uk/research-briefings/cbp-8828/

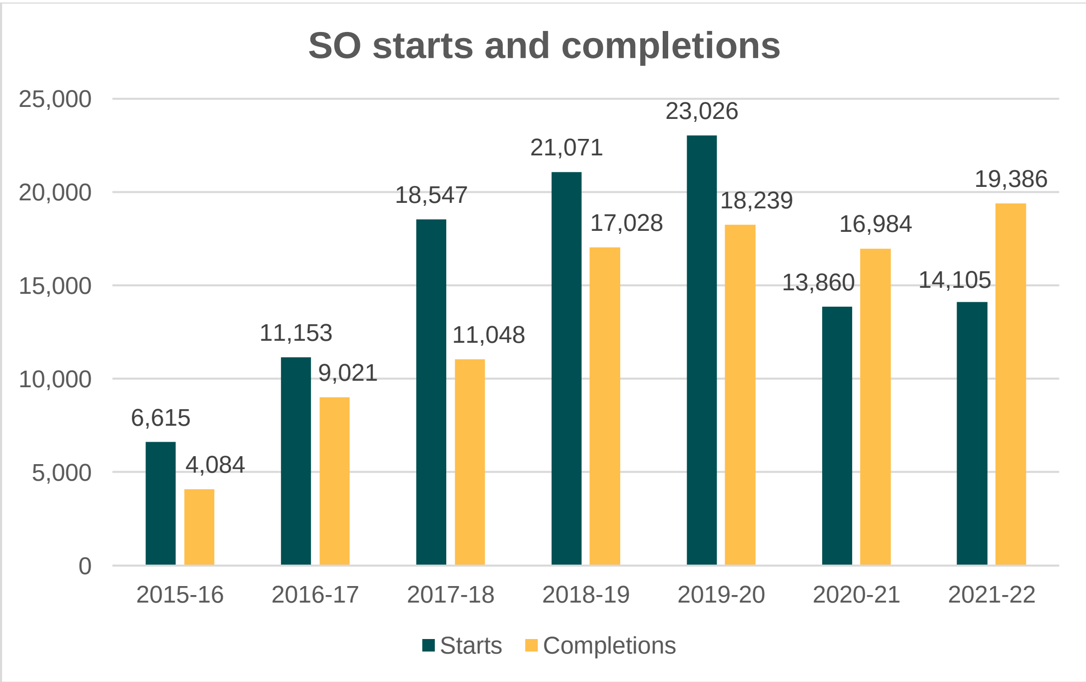
[12] See Milcheva, Whitehead, Scanlon, and Damianov. Scoping Report for the Evaluation of the Affordable Homes Programme 2021-2026, August 2022, DLUHC, available at Scoping Report for the Affordable Homes Programme 2021-2026 (AHP) (publishing.service.gov.uk)

[13] See Milcheva, Whitehead, Scanlon, and Damianov. Scoping Report for the Evaluation of the Affordable Homes Programme 2021-2026, August 2022, DLUHC, available at Scoping Report for the Affordable Homes Programme 2021-2026 (AHP) (publishing.service.gov.uk)

*Supply of Shared Ownership*

The SO AHP 2016-21 saw a steady rise in SO starts in the period 2015-20 (see Figure 2.1). The number of completions also increased, albeit with a lag. Both starts and completions, however, fell in 2020-21, which coincided with the onset of the Covid-19 pandemic, with starts exhibiting a steep decline, from about 23,000 starts in 2019-20 to only about 14,000 starts in 2020-21. However, completions remained steady reflecting the pipeline of activity and only declined by about 1,200 units to 16,984 in 2020-21. Both start and completions increased in 2021-22 indicating that the market has started to recover from the pandemic shock.

**Figure 2.1: SO starts and completions, England, 2015 to 2022**




*Source: DLUHC and MHCLG, Tables 1000C and 1000S*
*https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply*

A large part of the new SO properties, and in particular those delivered through Section 106, is then purchased back by RPs, which have historically managed most of the SO stock. Therefore, we can say that nearly all SO stock is owned by RPs because it is practically impossible to operate a SO portfolio without being an RP as mortgage conditions will require the landlord of a SO property to be an RP.

As shown in Figure 2.2 Panel A, most of the SO homes are delivered either by not-for-profit and for profit RPs funded by the AHP 2016-21, and the current AHP 2021-26[14], or by developers, as part of Section 106 agreements,[15] most of which are completed without government subsidies (nil grants). An estimated 8,154 SO units were completed using government grants and an estimated 8,889 SO units were built as part of Section 106 planning obligations by developers in 2021-22. For comparison, the entire SO new supply for 2021-22 was 19,386 units (see Figure 2.2 Panel A).

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[14] The affordable homes programmes are administered by Homes England (HE) for England excluding London and by the Greater London Authority (GLA) for London.

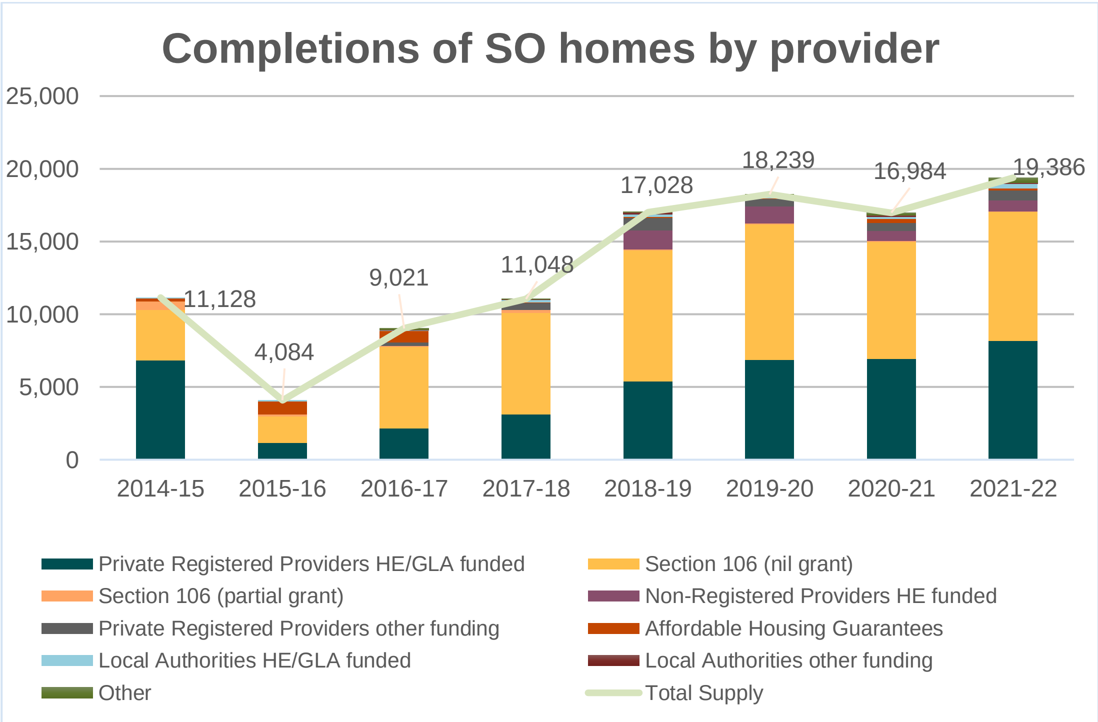
[15] When new residential developments impose pressure on the economic infrastructure of local areas and communities, LAs and developers enter into Section 106 agreements. These agreements entail planning obligations for developers and aim to counterbalance the additional pressure imposed on communities with local area improvements. One example of such improvements is the provision of social and affordable housing. See, e.g. https://www.gov.uk/guidance/planning-obligations for more details.

Therefore, for 2021-22, about 44% of the completions were delivered by RPs via the AHP, while 46% of the additional supply of SO homes was delivered by private developers/housebuilders (Section 106, nil grants) and acquired by RPs. The composition of the remaining 10% of supply is as shown in Figure 2.2.

The ratio of grant funded SO homes out of total SO homes has substantially shifted over time; it ranges from 67% in 2014-15 to between 25% and 44% for the period of 2015-22. There is an emerging trend, starting from 2016-17, which roughly coincides with the start of the AHP 2016-21.

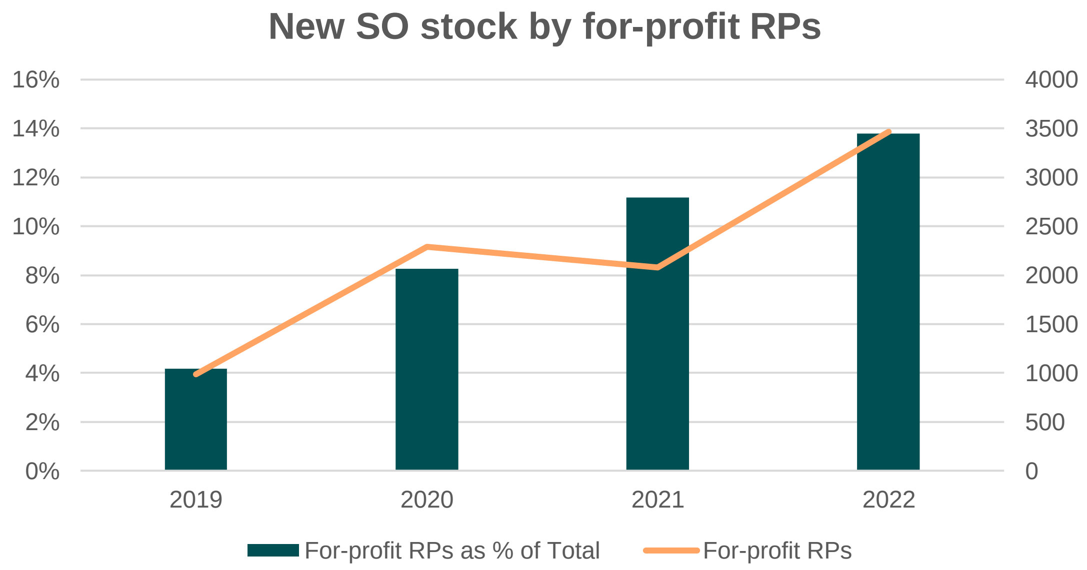
**Figure 2.2: SO completions and stock by provider**

**Panel A: Completions of SO homes by provider, England, 2015-22**




*Source: DLUHC, Table 1000C*
*https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply*

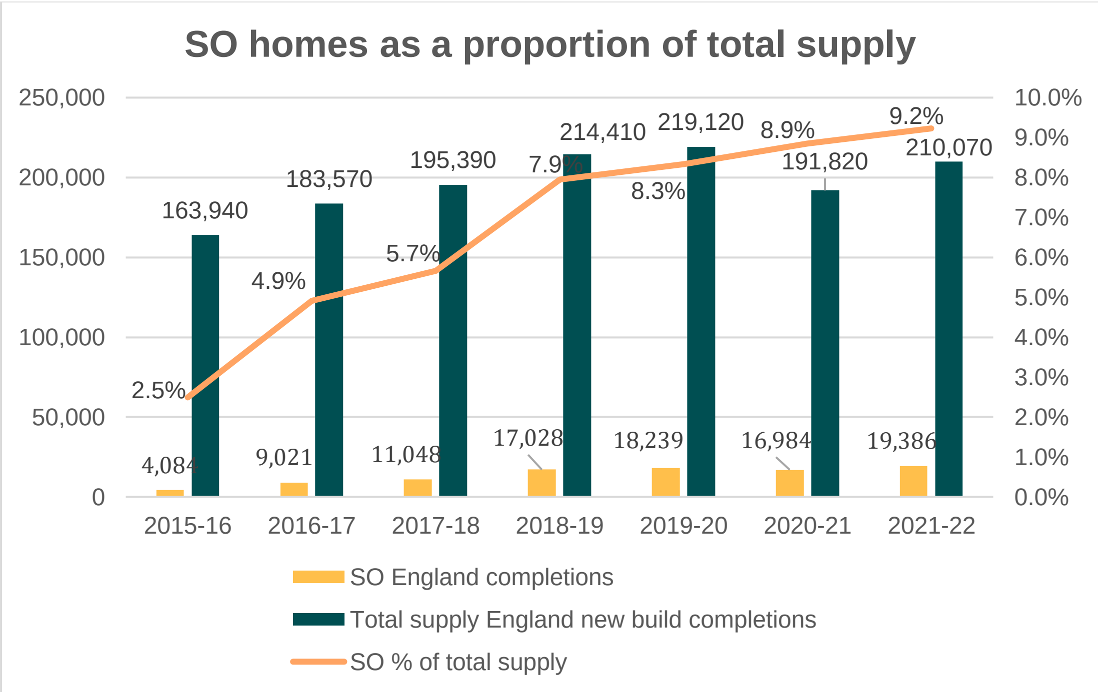
**Panel B: New SO stock provided by for-profit RPs between 2019-22**




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

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

**Figure 2.3: SO homes as a proportion of total supply**




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

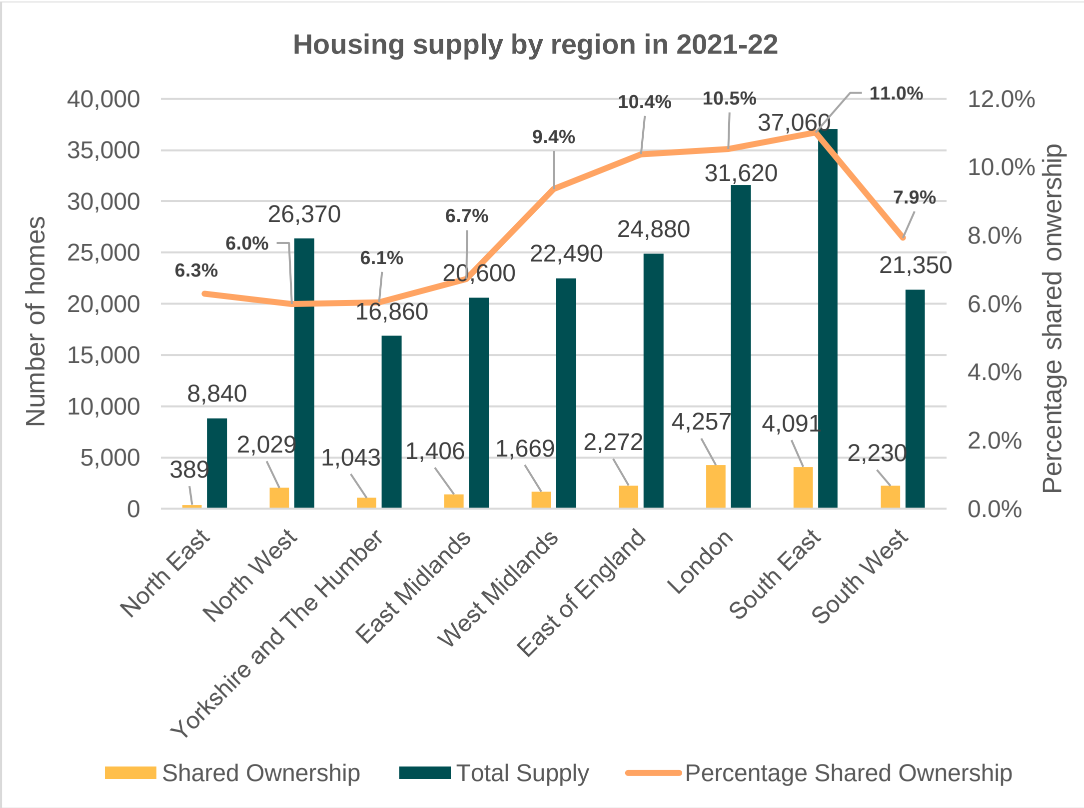
*https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing*

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

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

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

**Figure 2.4: Housing supply by region in 2021-22**




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

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

**Table 2.1: Financial data on SO sales over time**

Means

| Year | Market Value per dwelling (£) | Initial Share (%) | Value of Share (£) | Mortgage amount (£) | LTV ratio (share) (%) | Cash Deposit (£) | Deposit to Home Value* (%) | England House Price** (£) |
|---|---|---|---|---|---|---|---|---|
| 2015-16 | 252,500 | 42 | 101,500 | 81,600 | 80.4% | 21,500 | 8.5% | 235,318 |
| 2016-17 | 252,400 | 43 | 105,000 | 84,800 | 80.8% | 20,300 | 8.0% | 245,679 |
| 2017-18 | 264,100 | 43 | 108,800 | 88,600 | 81.4% | 19,700 | 7.5% | 251,760 |
| 2018-19 | 270,900 | 42 | 110,900 | 92,500 | 83.4% | 19,200 | 7.1% | 252,558 |
| 2019-20 | 268,400 | 41 | 107,700 | 91,200 | 84.7% | 17,300 | 6.4% | 257,475 |
| 2020-21 | 275,100 | 41 | 109,800 | 92,700 | 84.4% | 17,700 | 6.4% | 278,939 |
| 2021-22 | 296,300 | 42 | 120,500 | 100,600 | 84.4% | 20,800 | 7.0% | 303,788 |

*Source: MHCLG Live Table 697; UK House Price Index*
*https://www.gov.uk/government/statistical-data-sets/uk-house-price-index-data-downloads-december-2021*.
**The deposit to home value is calculated by dividing the cash deposit to the market value per dwelling.*
***Data from https://view.officeapps.live.com/*

***Shared Ownership Affordability***

Because SO buyers are purchasing only a share[17] of the property and are financing this purchase with a mortgage, they are able to get onto the property ladder with a minimal cash deposit. The average initial share (or equity stake) bought has been stable over time hovering slightly above 40%. SO owners on average take out mortgages with a LTV ratio at or above 80%.[18] In recent years the LTV ratio has climbed to around 84-85% reflecting property price rises and the reality that it has become increasingly difficult for households to save for a big enough deposit (see Table 2.1). The average cash deposit has fluctuated between 6.4% and 8.5% of property value during the 2015-2022 period.

SO also enfranchises customers who do not have the requisite income to afford an equivalent home on the open market or qualify for another government affordable housing scheme. Monthly housing costs of SO homes are lower than for other housing tenures. For example, the annual rent of a privately rented home is typically between 4% and 5% of the value of the property while the rent on the equity owned by the RP of a SO unit does not exceed 2.75% of the value of the RP's share and could be subject to voluntary caps on rent increases. If the initial equity purchased by the SO owner is relatively small, e.g. 10%, the monthly housing costs of SO would be lower due to the subsidised rent paid on the equity owned by the RP.

Similarly, if the initially acquired equity stake is small, and the SO resident does not staircase, given the rapid increases in interest rates in 2022-23, the SO resident would have lower monthly housing costs relative to entering into home ownership attained solely with mortgage financing. This argument is illustrated in Table 2.2 below which present the monthly cost of SO (Panel A), the cost of home ownership associated with the cost of a fully amortising mortgage (Panel B), and the cost of renting on the private market (Panel C).

[17] Until 2021, the minimum share to purchase was 25%, since 2021, this has decreased to 10%.
[18] The LTV ratio in the case of SO refers to the share of the mortgage loan to the value of the equity purchased.

