

AVISON
YOUNG


Shared Ownership

The case for
investment



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Shared Ownership provides investors with the opportunity to invest in a tenure with true social purpose. Amongst all tenure types, security and freedom are of high importance and have a large impact on occupiers' wellbeing

Executive summary

Shared Ownership is a key growth area which can help tackle the longstanding housing crisis in the UK whilst still meeting the aspirations of much of the population, and government, for home ownership. Whilst it is currently a small part of the housing market, it has grown substantially over the last decade and has the potential to become the next mainstream tenure, particularly in London and the South East, where affordability is most constrained.

This report draws attention to the current state of the housing market, builds on the understanding of the Shared Ownership market and the growing opportunity for institutional investment.

It highlights the affordability issues and challenges of saving a sufficient deposit. This continues to squeeze people out of the open market and into affordable homes adding further pressure on an already constrained market. We believe this gap in the market can be filled by Shared Ownership, a tenure that fulfils homeownership aspiration through blending traditional homeownership and renting.

Greater support from the central government, through grant funding and enabling reforms for private investment has unlocked the Shared Ownership market for investors to become actively involved in.

If priced correctly, Shared Ownership can appeal to a significant market especially if monthly costs are cheaper than private rent and more affordable than full ownership.

One of the main appeals of Shared Ownership for investors is the low volatility, long-term index-linked rental income stream on offer. In fact, the structure of the Shared Ownership market leases closely resemble those of commercial properties, offering RPI linked leases without the commitment to full repairs.

Shared Ownership provides investors with the opportunity to invest in a tenure with true social purpose. Amongst all tenure types, security and freedom are of high importance and have a large impact on occupiers' wellbeing. The structure of the Shared Ownership positively impacts wellbeing as it offers flexibility and a secure tenure that is not offered by private renting.

However, there is limited supply against a strong demand. Whilst there has been a significant policy drive to greatly expand the supply of Shared Ownership homes, greater involvement from the commercial housing sector is required to deliver more units.

The state of the market

What is Shared Ownership?

Shared Ownership is a buyer purchasing a share of a home (usually between 25% and 75%), whilst a housing provider retains ownership of the remaining equity, on which an RPI-linked subsidised rent is payable. A minimum deposit of 10% of the value of the purchaser's share is required.

Shared Ownership is limited to those households earning less than £80,000 per annum (£90,000 in London), and is most popular in areas where there are affordability issues notably in London and South East. Properties under the scheme may be new builds or secondary stock available through the resale programmes from housing associations.



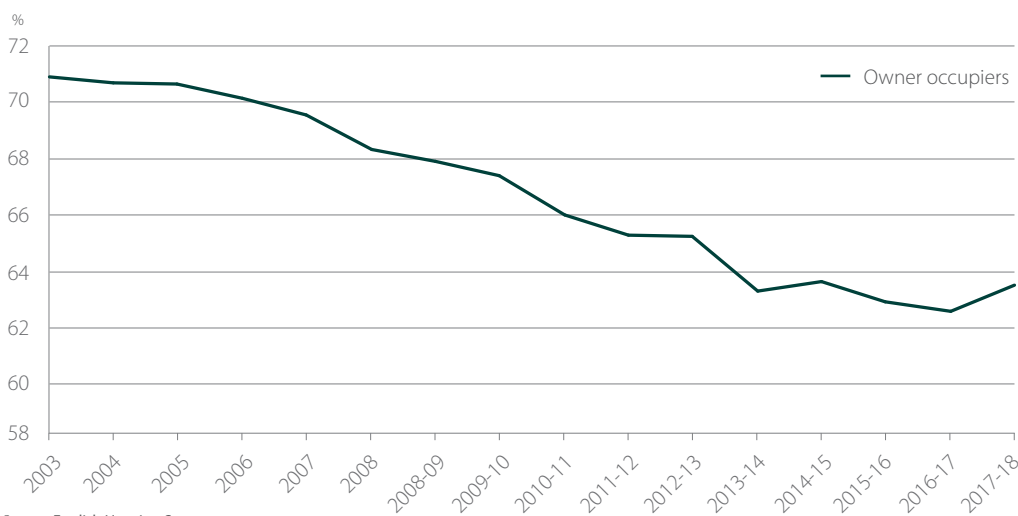
Typical example of a £300,000 property

75% Landlord equity £225,000

25% Purchaser share £75,000
(including minimum 10% deposit, £7,500)



Figure 1: Home ownership in England



Source: English Housing Survey

Understanding the sector

Shared Ownership as a concept is now 40 years old, with the first development of its kind being brought to the market in Notting Hill in 1979. The sector now represents an established, albeit small part of the housing market, with currently around 200,000 Shared Ownership properties across the UK, with 0.7% of households living in them.

