practice
briefs

Promoting Homeownership

With support from
Metropolitan
Home Ownership

Contents

Customer feedback

We welcome feedback on how we can improve our publications both in terms of format and content. If you would like to contribute to our commitment to improving our services please email: policyandpractice@cih.org

Authors: Martin Green, Head of Homeownership and Tenant Management Initiatives, London Borough of Southwark and John Perry, CIH

Acknowledgement: We are grateful to Metropolitan Home Ownership (MHO) for sponsoring the publication costs of this guide, and to both MHO and the London Borough of Southwark for providing many of the practical examples. We are also grateful to Anthony Collins Solicitors for reviewing the material used. The views expressed in this publication are those of the authors and do not necessarily represent the views of the London Borough of Southwark.

Production/print: Jeremy Spencer/Sharp Edge Print & Marketing

Cover photographs (all www.istockphoto.com): main – kutaytanir; truck – LUGO; keys – peepo; money house – redmal; colour swatch – ferrantraite. Page 9: nsilcock/istockphoto; page 17: playphoto/istockphoto; page 24: Places for People.

© Copyright: Chartered Institute of Housing June 2010

Registered charity No. 244067/R ISBN 978-1-905018-84-0

This publication is printed on Nine Lives 55 170gsm silk which is made with 55% recycled fibre from both pre-consumer and post-consumer sources, together with 45% virgin ECF fibre from sustainable forests.

Whilst all reasonable care and attention has been taken in compiling this publication, the authors and the publishers regret that they cannot assume responsibility for any error or omission that it contains.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise without the prior permission of the publishers.

Promoting homeownership

Promoting homeownership has been a priority for successive governments, pursued both through economic policy – especially policy on taxation and interest rates – and of course through the work of housing providers. This **practice brief** is about the ways in which homeownership is promoted by social housing providers through new development and by using their existing stock.

There are three main ways in which social landlords promote homeownership using their stock:

- **low-cost homeownership (LCHO) schemes**, which are voluntary on the landlord's part and which take a variety of forms, usually aimed at first-time buyers and involving means-testing to ensure the move into owner-occupation is sustainable
- **cash incentive schemes or home purchase grants**, which help social tenants purchase in the private market
- **'right to purchase' schemes**, such as the right to buy or right to acquire, in which the sitting tenant takes the initiative.

This **practice brief** describes the policy and legal backgrounds to the schemes in England and Wales, the range of homeownership products available and the ways in which social landlords may use and promote them. The aim is to:

- support social landlords in their services to promote homeownership
- provide up-to-date guidance on the range of schemes available
- give practical examples of the creative use of the schemes
- set out the main legal considerations and procedures to be followed
- show how promoting homeownership fits into wider housing policies and strategies.

The **practice brief** does not go into detail on all of the legal aspects of promoting homeownership: these are fully covered in the new chapter on *Promoting Homeownership* in the CIH's Practice Online www.cih.org/practice/online/

At the end of the **practice brief** there is a guide to background reading.

Who should read this practice brief?

The **practice brief** is aimed at social landlords in England and Wales, especially those which have or want to develop services to promote homeownership (apart from simply responding to right to purchase applications).

It will be particularly relevant to:

- elected members and board members
- strategic housing staff engaged in housing market assessments and deciding how a local authority or social housing provider should respond to them
- staff responsible for promoting homeownership
- staff who need to be familiar with right to purchase schemes such as the right to buy
- developers and others who may work with social housing providers in low-cost homeownership initiatives.

Low-cost homeownership: policy and background

Why promote low-cost homeownership?

The proportion of people in the UK who own their home (slightly under 70%) is higher than in most of Europe. It has increased rapidly since the early 1970s, when it rose above 50% for the first time. After 1980, with the introduction of the right to buy (RTB), homeownership grew even faster. By 2008, over 2.5m dwellings across Britain had been sold under the RTB – although a small proportion of these have since come back into the rented sectors.

The *UK Housing Review* shows that house prices across the UK grew continuously throughout the period from 1992 as demand outstripped supply. They peaked in 2007 before the 'credit crunch'. As the housing market became ever tighter over this 15-year period, government policy was increasingly focused on promoting homeownership. For example, it commissioned the *Barker Review of Housing Supply* which reported on measures to increase output and in particular the supply of affordable houses to buy.

The Barker Review showed that by 2002 only 37% of new households in the UK could afford to buy a home. In areas of high pressure like the south-east and south-west the numbers were much worse. The supply of housing for rent at affordable levels had also declined over the same period, principally because sales under RTB had outstripped new provision, affecting low-income households and raising levels of homelessness.

Although surveys regularly show over 80% of people aspire to ownership, in practice there are constraints – including supply, affordability, access to finance and availability of financial products to support new homeownership models. In the last decade the proportion of households who are homeowners has levelled off at the current 69-70% figure. The *UK Housing Review* affordability index shows that in 2007 the market 'peaked', with first-time buyer mortgage costs in relation to incomes hitting levels that were double those of the mid-1990s. Mortgage advances, house purchases and house prices all fell to unusually low levels in early 2009. Since then all have risen slightly, but the market remains well below 2006-7 levels and prices still remain at very high levels in relation to incomes.

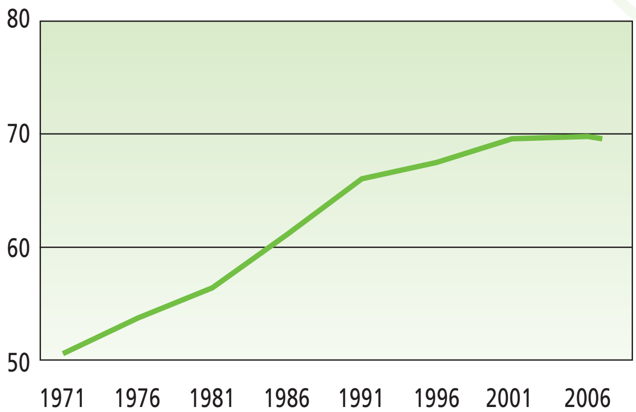
Attitudes towards ownership are affected by the economic situation, the state of the housing market and the perceived risks – and the desire to own can fluctuate. A CIH survey in June 2009 (www.cih.org/news/view.php?id=1070), at the height of the 'credit crunch', suggested that young people were moving away from wanting to own their own home: within the previous 12 months the proportion of 25-34 year-olds who thought that ownership was 'the right tenure for them' had fallen from 83% to 69%.

As well as acting to maintain the supply of social rented housing, the previous government also promoted affordable homeownership by:

- limiting the loss of homes to the social rented sector by changing the rules that apply to right to purchase schemes – RTB sales have now fallen sharply (partly as a result)
- allowing planning authorities to make more specific requirements about the provision of affordable housing as part of wider market housing schemes
- directing more of the available government investment towards new build and towards low-cost homeownership (LCHO).

This **practice brief** is about low-cost homeownership schemes (including right to purchase schemes) and how they fit into strategies to promote homeownership more generally.

Growth and levelling off of homeownership in Great Britain (%)



Source: UK Housing Review 2009/2010

Development of the low-cost homeownership market

Since 1979, over 170,000 shared ownership homes have been provided. About one quarter of these shared owners have 'staircased out' by buying a full interest in their property. Even so, shared equity and shared ownership properties remain less than 1% of the housing stock. Their significance is increasing though, as investment in LCHO forms about one-third of new affordable housing. Around half of LCHO dwellings are in London, and the majority of the rest are in the Midlands and south – regions where house prices are highest. More than 2,000 shared ownership properties are typically sold each year, with almost three-quarters of those staying in the sector and continuing to be available to new shared owners.

One advantage of shared ownership is that the cost to the public sector of new units is about half that of new rented homes: in 2008-09 the grant required was £27,000 on average compared with grant of £57,300 for homes to rent. This is partly because housing associations cross-subsidise new development from sales receipts.

LCHO targets income groups that are generally unable to afford full ownership yet may not be eligible for social rented housing or may face long waits for rented accommodation. Whereas in 2007-08 the typical new homeowner had an income of £38,900, the typical new shared owner's income was much lower at £25,832 (or £33,680 for those buying an equity share).