**Table 2.2: Monthly costs of various tenures**

**Panel A: SO with a mortgage (40% initial share; 10% deposit; 5.82% mortgage rate; 2.75% rent on residual 60% of the property value)**

| Unit type | Sq. ft. | Market Value (£) | Mortgage payment (£) | Rent (£) | Monthly cost (£) | Deposit required (£) | Minimum Gross Household Income (£) |
|---|---|---|---|---|---|---|---|
| 1 Bed Flat | 538 | 200,000 | 423 | 275 | 698 | 8,000 | 21,505 |
| 2 Bed House | 862 | 260,000 | 550 | 358 | 908 | 10,400 | 29,721 |
| 3 Bed House | 1,019 | 310,000 | 656 | 426 | 1,082 | 12,400 | 36,568 |

*Note: For a 1 Bed Flat, the deposit of £8,000 is 10% of the equity purchased by the shared owner (SO equity = 40% × £200,000 = £80,000). The remaining 90% (£72,000) is financed with a mortgage. The mortgage payment of £423 is the monthly payment on a fully amortising 30-year mortgage. In addition, the shared owner pays rent on the RP share which is 2.75% × £120,000 = £3,300 per annum, or £275 per month. The Minimum Gross Household Income is calculated considering that the mortgage and rent payments should not exceed 40% of net household income. Thus, the minimum net household income is (698 × 12)/0.4= £20,940. The gross household income corresponding to this net income is calculated considering tax rates in England including National Insurance. The corresponding payments and income for a 2 Bed House and a 3 Bed House are calculated analogously.*

**Panel B: Home ownership with a mortgage (10% deposit, 5.39% mortgage rate; full amortisation for 30 years)**

| Unit type | Sq. ft. | Market Value (£) | Mortgage payment (£) | Rent (£) | Monthly cost (£) | Deposit required (£) | Minimum Gross Household Income (£) |
|---|---|---|---|---|---|---|---|
| 1 Bed Flat | 538 | 200,000 | 1,010 | 0 | 1,010 | 20,000 | 36,000 |
| 2 Bed House | 862 | 260,000 | 1,313 | 0 | 1,313 | 26,000 | 46,800 |
| 3 Bed House | 1,019 | 310,000 | 1,565 | 0 | 1,565 | 31,000 | 55,800 |

*Note: For a 1 Bed Flat, the mortgage payment is calculated as the monthly payment on a 30-year fully amortising mortgage loan of 90% × £200,000 = £180,000. The minimum gross household income is determined as one fifth of the loan amount reflecting that most mortgage lender would not allow borrowers to borrow more than five times their gross annual income.*

**Panel C: Private rent (Annual market rent assumed at 4.25% of property value)**

| Unit type | Sq. ft. | Market Value (£) | Mortgage payment (£) | Rent (£) | Monthly cost (£) | Deposit required (£) | Minimum Gross Household Income (£) |
|---|---|---|---|---|---|---|---|
| 1 Bed Flat | 538 | 200,000 | 0 | 708 | 708 | 814 | 21,240 |
| 2 Bed House | 862 | 260,000 | 0 | 921 | 921 | 1,060 | 27,630 |
| 3 Bed House | 1,019 | 310,000 | 0 | 1,098 | 1,098 | 1,263 | 32,940 |

*Note: Monthly rent is calculated as 1/12th of the annual rent which is assumed to be 4.25% of the value of the property. The deposit is calculated as the rent for 5 weeks, or the monthly rent multiplied by 1.1504.*

As can be observed, SO enfranchises households in the £29,721 - £46,800 income bracket making it possible for them to become SO owners of a 2-bed house that would not be affordable with a conventional mortgage. This income bracket encompasses the households between the 14th and the 41st percentile in the income distribution in the UK corresponding to around 17.5 million individuals.[19] ***Given the size of the population in this income bracket, SO provides a viable pathway to homeownership and a tenure with a substantial future growth potential.***

***As the example illustrates, SO is a cheaper alternative relative to both, owning a property of the same value and size with a mortgage and renting on the private market, subject to above assumptions.*** The example in Table 2.2 Panel A does not assume staircasing, making it not fully comparable to the costs associated with an amortising mortgage loan, presented in Panel B. If we assume that households own 40% and staircase uniformly to 100% over 30 years, which is equivalent to 2% per annum, then the cost of 2% additional equity for a 2-bed house in the example above, valued at £260,000, would be £5,200 or additional £433 per month during the first year. This would amount to a total housing cost of £1,341 per month, or slightly above the cost of mortgage financing (£1,313). The higher cost is due to the assumed high level of staircasing. In the case of mortgage financing, in the first year the household reduces its mortgage balance only by £3,216 as a substantial part of the mortgage payment covers interest. This means, that the stake of the household in the property increases by 1.2%. This is less than the 2% increase in the staircasing rate assumed above, which explains the higher overall housing cost. If this amount were contributed to staircasing, that would correspond to £268 per month and would bring the monthly cost of SO with staircasing rate of 1.23% to 908+268= £1,176. This is below the £1,313 mortgage payment. We note however that house price appreciation would make staircasing progressively more expensive over time, which is not the case for home ownership. Assuming moderate annual house price appreciation of 2% only, the last 2% of equity would cost £5,200 $\times\ 1.02^{30}$ = £9,419. ***Hence, the attractiveness of SO critically depends on expected house price appreciation. If house price appreciation is large, the mortgage option becomes cheaper if the same rate of staircasing is assumed to the rate of acquiring equity in the property by gradually paying off the mortgage.***

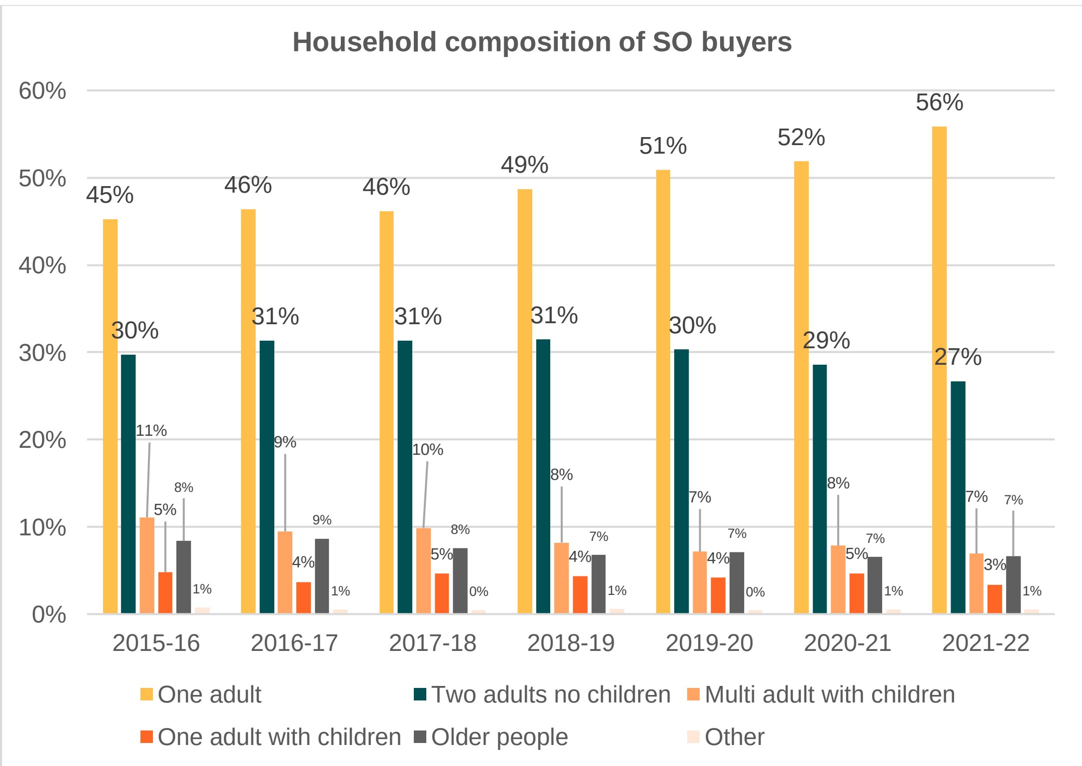
[19] These percentages are obtained using the Institute for Fiscal Studies (IFS) online calculator for 2022-23 and for households with two adults and one child of age up to 13 for which a 2-bed house would be a suitable accommodation. The calculator is available at https://ifs.org.uk/tools_and_resources/where_do_you_fit_in#tool-results-section

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

***Demographics of Shared Ownership***

Figure 2.5 shows the household composition of SO buyers. Since 2015-16, the proportion of single person households compared to other types of households in that tenure has steadily increased, exceeding 50% in 2019-20 and 2020-21. They are followed by couples without children which account for about 30% of the occupants of SO homes. Constraints on data availability from CORE makes it difficult to gain insights on the demographics by region (24% of respondents for the data in Figure 6 are unknown). SO appeals to a broad base of first-time buyers although there are regional differences in demographics. Previous studies relying on data from 2016-17 report that for all regions except the North East, the dominant group of SO owners are households with an age of 35 or younger (see Figure 7.2 in Wallace, 2019)[20]. This demographic group is overrepresented, reaching almost 70% in the most expensive markets, in particular the southern regions. By contrast, in the North East, the SO owners are predominantly former owner occupiers who are typically older – 46 years plus (see Figure 2.10 in Wallace, 2019).

**Figure 2.5: Household composition of SO buyers**




*Source: DLUHC, Continuous Recording of social housing lettings and sales data (CORE), Live Table 696*

*https://view.officeapps.live.com/*

[20] Wallace, A (2019) Exploring shared ownership markets outside London and the South East, CAST, York, University of York;

### *Regional Variations of Shared Ownership Affordability*

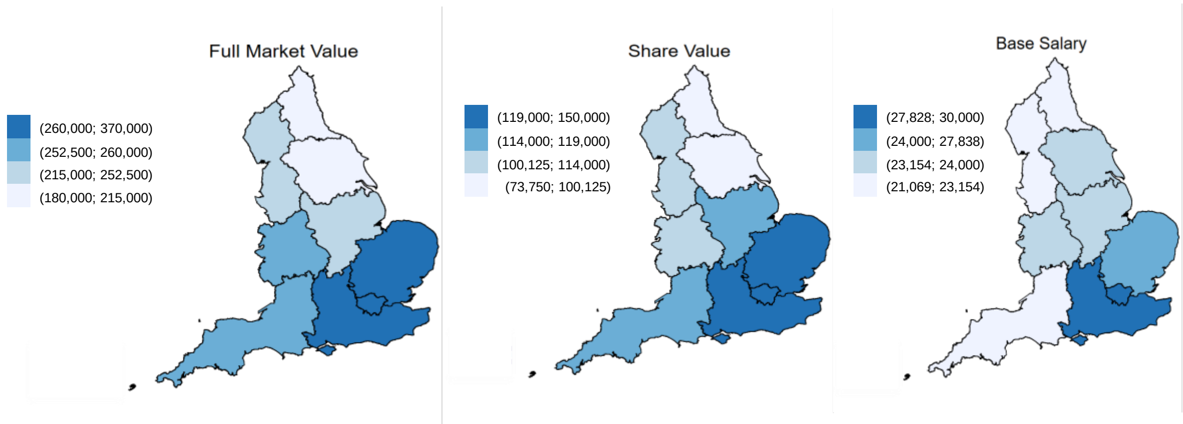
Figures 2.6 shows the regional variation of SO properties using proprietary data from one mortgage broker based on nearly 16,000 loans issued in 2021-22 covering almost the entire new SO mortgage stock in 2021-22. The benefit of using such data are that we are able to explore geographical variations given the full regional coverage. We see that new SO mortgages were associated with properties mostly in the southern English regions. 52% of the SO loans are for SO properties in the South East of England, including London, and only about 8% of the loans are in the northern regions.
We also explore variation across property values, the value of the share being purchased, the size of the share being purchased, the LTV ratio, the base salary used in the mortgage offer and some affordability indicators. We only use median values due to outliers and some faulty reporting in the data.[21]

A striking pattern across all graphs is that the two outliers are by far – the South East (including London), as the least affordable region, and the North East region, as the most affordable. The median price of a SO home in the South East in 2021-22 is £370,000 and in the North East, £180,000 (see Figure 2.6).[22] This is a difference of £190,000 meaning that a SO property in the South East costs more than double as compared to the North East. The median share value in the South East is highest at £150,000; the share in the North East is by far the lowest at £73,750. Looking at the salaries, the North East has the lowest median salary of £21,000 while SO owners had a median salary of £30,000.

We also have information about the share purchased in this period. The median share does not vary substantially across the regions. The median share in most southern regions is 40%. Only in Yorkshire and the East Midlands does the median share rise to 50%. In terms of the value of the share, there is much less variations across the regions, with an average share price-to-income ratio of around 5. The region with the lowest ratio (3.5) is the North East.

In terms of mortgage indicators, we do not see substantial regional differences in the LTV ratios and the mortgage rates. The median mortgage rate varies between 3.6-3.8% for 2021 up until mid-2022. The median LTV in all regions is 89-90%.

**Figure 2.6: SO market dynamics across regions**




*Source: Data from a large mortgage broker.*
*Notes: Data based on 16,000 loans issued in 2021-22 covering almost the entire new SO mortgage stock in 2021-22.*

[21] Medians are more accurate than average values in this case.
[22] These figures are close to the publicly available data reported further up in this chapter. The SO price in the South East in 2021 was £353,474, while in the North East it was £144,591.

## Chapter 3: The Shared Ownership Mortgage Market

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

Given the complexities of SO and the arrangements surrounding it, it is necessary for lenders to invest quite a lot of time and expertise in order to minimise the risks of this lending. Because the regulations around affordable housing and SO are both complex and keep changing, lenders in this market tend to have become specialists in order to stay on top of the latest developments. There are enough lenders to ensure competition around prices and products, but the annual volumes are insignificant compared to the mainstream mortgage market which is why some lenders choose not to participate in it.

### *Shared Ownership Loan Amount and Income*

Using the mortgage broker loan level data for 2021-22, we observe that slightly more than 6,000 of the mortgages are for properties based in the South East of England, making it the dominant region in our sample. The median SO loan amount for all SO properties for 2021-22 is £110,000. Using data provided to us by the RPs instead, produces a median loan amount for 2021-22 of about £95,000 (see Figure 3.1 Panel A). The latter figure is close to the publicly available figure of £92,000 reported in Table 2.1. This reassures us that our data are not different from the aggregated data in the public domain and are representative of the entire market. The advantage of the RP data over the loan level data are that we can report mortgage amounts over time, starting in 2015.

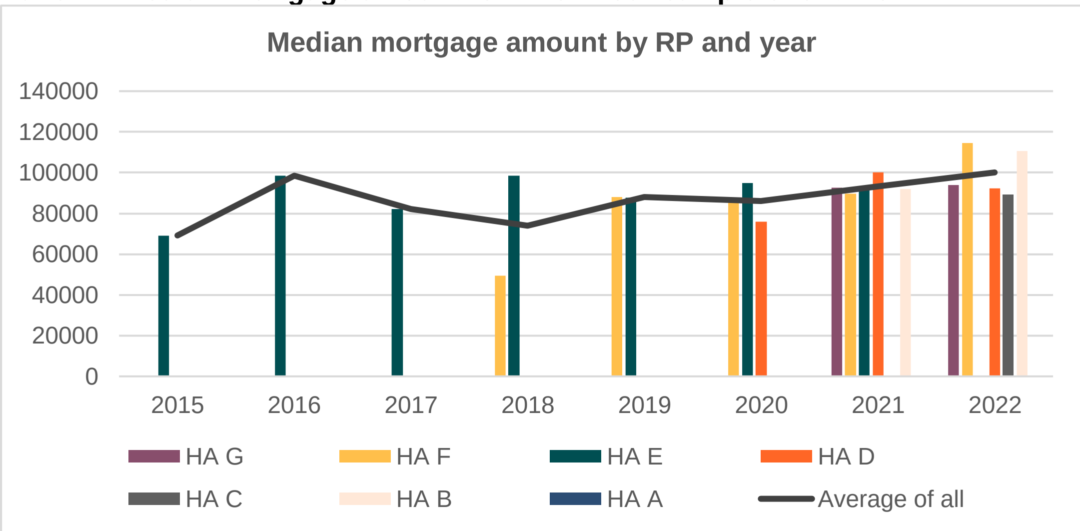
Using summary data from mortgage lenders and calibrating it with published UK Finance data, we estimate the average loan amount for a first-time buyer mortgage at £214,000 in 2021-22. This is more than double the size of a SO mortgage amount (see Panel A). It also suggests, that SO properties are more affordable to purchase as the household can more easily access a smaller amount of mortgage borrowing. However, the size of the SO loan amount has increased over time. Between 2015 and 2022 it grew by 50%, relative to the 35% growth of first-time mortgages. This means that over time, the average SO borrower’s mortgage has become more burdensome, i.e., worsened in affordability terms faster than for a borrower’s mortgage on the open market.

The average median value of the mortgage from 2015 to 2022 is £82,000 (see Figure 3.1 Panel A). Only two RPs provided time series data starting in 2015. For them we can see that the mortgage amount has increased from £57,000 and £69,000 respectively in 2015 to £74,000 and £92,500 in 2021, an increase of 30% and 34%, respectively. These figures are in line with the growth in house prices from £157,500 and £235,000 in 2015 to £215,000 and £320,000 in 2021 for the same two RPs respectively. Since 2015, the general mortgage has been between 119% and 152% higher that an average SO mortgage.

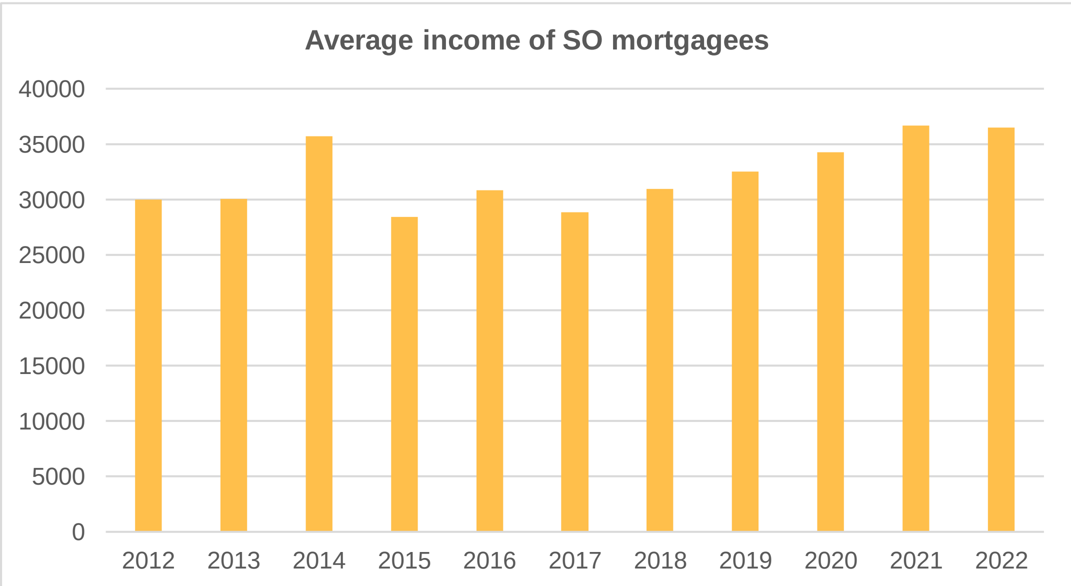
[23] Clarke, A, Heywood A and Williams, P (2016) Shared Ownership: Ugly sister or Cinderella? Council of Mortgage Lenders, London

**Figure 3.1: Mortgage and income amounts**

**Panel A: Median mortgage amount for RPs in our sample over time**




**Panel B: Average income of SO buyers**




*Source: Own calculations. Data is from CORE records. Panel A uses granular data, panel B uses aggregated data.*

***Income of Shared Ownership Buyers***

Figure 3.1 Panel B shows the average income of the SO buyer. As of 2022, the income was around £37,000. Using data from mortgage lenders, figures for first-time buyer mortgage income should be around £60,000. This is nearly 60% higher than the income needed to buy a share in a SO property. The average SO mortgagee's salary is between £20,000 and £35,000, as reported above. SO buyers have about half the income of open-market buyers and are, in general, not able to afford a property on the open market in the location where they would buy a share of a SO home. This suggests that SO as a tenure product is aimed at the lower income segment of the buyer market and provides affordability for people who might otherwise not be able to buy a home in the same location.