The sector has grown substantially over the last decade in response to the affordability crisis in the UK housing market, creating a level of affordability not catered for by the open market.

According to the latest English Housing Survey, home ownership in England has declined from its peak in 2003 at 71% to just under 64% in 2017-18. With affordability stretched, home ownership has tumbled amongst those aged 25-35, falling from 55% in 2007-08 to 38% by 2017-18. This is unsurprising as average deposits have climbed to almost £45,000 looking at the mean and £25,000 when considering the median, and as such 64% of first time buyers sit in the top two income groups.

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As more people are pushed into the private rented sector, the composition of homeowners has tipped in favour of outright owners accounting for 34% of the market compared to mortgage purchasers at 30%. Indeed, 41% of private renters and 56% of social renters believe they will not be able to buy for at least five years. This is noteworthy in a culture where, rightly or wrongly, homeownership is seen as the panacea.

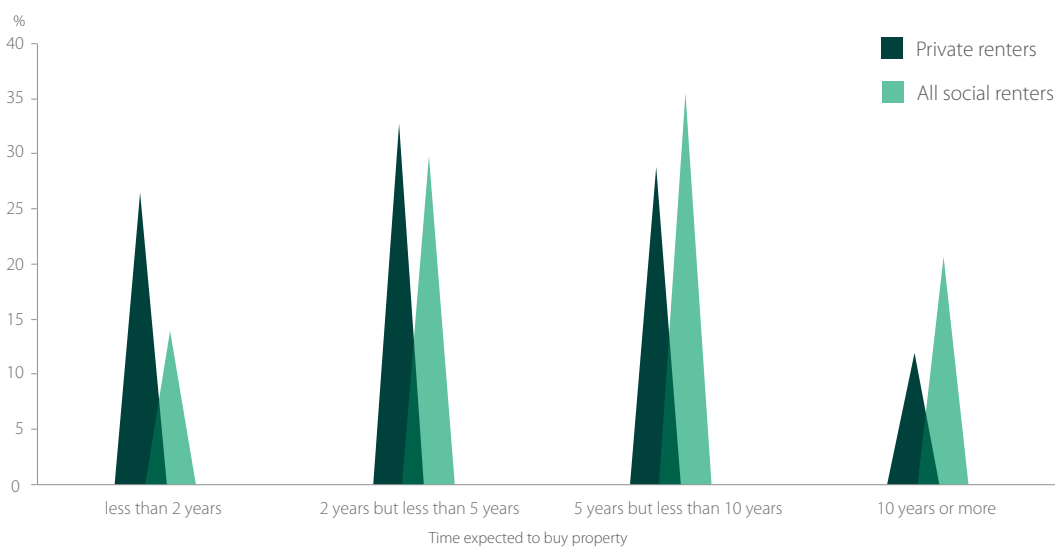
Shared Ownership offers an alternative route to home ownership, and is becoming an increasingly attractive option for those priced out of the open market. Indeed, affordability in Shared Ownership is typically equal to or better than affordable rent, and more affordable than private rent, particularly in London and South East where the household rent to income ratio is considerably higher than elsewhere in the UK.

Shared Ownership is one of a number of assisted home ownership programmes, and competes against Starter homes and Help to Buy.

However, Shared Ownership homes can work out more affordable compared to Help to Buy equity loans. The average price of a home in England is circa £340,000 – under the Help to Buy equity loan scheme the purchaser needs a £17,000 (5%) deposit whereas a 25% stake under Shared Ownership requires only half that amount.