Current government policy on promoting homeownership

Government policy is changing as a result of the May, 2010 election. The new Coalition Government said immediately that it 'will promote shared ownership schemes and help social tenants and others to own or part-own their home'. Detailed policy changes will be incorporated in CIH Practice Online, as they occur.

For the present, detailed government policy is therefore still as set out in the 2007 English housing green paper, *Homes for the Future: More affordable, more sustainable*. It summarised the issue by pointing out that 'many people want the chance to own a home of their own but cannot afford to get that first step on the ladder'. It identified the aspirations of 'young families' and key workers as the main priorities.

Key aspects of the green paper for promoting homeownership were:

- at least 25,000 new shared equity and shared ownership homes each year
- local targets for intermediate rented housing and LCHO
- more affordable housing through developer contributions
- guidance on delivery of affordable housing in rural areas
- more new housing (including LCHO) on public sector land
- local authorities to provide more LCHO on their own land
- social tenants to be able to buy a share in their existing homes through Social HomeBuy
- the private sector to provide LCHO through Open Market HomeBuy and through shared equity or shared ownership products.

Policy on promoting LCHO in Wales is included in the Welsh Assembly Government's strategy *Better Homes for People in Wales*. Various LCHO products are available, of which the most important is Homebuy, but the level of promotional activity is low. This is because few local authorities prioritise LCHO for investment (compared with social renting), homeownership (at 72% in Wales) is already at the highest level in the UK and housing market conditions often do not favour LCHO schemes.

Financing low-cost homeownership

Affordable homes have usually needed public subsidy because an affordable rent or sale price alone has not been sufficient to cover the development costs. Housing associations produce affordable homes for rent or sale through a combination of grants, private borrowing, and reserves. Reserves can include both surplus income from rented housing activity, and profits generated from market rents or sales. Rules permit the receipts from selling parts of the originally unsold equity in a dwelling under LCHO arrangements to be reused, rather than the grant having to be repaid to government. These receipts can also be used to repurchase ownership shares in flexible tenure schemes.

Financial support for affordable homeownership is through Social Housing Grant (SHG), provided through the National Affordable Housing Programme (NAHP) in England and the Welsh Assembly Government in Wales. In addition, at various times there have been specific initiatives to promote LCHO through special funding arrangements.

In many cases local authority land has been used to supplement SHG, but a falling supply of suitable land in public ownership has meant that privately owned sites have become a vital source. Since the early 1990s, section 106 agreements have been used increasingly to deliver affordable housing as part of larger housing schemes, at reduced or nil cost to the public purse. Alongside this and on a relatively small scale so far, some sub-market rent and non-SHG funded low-cost homeownership schemes were developed. Since the 'credit crunch' however, it has been more difficult to rely on s106 and promoting low-cost homeownership has tended to shift back to reliance on grants and release of public sector land.

The current NAHP (which covers the period 2008-11) allows providers to bid to provide a range of LCHO products (outlined on the next page). The most important of these are all forms of HomeBuy.

The main low-cost homeownership products

The main products recently provided through LCHO schemes in England are New Build HomeBuy, Social HomeBuy and Open Market HomeBuy. These are aimed respectively at tenants buying a share in their existing home, people buying a share of a newly built home, and helping people to buy a share of a home on the open market (what used to be known as 'Do It Yourself Shared Ownership' or DIYSO schemes). The three products are outlined in the box overleaf. The two main current products (New Build HomeBuy and Social HomeBuy) are described in detail on pp 25-26.

Main low-cost homeownership products

- **New Build HomeBuy** – enables people to buy a share of a newly built home (generally built for a housing association), starting at 25%. The housing association holds the remaining portion, and shares in any increases or decreases in the value of the home. It is a shared ownership scheme in which rent is paid on the share that is not purchased. Details are available from the HCA website www.homesandcommunities.co.uk/new_build_HomeBuy
- **Social HomeBuy** – enables local authority (LA) and housing association (HA) tenants to buy a share in the home they currently occupy (or an alternative offered by the landlord), starting at as little as a 25% share and going up to 100%. They receive a discount of between £9,000 and £16,000, depending on the right to acquire discount rate in the local authority area in which the property is located, pro-rata to the size of the equity share they buy. The local authority or housing association holds the remaining portion and will share in increases or decreases in the value of the home. See www.homesandcommunities.co.uk/social_HomeBuy.htm
- **Open Market HomeBuy** – through this programme, people were able to take out a mortgage to fund part of a property purchase in the open market, and obtain a low-interest equity loan to cover the rest. No new funding is planned after 2009-10. See www.housingcorp.gov.uk/server/show/ConWebDoc.7423

Compared with previous LCHO schemes:

- **Social HomeBuy** operates alongside the existing right to purchase schemes and enables social sector tenants to buy a part-share in their homes – usually tenants who cannot afford to buy a 100% share in the property
- **New Build HomeBuy** merges previous schemes such as the earlier version of HomeBuy, the Key Worker Living programme and the First-Time Buyers Initiative.

In Wales, the main LCHO scheme is **Homebuy** and is operated by HAs (a similar scheme, **Homefinder**, is available to LAs). Homebuy is an equity loan scheme in which the owner buys 70% of the property with a conventional mortgage and funds the remaining 30% through an interest-free equity loan (in rural areas the split between the different forms of loan is 50% and 50%). The Welsh Assembly Government is reviewing the future of Homebuy with the aim of providing more 'tenure neutral' housing.

Cash Incentive Schemes (CISs) or Home Purchase Grants (HPGs)

Many LAs and HAs provide incentives to existing tenants to buy in the private sector. The benefit to the landlord is the release of a home for rent at a cost many times lower than the provision of a new unit, as well as delivering the policy aim of supporting homeownership. The schemes invariably involve means-testing applicants to ensure their move into owner-occupation is sustainable. The method of means-testing varies from simple multiplier methods to more complicated residual income over expenditure systems. The CIS/HPG schemes also involve a needs analysis to ensure the size/type of property to be bought is suitable for the applicant's housing needs.

Other features of schemes, decided locally, include:

- whether or not the grant is secured as a charge on the property to be repaid at a later date or if there is an early disposal (such as in the right to buy scheme)
- whether the grant is at a predetermined amount or assessed to bridge any affordability gap
- limitations on the type or location of property being bought.

There is no central funding for schemes; they must be financed from the landlord's own resources (eg. capital receipts).

Practice example

Southwark has a CIS which is aimed at releasing properties of three bedrooms or larger, or two-bed properties where there is overcrowding. It is currently funded through the capital receipts from Social HomeBuy sales. In the first 18 months' operation, the scheme had 86 applications, with seven households moving out of rented accommodation at an average cost of just under £23,000 per property. Given that the properties released are immediately lettable, and there is no loss of rent or council tax, the scheme is judged to give good value for money in a borough with considerable demand for larger units.

Helping key workers

Government has frequently given priority to 'key workers' who might find it difficult to get access to the housing market at prices they could afford. Until 2006 there was a specific 'Key Worker Living scheme', and local authorities may still have local schemes which give key workers special help. The definition of 'key workers' changes but generally includes these groups:

- nurses and other NHS staff
- teachers in schools and in further education and sixth form colleges
- police officers and some civilian staff in some police forces
- prison service and probation service staff
- social workers, educational psychologists, planners (in London) and occupational therapists employed by local authorities
- fire officers and fire fighters in some fire and rescue services.

Further details of key worker schemes which may still be in management by social landlords in England are in the Capital Funding Guide http://cfg.homesandcommunities.co.uk/kwl-overview.htm

'Flexible tenure' and low-cost homeownership

Many commentators have argued that homeownership has been over-promoted and there is now too rigid a distinction between owning and renting. Shared ownership schemes are a response to this, because the purchaser owns the share they are buying with their mortgage, and usually pays rent on the other share which remains in the ownership of the landlord. But there have been proposals for creating more flexible 'products' within the market, which would allow people not only to 'staircase up' to own a bigger proportion of their home, but also to 'staircase down' when they need to for financial reasons or because of changed circumstances such as divorce.

In practice flexible tenure has proved hard to achieve and is so far only available to a tiny minority of householders (see examples).

Practice example

Joseph Rowntree Housing Trust has allowed approximately 100 shared owners to 'staircase down' to lower ownership shares for various reasons, not just mortgage payment difficulties.