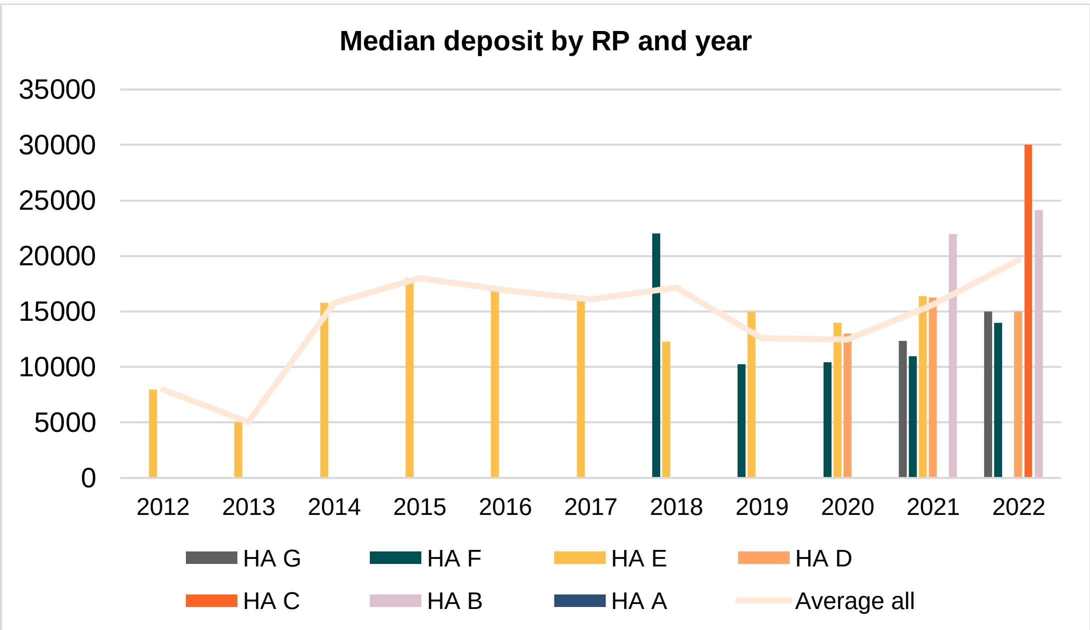
Furthermore, the growth in the median income of SO buyers between 2014 and 2022 has been a negligible 2%; instead, the growth in the income of homebuyers on the open market has been about 25%. This might suggest that SO has remained a relatively affordable route into home ownership as compared to buying on the open market. However, more in-depth analysis of the data is needed to draw any conclusions from that.

***Deposits of Shared Ownership Borrowers***

SO borrowers can provide as little as 5% of the value *of the share* purchased as a deposit. It is a key feature of SO as an affordable product allowing people with little savings to get a foot on the property ladder. Figure 3.2 shows the average deposit rate for our sample of RPs. The average median deposit between 2012 and 2022 is close to £14,000. For 2022, the average deposit is £17,600. This is slightly higher that what is reported using the loan level data for 2021-22 of £15,000. This might be because our RPs have exposure to more expensive areas in London and the South East. Overall, between 2015 and 2021, the deposit amount has remained steady. We understand that since 2014 the deposit used to purchase a property on the open market in contrast grew by about 50%.

We see differences across RPs with deposits varying between £11,000 and £30,000. This can be partly attributed to the geographic location with some RPs in our sample covering almost exclusively the London market, where SO properties are more expensive.

**Figure 3.2: Deposit value across major RPs**




*Source: Own calculations. Data from CORE records of a sample of RPs.*

***Loan-to-Value Ratios for Shared Ownership Loans***

From lender's point of view, SO mortgages are in some sense a highly leveraged product, with LTVs on average being 80-90% of the share bought. Using the data for 2021-22 from the mortgage broker, we observe that the median LTV ratio is 89.6% (see Figure 3.3 Panel B). In addition, using data provided by the RPs, we can calculate further LTV ratios. The median LTV ratio across the RPs is depicted in Figure 3.3 Panel A; between 2012 and 2022 the median value is 88%, with the lowest median value being 80% in 2021 for one RP and the highest 93% in 2020 for another RP. Since 2014, the LTV has increased from 85% to 90% in 2019, after which it has declined again to 87%. The variation in LTV ratios is more pronounced across RPs in turn as reported above.

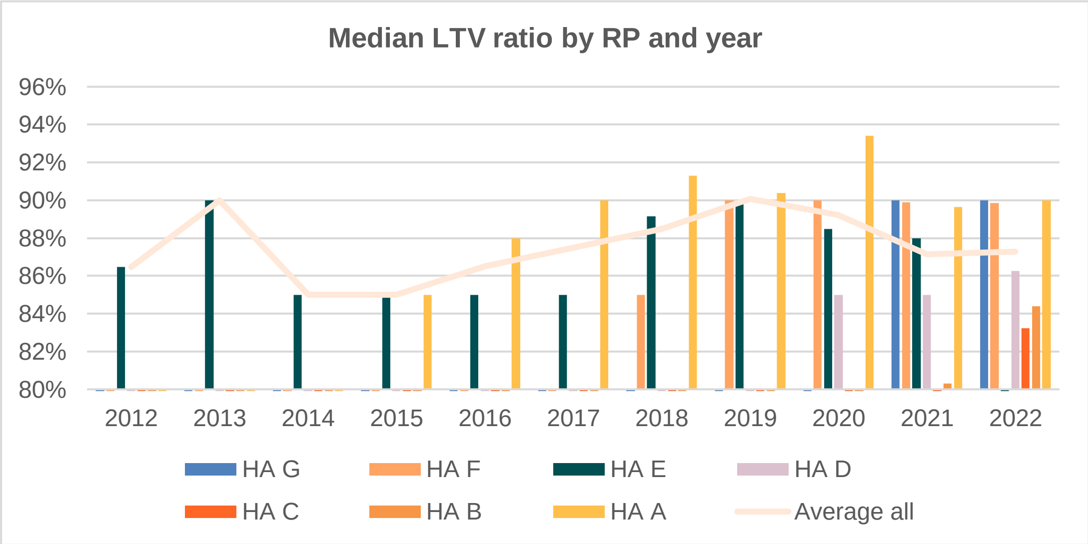
We have also received information about past and current LTVs from a handful of major SO lenders for 2022. Lenders report that the LTV ratio on all types of mortgages for first-time buyers is 77% and for home movers is 66%. This suggests that first-time buyer mortgages have about 5-13 percentage points lower LTV ratios than SO mortgages.

The high LTV ratios on the shares bought make SO mortgage loans sensitive to small changes in house prices or interest rates. However, due to the low share that is purchased (on average 40%) and an average mortgage of £80,000 to £90,000, even when mortgage rates go up, the overall expense associated with the property should remain relatively stable. Calculations indicate that the mortgage cost per month for a household with a loan of £90,000 and a mortgage rate of 6.5% is about £961 per month. A one percentage point increase from 5.5% to 6.5% would mean an increase of £55 per month for above case.

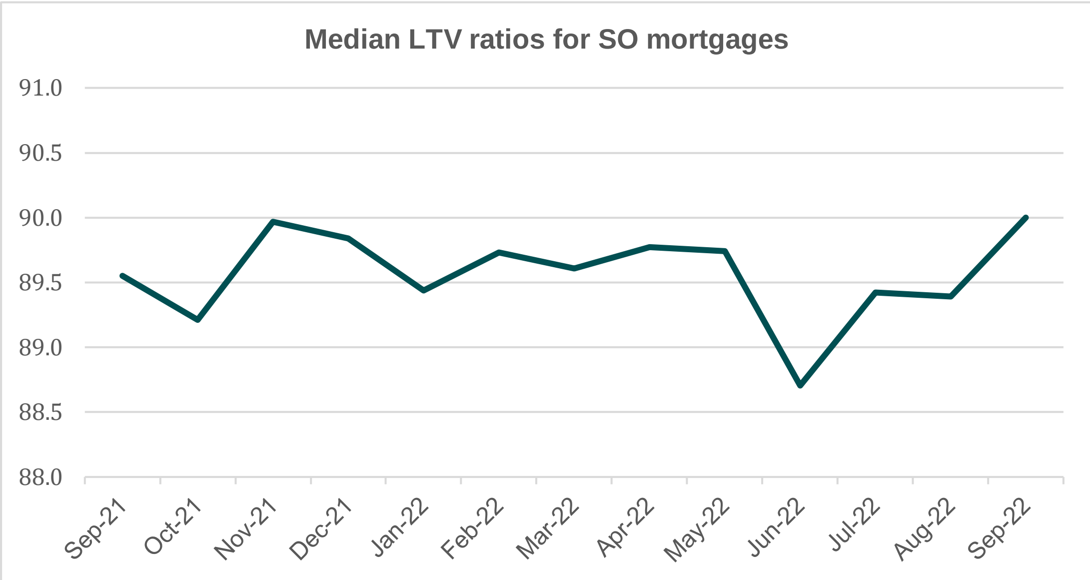
Therefore, it is hard to assess whether SO mortgages are more or less risky, but from discussions with lenders we understand that some do not differentiate between the two products in terms of their approach to lending and pricing. However other lenders do price SO mortgages higher although competition has brought the differential between the two down over time.

**Figure 3.3: Loan-to-value ratios**

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




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



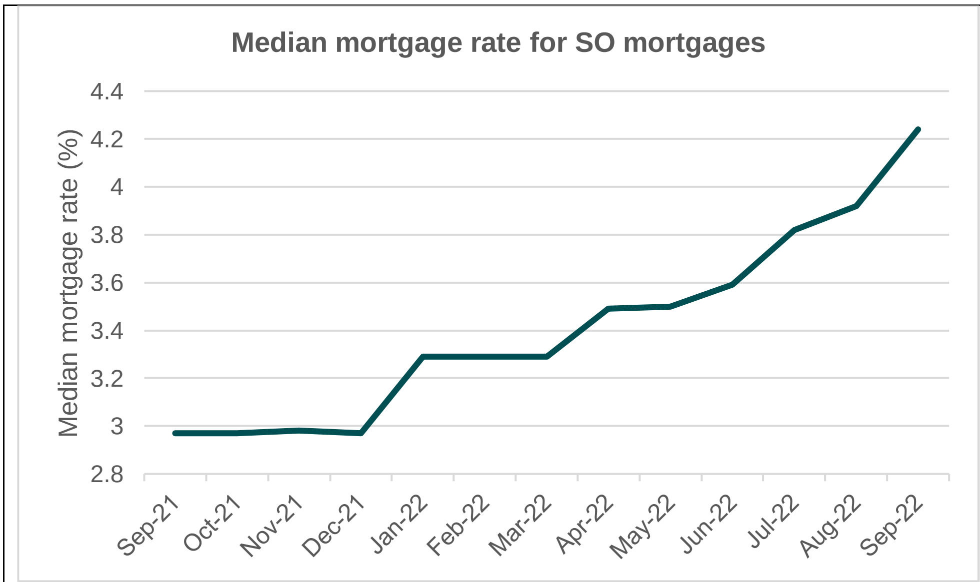

*Source: Own calculations. Data are from CORE records of seven RPs. Panel B is based on granular administrative data from one mortgage broker based on circa 16,000 SO mortgage loans between 2021 and May 2022.*

***Mortgage Rates***

While some lenders do not distinguish between SO mortgages and first-time buyer mortgages when they set the mortgage rates but rather the pricing and terms are based on the LTV. This means that SO mortgages which have higher than average LTV ratios, will have higher mortgage rates. However other lenders do price the products differently, adding a premium to the SO rate at an equivalent LTV ratio.

The loan level data covering the period between September 2021-September 2022 has information on mortgage rates based on loan originations of more than 15,000 SO mortgages from more than 25 lenders.[24] For a large number of the mortgages the lender is unknown but among the lenders we can identify, the largest providers are Leeds Building Society, KRBS, TSB, and Barclays. The median mortgage rate, for different mortgage products (variable rate, 2 years fixed, 5 years fixed) is 3.25%, and the average rate is 3.29%. Unfortunately, a lot of the data on the loan term are missing and we are unable to disentangle the mortgage rates by their duration. The 5th percentile lowest mortgage rates are at 1.61% and the 95th percentile highest mortgage rates are at 4.84%. This means that for a mortgage amount of £90,000, the SO owner pays on average no more than £3,000 per year on interest payments, for the median share purchased. This equates to about £250 a month in interest expenses. This is about 50% of the overall rent paid on the SO property.

**Figure 3.4: Median mortgage rate for SO mortgages across England**




*Source: Own calculations based on granular administrative data from a mortgage broker based on circa 16,000 SO mortgage loans between 2021 and May 2022.*

[24] In the November 2022 issue of Moneyfacts there are 30 SO lenders listed. Most work off a minimum 25% share purchased. Maximum LTV is typically 95%. Some examples for SO mortgages can be seen here, https://www.leedsbuildingsociety.co.uk/mortgages/additional-borrowing/shared-ownership-mortgages/ and first-time buyer mortgages here, https://www.leedsbuildingsociety.co.uk/mortgages/fixed-rate-mortgages/.

***Re-mortgaging***

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

***Negative Equity***

Another risk to consider is substantial house prices declines and the effect on SO owners. If house prices were to go down by 20%, the homeowner might enter into negative equity. The effects might be stronger for households that have bought at the peak of the housing boom. Table 3.1 looks at a household who has purchased a 25% share using 10% deposit. We assess various house price categories, based on the income needed to pass the SO affordability criteria. We assess a worst-case scenario of a 20% fall in house prices. For this scenario, a household can be in negative equity between £4,725 (for a property worth £189,000) and £16,798 (for a property worth £671,900). This represents about 19% of household's gross income. Instead, if the household were to buy the same property outright, i.e., 100% share, then the negative equity would be much larger if 10% deposit has been used. It would be roughly between £19,000 and £67,000 depending on the initial value of the property. This represents 45% of annual gross household's income, which the household might need to put down at the point of remortgaging. If the household does not have the equity, they might need to sell the property. This has also been highlighted in Wallace et al. (2022)[25].

***The above example highlights the benefit of SO acting as a product which can de-risk exposure to house price fluctuations through sharing equity with the RP.***

**Table 3.1: Negative equity effects**

| Maximum property value | Household income required, 100% equity | Value of 25% share | Household income required, 25% equity | Negative equity, 20% house price drop, 100% equity | Negative equity, 20% house price drop, 25% equity |
|---|---|---|---|---|---|
| £189,000 | £42,000 | £47,250 | £25,000 | -£18,900 | -£4,725 |
| £353,100 | £78,467 | £88,275 | £45,000 | -£35,310 | -£8,828 |
| £463,600 | £103,022 | £115,900 | £60,000 | -£46,360 | -£11,590 |
| £567,750 | £126,167 | £141,938 | £75,000 | -£56,775 | -£14,194 |
| £671,900 | £149,311 | £167,975 | £90,000 | -£67,190 | -£16,798 |

*Source: Own calculations using assumptions grounded in existing data.*

[25] Wallace, Alison, Julie Rugg and Jiaxin Liu, 2022. Do affordable home ownership schemes reduce homeownership risks for lower income households in England?, Report by the University of York, October.

### *Shared Ownership-Specific Credit Risk*

In addition to the market risks to which any mortgage is exposed, there are some risks specific to SO mortgages which are not typical of conventional mortgages. For example, repayment risk can be enhanced due to the hybrid nature of the property, having a lease attached to it (and a rent payment). For example, if the SO owner stops paying rent on the rental component, but continues paying the mortgage, then the RP can potentially end the lease. The RP can gain mandatory possession over the property under Ground 8 of Schedule 2 of the 1988 Housing Act if no rent has been paid for over 8 weeks although Homes England now prohibits the use of this ground on any of its current grant funded schemes. One way RPs work around it is by agreeing with the relevant mortgage lender that the lender pays off the rent arrears, keeping the borrower in the property and instead increasing the debt by the amount of the rent arrears. That means, not paying rent is associated with rising mortgage costs. RPs feel that SO owners are more likely to keep paying their mortgage even when they are not able to keep up with the rental payments.

The capital requirements imposed by the Prudential Regulation Authority (PRA) for lending institutions for SO mortgages are different from non-SO first-time buyer mortgages. First, SO lending is defined as nonprime lending and as 100% lending. This triggers higher capital requirements than most conventual mortgages. Furthermore, to calculate the capital that a lender had to put against a SO mortgage, the PRA uses the LTV ratio on the buyer's share of the property, as that is the only part that formally is considered a security against the loan. In reality, the lender has access to the value of the property through having access to the remaining share via the Mortgagee Protection Clause (see below), which is held by the RP. Finally, each lender can lend a small percentage against their loan book to SO though different rules apply to building societies lending on SO.[26] While the size of the SO mortgage market in total is below 1% of all annual mortgage lending, some lenders have much higher exposure than others.

### *The Mortgagee Protection Clause*

The SO mortgage differs from a mainstream mortgage in that it involves a third party in addition to the borrower and lender, the RP. The RP owns 100% of the freehold title, or the superior lease if the RP isn't the freehold owner of the block. The buyers purchase a leasehold title - this leasehold title is derived from the RP's freehold title. The involvement of a third agent, the RP, might make SO mortgages from the point of view of lenders more complex. Regulation around SO is provided by Homes England. This includes an important clause called the Mortgagee Protection Clause (MPC). The MPC ensures that lenders have a first call on the proceeds of a sale in the event of repossession.

Under the terms of the MPC which is embedded in the Homes England *Capital Funding Guide*, in the event of default the lender has access to the full value of the property -both the borrower's share and that of the RP. ***This means that while repossessions might still take place lenders suffer very few losses as a consequence of default and repossession.*** As part of their access to the full value they are able to offset associated costs against it.

For lenders to SO, the process is more complex and resource-intensive not least because of the three separate parties involved (the buyer, the lender and the RP). Furthermore, lenders must ensure they fully comply with required procedures in order to be able to invoke their rights under the MPC to cover unpaid debts including from the landlord's share in the event of a default. The RP is required to approve the terms of the mortgage in writing so that the lender can have reliance on the MPC.

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[26] Building Societies have been given specific rules to apply regarding SO and these are set out in a PRA supervisory statement - SS20/15 Supervising building societies' treasury and lending activities, https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2015/ss2015.pdf.

It seems that the lack of detailed understanding of the performance of the SO market and its small size has led to fewer economies of scale and more complexities around foreclosure of SO mortgages. The latter is a consequence of the involvement of a RP. A lender would have to contact the RP in the case of foreclosure and different RPs have different processes in place when it comes to repossessions. This increases costs, rather than credit risk per se, and might explain why SO mortgage rates are typically slightly higher. It can also be associated with lower market liquidity.

