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Housing Research Summary

A review of low cost home ownership policies in Wales

Introduction

This project was commissioned by the Welsh Assembly Government to review the operation and effects of Low Cost Home Ownership* in Wales, with particular focus on the principal scheme in current operation, Homebuy.

The aims of the project were:

To assess the effectiveness of LCHO schemes in meeting their stated policy objectives.

To assess whether LCHO schemes have wider, or unforeseen, consequences on local housing markets and problems.

To advise on whether LCHO schemes are meeting their stated objectives, or whether revisions to the schemes are required, within the policy flexibility available to the Welsh Assembly Government.

The project methodology was based on:

A review of the available statistical evidence, both for the Homebuy scheme itself and for the wider owner occupied housing market;

Interviews with a range of local authorities (responsible for the strategic direction of the Homebuy programme) and housing associations (responsible for the administration of the Homebuy scheme in each area);

The examination over 250 case files of individual purchasers to analyse the characteristics of the households that have been assisted to become owner occupiers through the Homebuy scheme.

The extent of Low Cost Home Ownership

Nearly 90% of all Low Cost Home Ownership in Wales has been supplied by the sale of existing homes, at a discount to their market value, to sitting tenants, under the Right to Buy. Over 128,000 homes were sold under the RTB between 1980 and 2004.

This programme has led to a loss to the social rented sector of 44% of the local authority stock that existed in 1980. Nearly all the dwellings sold have been family houses. As a result, the proportion of

the local authority housing stock consisting of one bedroom accommodation has risen from one in six (15.5%) to one in four (25.3%).

Over the past twenty five years, a variety of other programmes have been initiated in order to extend owner occupation. The most successful of these schemes has been Homebuy, which is now the only programme available, although Clwyd Alyn Housing Association has a continuing programme of newbuild shared ownership, funded from internal resources.

Prior to the introduction of Homebuy, other Low Cost Home Ownership programmes had provided some 6,000 homes since 1980, while Homebuy has provided a further 3,000 homes.

An interesting finding of the project was that in present market conditions, in some areas as much as 60% of DIY Homebuy purchases were of former council houses, previously sold under the Right to Buy.

The Homebuy scheme

Homebuy is a simple and straightforward scheme. The purchaser buys a property, with the assistance of a Homebuy loan from a housing association. The loan can be up to a maximum of 30% of the purchase price in urban areas, and up to 50% in rural areas. The Homebuy loan is effectively a substantial deposit, and therefore enables purchasers to borrow on more favourable terms from mortgage lenders.

The purchaser buys the freehold or leasehold outright, with the assistance of the Homebuy loan: there is no element of 'shared ownership'.

The loan is interest free, but if the property is subsequently sold, the loan is repayable at the same percentage of the sale price as the loan was of the original purchase price. In periods of rising house prices, the amount to be repaid will be larger than the value of the original loan, but in periods of static, or even falling, house prices the amount repaid may be the same as, or even less than, the value of the original loan.

The loan is secured by a second charge on the property, and therefore ranks behind any mortgage in the event of a default by the purchaser.

The Homebuy loan is provided by Social Housing Grant (SHG). SHG is provided by the Assembly, and distributed by local authorities to housing associations operating in their area. Local authorities are responsible for setting the strategic aims of Homebuy in their areas, and housing associations are responsible for the day to day administration of the Homebuy scheme.

The housing market and house prices

The ten years since the introduction of Homebuy in 1995/96 have seen the housing market move from the low point in its cycle, in the mid 1990s, to a new high point in the mid 2000s.

During this time, the average house price paid by first time buyers has risen by over two and a half times, from £42,022 at the low point of the cycle in 1997, to £107,857 in 2005. Even after adjusting for the effects of inflation, real house prices have more than doubled in that time.

Reflecting these changes, in 1996, the average terraced house across the majority of Wales cost less than £45,000. By 2005, the average terraced house in most areas cost between £75,000 and £125,000, and average terraced house prices in excess of £200,000 had appeared in Cardiff, and a handful of areas such as the Vale of Clwyd, Aberdyfi, Fishguard, Tenby and around Cowbridge. Even in the upper Valleys, the only areas where 'cheaper' terraced houses could still be purchased, the average price had risen to around £60,000.

However, earnings have not kept pace with house price increases: the average weekly earnings, before deductions, of full time male workers were £321 in 1995, and £462 in 2005, an increase of 44%, or rather less than half, compared to the more than doubling of house prices.

These changes have had a serious effect on the affordability of house purchase for people on lower incomes. Other research, by Professor Steve Wilcox, has shown that the combination of low wages and high house prices in the scenically desirable areas of Gwynedd, Ceredigion and Pembrokeshire has made these among the least affordable areas in Britain for house purchase.