Practice example

London & Quadrant Group launched their product UpToYou in March 2009 as a flexible rent to purchase scheme which allows customers to choose whether to rent at an 80% intermediate market rent or purchase through shared ownership. Those that choose to rent can do so indefinitely and also have the opportunity to purchase part of or their entire home after six months. There are four of these L&Q schemes to date.

Practice example

Southwark allows leaseholders who face large service charges for major works schemes to 'staircase down', enabling the council to take a share of the equity in the property in lieu of the service charge.

Practice example

The **Welsh Assembly Government** has proposed a scheme called Rent First, which will enable a tenant to rent on an assured shorthold basis and exercise an option to purchase the whole property, perhaps some years after starting to rent.

Practice example

HomeSave is a flexible tenure proposal, made jointly by CIH and Shelter (see *HomeSave – Increasing choices for tenants to own assets*). HomeSave would give incentives to tenants who open a bank account and who save modest amounts. It offers the opportunity for tenants to own a stake in housing without putting them under pressure to buy their home. For those who want to and can afford to purchase, it provides a scheme for shared ownership. CIH is taking this proposal forward and a number of landlords have shown interest in running pilots.

Financial assistance for homeowners

In addition to LCHO initiatives, which are aimed mainly at new entrants to homeownership (including current social housing tenants who want to buy), the government provides (or encourages housing providers to make available) other products which assist current homeowners, for example to maintain their property, provide help if they are in difficulty with their mortgage payments, or allow them to have access to a share of the rising equity in the property. Housing managers may need to be aware of these products in advising homeowners or because (in the case of mortgage rescue schemes) they bring former owner-occupied property into a social landlord's ownership. Some of these schemes are:

Share equity mortgage rescue

Under the government's mortgage rescue scheme, one option is for housing associations to provide an owner in difficulties with a shared equity loan, enabling him/her to repay part of the original mortgage in return for the HA placing a second charge on the property. The owner pays an interest-only charge on the loan, the principle being recovered on sale. The owner must have spare equity of at least 25% of the value of the property. The HA receives a £3,900 allowance from the HCA for every loan created.

Home improvement loans based on equity release

A number of LAs and HAs offer home improvement loans based on equity release, for example Regenda Housing Group, ART Homes (a subsidiary of Mercian) and various LAs in the North-West.

Mortgage to rent

Available through LAs to various categories of vulnerable homeowner, the mortgage to rent scheme is the current form of mortgage rescue in England and Wales for those who have no/limited spare equity. An HA taking part in the scheme buys out the owner for 97% of the market value; the owner becomes a tenant, paying a rent which is set at 20% less than the market rent in the area.

The implications of LCHO for housing managers

While the current LCHO initiatives are the main ones of interest to those promoting homeownership, the earlier schemes are still important as they determine the basis on which leases are held and through which participants in earlier schemes are still buying their properties.

Whether involved in homeownership promotion or not, managers of affordable housing are increasingly called on to manage mixed tenure schemes; and not just mixtures of tenure, but homes that have been provided through a mixture of funding routes, each of which imposes different management requirements. In some cases there may be homes with different leases, or head leases and sub-leases within the same scheme. A mix of properties in a housing association portfolio where there is a history of promotion of different forms of LCHO alongside social rented housing might include all or some of:

- assured and fair rent tenancies, including introductory and demoted tenancies
- market or intermediate rent tenancies
- assured shorthold tenancies
- leaseholds sold under the right to buy, the preserved right to buy or right to acquire
- freeholds that have been sold under the right to buy, the preserved right to buy and right to acquire, but where service charges must be collected either by means of a covenant attached to the transfer document or an estate rentcharge

- homes sold through shared ownership leases (both houses and flats)
- homes built by a developer with SHG for management by the HA
- homes sold to key workers under HomeBuy
- earlier schemes to promote homeownership, such as:
  - Rent to mortgage (abolished 2005)
  - HOTCHA (abolished 1988)
  - Right to a shared equity lease (abolished 1986).

A further complication is that, post-sale, the properties can be sub-let by the owner or (once restrictions on resale have ended in each case) be sold to private landlords.

Post-sale management is covered in the Practice Online chapter on *Managing homeownership*.

There is wider discussion of LCHO policy and practice in *Whose House is it Anyway? – Housing associations and home ownership*.

Practice checklist: LCHO policies and products

Social landlords should review their policies towards low-cost homeownership by:

- ✔ being aware of the need and the reasons for having LCHO schemes
- ✔ knowing what products have been provided in their area in the past
- ✔ knowing what products are currently available
- ✔ becoming aware of the range of current products
- ✔ considering what optional schemes might be appropriate in their area
- ✔ assessing and dealing with the implications of LCHO schemes – past and future – for housing managers.

The law relating to low-cost homeownership

Voluntary sales schemes

Shared ownership sales

Shared ownership was introduced in 1980 and was governed under Part V of the Housing Act 1985. Shared ownership leases, now generally branded 'HomeBuy', are usually granted by housing associations.

The Homes and Communities Agency (HCA) (and its predecessor the Housing Corporation) has issued various model leases, used by individual associations. Housing associations do not have to use the model leases but where a HA chooses not to, it must certify that its leases contain the fundamental clauses specified by the HCA. The *Capital Funding Guide* (**http://cfg.homesandcommunities.co.uk/**) sets out the detail.

Shared ownership leases granted after 15 January 1989, in cases where there is still a tenancy element, are in part assured tenancies and come within the protection of the Housing Act 1988.

Shared ownership sales also take place under New Build HomeBuy and sometimes under Social HomeBuy.

HomeBuy sales

Section 2(4) of the Housing Act 1996, which sets out the permitted activities of housing associations, has been extended to enable them to provide loans through the HomeBuy scheme.

Rural HomeBuy

For many years there have been difficulties with granting shared ownership/HomeBuy leases because the purchaser can staircase to 100% and (depending on the terms of the lease) sell on to someone, say, from outside the rural community. This was solved by new regulations in 2009. As long as the lease contains a 'Protected Area fundamental clause' the lease cannot be staircased higher than 80% or if it does the property must be offered back to the landlord when the leaseholder wishes to move on. Additional funding is available from the HCA for repurchases.

Cash incentive schemes

Since 2002 there has been no requirement for local authorities to obtain consent to run CIS schemes. The nature of each scheme is determined by individual landlords.

Right to purchase schemes

Right to buy and preserved right to buy

The Housing Act 1980 gave most secure tenants of specific landlords the right to purchase their home at a discounted price – the right to buy (RTB). The provisions relating to RTB are now found in Part V of the Housing Act 1985, amended particularly by the Housing Act 2004 (ss180-189). There are statutory instruments that set out designated rural areas where the right to buy rural conditions apply.

The discounts were very generous (up to 70% of the value of the property) and the scheme had a huge impact with well over 2.5 million homes sold in Great Britain over the 25 years since it began. Recently the discounts have been cut in areas of high demand, in order to stem the flow of rented homes out of the sector.

The 'preserved' right to buy arises when there is a transfer of ownership to another landlord. To be eligible for the preserved right to buy, the conditions for RTB must have been met prior to the transfer. The legal provisions are also in the Housing Act 1985 as amended by the Housing Act 2004, and in various regulations.

Right to acquire

The right to acquire was introduced in the Housing Act 1996 to enable certain tenants of housing associations to purchase their homes. It applies to dwellings built or acquired with Social Housing Grant (or from the disposal proceeds fund) and all properties transferred from local authorities to housing associations since 1 April 1997. Its operation is currently governed by part V of the Housing Act 1985 as amended by the Housing Act 2004 and various regulations relating separately to England and to Wales.

Changes to right to buy after 2004

As a result of the Housing Act 2004, in effect social landlords run two right to buy schemes side by side – one relating to applications received before and one to those received after 18 January 2005 when the changes began.

Many of the changes were intended to stop right to buy 'abuses' (which prior to the act were legally allowed). These included schemes by which companies paid tenants to exercise the RTB in order to secure the property themselves at a later date, the ability of tenants to delay their application and maintain a fixed purchase price in a rising market, applications made to take advantage of regeneration schemes, and applications made in order to frustrate possession proceedings aimed at curbing anti-social behaviour.