In the case of a borrower not being able to make their mortgage payments, i.e. building up mortgage arrears, the mortgage lender will initiate possession proceedings if other solutions have been exhausted. Having obtained vacant possession, the mortgage lender can sell the property. The lender can offset their reasonable expenses against settlement of the RP's share of the value of the home sold. This is guaranteed by the MPC. That is, where the MPC is applied, the mortgage lender pays the actual price of the outstanding share of the property (to the RP) less those sums and reasonable expenses due to the mortgage lender. The shortfall remains a debt owed to the RP by the leaseholder. Reasonable expenses include up to 18 months of interest expenses, the capital sum of the mortgage and reasonable costs including estate agents and the possession fee from the MPC claim as well as the rent and service charge arrears. The MPC makes the leaseholder liable for any difference between the amount that the RP receives from the mortgage lender and the price of the outstanding share.

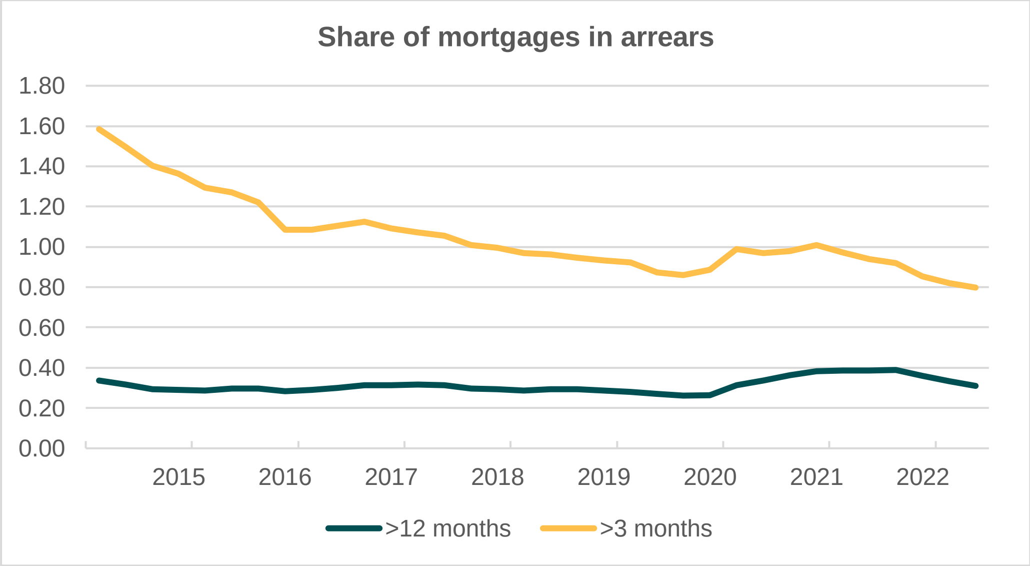
Therefore, in the case of falling house prices, if the sale price received by the lender following a default, is not enough to cover the mortgage, the lender has priority to the RP. The lender is repaid first, after which the RP is paid. Table 3.1 shows the negative equity in case the new value of the share is less than the outstanding loan balance.

***It is reasonable to conclude from the above that the likelihood of loss from SO mortgage loans, is overall lower than a standard mortgage loan due to the MPC and associated guarantees.***

***Mortgage Arrears***

It is hard to disentangle mortgage arrears for SO mortgages out of the total pool of residential mortgage arrears. We therefore depict data on all residential mortgage arrears in Figure 3.5. We see that a large part of the arrears of mortgages in arrears over 3 months are repaid within one year. The arrears over 3 months have gradually declined since 2014 from 1.58% of all mortgage loans to 0.8% in 2022. In turn, arrears over 12 months are steadier over time and vary between 0.26% and 0.39%. They have increased slightly during the Covid-19 pandemic.

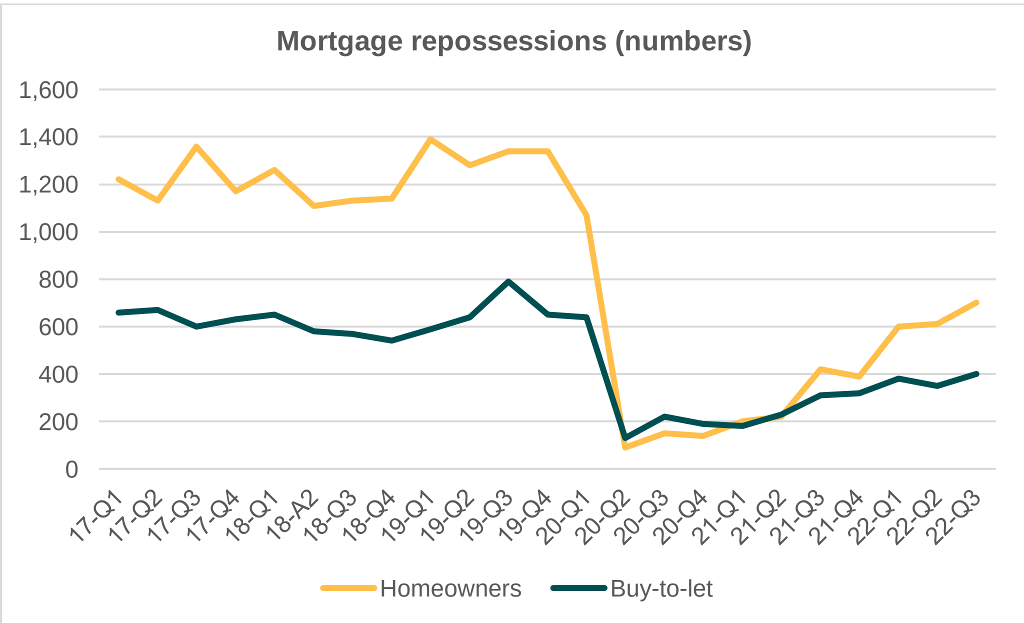
**Figure 3.5: Share of mortgages in arrears over 3 months versus over 12 months, all mortgage tenures**




*Source: UK Finance.*

Figure 3.6 shows the number of mortgage repossessions for *all* mortgages, not only SO mortgages, over time. We can see that the numbers are very low and represent no more than 2% of all loans. During the Covid-19 pandemic there have been historically low repossession rates, in part due to the eviction moratoria and the temporary measures introduced for mortgages. In general, repossessions have been falling since the GFC and the last few years have been having low repossession rates of around 1% of outstanding mortgages. This is in line with findings about SO property repossessions, which are also below 1%, as shown further in the report.

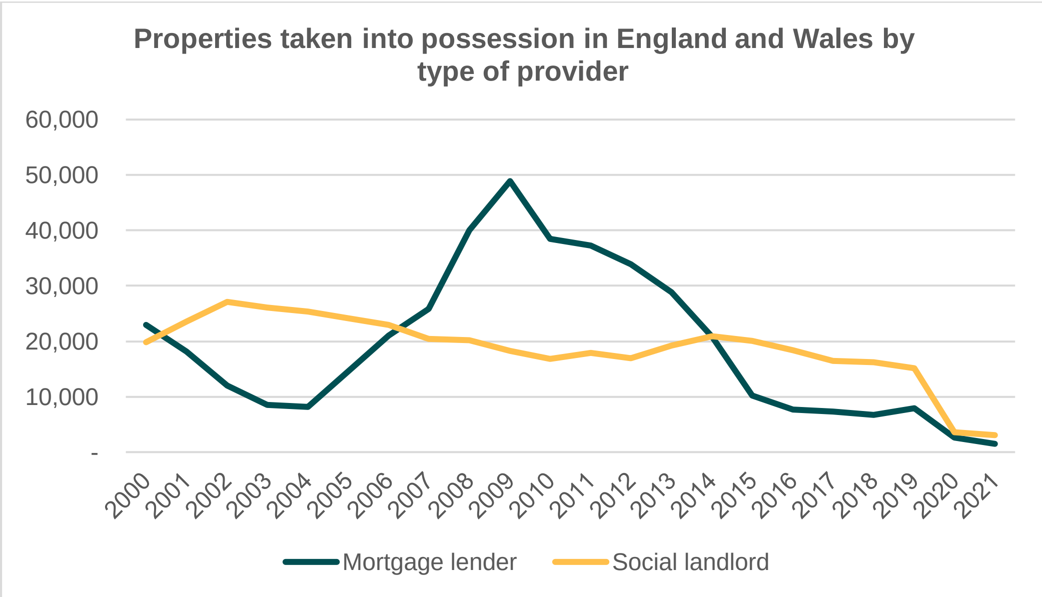
**Figure 3.6: Mortgage repossessions for *all* mortgages over time**




*Source: UK Finance. All mortgages including SO mortgages.*

For the sake of completeness, we also looked at the relative performance of lenders and social landlords using Ministry of Justice data. We see different patterns in those two types of repossessions. Repossessions by social landlords are steadier over time, as depicted in Figure 3.7. During the GFC, repossessions by social landlords remained stable at around 20,000, while repossessions by mortgage lenders peaked in 2008-2009 reaching nearly 50,000 properties per year. Since then, there has been a steady decline in repossessed properties by mortgage lenders. As of 2021, both, social landlords and mortgage lenders have a similar number of repossessed properties, around 3,000.

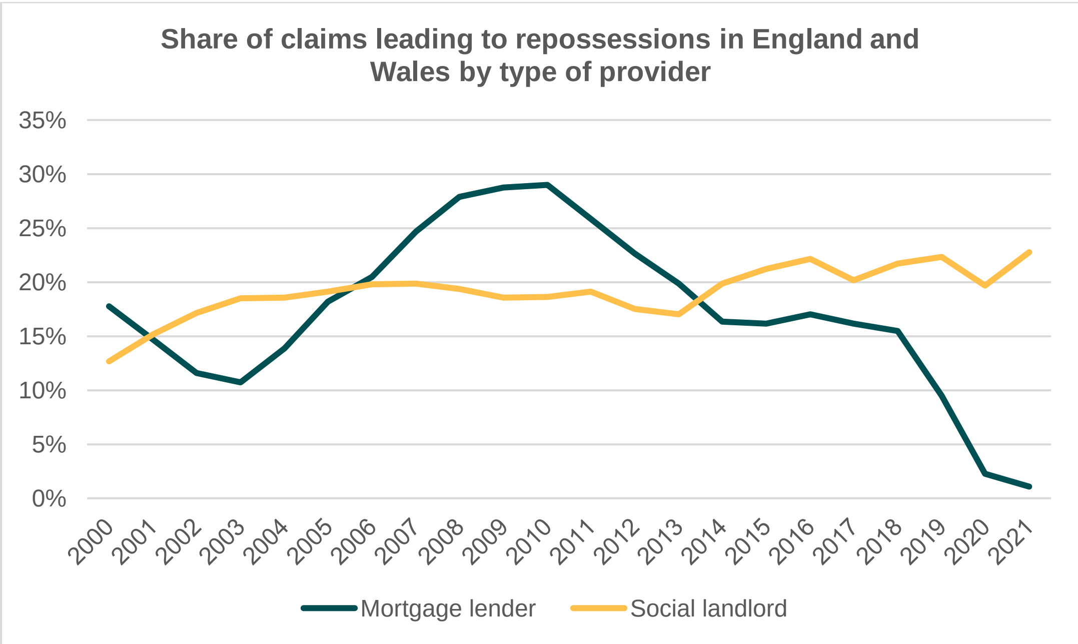
**Figure 3.7: Properties taken into possession in England and Wales**




*Source: Own calculations, from MoJ Mortgage and Landlord Possession statistics.*

Figure 3.8 shows a similar pattern with the share of claims made (i.e. actions) by county court bailiffs leading to repossessions, using Ministry of Justice data. Social landlords have a steady share of claims leading to repossessions between 2000 and 2021, ranging between 15% and 23%. On the contrary, mortgage lenders, have seen a gradual increase in the share of claims leading to repossessions starting in 2002-2003 up until 2010, from 10% to nearly 30%. Since 2010 there has been a steady drop in the share of claims leading to repossessions, which in 2021 was at an all-time low of 1%.

**Figure 3.8: Share of claims leading to repossessions in England and Wales**




*Source: Own calculations, from MoJ Mortgage and Landlord Possession statistics.*

## Chapter 4: The Shared Ownership Rental Market

SO is sometimes termed “the fourth tenure” – a hybrid form of tenure that has features common to social renting, private renting, and owner occupation. Unlike Help to Buy purchasers (in the first 5 years), shared owners renting from RPs or local authorities need to pay rent on the share that they do not own from the outset.

Rent is payable on the unacquired share of the property held by the RP. Homes England model incorporates a rent increase of the Retail Price Index (RPI) plus 0.5%. The initial rent at the point of purchasing the SO unit is calculated as a percentage from the valuation of the property at the time of initial purchase. This percentage should not exceed 3% but is normally set at 2.75%. The *initial* annual rent therefore is calculated as

$$Annual\ rent_0 = Valuation_0 * 2.75\% * Share_0.$$

Where $Valuation_0$ stands for the market value of the SO unit at the time it was built and sold initially. $Share_0$ stands for the initial share being purchased.

For consecutive years for the same SO owner where the share remains unchanged, the rent will be growing at a rate of around the RPI+0.5%:

$$Annual\ rent_t = Valuation_0 * 2.75\% * Share_t * (1+RPI\% + 0.5\%)^t$$

Where $t$ is the time since the property has been purchased by the SO owner and $Share_t$ is the share in period $t$.

While the rent cannot go down (unless there is negative RPI growth) as shown in above formula, it also cannot go up if, for example, market rents or house prices grow at a faster pace than the RPI. In the current environment of high inflation, however, the rent on affordable homes did not go up by the RPI, but was limited to 7% increase, which has been seen as a threat to revenues of RPs.[27]

Market data on SO rent are not publicly available. However, SO rents of newly purchased SO units can be extrapolated from market prices of SO homes, which are available. To determine the initial rent at the onset of the SO tenure, we calculate the annual rent as in the above first equation using 0% as the value of the *Share*, in other words, we assume the SO owner rents 100% of the SO property (which of course in reality they don’t). These calculations are presented in Figure 4.1 Panel A, where we also present estimates of social rent and affordable market rent for general needs housing, available from government sources, as well as market rent.[28] As illustrated in Panel A, the rent for SO properties exceeds social rent and affordable rent but is slightly cheaper than renting on the private market. While social rents have been almost constant over time, SO rents, affordable rents and private market rents have increased since 2015, with the rate for SO rents showing bigger increases. For 2021, the average SO rent was £615 compared to a rent of £689 on the private market, £591 for affordable rent, and £408 for a home provided for social rent. This makes SO rent 10% cheaper than private market in 2021.

[27] Before the Autumn Statement in 2022, the G15 group of RPs, basically the largest London associations had said that if shared ownership rent increases were limited to 7%, this would cut its RP members’ collective income by £191m over the next five years. Over the next 30 years, this will equate to £1.15bn.

[28] Data for market rent comes from Statista. Data for SO rent comes from DLUHC and MHCLG, Table 704; SO rents are estimated based on a 0% share as 2.75% per annum of home values and converted to monthly rents. Data on affordable rent general needs housing for 2019, 2020, and 2021 are obtained from the Regulator for Social Housing. Affordable rent for 2015-2018 is calculated as 80 percent of market rent.

For comparison, SO rents were 26% cheaper compared to market rents in 2015. ***It seems that the gap between the two tenures, SO rent and market rent, in terms of rent levels seems to have been closing over time, making SO rent less affordable in relative terms.*** We also see a convergence in the SO rent and affordable rent for general needs housing over time.

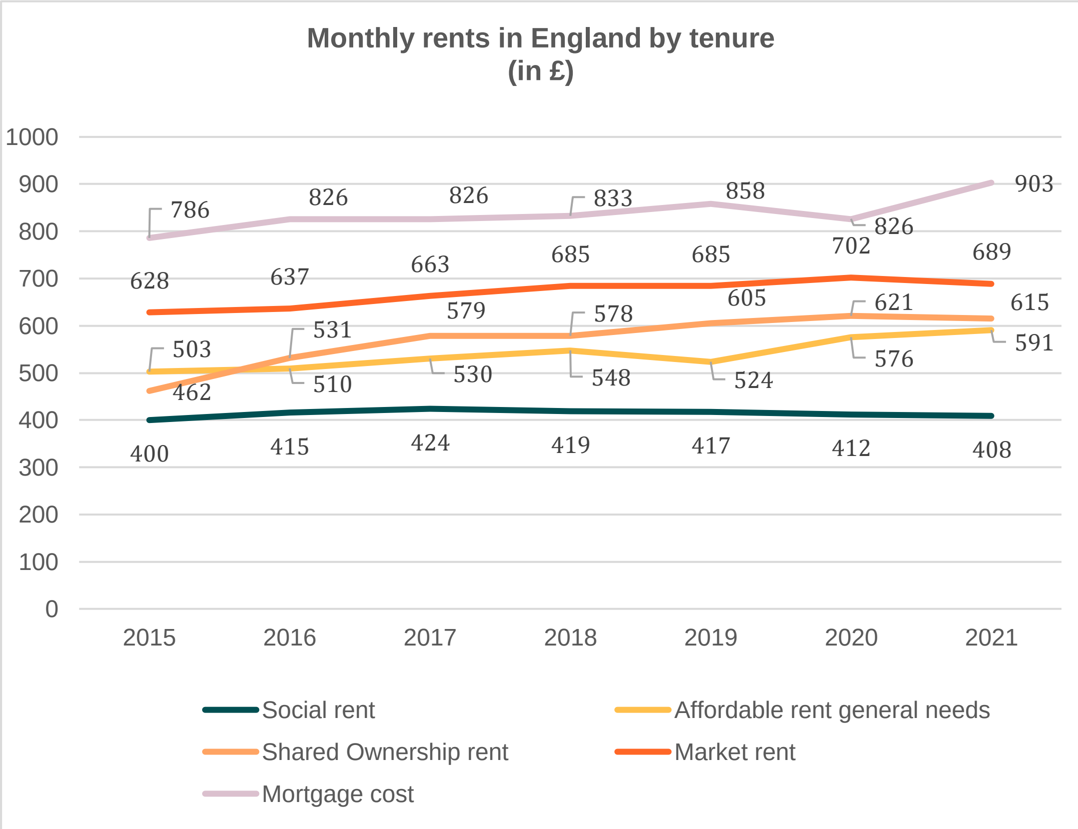
Furthermore, the SO rent calculation does not include service charge, which in most cases is already incorporated in private rents. Based on our data, which is mostly for London and the South East and comprising of apartment units, the average service charge between 2015 and 2022 is £68 per month, which when added to the SO rent, almost takes out any rent savings. However, it is important to keep in mind that the stock of rental housing differs substantially, with SO units being newer and more modern than much of private rental stock. Moreover, most of the SO stock is not in London and is typically made up of houses rather than flats thus the service charges/estate charges will be lower.

Internal calculations by one of the RPs in our sample suggests that the secondary housing market is around 20% more expensive than monthly SO costs and new build housing is 30% more expensive.