Shared Ownership offers an alternative route to home ownership, and is becoming an increasingly attractive option for those priced out of the open market

Figure 2: Buying expectations amongst social and private renters in 2017-18



Source: English Housing Survey

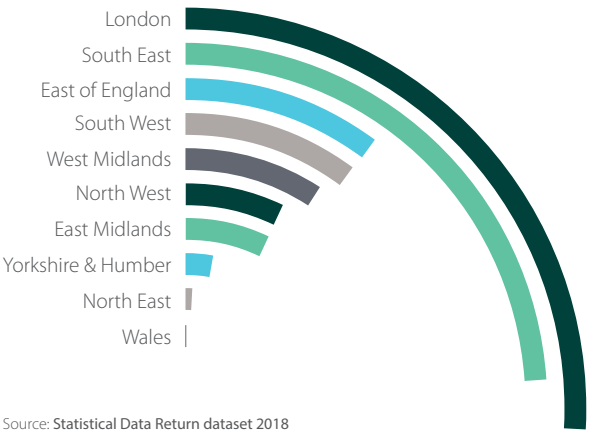
In London and the South East, where house prices are significantly higher, even the 5% requirement for the Help to Buy equity loan scheme can be inaccessible for many. Unsurprisingly, with affordability issues particularly acute in these locations, London and the South East saw the largest number of Shared Ownership sales.

Shared Ownership also allows a great deal of flexibility. There is no limit on the market value or property type, unlike Help to Buy equity loan schemes which are limited to new builds up to a value of £600,000.

Furthermore, from 2021 Help to Buy will reduce to a regional cap and buyers will be restricted to first-time buyers only before the scheme ends in 2023. Purchasers of Shared Ownership have greater flexibility on when and how much to increase their stake by, compared to the Help to Buy equity loan which offers an interest-free loan for only five years and must be payable at the end of the mortgage term or on resale.

Unsurprisingly, with affordability issues particularly acute in these locations, London and the South East saw the largest number of Shared Ownership sales

Figure 3: Proportion of low cost home ownership units in England and Wales, 2017 - 18

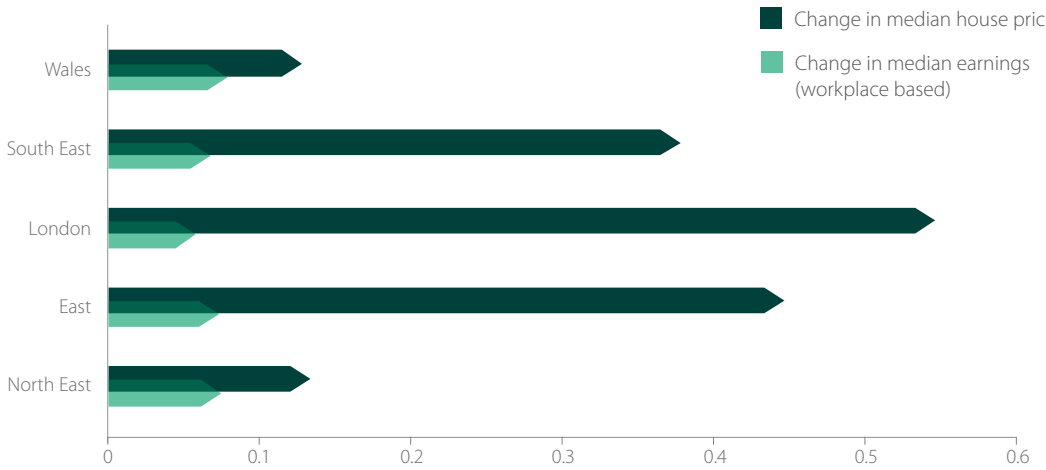


Source: Statistical Data Return dataset 2018

Similarly, Starter homes are also restricted to new build stock for first time buyers under the age of 40, with a market value up to £250,000 (£450,000 in London). Whilst a 20% discount is provided, the property cannot be sold on the open market for 15 years. In January 2016 the government provided £1.2 billion to remediate brownfield land in preparation for the development of starter homes. £250 million of this has already been spent but as of May 2018 no starter homes had actually completed.

The Shared Ownership sector has expanded further since 2016, when the government put an extra £4.1 billion into the sector to deliver an additional 135,000 new homes. With home ownership becoming unrealistic for an increasing number of people, Shared Ownership has the potential to become a mainstream tenure. A combination of increased government initiatives and awareness amongst housing providers, mortgage lenders, investors and purchasers will pave the way for further growth in the sector.