The act's main changes were that it:

- gives the power to apply to court for an order to suspend a tenant's right to buy for a specified period on grounds of anti-social behaviour
- extends the initial qualification period from two years to five years for new secure tenants after 18 January 2005 (although there are exceptions)
- extends the period after sale during which landlords may require owners to repay part of or their entire discount on early resale, from three years to five years (and repayment might exceed the original discount where the value of the property has grown sufficiently)

- makes it clear that landlords have discretion to waive repayment of discount (designed to address cases where repayment could cause hardship)
- requires tenants who make deals to resell their homes to companies within the discount repayment period to repay discount (on a similar basis)
- specifies the information to be provided to secure tenants on right to buy schemes at the start of their tenancy and subsequently
- allows landlords to suspend or to exempt dwellings scheduled for demolition from the right to buy, to avoid having to pay costly compensation bills in areas where regeneration schemes are planned
- requires owners who wish to resell properties within ten years of their being sold under RTB to offer them back to the social landlord at market value. (Landlords have always been able to do this for properties in National Parks, Areas of Outstanding Natural Beauty, and areas designated as 'rural' for this purpose.)

More details of the Housing Act 2004 changes can be found in the Practice Online chapter *Promoting homeownership*.

Practice example

Southwark produces information for secure tenants in the form of a booklet given to each secure tenant at the start of their tenancy www.southwark.gov.uk/downloads/download/345/buying_your_council_home

Limits to the right to buy in rural areas and high demand areas

Changes in the right to buy in 2003:

- made it easier for landlords to apply to have areas designated as 'rural' for RTB purposes, enabling them to restrict the resale of homes originally purchased under the right to buy to people who live or work locally
- reduced to £16,000 the maximum discount available to tenants in 41 local authority areas in London and the south of England that were under the greatest housing market pressure
- reduced to £16,000 the maximum discount available to tenants throughout Wales.

Property sales

Landlords selling property under LCHO schemes need to comply with the requirements of legislation enacted to protect consumers in the property market generally. Specifically:

- Consumer Credit Acts 1974 and 2006
- Estate Agents Act 1979
- Financial Services and Markets Act 2000
- Property Misdescriptions Act 1991
- Unfair Terms in Contracts Regulations 1999.

The requirement to supply Home Information Packs under the Housing Act 2004 has been suspended by the Coalition Government, but the requirement to commission an Energy Performance Certificate (EPC) still applies. Regulations will require this to be done before marketing the property, with a 28-day period in which 'to make reasonable efforts' to secure an EPC. (EPCs are also required for sales under right to purchase schemes.)

More details of the legal requirements about property sales can be found in the Practice Online chapter *Promoting homeownership*.

Practice checklist: legal requirements

Social landlords should meet the legal requirements which apply to:

- any right to purchase schemes which are obligatory, including ones that might date from past obligations (eg. following transfer of property)
- voluntary sales schemes which they might pursue – whether nationally available products or local ones such as cash incentive schemes
- property sales which they instigate – whether through voluntary or right to purchase schemes
- mortgages and advice which they offer to prospective purchasers.

Developing a strategy for low-cost homeownership

The market for low-cost homeownership

People's desire for homeownership is consistently high but fluctuates according to market conditions. However, while potential buyers may be well aware of the possibilities and difficulties of entering full ownership, they may not be aware of LCHO, and especially not of particular providers or products. Even surveys of shared owners have revealed uncertainty about the exact 'product' they are buying, a situation which is not helped because the products are varied and constantly changing.

This section concentrates on the potential market for shared ownership, as this is the type of LCHO which a housing provider is most likely to actively promote. For more details see the CIH/Housing Corporation briefing *Housing Aspirations and Shared Ownership*.

How big is the shared ownership market?

Less than one percent of housing is in shared ownership, but it forms 2.5% of affordable housing and a significant part of current investment programmes. Because shared owners can normally buy their property in full, new units to some extent only replace those that have moved out of the sector into full homeownership.

Who are shared owners?

The profile is quite different from that of social tenants. Shared ownership is relatively new, and shared owners have to be able to buy a part share, so they tend to be concentrated in the 25-45 age group and almost all have at least one family member in work. Some products are, however, aimed at older people.

Moving into shared ownership

Most new shared owners come from private renting or are new households. Only a small proportion come from social renting, even though shared ownership is often targeted at social tenants. Most are households without children. The profile of new shared owners is similar to that of current ones, as older owners tend to have moved out of the sector by buying a full ownership share.

Moving out of shared ownership

What happens to shared owners and whether they meet the aspiration of full ownership, for example by buying elsewhere, is little studied. However, the study *Achieving Mobility in the Intermediate Housing Market* suggests that many get 'stuck' in shared ownership, and that providers might want to take steps to encourage mobility.

Why do people want to be shared owners?

Although evidence suggests that most shared owners see it as a route to full ownership, a proportion would rent social housing if they could. As many of those coming into shared ownership come from private renting, this may reflect a desire for security of tenure and affordable rents.

Why do people not apply for shared ownership?

Knowledge of shared ownership is reasonably high (62%), and tends to be slightly higher among social tenants. However there are still considerable numbers who are unaware of it, including higher proportions of ethnic minority households. The main reasons given for not applying for the tenure are doubts about affordability or not needing to access it, but a proportion of people lack information, are confused about the tenure or believe the property is 'not really yours'.

Conclusion

The market for shared ownership is difficult to predict, as many potential shared owners have the resources to afford (say) reasonable accommodation in the private rented sector. While first-time buyers are an obvious market, this might miss other potential markets among homeowners looking for a more sustainable tenure, including older homeowners. The potential market would also be bigger if the option of shared ownership was better known and understood.

Assessing demand for LCHO

There are various ways of assessing demand – see the box below.

Ways of assessing demand for LCHO products

- **local housing market assessments** – can collect data on the numbers of people who aspire to homeownership but do not expect to be able to afford it
- **data on household incomes in relation to house prices** – assess numbers of people who might be expected to be able to pay more than social housing rents but not be able to afford to buy outright
- **market research** – see practice example overleaf
- **focus groups** – with the target age groups (see above), perhaps also targeting minority communities with lower awareness of LCHO
- **surveys of specific needs** – eg. employer/employee surveys to establish demand for key worker housing
- **levels of applications for LCHO products** – where schemes already exist
- **surveys of local providers** – of LCHO products, or agencies such as lenders and estate agents which might be aware of demand.

These techniques will enable an assessment to be made of levels of potential demand for LCHO, providing of course that possible shared owners are well-informed about it, compared with other options.

Whether the theoretical demand for LCHO can become effective demand is of course very dependent on the economic climate, trends in employment, levels of mortgage lending and mortgage costs. It is also dependent on the location, price and type of development, factors which are considered later under *Marketing analysis*.

Practice example

The **Greater London Authority** commissioned independent research consultants Ipsos MORI to investigate first-time buyers' perceptions of low-cost homeownership, and their experiences of trying to access the intermediate housing market. The research included a survey of over 550 potential first-time buyers in London, plus focus groups and a mystery shopping exercise. For further details see the report *Accessing Intermediate Housing* http://www.london.gov.uk/node/1118

Assessing resources for LCHO

Resources for LCHO schemes nationally were discussed earlier. Resources available at local level are likely to depend on:

- local allocations of funds for affordable housing and the extent to which providers bid for LCHO schemes as part of their funding bids
- resources held by providers, such as capital receipts or (for HAs) recycled capital grant monies
- the potential for LCHO as part of planning agreements under section 106
- bidding for specific 'pots' of money made available from time-to-time under schemes like the First-Time Buyers Initiative.

