

Unmesh Desai AM

**London Assembly Member for City and East
Chair of the Housing Committee**



City Hall
The Queen's Walk
London SE1 2AA
Switchboard: 020 7983 4000
Minicom: 020 7983 4458
Web: www.london.gov.uk

Sadiq Khan
Mayor of London
(Sent by email)

25 March 2020

Dear Sadiq,

London Assembly Housing Committee review of affordable home ownership in London

I am writing to you on behalf of the London Assembly Housing Committee to share findings from our recent investigation into affordable home ownership in London. As part of your commitment to deliver 116,000 affordable housing starts by 2022, at least 58,500 will be affordable home ownership tenures, either shared ownership or London Living Rent (LLR). This represents a large part of the affordable housing investment in London. The Committee's investigation has concentrated on whether Londoners feel these housing options are working for them, and we have identified several recommendations.

During October and November 2019, the Committee ran a survey and held an open forum to hear about the experiences of Londoners living in these homes. In January 2020, the Committee spoke to a panel of experts comprised of representatives from academia, advocacy, journalism, and an organisation that is delivering shared ownership.

We heard that shared ownership helps many people fulfil an ambition to experience some of the benefits of home ownership. It offers improved security of tenure compared to the private rented market. Some people 'staircase' their share to 100 per cent and become full home owners. However, some shared owners also encounter issues with escalating fees, poor quality maintenance, costly lease extension processes, and they might struggle to staircase or sell their share of the property when moving. Our panel also raised concerns about whether shared ownership could or should realistically be treated as an 'affordable' product that was helping people in housing need.

Leasehold

Shared ownership properties are exclusively 'leasehold', which is an ownership model that provides the leaseholder with time-limited permission to occupy the property while the freeholder, or landlord, retains an interest in the property. Two of the main grievances expressed to us by shared owners relate to service charges, and the requirement to periodically extend the lease. These issues are also experienced by leaseholders more broadly.

Commonhold is an alternative to leasehold which allows for the freehold ownership of flats in larger developments. Purchasers of commonhold units become a member of a company which owns and manages the common parts of the building. Commonhold currently has low levels of uptake, and legislation prevents shared ownership on a commonhold basis.

The Government is considering substantial reform to leasehold and commonhold. The Government has tasked the Law Commission with considering ways of reforming the commonhold tenure so that it may take the place of leasehold, including how this option could be made available for shared ownership properties. The Committee recently wrote to you with a range of recommendations for supporting London's leaseholders, including that you should work with Government to ensure that reforms are implemented to enable the use of commonhold for shared ownership homes.

The Law Commission has provisionally proposed that shared owners would continue to be leaseholders within a commonhold development, but they could become a commonhold owner when and if they staircased to 100 per cent ownership, and that even while the shared owner remains a leaseholder they could be entitled to the voting rights which give owners collective control over the management of the block.¹

Transitioning to commonhold is a long-term undertaking, and housing associations might be cautious in adopting any alternative to leasehold for shared ownership. While the Committee hopes that commonhold will prove viable for shared ownership homes in future, there are other ways to mitigate the issues relating to leasehold for shared owners in the shorter term.

Service charges

Shared owners, as leaseholders, pay a service charge for the services provided by the housing association, including maintenance of common areas and provision of building insurance. Despite owning a portion of the property, shared owners are liable for the entire service charge, and can be required to contribute additionally to major works on the property. Service charges and maintenance fees were the main cause of dissatisfaction among the shared owners we spoke to and who participated in our survey. They expressed concern with high costs and the quality of service they received in return.

¹ *Reinvigorating commonhold: the alternative to leasehold ownership*, Consultation Paper, Law Commission, December 2018 <https://www.lawcom.gov.uk/project/commonhold/>

In 2017, you established the Shared Ownership Charter for Service Charges. As a result, new buyers should receive explanatory information, and housing providers should set service charges at a realistic level and review them on a regular basis to ensure that ongoing costs to the leaseholder are minimised and where appropriate are reduced.

The Committee acknowledges your efforts to manage service charges through this charter, but in order to ensure its effectiveness there needs to be active monitoring of its implementation. A service charge monitoring programme would also enable housing associations to acquire accurate data on historic fees, which could be provided to prospective shared ownership buyers, enabling them to better understand and plan for future costs.

Lease extensions

A marriage value payment is a compensation payment for when the value of a property is increased by extension of a lease and is generally divided equally between the leaseholder and the landlord. A leaseholder becomes liable for a marriage value payment if they seek to extend a lease that has dropped to below 80 years. Lenders are extremely reluctant to provide mortgages for leases of less than 80 years, so these homes are extremely difficult to sell without extending the lease. As such leaseholders should extend their lease before it drops below 80 years. However, extending the lease can itself be costly, not only in terms of buying the lease but also meeting the legal fees involved in facilitating the process.