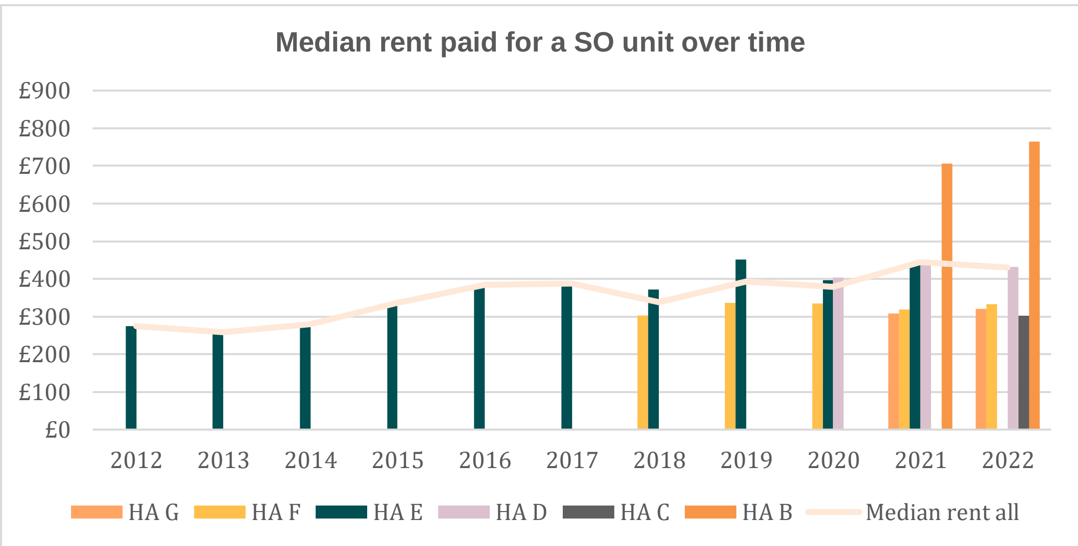
In addition to above SO rent approximation, we also report actual data based on granular CORE records from our sample of RPs. Figure 4.1 Panel B shows the median rent paid for a SO unit by SO residents owning varying shares of equity for the period between 2012 and 2022. We report median data for each RP as well as the average of the median values of the RPs. Between 2012 and 2022, the average median value of the data are £344 per month. This is lower than the approximation in Figure 4.1 Panel A because the £344 is the rent paid for the share that has not been purchased, which on average is about 60% of the property; instead, Panel A shows the rent for 100% rent, i.e., 0% equity in the SO unit. The median rent grew from £272 in 2015 to £402 in 2022. The rent for 2021 is reported to be on average £418. Assuming this is applied to 60% of the property value, a rough conversion to 100% renting, gives us a value of £697. This is close but somewhat higher than the simulated SO rent of £615 in Panel A. This might be a sample issue, as we only report data for a subsample of mostly South East and London located SO units. Their rents would be respectively higher. It is also worth noting that the rent reported in Panel A is the rent for new SO properties, based on the prices of SO units.

**Figure 4.1: Rents by tenure over time, England**

**Panel A: Monthly rents in England by tenure**




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




*Source: Data for Panel A come from DLUHC and MHCLG, [Table 704](), and [Statista]() for market rent, house prices and mortgage rates. SO rents are estimated based on a 0% share as 2.75% per annum of home values and converted to monthly rents. Data on affordable rent general needs housing for 2019, 2020, and 2021 are obtained from the Regulator for Social Housing. Affordable rent for 2015-2018 is calculated as 80 percent of the market rent. Mortgage costs are calculated as the monthly payments on a 30-year mortgage for an LTV ratio of 80%. House price data are from Nationwide as quoted by Statista. Mortgage rates are downloaded from Statista. Data for Panel B comes from granular CORE records for a sample of RPs and is associated with the rent paid by SO residents on the share owned by the RP.*

***Rent Arrears***

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

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

***Tenants in Arrears***

On average, for three of above RPs, between 14-29% of the SO owners are in arrears at a given month during the sample period. The ratio appears to be high because, as mentioned above, we are counting tenants with very low amounts of arrears (below £10). Those would be called "***technical arrears***", which can be due to i.e., a standing order date or amount being out of alignment with the rent due period or rent amount.

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

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

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

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

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

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

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

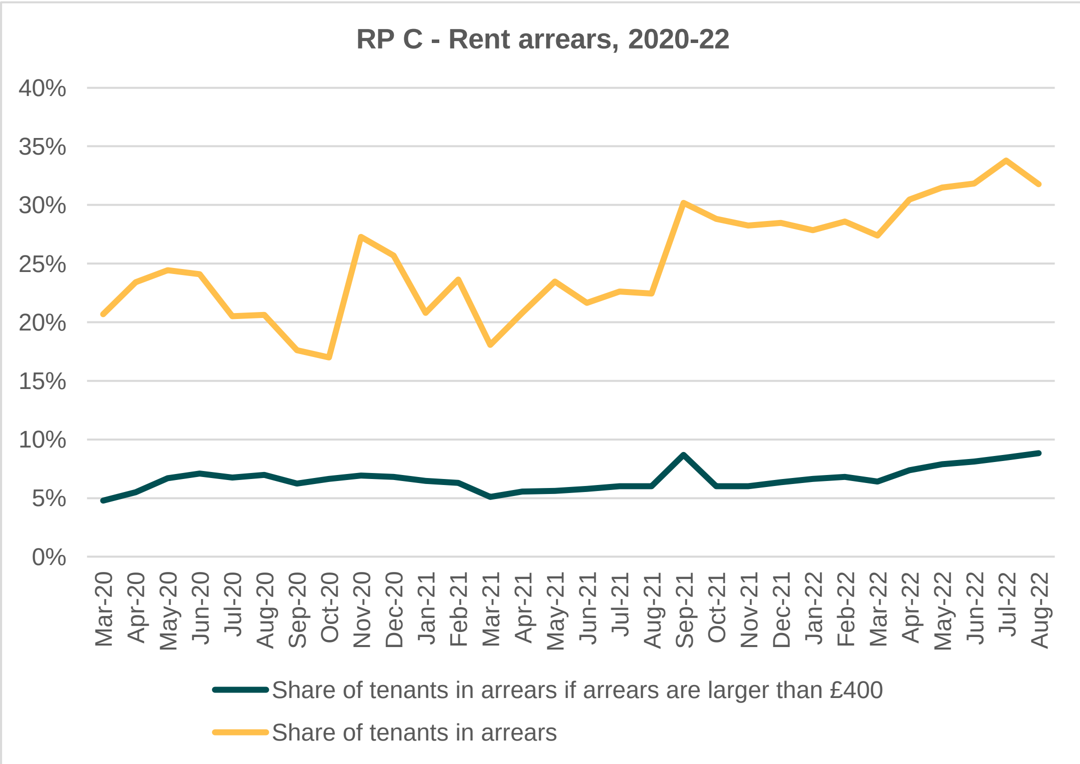
Figure 4.2 Panel E shows that in more than 50% of the cases, the SO tenant is in rent arrears no longer than one year. About 13% of the arrears are for only one month. This is a sign of technical rent arrears. 17% of the SO tenants are in arrears for more than three years.

Figure 4.2 Panel F reports information on the median and average amount in rent arrears per tenant in arrears between 2013 and 2022 for a London RP. What is striking is that the median value is substantially lower than the average value. This is a sign of some abnormality in the distribution of the data. Given that averages are so much larger than medians, we can regard the data as skewed, with a small number of residents having very high rent arrears, while the majority having rent arrears of no more than £200 on average. Average rent arrears per tenant have been gradually going up; rent arrears per SO resident double between 2013 and 2020. Panel F also shows values for the 95$^{th}$ percentile of the rent arrears. This means that we look at the 5% of the residents with the highest monthly rent arrears. The 95th percentile value has increased gradually over time from £1,250 in April 2013 to £4,000 in September 2022. The above goes to show that looking merely at averages or aggregated data when analysing rent arrears is not enough to understand the dynamics. A lot of information is hidden in the disaggregated data and more research is needed to understand underlying dynamics of rent arrears.

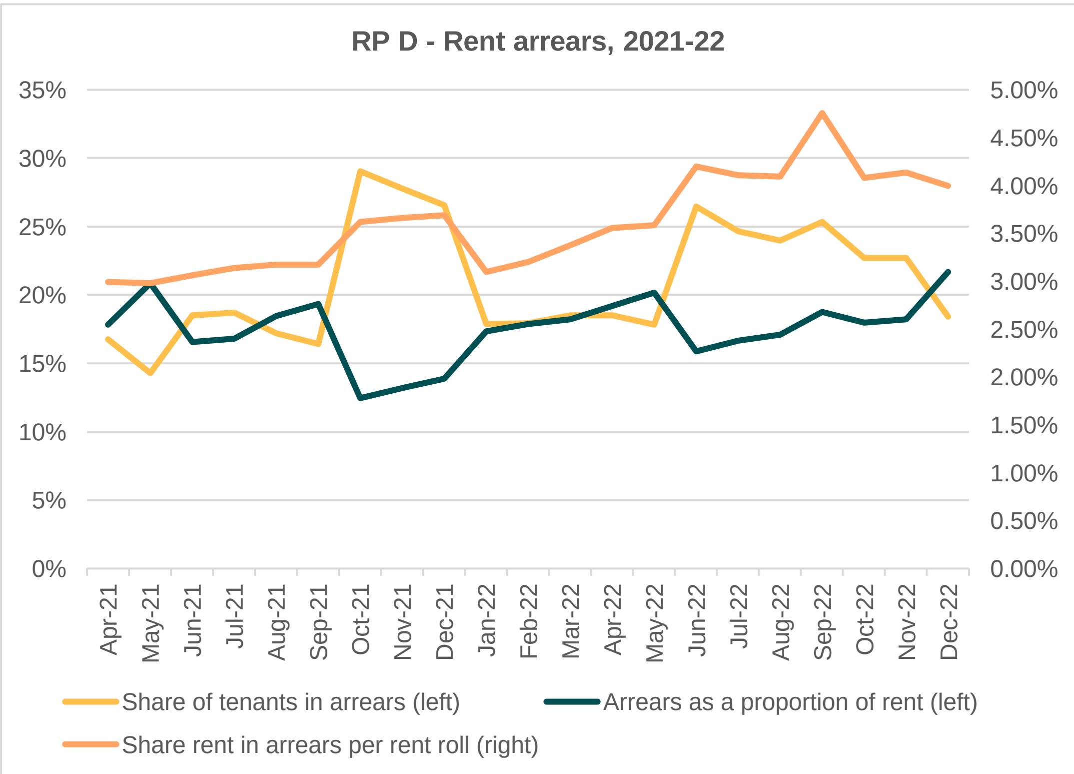
Looking at the SO tenants who have been in arrears for more than five years, we see that the average value of the monthly size of rent arrears has grown from £500 in 2012 to more than £2,000 in 2022 (see Panel G). While some of it is during the Covid 19 period, there is a pattern that some of the SO owners that have been in arrears for a long time, accrue even more arrears as time goes by. In turn, the median value of arrears is steadier ranging between slightly more than £300 in 2012 and £1,100 in 2022.