Developing a local strategy

In deciding its strategy for LCHO, a local authority will of course need to take account of a range of factors apart from simply the market for LCHO locally and the resources that might be available. These include:

- **how LCHO fits into affordable housing strategy for the area** – which might refer to the strategy for the wider housing market area, sub-region or region, and to expressed government priorities (eg. through the NAHP). It is also likely to refer to planning policy for affordable housing

- **how use of resources for LCHO would fit with resource needs of other types of housing** – for example, would LCHO mean spending less money on social rented housing, and where should the balance lie?
- **whether LCHO brings wider benefits** – such as helping to create mixed tenure in new developments or existing estates, catering for specific needs such as key workers, or creating products that might be attractive to ethnic minority communities who are under-represented in the housing stock
- **what LCHO products are available or potentially available?** – see *The main low-cost homeownership products*.
- **capacity** – do local providers have experience of LCHO and the capacity to market it successfully? Is there capacity (eg. among local HomeBuy agents) which should if possible be used?
- **allocations** – if not already decided, how will demand for LCHO be fitted in with local lettings practices, such as choice-based lettings schemes? Will there be eligibility rules, and if so which should be the target groups?
- **views of customers and potential customers** – all providers wish to take account of customer views, both existing tenants who might be interested in LCHO options, current shared owners and potential customers who might want a choice between rented and shared ownership products.

Practice example

Islington commissioned a study of the place of LCHO in the local housing market. It looked at the gap between demand for homeownership and the potential of households in Islington to afford it, the benefits of LCHO and the extent of the potential market for it. It considered the appropriateness of the various LCHO products, people's awareness of them, and whether they had been successfully marketed in the area in the past few years. It compared the theoretical market with the profile of actual LCHO buyers. Finally, it assessed future supply.
http://www.islington.gov.uk/DownloadableDocuments/Housing/Pdf/Low_Cost_Home_Ownership.pdf

Practice example

Derby sets its LCHO strategy within the context of the NAHP priorities and within the East Midlands Regional Housing Strategy. The strategy is intended to express the council's requirements to potential LCHO providers, in terms of the affordability of products and addressing particular needs such as those of large families, ethnic minority groups and disabled people.
http://www.derby.gov.uk/NR/rdonlyres/3671CC86-3415-488B-92E0-973CC9D86053/0/FinalNBHBBrief.pdf

Developing an LCHO business plan

In addition to LCHO strategies developed by local authorities, social housing providers, especially housing associations with specialist LCHO businesses, will require a business plan for developing, marketing and communicating LCHO products. The details of business planning are beyond the scope of this **practice brief**, but Practice Online gives a full example of a current operational plan for Metropolitan Home Ownership which illustrates the scope of their strategy for marketing and communicating their business.

Implementing the strategy

Implementing the strategy will require close collaboration with existing and potential LCHO providers, the planning authority, and those in contact with potential customers such as housing advice services and housing options advisers, lenders, estate agents, developers and housing associations who are not LCHO providers.

Given the sensitivity of LCHO to market conditions and the overall economic environment, the progress of schemes will need to be carefully monitored to identify problems and potential solutions to them.

Performance monitoring and service standards

Regulatory arrangements affecting LCHO schemes and services

The TSA monitors registered providers of social housing in England, which covers many providers of LCHO products. The TSA's regulatory framework from April 2010 http://www.tenantservicesauthority.org/server/show/ConWebDoc.20175 is principally aimed at tenanted property. However, with the exception of the Tenancy Standard, its regulatory framework applies to registered providers' LCHO products and schemes because they are included in the definition of 'social housing'. Practice Online's guidance in *Regulation focus* (England) gives detailed advice on responding to it.

Providers of LCHO products in Wales which are registered HAs are regulated by the Welsh Assembly Government and subject to its Regulatory Code http://new.wales.gov.uk/desh/publications/housing/regulatorycodehas/codee.pdf?lang=en

However, although the Welsh code applies to leaseholders, there is no reference in it or in the inspections guidance from the Wales Audit Office to homeownership services http://www.wao.gov.uk/assets/englishdocuments/What_we_look_for_Inspection_ConsultationE.pdf

Setting standards and monitoring performance

The arrangements for setting standards for and monitoring homeownership services need to:

- demonstrate that the landlord is monitoring its management of homeownership services effectively and efficiently
- enable the landlord to identify areas for improvement in its performance in respect of homeownership services
- demonstrate that corrective action is being taken where monitoring shows that performance is not satisfactory
- enable the landlord to show that the requirements of the relevant regulatory bodies as they affect homeownership management are being met.

As part of setting standards, providers in England should consider how LCHO services fit in with their 'local offer' to tenants (under TSA regulation) and whether there should be a specific 'offer' to shared owners.

They will also want to consider what benchmarking opportunities exist for example via **HouseMark** www.housemark.co.uk

The Audit Commission has a specific key line of enquiry (KLOE) on **management of right to buy, right to acquire and homeownership services** http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/0707_righttobuyandrighttoacquireJuly07.doc This can be used as guidance in setting standards and making arrangements for monitoring performance in promoting homeownership.

Practice checklist: LCHO strategies

In developing a LCHO strategy, social landlords should:

- ✓ be aware of the market, nationally and locally
- ✓ assess whether LCHO products are likely to be viable in the local market
- ✓ properly consider the housing context and what LCHO would offer within the local housing strategy
- ✓ take account of their capacity to promote LCHO and provide an excellent service
- ✓ be aware of and meet the regulatory requirements
- ✓ set standards and monitor performance against them.

Providing the service – voluntary schemes

The product range

The main products currently provided through voluntary LCHO schemes are Social HomeBuy, New Build HomeBuy and Open Market HomeBuy, aimed respectively at tenants buying a share in their existing home, people buying a share of a newly built home, and helping people to buy a share of a home on the open market. They were described earlier in outline. This section gives more details of the main schemes now relevant.

The Homes and Communities Agency is responsible for the range of LCHO products under the HomeBuy range, and current information can be found in the HomeBuy section of the HCA website **www.homesandcommunities.co.uk/home_buy** It gives details of various other products, launched by the government in response to the current property downturn, which will not be described here in detail. They are:

- **Rent to HomeBuy (RtHB)** – in which the occupier is first an assured shorthold tenant of the property, then is able to buy an ownership share
- **Intermediate Market Rent (IMR)** – in which the tenant pays a rent above the affordable rent but no more than 80% of the full market rent for the area
- **HomeBuy Direct** – in which a prospective purchaser buys outright, using a combination of a conventional mortgage and an equity loan from the provider of the property.

The number of sales that will take place each year is governed by the funds that are allocated under each category of HomeBuy. In the case of New Build HomeBuy, the HCA allocates funds in response to bids from housing associations and other approved developers using similar criteria to those used in the past for shared ownership.

Open Market HomeBuy allocations are similarly determined by the HCA, but administered through a network of larger housing associations acting as HomeBuy Zone Agents. All funding for 2009/2010 was committed and no new funding is planned for future years.

For Social HomeBuy, initial allocations were very small and made to only a few landlords who set their own criteria governing which properties will be made available for purchase by existing tenants.

Overleaf are more details about Social HomeBuy and New Build HomeBuy, and two further specialist products in addition to the normal HomeBuy range.

Social HomeBuy

Key elements:

- tenants can buy a minimum 25% share of their existing rented home
- rent on the remaining share is capped at a maximum of 3% of the unsold equity
- receipts can be used by the landlord for 'housing related products'
- increases in the rent are limited by the TSA.

Social HomeBuy schemes are shared ownership because rent is charged on the share of the property that has not been purchased. The shared ownership lease contains the rent provisions.

Housing association or council tenants can buy their existing rented homes, where the landlord has decided to participate in the scheme. Homes are usually bought on a shared ownership basis but the property can be bought outright at the outset (although right to buy/right to acquire is likely to be more attractive to the tenant in such cases).

The maximum discount will vary between £9,000 and £16,000, depending on the location of the property. The amount of discount payable will be in proportion to the initial amount purchased; discount is available proportionally as further shares are purchased.

If the property is sold within five years, the discount is repayable. When the purchaser comes to sell their home, the landlord will have the chance to buy the property back at market value or nominate another purchaser.

Only a small number of homes can be sold in this way each year as the funding set aside nationally is limited. Landlords that have allocations for Social HomeBuy may be able to restrict the opportunity to certain designated estates in view of the limited number of purchasing opportunities that are available – providing there is no conflict with equality legislation in doing so.

Only existing secure or assured tenants of participating housing associations or councils are eligible. Tenants who are facing legal action for anti-social behaviour or breaches of their tenancy agreement cannot take part.

An increasing number of local authority landlords have chosen to implement a Social HomeBuy scheme. The main benefit of Social HomeBuy can be argued to be the means-testing – this will ensure that the applicants only buy what they can afford and that the introduction to owner-occupation is sustainable. Indeed some landlords adopting the scheme do not advertise it widely but use the scheme as a safety net for tenants having already submitted an application to purchase under the RTB.