The impact of Homebuy on the housing market

Over the three years 2003 to 2005, there were an average of 56,000 sales of homes each year in Wales. Therefore, the bottom quartile of the housing market has 14,000 sales, and there are 5,600 sales every year in the bottom tenth of the market.

Over the three years, there has been an average of 215 Homebuy purchases per annum. This is 1.5% of the bottom quartile of the market, and 3.8% of the bottom decile. Even in Gwynedd, where 50% of the SHG programme is targeted to Homebuy, the average of 30 purchases each year is only 6.6% of the lower quartile of the market.

The Homebuy scheme is, in fact, quite marginal in relation to the size of the market for home ownership, and this suggests that there can be very little impact from the Homebuy programme in adding to inflationary pressures in the housing market.

Homebuy: demand greater than supply

The principles of the Homebuy scheme are clear, transparent and understandable for the purchaser. The scheme offers very substantial assistance to aspiring purchasers, combined with the desirability of freehold ownership from the outset.

As a consequence, there is far more demand for the scheme than current resources can satisfy.

The project identified a number of issues and problems with the scheme, which are summarised below. It should be noted, however, that these problems are ones of success, and result from a greater

demand for Homebuy than the supply of funding.

It is unlikely that these problems could be solved by any practicable expansion of the Homebuy scheme. The current level of funding supports an average of 215 loans every year: doubling or even trebling the size of the programme would still only represent less than one tenth of the bottom decile of the housing market.

The characteristics of the households purchasing through Homebuy

Since the Homebuy scheme has remained unaltered in urban areas over the ten year period, offering prospective purchasers a 30% equity share, it is clear that either the incomes of purchasers must rise by more than the increase in average earnings, or that the price of property purchased using Homebuy must fall very significantly relative to the average price of houses in the market.

In practice, the average price of a house purchased using Homebuy has remained very close to the average for all first time buyers, although the type of house purchased has changed significantly.

The most significant change however has been in the type of household purchasing through Homebuy. Because the Homebuy scheme has offered the same product at the top of the housing market cycle as well as at the bottom, the type of households who can afford to purchase with Homebuy at the top of the market are very different from those who could afford to purchase with Homebuy at the bottom.

Purchasers in urban areas

A sample of purchasers in SE Wales showed that in 1995, 50% were either single people (all female) or single parents. By 2005, the proportion of purchasers who were single people, or single parents, had shrunk to 20%, and the single people were all male.

This shift in household type resulted in a sharp increase in proportion of households with two earners. In 1995, 70% of purchasing households had only one earner. By 2005, 70% of purchasing households had two earners. In 1995, just over half of the couple households had either a non-earning partner, or housewife, or a partner in only part-time employment. By 2005, less than 10% of couple households had a non earning partner, and less than 10% had a partner in part-time work.

Analysis of the job titles of purchasers shows that the Homebuy programme is assisting households whose pay, for apparently similar work, is at least double that of 1995, or households whose jobs are significantly higher graded, or both.

Despite this shift in the characteristics of the households assisted by Homebuy, the extent of borrowing and indebtedness had hardly changed over the ten years, with the average mortgage rising as a multiple of income from 2.58 times household income in 1995 to 2.68 times in 2005.

This suggests that the Homebuy programme has adjusted to the change in house prices relative to

incomes by shifting up the income scale, and by supporting dual earner households, rather than by assisting lower paid households borrowing at the higher multiples of earnings that are available in the current mortgage market.

Purchasers in Cardiff, using the City Council's own Homebuy scheme (funded using 'Section 106' agreements with developers, rather than SHG), were more typically 'metropolitan' than elsewhere.

Rather less than half (42%) of all purchasers in Cardiff were single, contrasting with 13% in SE Wales and 10% in rural west Wales, and nearly three quarters of all purchasers (72%) were either single people or childless couples. This contrasts sharply with SE Wales, where just under half (47%) of purchasers were childless households, and with rural west Wales, where only a quarter of purchasers were childless.

Purchasers in rural areas

In rural areas, fewer purchasers were single (10%), and none were 'young and single': single people tended to be either separated, with visiting children, or had adult children.

Similarly, a higher proportion than in urban areas of couple households had children, but a noticeably smaller proportion of couple households had two earners, at just over 60% compared to the 90% in SE Wales, and a number of the second earners had very low earnings. Only in two cases were the earnings of the lower earning partner more than two thirds of the earnings of the higher earner.

Reflecting this, household incomes were also markedly lower, with average gross earnings of £15,500 for the main earner, average earnings for the second earner of £1,285, and an average household income from earnings, for both one and two earner households, of £18,500. This was in sharp contrast to SE Wales, where the average gross income for the main earner was £20,877, the average earnings of the second earner were £10,131, and average household incomes from earnings, across both one and two earner households, were £27,165.