Shared ownership leases are generally 99 or 125 years so lease extension becomes an issue for many shared owners during their period of ownership. We heard reports of shared owners taken entirely by surprise at the fees required to extend their lease, and with insufficient time to enact a plan to save for the expense. Others told us they were never made aware until they approached their bank to re-mortgage, at which time the lease had dropped below 80 years.

Shared owners need greater information and support to manage the lease extension process. They would also benefit from longer leases from the outset, thereby reducing the frequency with which shared owners are required to extend their leases. For example, if offered a lease of 250 years a shared owner should not need to extend the lease during their period of ownership. During our investigation, a representative from one of the large housing associations indicated they would be willing to work you to implement a process for shared owners to be offered longer leases.

Recommendations:

- 1. The Mayor should require housing associations to report on service charges and maintenance costs for each block of shared ownership homes under its management, and the Mayor should make this information publicly available. Housing associations should provide historic information on service charges to prospective buyers in advance of purchase.*

2. *The Mayor should require that housing associations actively manage the lease extension process, including providing shared owners with support to ensure they are planning for lease extension at regular intervals, for example 95, 90 and 85 years remaining on the lease. They should also provide clear information on the implications of not extending the lease.*
3. *The Mayor should require housing associations to report on an annual basis how many of their shared owners have 85 years or less remaining on their lease. These owners would be very near to reaching the point where their home becomes a less valuable asset, and appropriate management of the lease extension process should see no, or limited numbers, of owners in this position.*
4. *The Mayor should work with housing associations to explore the possibility of providing longer leases for shared owners.*

Understanding the motivations of shared owners

Shared ownership is primarily marketed as a ‘foot on the ladder’ towards full ownership. This can be achieved through the characteristic ‘staircasing’ feature, which allows the shared owner to buy additional shares over time, or through building equity and savings in the shared ownership home before moving on to full ownership outside the scheme, perhaps in a cheaper area. However, there is not enough information to determine whether the initiative is successfully moving people into full home ownership, nor whether a desire for full home ownership is an aspiration for shared owners.

We heard from Dr Alison Wallace, University of York, who has done research on the topic of shared ownership that data on staircasing is lacking but all the evidence that has been gathered so far points to quite a low rate. You have stated that, while MHCLG provides borough-level data on the number of annual sales in which shared owners staircased to 100% ownership, it does not provide data on staircasing sales to less than 100% ownership, on the length of time taken to staircase, or the proportion of properties staircased to 100% by year of original sale.² This information, alongside an understanding of what tenure types shared owners are moving into once they leave the scheme, is essential to determine whether shared ownership is effective as a vehicle to full home ownership.

Further, data collection on housing pathways and motivations of shared owners would facilitate improved programme design. It is likely that low staircasing rates are mainly a result of affordability issues.³ This in itself could be an issue with this product. However, we heard that some shared owners make an active choice not to staircase, potentially because they are concerned about the impact on future resales, or because full home ownership is

² Questions to the Mayor 2020/0208, January 2020, <https://www.london.gov.uk/questions/2020/0208>

³ In response to a 2018 YouGov survey, nearly 90 per cent of the respondents across the UK had not staircased at all in their current property, despite most (73 per cent) saying they fully understood what staircasing was. More than 60 per cent said they could not afford to save the money needed to staircase. *Another Way: Part 2*, Aster Group, 2018 <https://www.aster.co.uk/SO-report>

not an aspiration for them. It may be that security of tenure is the main appeal of shared ownership for some.

Recommendations:

5. *The Mayor should require housing associations to report annually on:*
 - a. *the tenure types type that shared owners who sell their property are moving into*
 - b. *staircasing sales (including those to less than 100% ownership). Data should be broken down by year of original sale.*
6. *The Mayor should require housing associations to survey shared owners on a three-yearly basis to identify barriers and motivations for shared owners who are not staircasing.*

The Mayor should make this information publicly available.

Transparency

This Committee has raised concerns with previous Mayoral administrations about the quality of the information received by prospective shared ownership buyers.⁴ Our recent investigation indicates that this continues to be an area for improvement.

Primarily, we heard that some shared owners were surprised by the true costs of the tenure. This includes costs relating to service charges and lease extensions as outlined above, but also the administrative costs of staircasing, maintenance costs, and rent increases.

We heard that the marketing of shared ownership as ‘ownership’ can be an area of friction when shared owners purchase without understanding the complex legal structure of the tenure. It is more akin to a combination of assured tenancy, long lease, and contract.⁵ When shared owners experience issues, for example excessive service charges or poor-quality maintenance, the ownership model creates further confusion as shared owners struggle to identify the routes of redress. Building on recommendations in our recent letter regarding leasehold, to avoid shared owners feeling they have been ‘mis-sold’ the product, the realities of the ownership model need to be made clear prior to purchase, and there should be clear information available on the rights and obligations for people living in these homes.