When the scheme was first introduced the rules were such that there was only one payment of discount allowed, payable on the purchase of the initial share. For that reason purchasers were encouraged to buy as large a share as possible initially. This was argued to be contrary to sustainability criteria and it was changed from April 2008 so that discount is now available proportionately as further shares are purchased (including those who already purchased under the original rules).

There is a substantial amount of discretion for landlords who decide to participate in the scheme to mould the details to achieve local policies. For example, some participating landlords allow an initial five-year rent-free period. Such decisions need to be made before the scheme starts because they may have to be factored into the lease terms.

Practice example

Southwark introduced the first local authority Social HomeBuy scheme in 2006. The scheme is primarily aimed at ensuring that owner-occupation is affordable and sustainable (rather than at increasing owner-occupation rates): it is therefore offered mainly to right to buy applicants (ie. secure tenants) as an alternative to full ownership. From the local authority perspective the scheme is advantageous when compared to RTB because it results in a rental stream and, perhaps more importantly, the retention of 100% of the capital receipts to be used for housing purposes. Southwark uses its receipts to fund its Cash Incentive Scheme.

New Build HomeBuy

Key elements:

- minimum purchase of 25% of newly built home
- rent on the remaining share is capped at 3% of the unsold equity
- increases in the rent are limited by the TSA.

This scheme replaces what was previously known as conventional shared ownership. Homes are sold by housing associations on shared ownership leases in the same way as under earlier schemes. Purchasers need to raise a mortgage for the share they purchase, and pay rent on the share that the landlord retains.

Additional shares can be purchased through the 'staircasing' process. If the purchaser wishes to sell the property in future another household will generally be nominated by the housing association, or it may be possible to staircase to 100% and sell it on the open market. It is also possible for the shared owner to sell their share on the open market if the housing association is unable to nominate a new shared owner within the period defined in the lease.

The housing association may also be able to buy the property back and ensure that it remains in the market for other households who want low-cost homeownership opportunities.

All key workers, existing social housing tenants and those in priority housing need are eligible to apply for New Build HomeBuy property, but if a key worker subsequently changes to a job where they can no longer be considered a key worker, they have five years to buy the property outright or to sell it, either to someone of their choice or back to the housing association.

Shared ownership and shared equity

There are two specialist HomeBuy products in addition to the normal range:

- *Shared ownership for the elderly* – this works in the same way as New Build HomeBuy but is specifically for people aged 55 or over. They are able to buy a maximum 75% share in a property
- *Homeownership for people with long-term disabilities (HOLD)* – works to assist long-term disabled people to obtain a suitable property on the open market; they buy a part share (25-75%) with a participating HA owning the remaining share in the property, and they can staircase up to full ownership.

Apart from the age threshold or requirement about long-term disability, the eligibility rules are the same for these products as for New Build HomeBuy. Potential applicants contact their HomeBuy agent in the first instance, who will refer them to participating HAs.

HomeBuy Zone Agents

Zone Agents (a small number of larger housing associations appointed by CLG following a competition process) provide a one-stop shop and point of contact for potential purchasers of Open Market and New Build HomeBuy products, and handle the entire application process.

Zone Agents register an applicant's interest, assess their eligibility and provide basic initial details of schemes that they think will interest the applicant. Individual housing associations developing the schemes deal with the final selection of purchasers.

Zone Agents exist in the following regions:

- East of England
- East Midlands
- London
- North East
- North West
- South East
- South West
- West Midlands
- Yorkshire and the Humber.

Zone Agents work closely with local authorities and housing associations developing new homes in their regions. There may be slight differences in the details of eligibility criteria and in the way in which each scheme is administered in each region of the country.

Practice example

Metropolitan Home Ownership and **London & Quadrant Group** are joint agents for the London-wide Housing Options service. They were appointed in 2006 and will continue in this role until 2011. So far, they have dealt with almost 10,000 successful applications through the website www.housingoptions.co.uk

The marketing and sales process

The aims of marketing and sales are likely to be to:

- **market and sell shared ownership properties to those in housing need** – who cannot afford to buy a suitable home in any other way (priority normally being given to existing social sector tenants or those on local authority or housing association waiting lists but will in some instances be determined by the sources of the funding for the scheme)
- **ensure schemes have a marketing strategy and sales policy** – clearly defined, transparent and with outcomes that can be measured
- **minimise the period between handover and sale**
- **provide the purchaser with sound advice and support**
- **lay the foundations of a successful landlord-tenant relationship.**

Marketing analysis

Developing and marketing a successful scheme is dependent on a thorough analysis of the market for the type of properties, at the expected sale prices and in the planned location.

Practice example

Metropolitan Home Ownership carries out a marketing analysis which includes:

- expected prices for the planned development
- detailed assessment of the location, for example:
  - images of the site and adjoining property
  - images of approaches to the site
  - neighbourhood profile from www.upmystreet.com
  - transport links
- **Hometrack** data on house-price affordability in relation to incomes, at ward level
- demand for LCHO in the area, based on the Housing Options database (see page 30)
- competition from other available LCHO providers in the area and information on the success of recent developments
- competition from private providers.

This enables conclusions to be drawn about MHO's ability to market the planned development.

Marketing strategy

Consideration of the marketing strategy should begin as soon as the detailed scheme has been agreed for development. It will include assessing the level of marketing that is likely to be required to sell to the target group of buyers within the target period.

In order to avoid any misrepresentation, clear responsibilities between development and marketing teams must be established. Also all brochures and publicity material should have a disclaimer included.

Afterwards, an evaluation of the marketing and sales process should be carried out in order to inform future schemes.

Key questions for the marketing strategy are:

- how many sales are likely to be achieved through local authority nominations?
- how many sales are likely to be achieved from the landlord's own register where applicable?
- how many sales are likely to be achieved through other sources?
- will more general marketing be needed?
- if so should this be at the same time as marketing to the local authority and the housing register?
- or should it be as a second phase following the initial marketing to the local authority and housing register?

In deciding what marketing tools are to be used, the effectiveness of each option in converting enquiries into sales, the cost of each option and the budget available all need to be considered. It is important to work with the relevant local authority throughout. Local authorities vary enormously in how they are able to respond to shared ownership initiatives and in their ability to provide good quality information and nominations.

Marketing tools

The range of marketing tools and techniques might include the following:

Signboards and fingerboards

- signboards should be placed in a prominent position and give details about the type of homes for sale, the target group, the landlord's details and a contact telephone number
- on larger developments, fingerboards can also be useful in providing directions to shared ownership homes.

Brochures and leaflets

Brochures and leaflets are useful for a variety of purposes and the landlord should consider the hierarchy of information to be produced. It is crucial that each item has a defined purpose and makes clear how it is to be used, and is thoroughly checked to ensure the information is accurate and appropriate. The following matters should be covered:

- general information about shared ownership and the landlord
- information specific to a scheme (a standard template can be used as a basis).

All information should comply with legal requirements and be written in plain English. A disclaimer should be included and, where appropriate, translations should be available for those whose first language is not English. Brochures and leaflets should be good quality without being excessively glossy.

After 2007 it was obligatory to provide Home Information Packs (HIPs) as part of (or very soon after starting) the marketing process. However, the Coalition Government has withdrawn HIPs, and from now on only Energy Performance Certificates are required.

Practice example

Metropolitan Home Ownership and **London & Quadrant Group** jointly run the Housing Options scheme across London. Their 40-page leaflet on properties and schemes available in 2010 is available at http://www.housingoptions.co.uk/ho2/pdfs/0152_NEW%20HOMES-JAN-2010.pdf

Show homes

Experience has shown that a show home has a significant benefit in reducing sales periods, although it may not be possible on smaller developments. To fulfil its purpose, the show home needs to be available well in advance of completion of the other homes and should be a requirement of the development contract. The show home could also be used as a sales office, however there are issues of furnishing, staffing and security to consider.

Advertising

- newspaper adverts – local research will indicate the best options
- through a feature or editorial in a local newspaper
- local authority or the landlord's own local newsletter
- local radio
- local hoardings
- mailshots to tenants of other housing associations
- contact with local businesses
- specific targeting if the scheme is for key workers.