Figure 4: Change in median house prices and median earnings from September 2013 to September 2017



Source: ONS



Staircasing

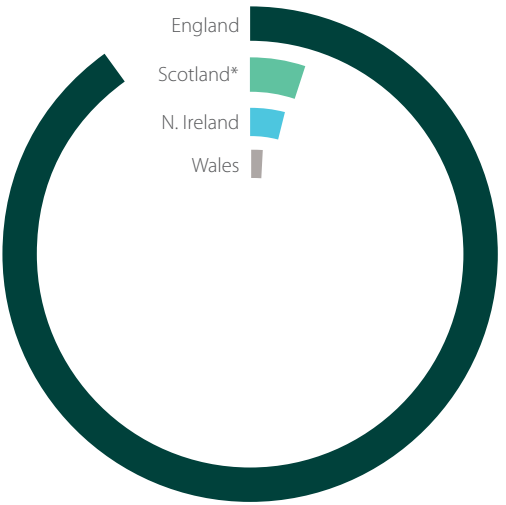
Staircasing is a mechanism, defined within Shared Ownership leases, that enables tenants to increase their proportion of ownership, by buying up equity from the landlord. The majority of staircasing, based on traditional housing association portfolios is 100%, with this being as a result of a direct sale of the unit on the open market. Otherwise, valuation costs and the administration, as well as the need for steps of multiples of 5%, with a minimum share of 10% to be made, seems to be off-putting to many, potentially highlighting the fact that the scheme is imperfect for those individuals wanting to obtain full ownership.

Size and value of the market

There are currently around 200,000 Shared Ownership properties across the United Kingdom. The majority of these are unsurprisingly in England (see figure 5) where there were 175,221 properties in 2017/18. This was up 25% from 2009/10 according to the latest Statistical Data Return (see figure 6 overleaf). Elsewhere, Shared Ownership in Northern Ireland (known as Co-ownership), more than doubled in a decade to 8,439 properties in 2017/18, up from 3,843 in 2007/08.

The combination of low salaries, high deposits and tightening of lending regulation have made open market home ownership unattainable for many, consequently generating higher demand for Shared Ownership. In Wales, there has however been limited growth, with 1,822 Shared Ownership properties in 2017/18, up from 1,765 recorded in 2012/13. There are estimated to be 12,366 shared ownership homes in Scotland, up from 10,168 in 2011.

Figure 5: Shared Ownership stock by country



The combination of low salaries, high deposits and tightening of lending regulation have made open market home ownership unattainable for many, consequently generating higher demand for Shared Ownership

* Data on Scotland may include properties that have been fully staircased although this is likely to be negligible.

Source: SDR, Welsh Government, Department for Communities, Scottish Government and 2011 census

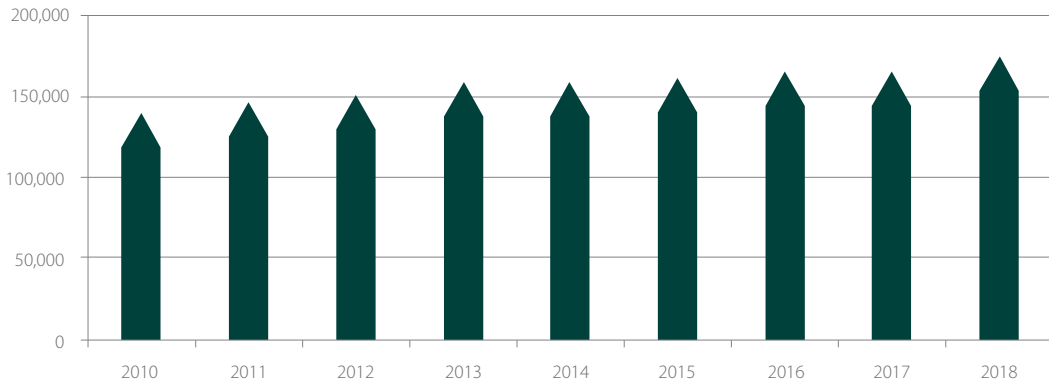
The average market value for Shared Ownership sales in England was £262,500 in 2017/18, up from £172,100 in 2010/11. In line with the rise in sales value, the value of average initial equity stake purchased (mortgage plus cash deposit) increased from £67,800 to £108,800 (see figure 7), but as a percentage of market value, average initial equity stake increased by 2 percentage points to 41%.