Buying a home is a huge financial and administrative undertaking. Shared owners are primarily first-time buyers. Having no experience of the home-buying process, and purchasing a more complex product, puts shared owners in a position of vulnerability.

⁴ *First Steps on the Ladder?*, London Assembly Housing Committee, June 2015

<https://www.london.gov.uk/about-us/london-assembly/london-assembly-publications/first-steps-ladder>

⁵ *Exploring experiences of shared ownership housing*, Cowan, Wallace and Carr, July 2015

<https://www.york.ac.uk/media/chp/documents/2015/sharedOwnershipCHPL.pdf>

Recommendations:

7. *The Mayor should, as a condition of funding, require housing associations to provide prospective shared owners with a key features document which should, at a minimum, outline: a clear description of the ownership model; the length of the lease (including the fact that it may need to be extended should it approach 80 years and the associated fees); rent increase terms; the ground rent; historic information on and a 5 year estimate of service charges and maintenance fees; staircasing fees; permission fees; and any key restrictions on the lease such as owning pets or subletting. These key features should be made clear as part of any shared ownership properties listed on the Mayor's Homes for Londoners portal.*
8. *The Mayor should publish guidance material outlining routes for redress for shared owners who are not receiving adequate service in return for their service charges and contribution to major works. Housing associations should direct shared owners to this information as part of the information package at the time of purchase.*

Affordability

Increasingly, as house prices have risen in London, shared ownership is helping people on higher incomes than might be expected from an 'affordable' product. In 2016/17 the average household income of purchasers of shared ownership properties across London was £46,185.⁶ This is certainly lower than the average household income of a first-time buyer in London at £64,276, however when contrasted with the median London salary (£38,298 in 2019⁷), questions arise about how affordable shared ownership really is for Londoners on middle-incomes. Similarly, the median deposit paid by shared owners rose by 75% from 2013/14 to 2017/18, suggesting that some shared owners may have access to reasonably significant levels of capital.⁸ A guest at our Committee meeting in January 2020 told us that shared ownership is assisting "a bracket of earners who are not in housing need so much as housing desire".

For example, Camden Council has decided that it is no longer possible to deliver shared ownership at a price that is affordable to the group that the Council targets for intermediate housing (earning £30,000 to £40,000 per year). Councillor Danny Beales told the Committee that the incomes of those able to access shared ownership in Camden were not the priority for the Council in terms of public subsidy and support. Camden Council now discourages the use of shared ownership, preferring instead the delivery of subsidised rental housing. Camden Council had initially planned to directly deliver 300 units of shared ownership

⁶ Questions to the Mayor, 2018/5279, January 2019 <https://www.london.gov.uk/questions/2018/5279>

⁷ *Employee earnings in the UK: 2019*, Office for National Statistics <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019>

⁸ Questions to the Mayor 2019/20854, December 2019, <https://www.london.gov.uk/questions/2019/20854>

through its Community Investment Programme. These homes will now be Camden Living Rent – a three-year, renewable, discounted tenancy.⁹

We understand that, in order to provide flexibility, grant funding can be used for either shared ownership or LLR homes, with tenure only determined at the point of first occupancy. However, LLR is only available to households with incomes up to £60,000, compared with £90,000 for shared ownership, and it does not require any equity deposit to be paid upfront. As it is a fairly new tenure, it may be too early to draw many conclusions, particularly regarding the impact of LLR tenants being encouraged to purchase their home on a shared ownership basis. Nevertheless, we hope that the evidence from boroughs like Camden, indicating the growing unaffordability of shared ownership in some parts of London, is taken into account when future allocation policies are determined.

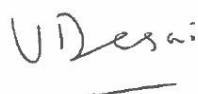
Currently shared ownership comprises a large proportion of London's affordable housing delivery yet it is not assisting those who are furthest removed from home ownership. We recognise that Government places restrictions on the use of funds, however as Mayor it is essential that you continue advocating for flexible use of funding that caters to the needs of Londoners, with the ability to explore alternative initiatives that may offer greater affordability for the target cohorts for affordable home ownership.

Recommendation:

- 9. The Mayor should advocate to Government for devolution of the affordable homes programme, to ensure greater flexibility on the allocation of different housing options.*
- 10. The Mayor should work with affordable housing providers to increase the delivery of London Living Rent where appropriate, and consider additional incentives for London Living Rent such as higher rates of grant. This should of course be coupled with rigorous outcomes evaluation of London Living Rent, and consideration of tenant satisfaction.*

I would be grateful to receive a response to our findings and recommendations by **7 August 2020**. Please also send your response by email to the Committee Services Manager, Fiona Bywaters (Fiona.Bywaters@london.gov.uk).

Yours sincerely,



Unmesh Desai AM
Chair of the Housing Committee

⁹ Transcript of Housing Committee meeting, January 2020,
<https://www.london.gov.uk/moderngov/ieListDocuments.aspx?CId=302&MId=6620&Ver=4>