Internet advertising

The landlord's own website and other websites promoting shared ownership can be used. The critical factor here is to ensure that the popular search engines do find the site where the advertising detail is held.

Practice example

Metropolitan Home Ownership created a specific website for a scheme of 42 one- and two-bedroom apartments at Chalkhill, Wembley, with detailed plans of the units. All of the units have now been sold: **http://www.chalkhill-inspiration.co.uk/home/**

Networking

Liaison and regional partnerships with other landlords who provide shared ownership housing in the area.

Incentives

Their principal uses have been to obtain sales on developments which might prove difficult to market. These can be:

- provision of white goods/carpets/curtains
- cashbacks, ie. refund of cash following completion
- payment of solicitors' fees.

However provision of white goods, carpets, curtains, etc is now often considered standard on new private developments.

The process of marketing should be timetabled once the start-on-site date is fixed.

Practice example

A marketing plan for a specific development by **Metropolitan Home Ownership** in Hackney included the following elements:

- overall timetable for the different elements of the plan
- assessment of the context and environment of the development and their implications for the marketing plan
- competition from other developments locally and how to respond
- target markets for the scheme
- advertising and media campaign
- information on the product mix
- information on local amenities
- local population and potential market within it
- promotion methods to the target groups
- marketing budget
- monitoring methods and arrangements for responding to results of the plan.

Providing mortgages

CLG published *Mortgage Sales Guidance for Local Authorities and Registered Social Landlords* in 2005. The guidance only applies to mortgages where the loan from the LA or HA is a first charge over the property and the customer intends to live in the property.

The guidance sets out requirements that govern the various stages of the mortgage application process and the ongoing administration of the loan. It gives different guidance for equity mortgages and for all other mortgage products.

Requirements for an equity mortgage are:

- eligibility for the mortgage is restricted to older customers above a specific age; and
- repayment of the loan (including interest, if outstanding) will not arise until one or more of the following arises:
  - the death of the customer
  - the customer leaves the mortgaged property to live elsewhere and has no reasonable prospect of returning (for example, moving to residential care)
  - the customer acquires another property which will be their main residence
  - the customer sells the mortgaged property
  - the lender takes possession of the property under the terms of the mortgage contract; and
- while the customer continues to live in the mortgaged property as his main residence:
  - no instalment repayments of the capital and no payment of the interest on the capital are due, or
  - although interest payments may become due, no full or partial repayment of the capital is due, or
  - although interest payments and partial repayment of the capital may become due, no full repayment of the capital is due.

The guidance for all mortgages covers matters such as:

- mortgage administration standards
- pre-mortgage application procedures
- customer information
- information during the term of the mortgage and charges
- arrears and possessions
- advertising standards.

Details of the sales process

There are four key steps to the sales process:

- applying to buy
- the social landlord's response
- purchasing the home
- buying further shares.

These steps are explained on pages 35-37. The next two pages show a flow diagram of a sales process.

Practice example

The start-to-finish process for a New Build HomeBuy sale through a local HomeBuy agent is set out diagrammatically in this flowchart from **Metropolitan Home Ownership**.

Potential buyer contacts HomeBuy agent

Agent reviews initial eligibility: if accepted, application is completed. MHO then contact HomeBuy agent for referrals that have already been pre-approved (Weekly)

Potential buyer contacts MHO

Potential buyers view NBHB property. Complete an enquiry form and feedback form. MHO may offer referral to independent financial adviser (IFA). MHO instructs potential buyers to apply to the HomeBuy agent

WITHIN 24 HOURS OF REQUEST, OBTAIN MHO NBHB SALES PACK
including: brochure, price list of available plots. (If not already applied to agent, instruct to apply online)

RESERVE (RESERVATION LETTER) AND £100 DEPOSIT
The potential buyer can reserve with £100, the reservation letter will need to be completed. This will include any incentives offered

Potential buyers are then given a panel list of IFAs and solicitors. The IFA provides an affordability assessment on behalf of MHO and assists with obtaining a mortgage

INITIAL APPRAISAL
Contact the customer within three working days to advise them whether their initial application has been successful

IFA INTERVIEW
The customer will be asked to contact an IFA from the panel list, to arrange a financial assessment within five working days

At the agreed interview, the IFA will complete an initial qualification form and collect documentation. The form will clearly show if the applicants meet MHO's criteria. The IFA should also complete an interview checklist. This information is then sent to the sales officer. The sales officer will check that this complies with the agent's information

OFFER LETTER
Providing that the information supplied by the IFA is acceptable, an offer letter will be sent out. This confirms the share they can afford. The customer then completes the 'acceptance of offer' form which is incorporated in the offer letter

ACCEPTANCE OF OFFER

When the applicant has returned the 'acceptance of offer' form, MHO acknowledges receipt of the deposit by sending the acceptance letter and memo of sale. A copy of the CML incentives form should be sent to MHO's solicitor. If a public sector tenant, then a tenancy surrender form will be sent to the solicitor of the purchaser.
Once the customer has accepted the offer, they have 28 days to exchange contracts.
A copy of the letter is sent to the IFA

MHO solicitor will then send contracts of sale to the buyer's solicitor/mortgage advisor on receipt of memo of sale.
Legal completion must take place within 10 working days of practical completion.
The draft documentation should allow the purchaser's solicitors to make their enquires.
Most enquires are answered though the lease documentation

MHO's solicitor will send through a contract of agreement for lease which requires two signatures from Directors; a signing and sealing document must be completed

When the lease has been returned, MHO will then forward to the appropriate solicitor

During this period, the lender will instruct their valuers to contact MHO to carry out a valuation for mortgage purposes

When the mortgage offer is issued, the IFA will send and email all pages of the mortgage offer to MHO. MHO will then contact the applicant's solicitor to confirm they have a copy of the mortgage offer and ensure legal documentation is in place

EXCHANGE

Once mortgage offer has been approved (MHO solicitor), exchange of contracts will take place. IF A PURCHASER IS A PUBLIC SECTOR TENANT, EXCHANGE SHOULD NOT OCCUR WITHOUT TENANCY SURRENDER FORM.

IF THE PROPERTY IS NOT YET COMPLETE THE APPLICANT WILL STILL EXCHANGE, MHO WILL PROVIDE 10 DAYS WRITTEN NOTICE WHEN PROPERTY HANDOVER FOR LEGAL COMPLETION

LEGAL COMPLETION

Completion – MHO is advised of a completion date. They will contact the purchaser to arrange handover of keys (once monies are in with solicitor). A handover form is completed (with sales officer within 24 hours of completion). The customer is also given a customer forum invitation. Finally feedback will need to be given.
It is essential that MHO receive this information from every sale

Sales officer sends welcome letter and publicity leaflet

The Sales Monitoring form is sent to the NEW HOMES TEAM within 48 hours of completion

Step 1: Applying to buy

Nominations and enquiries

Priority should be given to local authority housing applicants and local authority and housing association tenants, but it may be necessary to advertise in the local press to ensure all the homes are sold in the shortest possible time.

Assessing eligibility of applicants

Eligibility should be assessed with regard to regulatory requirements, which in the case of housing associations means prioritising households on low incomes who would otherwise be unable to purchase their own home. It is, of course, equally important that they are able to afford the outgoings of homeownership. In practice this means that the target group for shared ownership sales occupies a narrow income band with all or some of the following features:

- existing social sector tenants and local authority nominees
- an inability to afford satisfactory housing at market prices, whether owned or rented
- the ability to obtain their own mortgage to meet their part-purchase costs and have sufficient savings or income to meet the associated costs of purchase.

Where demand is high, there may be expressions of interest in schemes from a number of potential buyers. In these cases housing associations may wish to select the buyer with the highest priority according to their selection and allocation policy. However, it is usual to proceed on a 'first-come, first-served' basis if all other criteria are met.

Step 2: The social landlord's response

Interviewing applicants

The interview has the dual purpose of financially assessing the potential buyer and ensuring that the property is affordable to them. It is also the first opportunity to provide them with detailed information about shared ownership, how it works and the responsibilities that are entailed in buying a home.