**Figure 4.2: Rent arrears for SO properties by RPs**

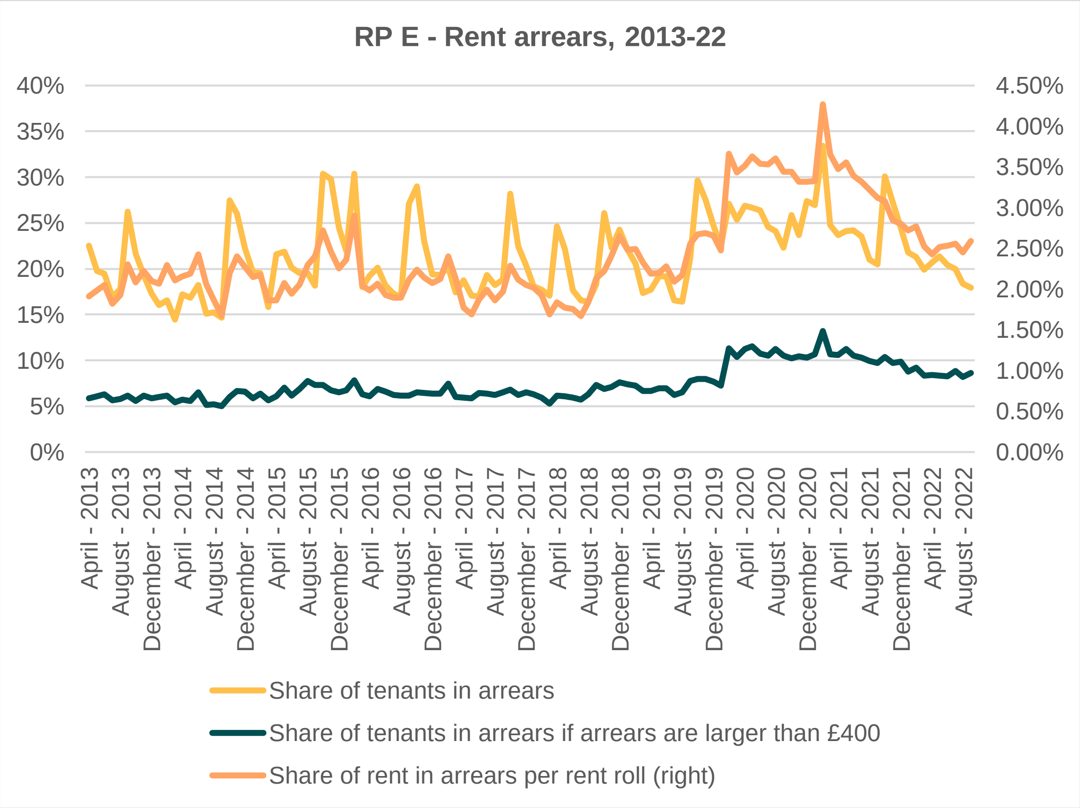
**Panel A**



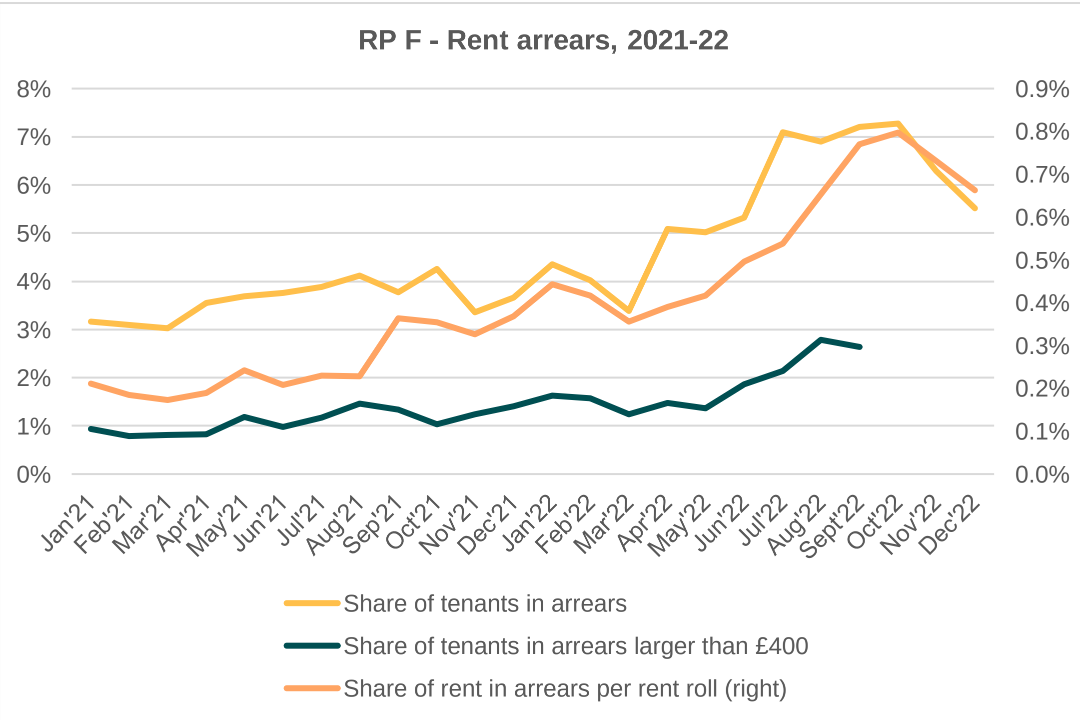

**Panel B**



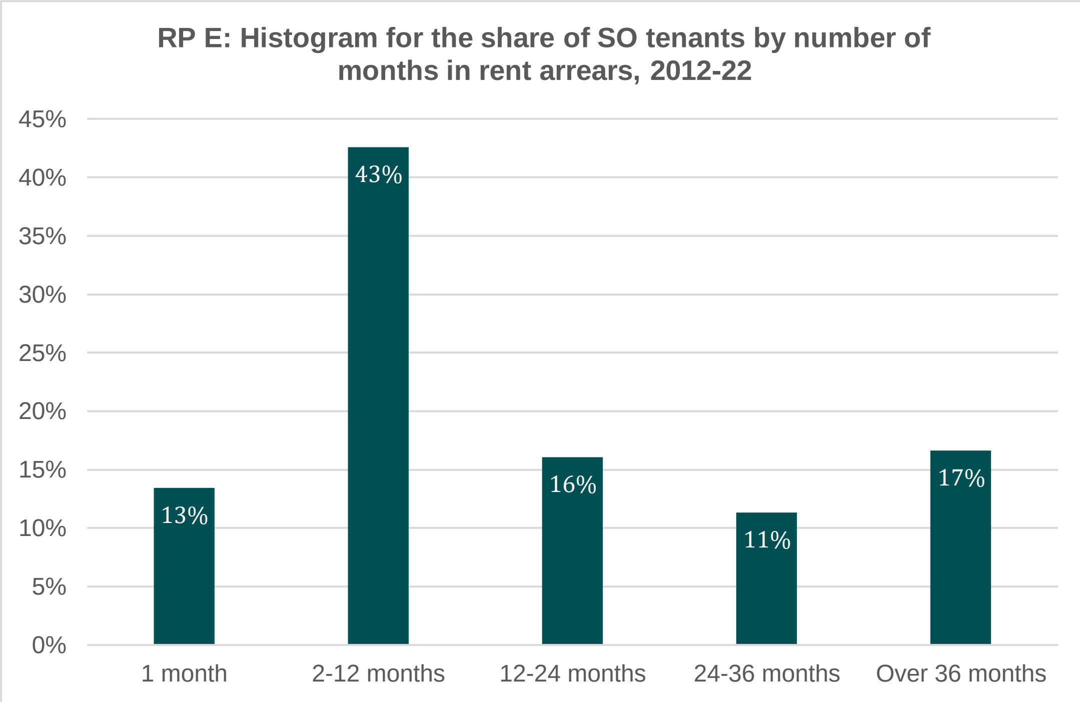
**Panel C**



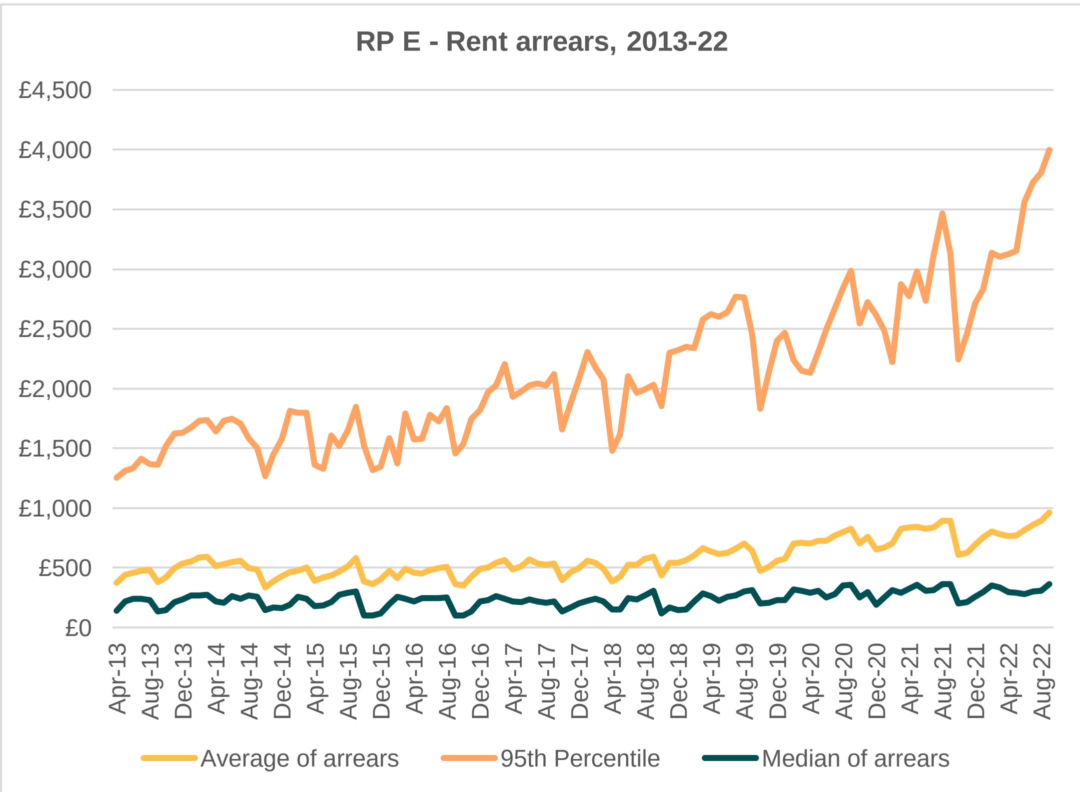

**Panel D:**



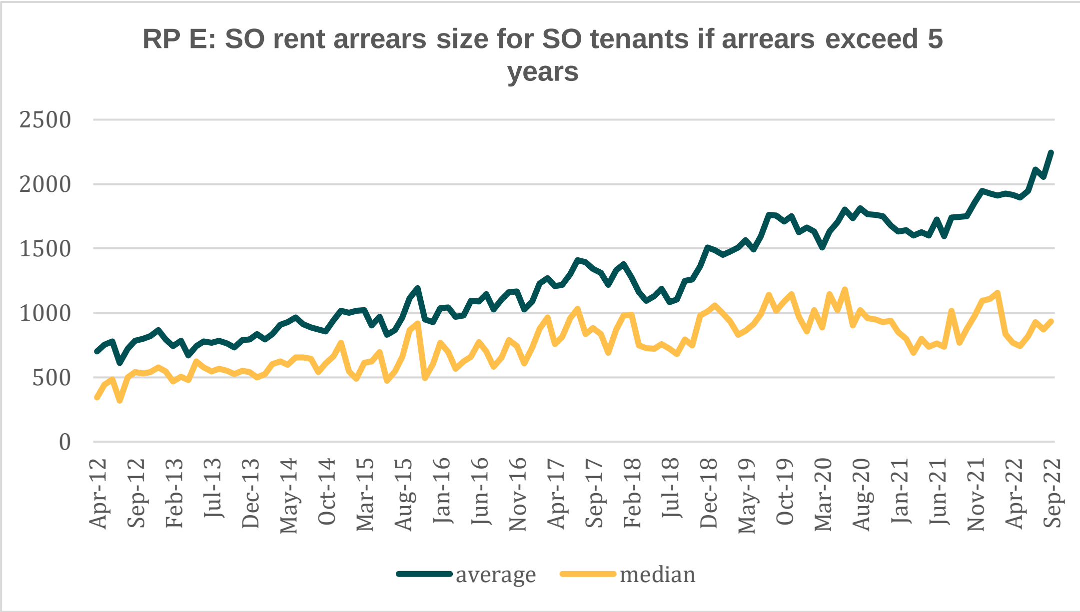
**Panel E: Histogram for the share of SO tenants by the number of months in rent arrears between 2012 and 2022**




**Panel F: Size of monthly SO arrears**



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




*Source: Own calculations for SO properties based on administrative data from a sample of RPs.*

We also present in Figure 4.2 Panels B, C and D the share of annual rent arrears out of total annual rent roll for three of the RPs. The share for 2020-22 ranges between 2.4% and 5%. For one of the RPs, we received data going back to 2013. The share of SO rent arrears has been steady between 2013 and 2018. During the Covid-19 pandemic the share of SO rent arrears has gone up, and for some months it has nearly doubled.

### *Reasons for Rent Arrears*

We have received notes from a small RP related to reasons that SO owners are in arrears in 2021 and 2022. The notes do not cover all cases but only those ones for which some additional information was reported. In about one third of SO owners in rent arrears, the reasons are not identified. In most of the cases where a reason has been pointed out, the SO owner is in rent arrears because their direct debit has bounced back; this is in almost one third of the cases. Other reasons for rent arrears are associated with ill health (Covid-19 related), issues with benefits, unemployment, or other personal circumstances, including death of the SO owner.

Based on above notes, we can see how the RP is dealing with the rent arrears. The most common scenarios to arrange repayment of rent arrears are either spacing the outstanding rent payments over time or paying lump sums. Based on a snapshot information as of mid-2022, in more than 50% of the SO properties in rent arrears, an arrangement to pay back the rent arrears is put in place. In about one fifth of the rent arrear cases, the RP gets in touch with the lender. In about a third of those cases, an arrangement has been made to pay off arrears.

For one RP we are able to match the rent arrear records to CORE records. This enables us to assess descriptively some of the linkages between SO tenants in rent arrears and resident characteristics, which can provide for a unique insight into drivers of rent arrears. We split our data into SO owners who have never been in rent arrears and SO owners who have been at least once in rent arears. Looking purely at averages from summary statistics, we do not observe major differences between the two types of households. Looking at averages, it is thus hard to disentangle differences between the two cohorts.

Further analysis into the data reveals a relationship between arrears and LTV ratios. We observe that SO residents who have mortgages with LTV ratios above 80% seem more likely to be associated with being in arrears for a longer period of time and with aggregate arrears being higher than £2,000. Interestingly, we also see that SO residents who have been in arrears for over 5 years tend to fall in the middle income category, rather than low income, with income between £20,000 and £50,000. However, it is rather low-income residents, who have the highest aggregate arrears. Those are households with incomes between £10,000 and £35,000 who have at least once been in arrears for £4,000 or more. It is important to note that this is based on data between 2012 and 2022 from a single RP who operates in London. There are other factors which play a role for rent arrears but, as this is beyond the scope of this report, we leave it for future research.

***Possessions***

SO owners are so called assured tenant occupiers/leaseholders, and they can default on their mortgage or on their rent payments or both. If the SO owner gets into difficulty with payments, it may be possible to reverse staircase (i.e., the social landlord can buy back shares in the property). This however is not a right of the SO owner and is a last resort measure. Reverse staircasing does not seem to be performed often however.

Normally, rent arrears are cleared by passing them on to the mortgage lender as a capitalised sum. If the rent is in arrears for more than two months, the RP can inform the mortgage lender of the position. A SO owner may ask the mortgage lender to cover the rent for a temporary period if they have a genuine reduction in income (e.g. period of sickness). Any rent capitalised by the mortgage lender can then be claimed via possession proceedings. If the lender does not agree to cover the rent for the SO owner on a temporary basis, the RP can decide to terminate the assured tenancy and commence possession proceedings. Under the Housing Act 1988, it must give the mortgage lender at least 28 days written notice. This can allow the lender time to remedy the breach. If the SO owner does not have a mortgage, and later falls behind the rent, the RP can terminate the assured tenancy without any entitlement on the part of the leaseholder to the return of any capital appreciation in the part-owned property.

Possessions both, as a result of mortgage arrears and as a result of rent arrears, are very rare. Our data analysis using administrative data from the sample of RPs shows only a very small number of repossessions of SO homes. The repossession rate calculated as number of repossessions out of all rent arrear cases is less than 1%.

One of the largest RPs on the market reports for the period between 2009-2019 a total of 28 homes were taken into possession. It seems those have occurred mostly around 2009-2010, i.e., in the aftermath of the GFC. From 2011 to 2016 about three repossessions occur on average per year. Since 2017 a maximum of one possession is reported. As a percentage of total stock, between 2009 and 2019, repossessions are negligible, representing less than 0.3% per year. This is in line with Clarke et al. (2016)[30] who report possession rates of 0.08% in 2015 and 0.17 to 0.43% from the English Housing Survey for the previous eight years. The SO possession rates are lower than what we see on the mortgage market discussed in Chapter 3.

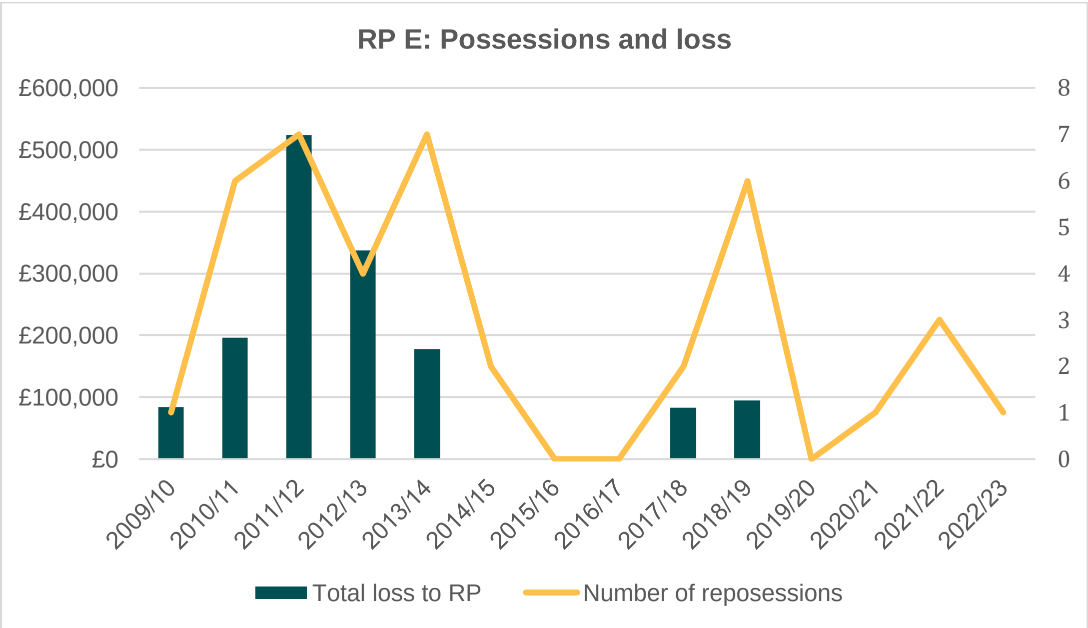
We have also received repossession data from a major RP operating in the South East for the period during and after the GFC, 2008 – 2012. A total of 81 repossessions are

[30] Clarke, A, Heywood A and Williams, P (2016) Shared Ownership: Ugly sister or Cinderella? Council of Mortgage Lenders, London

reported, an average of 16 SO properties repossessed each year. This means a repossession rate of 0.77% per year. As above, the highest repossession rates are in the aftermath of GFC, between 2009 and 2011, with repossession rates of about 1%.

Another major RP operating in London has provided us with rich data on repossessions from 2010 until 2022, including notes related to each repossession. Figure 4.3 shows the number of properties being repossessed every year starting in 2009 and the loss incurred by the RP. There was a total of 40 repossessions in the last 12 years; this is an average of 3.3 repossessed SO properties per year. The highest number of repossessions is in 2011-12 and 2013-14 – 7 in each year. There are years with no repossessions. On average, close to 3 properties are repossessed each year. The average total loss per year as a result of the repossessions is just above £100,000, this is an average loss per property of around £35,000. However, this value fluctuates from year to year varying between £15,000 and £80,000 per property.

**Figure 4.3: Possessions and loss to RP**




*Source: A major London RP, administrative granular data between 2009 and September 2022. Number of repossessions on the right axis.*

***Time to Possession***

We also observe how long it took for the SO owner to get into financial difficulties from the point when they started living in the property until they were notified of the repossession. This is based on data from two RPs. One is based on data for 2009 and 2010 for SO properties in the South East. On average, households of repossessed SO properties spend about 4 years living in the properties. The median value is 3 years. The minimum time is 1.2 years and the maximum time is 19 years. Data from another RP on London, shows 40 repossessions, for which it took on average 8.4 years for the SO owner to have their property repossessed since they first moved in. The median value is 5.75 years showing a small number of SO properties for which the SO owner spends a considerable amount of time living in the property before it is repossessed, a maximum of 33 years; the minimum time is 0.75 years. The longer the SO owner stays in the property, the more likely it is that the value of the SO home would have gone up, so that the risk of loss by the lender decreases. In more than one third of the cases, the lender had not made any MPC claims presumably because their mortgage and costs were covered by the sales proceeds. However, often we see that the SO owners whose properties get repossessed are in arrears from the start, which might be associated with losses for the RP. In more than half of the repossession cases, the lender has capitalised rent arrears. In summary, the lender is faced with less of a loss as compared to the RP, who might end up covering the rent arrears in a case of a repossession.

We are also able to track how long it takes to repossess the property from the date the SO resident is notified about the repossession to the property being sold. The median value is around half a year and in extreme cases it might take more than one year. SO owners of repossessed properties have purchased on average 45% of the equity, with the maximum of 80% equity.

We have received notes from one major London RP related to possessions. The majority of the cases has been in arrears for a long time (often early on in the tenancy). The SO owner is able to remain in the property as the lender keeps “paying the rent regularly” via the capitalisation process described above. In the remainder of the cases, the notes point out specific reasons associated with either personal circumstances, unemployment, benefits, or health.

## Chapter 5: Staircasing

Data on SO staircasing is provided by DLUHC in the Private Registered Provider Statistical Data Return (SDR) dataset. The data are based on information reported by private RPs, who account for the majority of the SO stock, owning more than 220,000 SO units as of 2022. The SDR however only providse data on full staircasing, to 100% ownership and not on partial staircasing. It also reports information on the length of time taken to staircase to 100%, or the proportion of properties staircased to 100% by year of original sale.

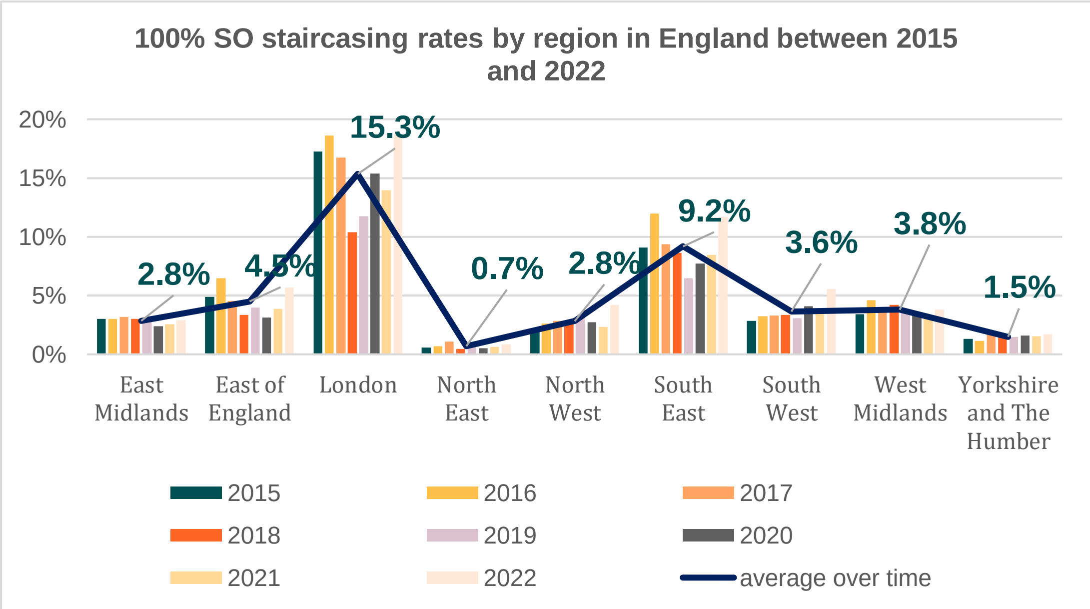
Staircasing to 100% does not always mean that a SO owner who staircases is doing this in order to cary on living in the property. 100% staircasing is typically associated with a *back-to-back* sale, in which the SO owner buys out the remaining share from the RP and sells the entire property, rather than a share of it. Once staircased to 100%, the property becomes a mainstream owner-occupied home. This way, the seller might find it easier to sell the property rather than selling a share of, e.g. 40%. Typically, the RP will reinvest the sales proceeds into building or purchasing through S106 more affordable homes. So, regardless of what happens to the home it is safe to assume that there might most likely be further investment in affordable housing provision when a household staircases to 100% and the property leaves the affordable homes sector. There will be questions about the optimal use of these funds vis-a-vis investing in more SO (with a rent yield of 2.75%) and in the wider private rented sector (PRS) where a higher yield might be obtained.

We use the SDR data and depict in Figure 5.1 the staircasing ratio to 100% between 2015 and 2022 and across regions. Panel A shows large regional variations in staircasing ratios and some but smaller variations across time. By far, the region with the highest 100% staircasing rate is London, on average over the sample period it is 15.3%. This is followed by the South East with 9.2% of the stock. All other regions have a ratio which is below 4.5%. The lowest staircasing is in the North East (0.7%) and Yorkshire and the Humber (1.5%). The high 100% staircasing rate in London can partially be explained by SO owners moving home more frequently and hence staircasing in order to be able to sell the SO unit. Taking again London as an example, the staircasing ratio varies from 10% in 2018 to 19% in 2022. This pattern is in line with house price growth in London. Between 2015 and 2018 year-on-year growth in apartment prices in London has been positive but declining having peaked to 13.5% in March 2016. Prices have been the lowest in 2018 and 2019, declining on average by up to 3.7%. Since 2020, growth has been steady and positive. In 2022, apartment prices grew by up to 6.5%.

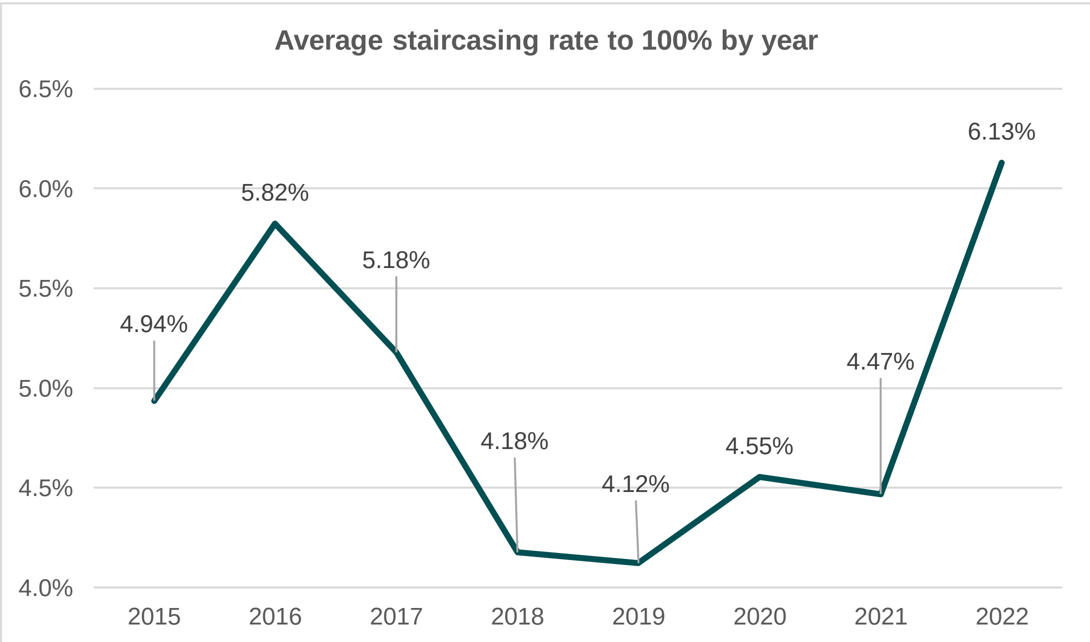
Figure 5.1 Panel B shows average staircasing ratios over time. The average staircasing ratio across all RPs between 2015 and 2022 is 4.9%. This is about 2 percentage points higher than what is reported in Figure 5.2 for our sample of RPs, which points to some differences across providers. The highest staircasing rate since 2015 is in 2022, while the lowest was in 2018 and 2019.