Between 2010/11 and 2017/18, the average cash deposit as a proportion of initial stake fell from 20% to 18%. This reflects the rise in market value, the relative availability of mortgage finance and the hardship in placing a larger deposit as real income growth lagged well below average house price growth.

There is limited data available but the SDR 2018 data suggests there were only 4,148 100% staircased Shared Ownership sales, down from 5,130 properties reported in 2017. This clearly demonstrates the correlation between house prices and staircasing activity and consequently indicating that Shared Ownership owners behave in a similar way to the rest of the market.

The average market value for Shared Ownership sales in England was £262,500 in 2017/18, up from £172,100 in 2010/11

Figure 6: Low cost home ownership owned stock, as at 31 March 2010-2018, England

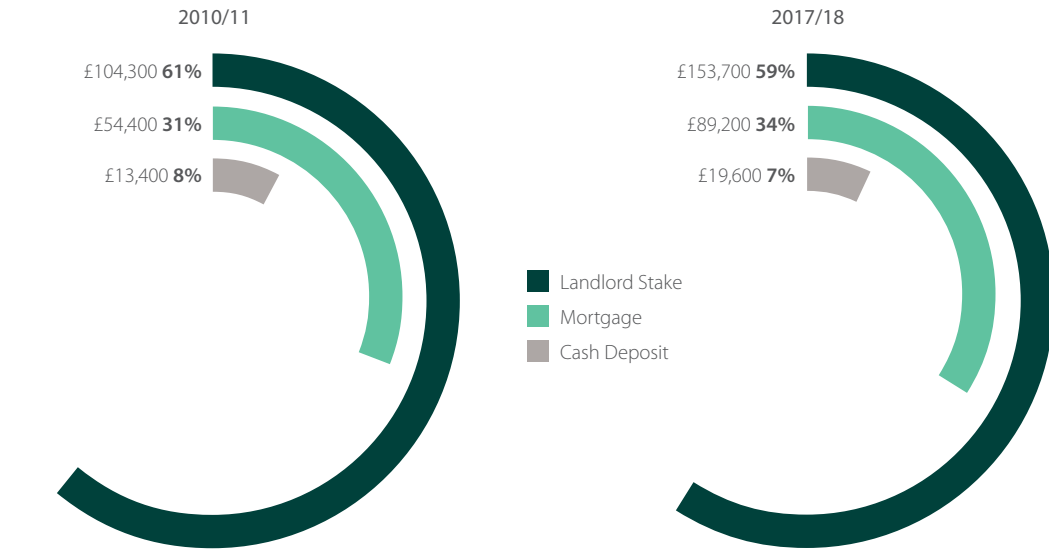


Source: Statistical Data Return

There is still limited availability of mortgages for purchasers, as mortgage lenders have had little incentive to cater for what is still a small part of the market. According to the Council of Mortgage Lenders, around £4 billion worth of mortgages were lent to those in Shared Ownership tenure in 2016, equating to 1.3% of all mortgages in England and about 0.7% of the total value in 2016.

Secondly, purchasers' mortgages tend to be more difficult and subject to higher capital requirements than traditional mortgage agreements. Standard Shared Ownership leases have a mortgage protection clause which is vital to ensure lenders are willing to offer mortgages on this product. This provides the lender protection on the principal loan and up to 12 months interest in the event of a default. However, the Shared Ownership market is relatively safe with defaults far lower than the market average.