The assessment process must therefore cover:

- evidence of salary and income
- evidence of children living with the buyer
- proof of savings
- proof of current residency
- detailed credit references.

Either at the interview, or following it, a mortgageability calculation must be carried out to assess whether the potential buyer can, on the one hand, afford the property, and on the other hand is unable to buy on the open market. It is important to make a realistic assessment of individuals' circumstances and to include outgoings such as childcare or child maintenance. Failure of the landlord to do this will increase the likelihood of rent and service charge arrears as well as defaults on mortgage payments.

Prospective purchasers should also be advised to consider getting independent financial advice.

Providing information

It is good practice to provide the potential buyer with written information, which they can take away, rather than expecting information given verbally to be retained. Although it is no longer necessary to supply the potential buyer with a Home Information Pack (HIP), an Energy Performance Certificate must be provided. Much of the information which the buyer wants/needs was previously covered by the HIP, and the landlord may want to have a standard pack containing similar information, even if no longer obligatory.

Viewing properties

Ideally shared ownership scheme contracts should provide for a show home viewing in advance of completion of the remainder of the scheme, but this is not always possible on very small schemes or where a package is being acquired from a developer. In the absence of a show home viewing, a viewing of the completed home will still be necessary before proceeding with the sale. It is essential that as few buyers as possible are lost at this late stage, so careful checking of applications must be undertaken.

Lease covenants

Housing associations do not have to use the standard HCA leases. However, where an association chooses not to use standard leases it must certify that the leases contain fundamental clauses specified by the HCA. This certification is implied in acceptance of grant conditions. The fundamental clauses relate to alienation provision, service charge provision, the mortgagee protection clause, rent review, and staircasing provisions.

Leases are complex documents and associations should consider providing plain English summaries of leases, as well as ensuring the obligations under the lease are fully explained to prospective purchasers.

Step 3: Purchasing the home

Once a potential buyer has confirmed they wish to purchase a property and has had a satisfactory interview and credit check, a formal offer of the property should be made. In many cases associations require a refundable reservation deposit at this stage as a sign of commitment towards the purchase of the property.

At this stage the prospective purchaser should also be advised to proceed with their mortgage application and to confirm the name of their solicitor or conveyancer. The following process takes place:

- the landlord sends a copy of the draft lease to the applicant's solicitor/licensed conveyancer, who advises the applicant what it says, approves it on the applicant's behalf, makes a local authority search, and investigates title to the property
- the landlord advises the applicant about the amount of rent, and any service charge, to be paid on the remaining unsold share
- the landlord approves the mortgage obtained by the applicant
- the purchase can then be formally completed.

Step 4: Buying further shares

After the first year, if the applicant wants to buy a further share, they must inform the landlord in writing of the share they wish to purchase (known as staircasing). The details of the procedure should be contained within the lease. The landlord will arrange or request that the shared owner arranges for the property to be valued by a suitably qualified surveyor when it receives the applicant's letter and will let them know the cost of the further share. The applicant pays the valuer's fee. The applicant has three months to arrange an approved mortgage and complete the purchase of the further share, otherwise a new valuation is required.

Very detailed information about the post-sales management of leasehold property is provided in the Practice Online chapter on *Managing homeownership*.

Practice checklist: LCHO marketing and sales

In providing an LCHO service involving one or more voluntary schemes a social landlord should:

- be aware of the range of products and be clear about which are to be provided
- design a marketing and sales process
- ensure that marketing analysis is carried out on a scheme-by-scheme basis
- devise a marketing strategy for each scheme, based on the analysis
- consider the range of marketing tools available
- test different tools and be willing to try new approaches
- consider whether to provide mortgages and, if not, how mortgage finance will be secured for purchasers
- ensure that there are clear stages in the sales process which comply with legal requirements and allow sales to be completed within target times
- treat the purchaser as a future customer – whether as a leaseholder or prospective purchaser of further shares in the property.

Providing the service – right to purchase schemes

Unlike voluntary sales schemes, social landlords do not in general promote the right to purchase schemes, but of course they should have procedures in place to ensure that they deal with applications properly and within timescales, many of which are set by statute with financial penalties for non-compliance. Their obligations are:

- to ensure that the statutory deadlines for individual stages are met when processing sales
- to ensure that prospective purchasers are directed to independent and impartial advice about homeownership responsibilities
- to a tenant exercising the right to acquire, provide guidance in circumstances where an alternative property might be offered to them.

Although, as a general rule, the processes governing right to purchase applications are set down in statute, there are several areas where the landlord has discretion. It is important that landlords consider these carefully and set out formal policies governing when and how they should exercise their discretionary powers. Failure to do so could lead to inconsistent treatment of applicants, and ultimately to allegations of inequality of action and possibly to judicial review.

The following is a list of the principal areas where policy decisions need to be made:

- when (or if) to serve the section 125E notice which determines the application because of non-response to the offer notice
- when (or if) to serve the first notice (section 140) or the second notice (section 141) to complete and when or if to extend the deadlines in the notices. These determine the application because of lack of progress to complete the purchase
- when to start the reference period in the section 125 offer notices
- whether or not to allow family members without the one-year residency qualification or family members not within the statutory definition to join the application
- whether or not to allow completion when there are in excess of four weeks rent arrears
- whether or not and when to serve initial and final demolition notices (where appropriate)
- whether or not and in what circumstances to waive discount repayment
- whether or not (and by how much) to disregard the increase in value due to improvements when calculating discount repayment
- whether or not and in what circumstances to respond to requests to waive the right of pre-emption
- information to tenants: what information should be included other than that set out in the regulations, and in what format.

The Practice Online chapter on *Promoting homeownership* has detailed sections covering specific topics concerning sales under right to purchase schemes, including:

- eligibility for each scheme
- exclusions from each scheme
- conduct of the sales process
- buying with family members
- statutory time limits
- the 'Section 125' Notice (Landlord's Notice of Purchase Price and other matters)
- discounts for purchase schemes
- valuations
- explanation of the sales process
- landlord's instructions to a solicitor.

Practice Online also sets out the legal provisions relating to 'tolerated trespassers' – tenants required, under the terms of a possession order, to give up possession of the premises but 'tolerated' by the landlord who allowed them to remain in occupation.

References and background reading

Achieving Mobility in the Intermediate Housing Market
www.cih.org/publications/pub249.htm

Barker Review of Housing Supply
www.hm-treasury.gov.uk/consult_barker_index.htm

HomeSave – Increasing choices for tenants to own assets
www.cih.org/policy/HomeSave.pdf

Housing Aspirations and Shared Ownership
www.housingcorp.gov.uk/server/show/ConWebDoc.14822

Mortgage Sales Guidance for Local Authorities and Registered Social Landlords
www.communities.gov.uk/publications/housing/mortgagesalesguidance

UK Housing Review 2009/2010
http://members.cih.org/bookshop/Catalogue.aspx

Whose House is it Anyway? – Housing associations and home ownership
www.cih.org/policy/free-publications.htm

The Chartered Institute of Housing

The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities.

We are a registered charity and not-for-profit organisation. We have a diverse and growing membership of over 22,000 people – both in the public and private sectors – living and working in over 20 countries on five continents across the world.

We exist to maximise the contribution that housing professionals make to the wellbeing of communities. Our vision is to be the first point of contact for – and the credible voice of – anyone involved or interested in housing.

practice online

Wherever you are. Our expertise is with you.

Online and on hand. That's the Chartered Institute of Housing's (CIH's) new internet-based information resource designed specifically for housing professionals – practice online.

Practice online offers comprehensive legal, policy and management information in over 20 specialist topics. Whether you're in the office, working from home, in meetings or in the community, you can find the information you need, when you need it, wherever you are.

Individuals can purchase practice online from as little as £99. Or upgrade to an organisational subscription.

Key housing topics include:

- Developing Policies and Procedures
- Equality and Diversity
- Homelessness
- Lettings and Choice
- Managing Tenancies
- Regulation Focus* – **new**
- Repairs and Maintenance
- Promoting Homeownership – **coming soon**
- Managing Homeownership – **coming soon**
- Tackling Anti-Social Behaviour…and many more

To find out more about this service, please visit **www.cih.org/practice/online/**

*Special offer – Regulation Focus Chapter only £49.00 plus VAT