**Figure 5.1: 100% staircasing rate over time and across regions**

**Panel A: 100% SO staircasing rates by region in England between 2015 and 2022**




**Panel B: Average 100% staircasing rate for all RPs in England by year**




*Source: Own calculations using SDR data. Data are based on 100% staircasing reported for SO stock owned by private RPs.*

Given the lack of information about partial staircasing, we complement the analysis above using administrative data provided by our sample of RPs. Figure 5.2 Panel A shows the *total* number of staircasing transactions, which includes staircasing to 100% and partial staircasing (i.e., less than 100%) based on granular administrative data.[31] The number of staircasing transactions has been gradually increasing over time reaching a peak in 2021-22. On average, and based on this sample, about 292 units were staircased in each year between 2012 and 2022. As of September 2022, a total of 824 staircasing transactions were reported, which makes up a staircasing rate between 2.8% and 3.6% of all SO properties held by those RPs, depending on how the total stock of SO is counted.

The staircasing growth, as shown in Figure 5.2 Panel A, has a high degree of volatility with the highest year-on-year growth of 81% in 2021 and a decline of 10% in 2017. The total staircased properties (Panel A) have grown more than 7-fold between 2014 and 2021. This can be due to the growth in the SO market since 2014, as shown in Figure 2.1, with a growth of SO completions between 2014 and 2021 of more than three-fold.

Figure 5.2 Panel B shows the number of staircased units by RP as well as the average across our sample. Where no data are reported for an RP, it means that we have not received data for that year, not that there has not been any staircasing. There is some considerable variation by RP, but this has to do with the size of their overall SO stock.

Figure 5.2 Panel C shows the total (including partial and full) staircasing ratios by RP and we see variations across the providers in our sample. This might be due to how mature their involvement in the SO market is, and also to their size. The smallest ratio is 0.7% out of all SO stock owned and managed by the group RP for 2021-22. The largest ratio is 2.8%.

Figure 5.2 Panel D shows the staircasing ratio from 2012 until September 2022 for a large London RP. The average rate of total staircasing is 2.7% per year. We report staircasing ratios for partial staircasing and staircasing to 100%. Between 2012 and 2022, more than 70% of the reported staircasing transactions are to 100% ownership. As noted earlier, this does not however mean that SO residents end up staying in the staircased unitl rather it can signal a back-to-back sale, as discussed above. Therefore, the 100% staircasing share in unaffordable areas can be a good sign of SO turnover. The remaining 30% of the staircasing transactions for this RP have a median staircasing share of 20%. The 5th percentile, i.e. the 5% lowest share, is 10% and the 95th percentile is 45%. It seems that the majority of the staircasing is associated with 100% staircasing, which in London is less likely to be due to affordability of the remaining share, and more likely to a back-to-back sale with the intention of selling the SO unit. ***Therefore, looking at total staircasing, especially in less affordable areas, might not be a good indication of affordability of the share but rather of its unaffordability or unsuitability.***

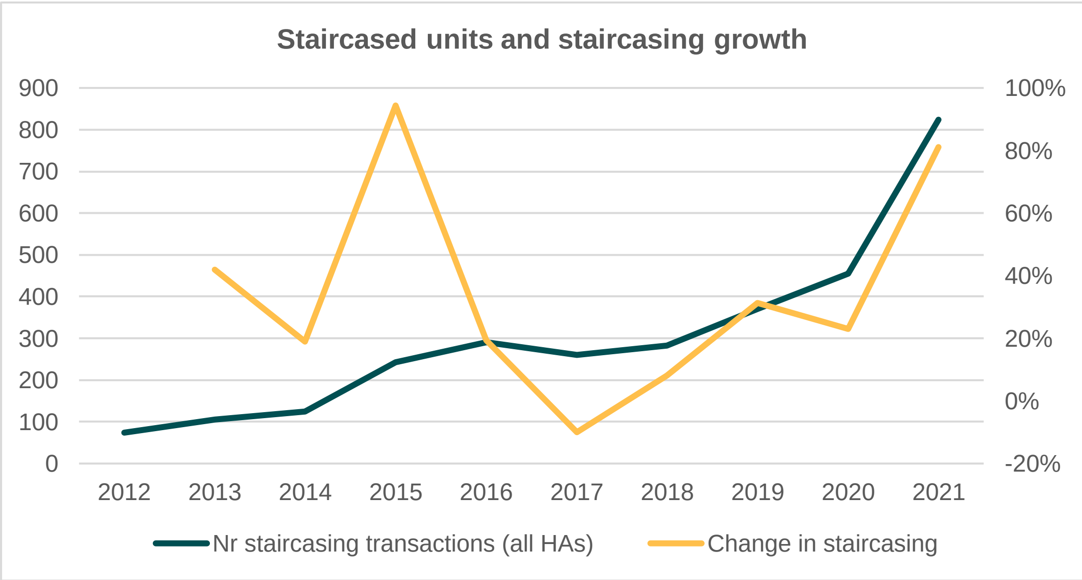
In terms of temporal variation, the years with the highest ratio of staircasing are 2014-16, at 3.7% in total, with 1.2% partial staircasing and 2.7% 100% staircasing. The years with the lowest staircasing ratio, 2019-20, at 2.1% in total, with partial staircasing of 0.6% and a 100% staircasing ratio of 1.5%. ***This means that the actual share of staircasing, reflecting a genuine intent to staircase in order to stay in the property and accrue more equity, might be much smaller, and as low as 0.6%-1.5% for London.*** For 2022-23 we only have records between April 2022 and September 2022, which explains the low value of the ratio, which should normally be based on data from April 2022 to March 2023. ***One can interpret the time-varying results as SO residents preferring to stay in their SO homes during the Covid-19 pandemic.***

[31] Whenever we mention staircasing related to our RP sample, we refer to total staircasing, including partial staircasing.

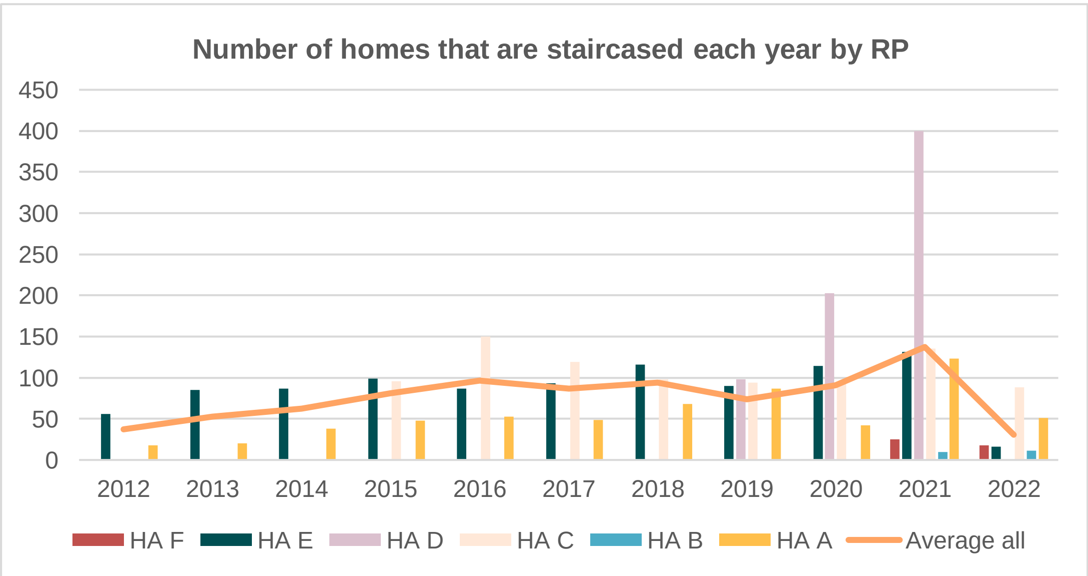
As noted above, RPs can use the proceeds from the SO sales to reinvest the capital back into the development of new SO units, with about 2.5% of the stock being replenished each year, as reported by one of the surveyed RPs.

**Figure 5.2: Staircasing over time for major RPs**

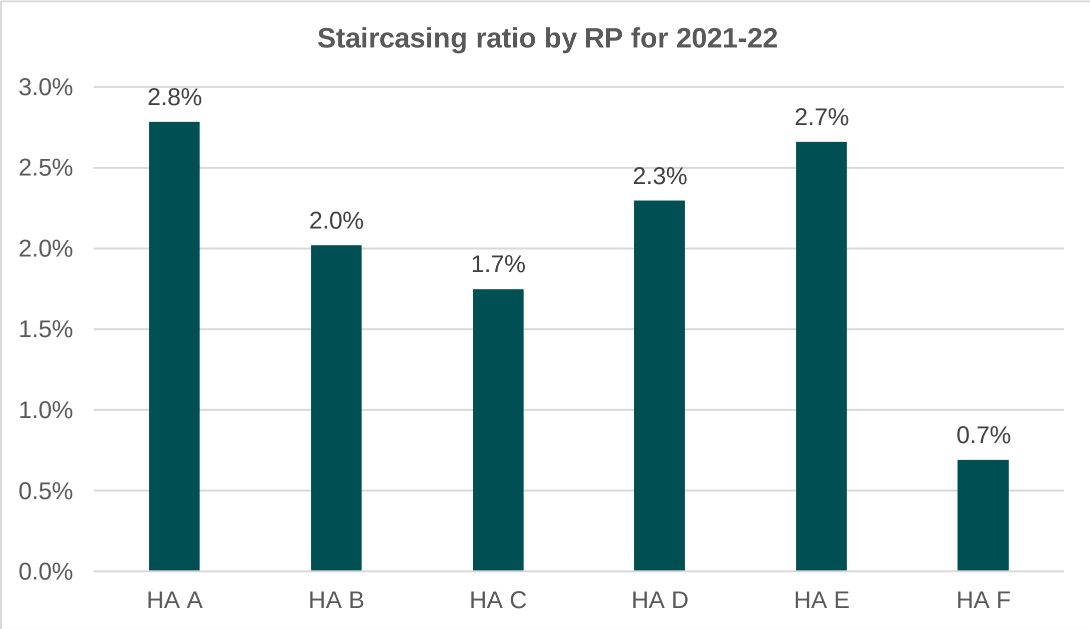
**Panel A: Number of staircased units and year-on-year staircasing growth for a sample of up to six RPs**



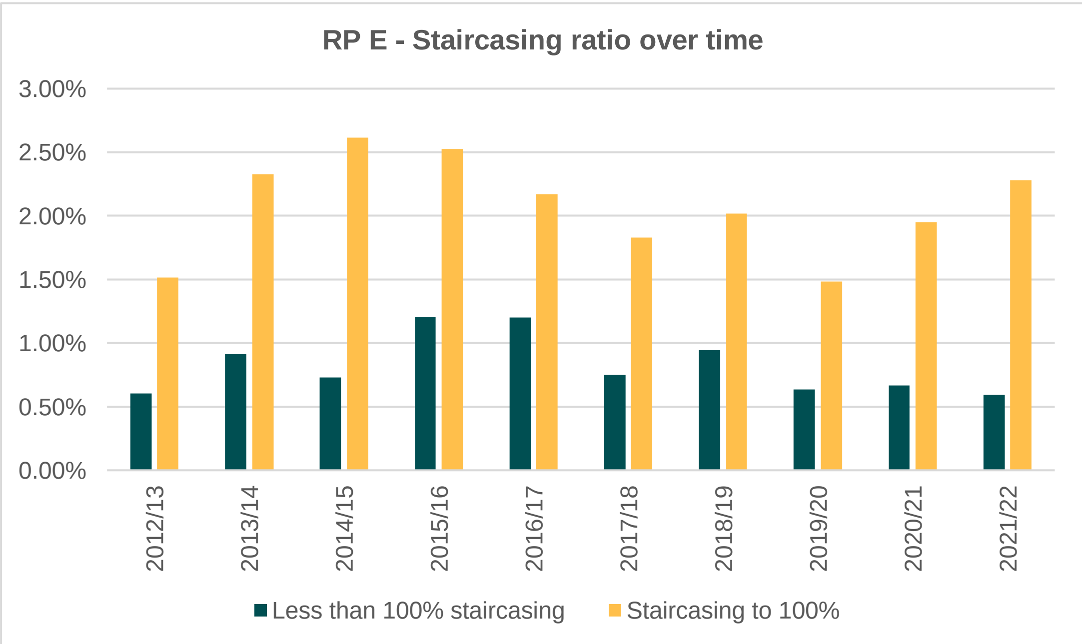

**Panel B: Number of staircased homes by RP and overall average**



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



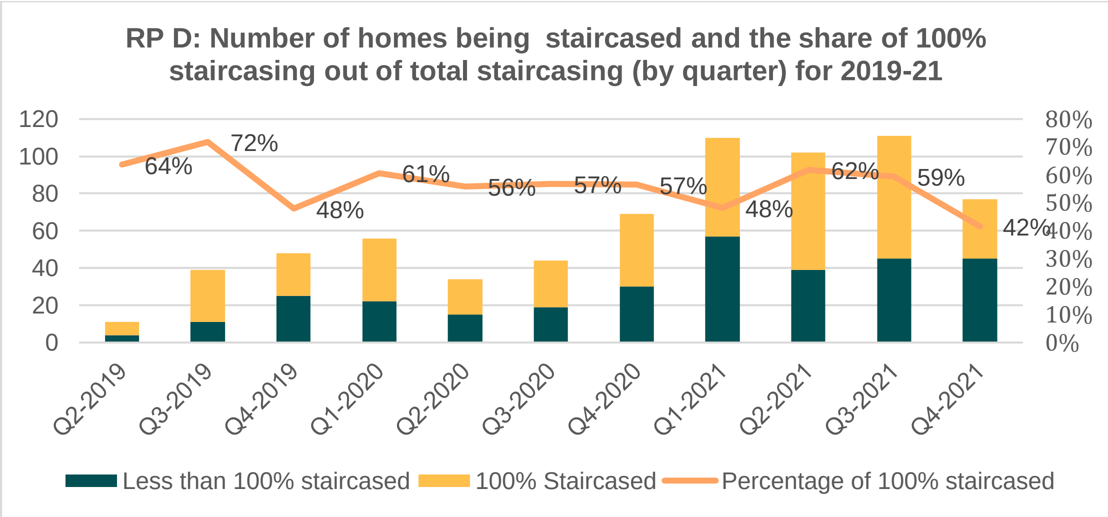

**Panel D: Staircasing ratios of a major London RP**




*Source: This is based on administrative data from a sample of RPs. Where RPs have not provided data for some years, it shows values as zero. Panel C reports staircasing rates based on the total SO properties owned and managed by the group RP. Panel D: data for a major London RP based on individual transactions between 2012 and September 2022. Nr in Panel A stays for number.*

Figure 5.3 shows the number of homes being staircased and the share of those staircasing transactions that end up in 100% equity year by year. The data are based on information from a single major RP since 2019. We can see that staircasing transactions vary substantially over time with the lowest level of staircasing in Q2 2019 and Q2 2020. The highest staircasing has arisen in 2021, with more than 100 staircasing transactions each year. There is some seasonality in the staircasing within a year with the second quarter being the weakest and the strongest being the first quarter. In most quarters, more than half of the staircasing results in 100% ownership of the property; between 42% and 72% of all staircasing is to 100%. For 2021, this translates into a staircasing ratio to 100% of around 2.5%.

**Figure 5.3: Number of homes being staircased and the share of 100% staircasing out of total staircasing by year for a major RP**

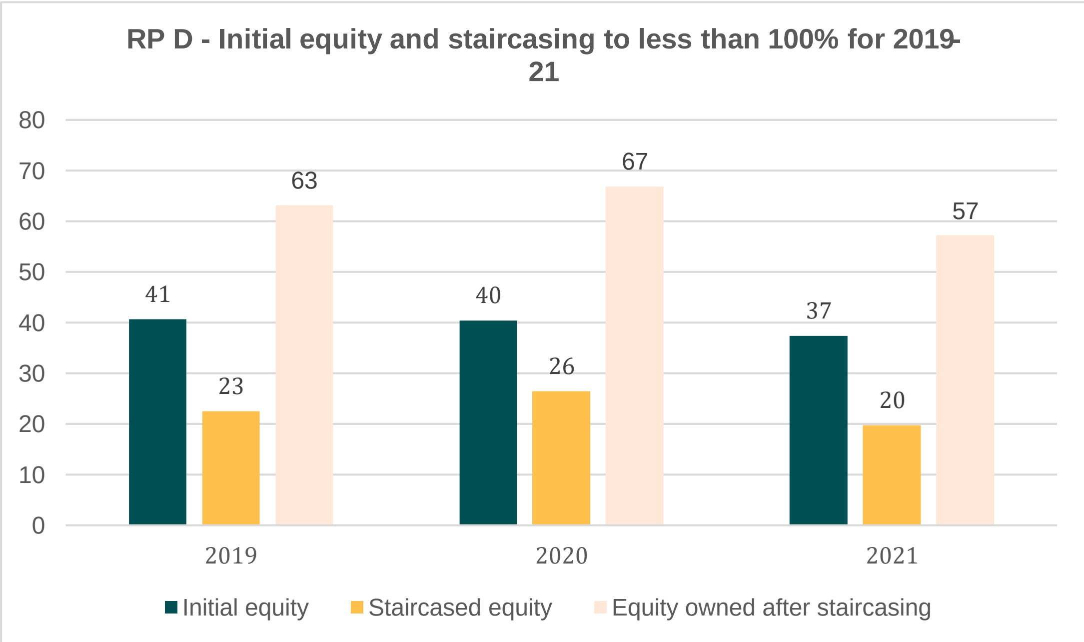



*Source: This is based on granular administrative data from a major RP.*

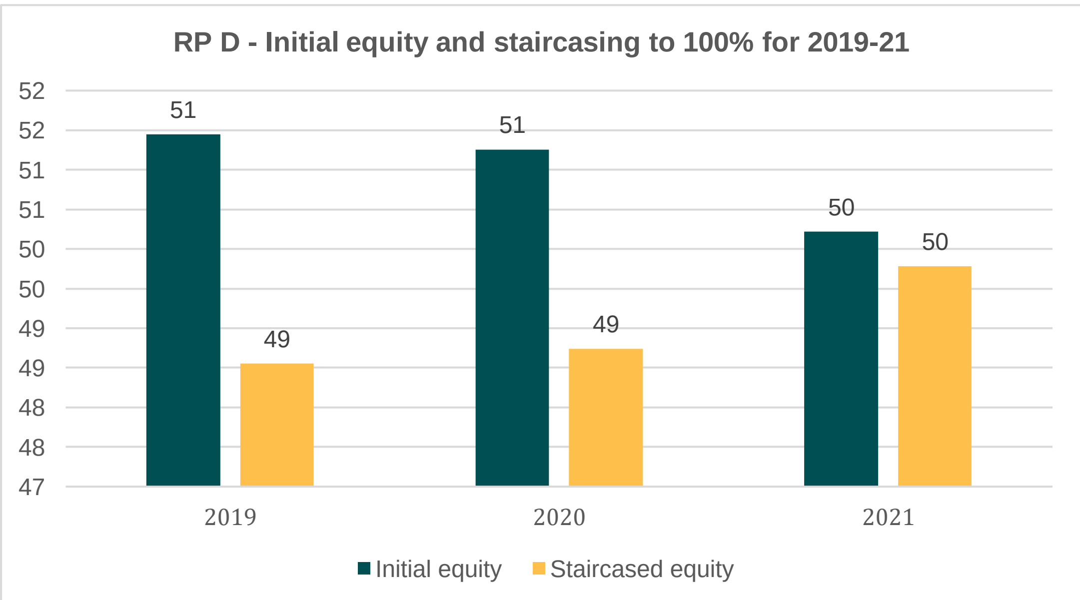
Granular staircasing data provided by another major South East RP reveals that from 2012 to 2022 the median share in a staircasing transaction is 50%. This might again be an indication of back-to-back sales but more research in necessary to understand both the data and the underlying drivers rather better.