The characteristics of the homes purchased through Homebuy

Homebuy enabled most households to purchase a home larger than their immediate requirements: three quarters of all single people, and all couples without children, were able to buy two or three bedroom houses. A quarter of all single people and half of all couples without children were able to buy three bedroom houses.

Homebuy also enabled people to buy better quality, or more desirable, homes: 60% of all homes bought in SE Wales and west Wales were either end terrace or semi-detached.

Even in Cardiff, where there is a greater supply of one bedroom homes, no childless couple purchased a 1 bedroom property, and nearly three quarters (71%) of all 2 bedroom properties were bought by childless households, as were just over half (55%) of all 3 bedroom properties.

In rural areas, purchases were in or near the large towns and the larger market towns, rather than in

‘deep rural’ villages.

The role of Homebuy in providing ‘deposits’

A noticeable feature of purchasers in all areas was that very few put down any deposit from their own resources. Almost all purchases were entirely funded by mortgages, and by the very substantial ‘deposit’ represented by the equity share.

Less than one in five (19%) of purchasers contributed any deposit towards the cost of purchase, and nearly two thirds of the deposits were for sums less than £5,000. Only 7 out of 93 purchasers surveyed contributed a deposit in excess of £5,000. Four of these came from savings, two from parental gifts, and one from equity from the sale of a former owner occupied home.

The advertising of Homebuy

As a result of the excess demand for Homebuy over the supply of resources, there is little advertising of the availability of the scheme. Occasional advertising, word of mouth, and referrals from estate agents have been more than enough to provide housing associations with long waiting lists.

However, few local authorities or housing associations had any strategic policy on how the scarce resources of Homebuy should best be targeted.

As a result, most housing associations administering the Homebuy scheme were simply working through their existing waiting list of applicants in date order.

Homebuy and housing need

Housing associations administering the Homebuy programme are required to ensure that applicants are either already social housing tenants, or be eligible to be a tenant and to be in ‘circumstances such that in other circumstances the RSL would offer them a tenancy’.

In practice, housing associations kept separate waiting lists for Homebuy applicants, and it appeared clear that applicants were applying for Homebuy, not for rehousing. Housing associations were, in general, dealing with applications in date order, rather than by applying any test of housing need or likely priority of rehousing.

A high proportion of Homebuy purchasers were household types which were unlikely to have been in circumstances which would lead to an offer of rehousing. In urban areas, the proportion of single people and childless couples assisted by Homebuy varied between nearly half in SE Wales and nearly three quarters in Cardiff.

Policy Issues

The project identified a number of issues which have policy implications for consideration.

These can be grouped into three areas:

Focussing the Homebuy programme to meet strategic housing objectives

Reviewing the criteria of the Homebuy programme to support strategic objectives

Using the Homebuy programme in rural areas to support wider social objectives

Focussing the Homebuy programme to meet strategic housing objectives

Given the inevitably limited resources which can be allocated to the Homebuy programme, and the almost unlimited potential demand from aspiring house purchasers, it would seem desirable to focus Homebuy resources to maximise the strategic housing benefits of the programme.

This suggests that resources might be focussed on:

Reducing the demand for social housing, and preventing homelessness, by assisting existing home owners to remain in owner occupation following a change in their circumstances such as relationship breakdown, loss of earning capacity, or other similar threat.

Releasing social housing for reletting by assisting existing social housing tenants to buy in the open market.

A refocusing of the Homebuy programme to support these objectives would require a closer link with local authority and other housing advice services, and a more 'reactive' programme, able to respond to need as it arises, rather than a programme responding purely to ever-lengthening waiting lists.

Reviewing the criteria of the Homebuy programme to support strategic objectives

At present, the Homebuy programme appears to be enabling purchasers to acquire properties which are larger than their current requirements, and which are certainly above the bottom decile, and probably the bottom quartile, of the market.

This suggests that a number of the criteria for the Homebuy programme should be reviewed:

- Should the maximum purchase price continue to be linked to the highest ACG band in each local authority area, potentially encouraging more 'upmarket' purchases?
- Should there be a more effective review of alternative properties available to potential purchasers (the very low proportion of mid terraced houses purchased suggests that lower cost alternatives may be available)?
- Should the size of property purchased be more closely related to the immediate needs of the household?
- Should the assistance available through the Homebuy programme be linked to any saving by the purchaser towards a deposit (e.g. by a 'pound for pound' matching scheme, or similar)?

Using the Homebuy programme in rural areas to support wider social objectives

There appeared to be little use made of the Homebuy scheme by rural local authorities to support other social objectives.

These might include:

The use of resale covenants, parallel to those required for Right to Buy purchases, to ensure that any property purchased with the assistance of Homebuy is sold to another eligible purchaser.

The use of the Homebuy programme to support villages or small towns where local services are 'at risk' due to population change.

In particular, the use of the Homebuy scheme to support local primary schools, where the sustainability of Welsh language medium education may be threatened by population decline, ageing, or other change.