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

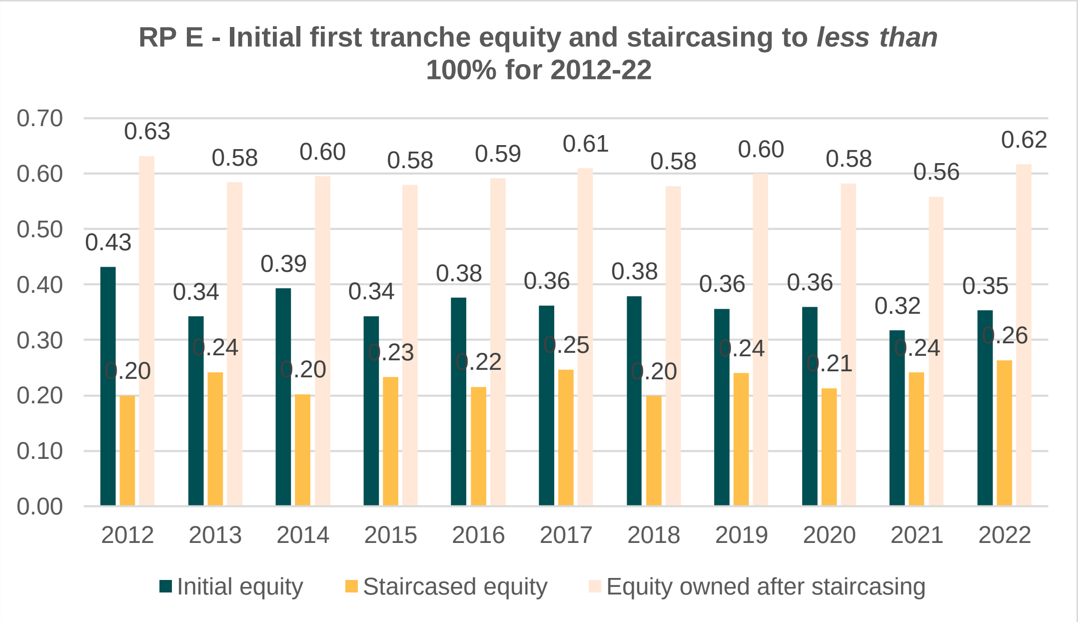
**Panel A: Partial staircasing for a large RP**



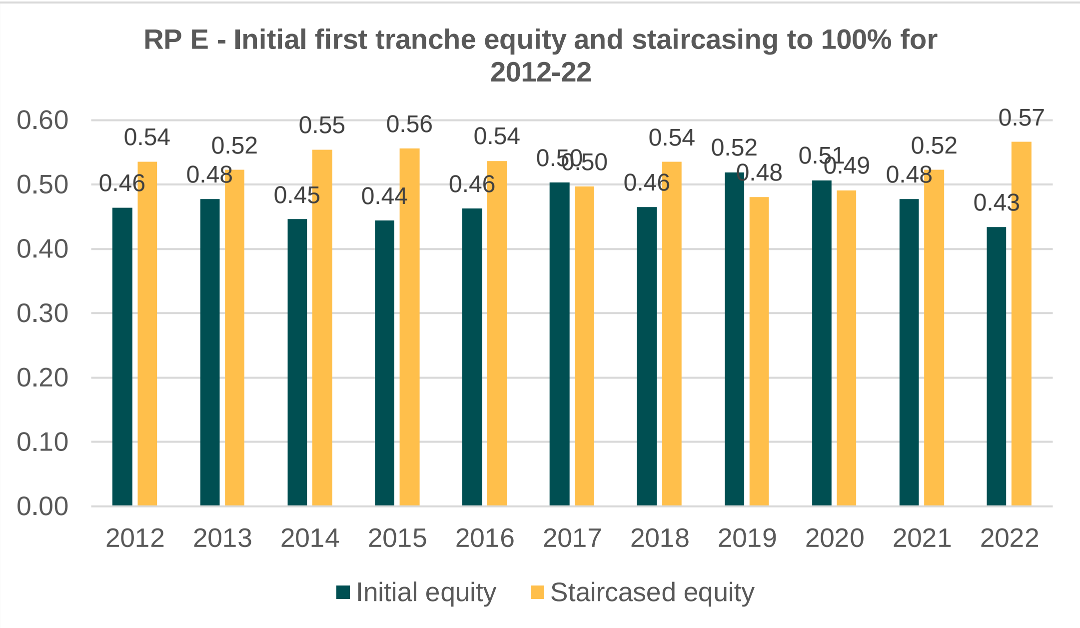

**Panel B: Staircasing to 100% for a large RP**



**Panel C: Partial staircasing for a large London RP**




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



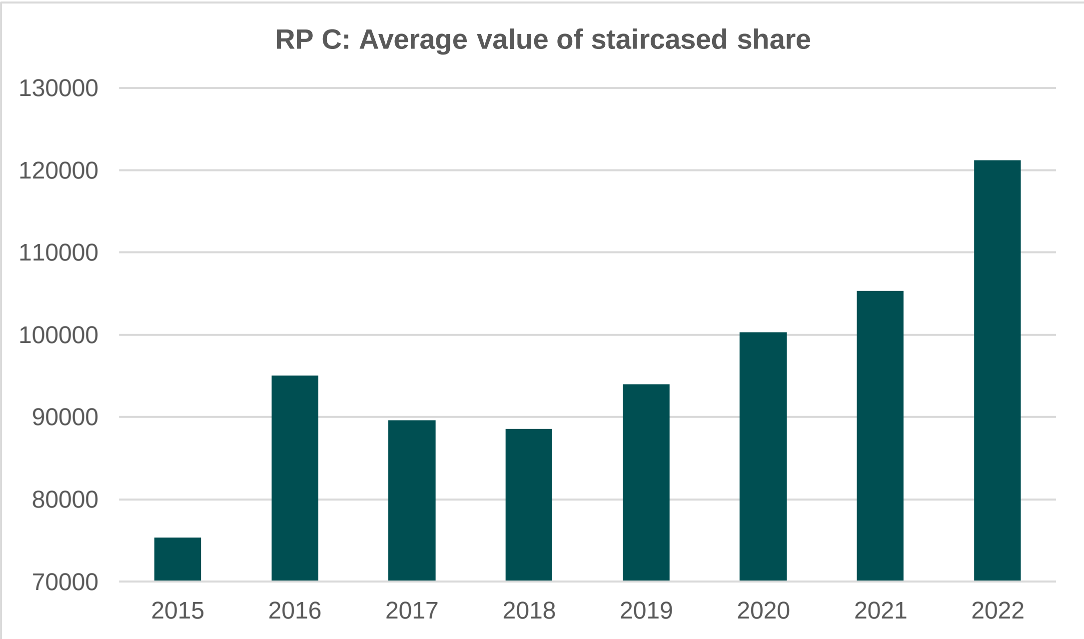

*Source: Based on administrative data from two RPs.*

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

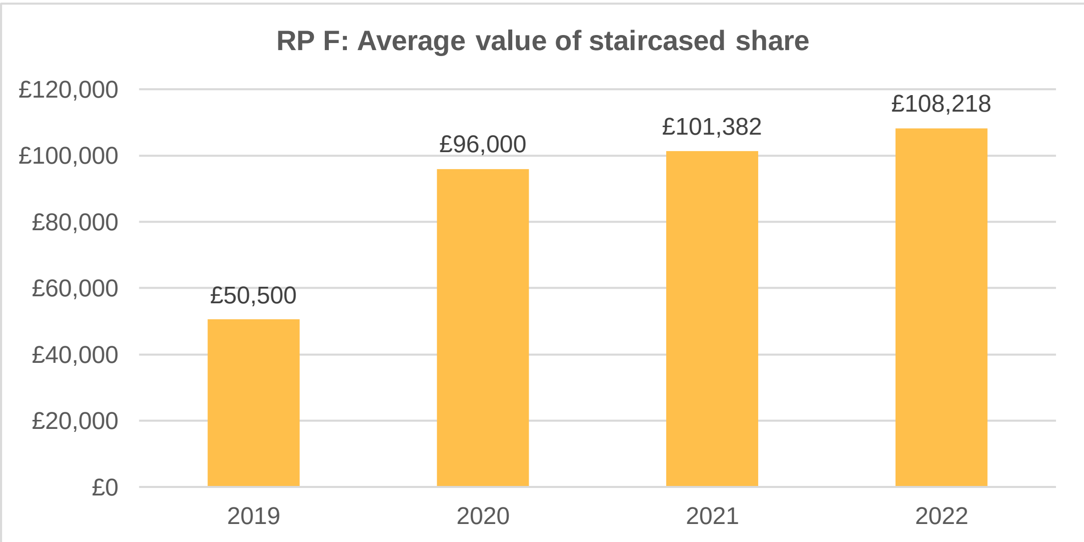
Another RP, for which we have data since 2019 reports similar estimates for 2020 to 2022, with an average value of the staircased share of £108,000 in 2022 (Panel B).

**Figure 5.5: Average value of staircased share for two RPs**

**Panel A**




**Panel B**




*Source: This is based on granular administrative data from two large RPs. Staircasing includes partial staircasing and staircasing to 100%.*

***Staircasing Correlation with Other Factors***

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

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

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

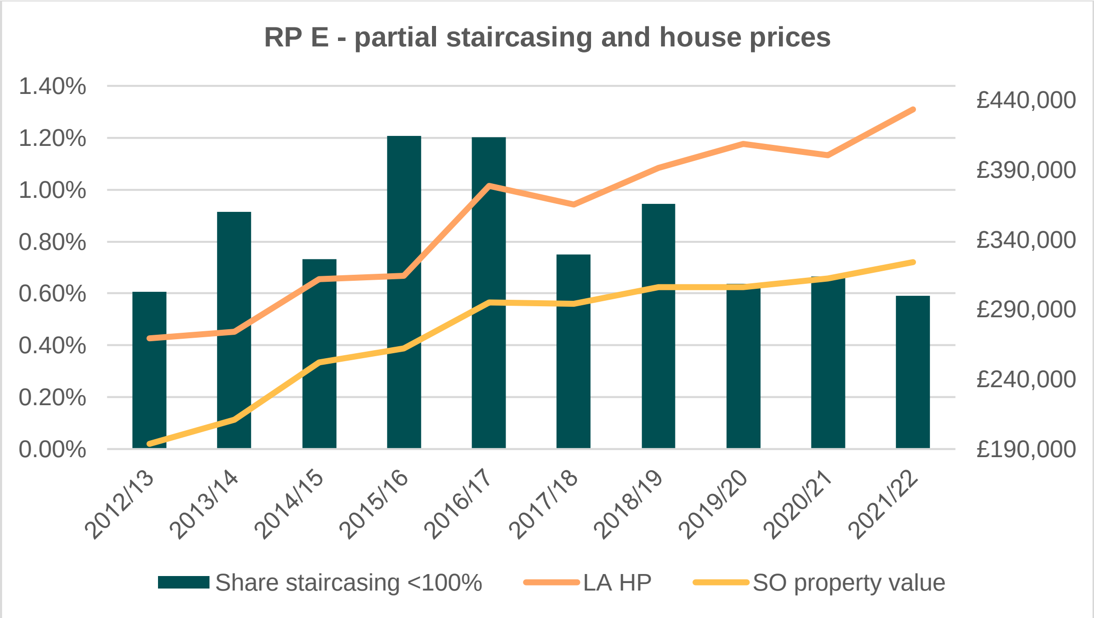
The correlation between LA house prices and SO property prices is 96% and the two values follow a similar pattern as evident in Figure 5.6, although the growth in SO prices over time is more muted. From Figure 5.6 it is interesting to note that until 2016-17, the rise in the partial staircasing ratio closely followed the increase in house prices and SO prices. However, since 2017-18, the partial staircasing ratio has remained steadier while prices have been going up; SO values have also grown at a slower pace. Furthermore, we show that if the LA has experienced higher and positive house price growth, the SO resident is more likely to staircase a larger share.

***Above findings suggest that while buying a more expensive SO property or locating in a more expensive area is associated with less affordability and a smaller staircasing share, SO residents respond positively to rising house prices.*** This can be due to SO residents being able to more easily re-mortgage, as the value of their share goes up. It might also suggest that households do not want to miss out on the growth in house prices and might speculate that house prices will keep increasing. This is predictable behaviour though of course the more rational action would be to buy extra equity when the prices are falling. There thus seems to be a pattern of staircasing rates rising with the upswing and falling with the downturn.

Note, that we are only looking at the small universe of staircased properties for a single RP between 2012 and 2022 in London. The relationship between staircasing and house prices may differ if other parts of the country are looked at, especially in areas where housing is more affordable. Also, it is worth mentioning that these observations are based on simple correlation analysis and a more rigorous econometric analysis would be needed to be able to say something about the underlying relationship. There seems to be a host of other factors which drive the staircasing ratio in addition to the house price, e.g., income, which we do not account for here and remain to be explored in future research.

[32] See Shared ownership: why is it not working for first-time buyers? | Housing Network | The Guardian .

**Figure 5.6: House prices and partial staircasing over time for a major London RP**




*Source: Transaction data from a major London RP between 2012 and September 2022. LA HP stays for the average local authority house price, in LAs where SO transactions were reported in the respective year. SO property value stays for the average value of 100% equity of the SO properties that staircased in the respective year.*

Finally, we analytically discuss the effect of the changes to SO within the latest AHP 2021-26. Reducing the minimum SO share in the first tranche sale at the outset from 25% to 10% in 2021 means that lower income people may have greater access to SO financing. Furthermore, the new SO model introduces a staircasing share of a minimum of 1% instead of previously 5% in an attempt to enable SO owners to staircase more often. We do not think above changes are going to have a significant effect on our findings, as the median staircasing share is ca. 20%, way above the minimum of 5% prior to 2021.

The lower minimum initial equity to be purchased might increase demand from people on lower incomes or households with lower deposit. However, given that the median initial equity is 40%, we also do not think that there will be major changes in future patterns as a result of the policy change.

It is hard to see how the policy change might contribute to an improvement in the very low partial staircasing rate of less than 1%. In fact, it might be the case that, as the SO stock increases and there are more SO residents, only a diminishing proportion of SO owners will be able to staircase. Clearly this will require ongoing analysis.

## Conclusion

This study has brought together a disparate array of data to provide a sustained narrative around the nature of the SO market from an institutional investor perspective. It makes use of current publicly available data in addition to administrative data from a sample of seven major RPs representing 10-13% of the total SO stock by RPs. In addition, we analyse SO loan level data from a mortgage broker as well as aggregate data from other stakeholders, including lenders. We also use publicly available data to provide a more complete picture of the SO market and the SO mortgage market. Our granular data on staircasing and arrears have enabled us to look in more detail than previous studies into staircasing behaviour and the progression of rent arrears. Given the fragmented nature of the datasets available to analyse this market, the findings are to be interpreted with caution and are only indicative.

Our study finds that the risks for institutional investors in SO are low and have infrastructure-like characteristics. For lenders, we do not find substantial differences in the performance of the SO market from the mainstream mortgage market and the first-time buyer market in particular. We have seen shifts in loan sizes and deposits which is aligned with what we might expect in relation to first time buyers in general and higher LTV lending given the growth in house prices and ever more stretched affordability in some regions over recent decades.

The mortgage market for SO loans is relatively small and is concentrated among around 30 lenders, a number that has risen in recent years. Overall, we do not find that lenders differentiate SO mortgages from conventional mortgages beyond the LTV ratio. LTV ratios for SO loans are around 80-90% of the value of the share purchased, which is 5-13 percentage points higher than for conventional mortgages but of course also protected by the MPC.

The MPC clearly impacts upon the sensitive issues of mortgage and rent arrears and possession cases - areas which lenders and investors will focus upon as key measures of the performance of the SO market. Though we are only able to talk about mortgage arrears in general we drilled down into SO rent arrears. These arrears are often mitigated via RP/lender cooperation by capitalising the rent arrears into the outstanding mortgage and then paying them back over a longer time scale etc. This process is not without its problems but is now an established debt mitigant.

Between 2013 and 2018, the share of rent arrears out of total rent roll each month has been fairly steady at around 2%. Only more recently, since 2019 and the Covid-19 pandemic we have seen a rise in this share to levels up to 4%. Most of the SO residents in rent arrears would be associated with small technical arrears, with median values around £100-150. However, the top 5% of the cases in arrears have been increasing over time and clearly these are being tracked closely. In terms of the impact of rent arrears, mortgage lenders are ultimately protected from loss by the MPC by having first call on **all** the assets involved in that sale, i.e., it is not restricted to the share itself. In that sense mortgage lending on SO is very low risk.

Repossession remains a last resort resolution. As evident in the 2016 study getting good data on possession rates for SO is difficult. The rough estimates provided in the earlier study showed that over an eight-year period the rate ranged from 0.17% to 0.43%. The evidence presented in this study suggests this has not changed and the numbers of possession cases between 2009 and 2019 remain very low and below 1%. On average, households of repossessed SO properties spend about 3-6 years living in the properties. Often, the buyers of properties that get repossessed have been in arrears shortly after the initial purchase.

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

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

However, easily accessing disaggregated data for SO buyers and their properties has been difficult. Partially, the problem stems from the continued failure to bring a comprehensive dataset together. Clearly there is more to do and not least around better data and better access to data and not least from mortgage lenders themselves via their data returns to UK Finance and the FCA. Significant information is collected which in recent years has included SO as a category. However, none of this is published and only the lender providers can access it. There is much more we could say about the data gaps that exist but that is not the focus of this report. As will be apparent, we have sought here to provide a current view of the SO market via whatever data we have been able to obtain. At best this has given us a partial view, but the overall picture is in line with other similar surveys and with publicly available data. Further research needs to be conducted using granular data and econometric techniques.