Figure 7: Shared Ownership average market, mortgage and deposit value in England



Source: Ministry of Housing, Communities & Local Government



From 2016, the government provided grant funding to enable high levels of housing delivery, and boost Shared Ownership supply

Delivering Shared Ownership

How Shared Ownership is delivered

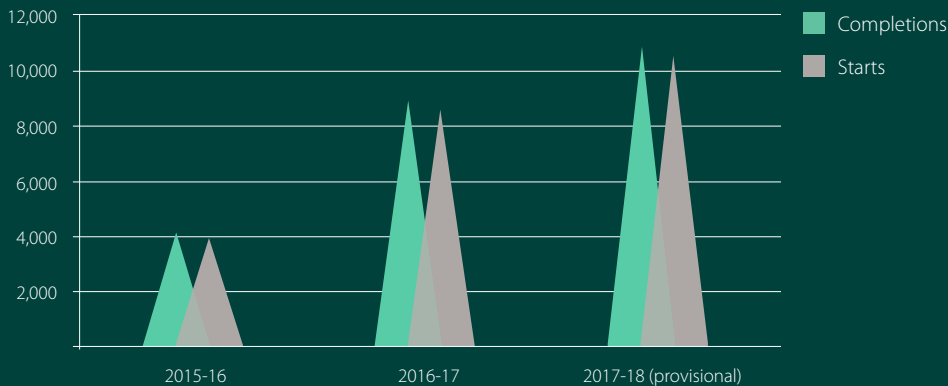
Historically Shared Ownership homes have been delivered through planning obligations (Section 106 of the Town and Country Planning Act 1990, “S106”) on house builders to deliver affordable housing. From 2016, the government provided grant funding to enable high levels of housing delivery, and boost Shared Ownership supply.

According to the National Housing Federation (2016), Housing Associations approve around 85,000 applications for Shared Ownership every year but as a result of limited government funding, both new starts and completions are a fraction of that. In England, Shared Ownership starts and completions have more than doubled since 2015/16, with 10,880 units completed and 10,532 units started in 2017/18 (see figure 8 overleaf).

In 2017-18, of the 10,880 completed Shared Ownership schemes in England, 62% were delivered through Section 106 (nil grant) see figure 9 overleaf. This was in line with delivery in 2016-17, although up from 45% in 2015-16.

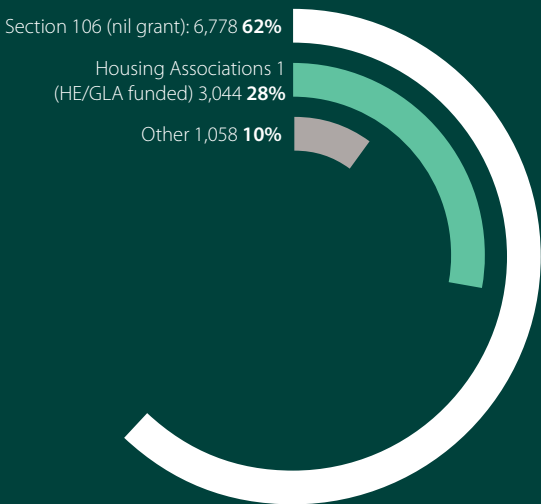
S106 agreements typically mean developments are not eligible for HE/GLA grants unless they are for additional units.

Figure 8: Shared Ownership starts and completions, England



Source: Ministry of Housing, Communities and Local Government

Figure 9: 10,880 Shared Ownership completions by scheme type, England 2017 - 18



Source: Ministry of Housing, Communities and Local Government

In England, Shared Ownership starts and completions have more than doubled since 2015/16

Enabling supply

Supply remains low against decades of pent up demand. There has been a significant policy drive to greatly expand the supply of Shared Ownership homes, with the government seeing it as a solution to enabling home ownership and overcoming the associated affordability challenges for many in society. The government also sees it as an opportunity for greater involvement from the commercial housing sector.

The main initiative to deliver this is the Shared Ownership and Affordable House Programme (SOAHP) which initially made a total of £4.7 billion in capital grants available from 2016-2021, providing funding for 135,000 new Shared Ownership homes. Additional funding for the SOAHP was made available in autumn 2016 and 2017, taking the total budget to £9.1 billion, although this was to support delivery of both affordable rent and low cost ownership homes.

So far this has enabled £1.3 billion to be allocated to the Homes England programme – outside London (by Jan 2017), for 23,340 Shared Ownership units. The GLA's £3.3 billion is intended to help develop at least 90,000 homes by 2020/21, with two thirds split between London living rent and Shared Ownership, depending on needs at the time of completion.

Supply remains low against decades of pent up demand. There has been a significant policy drive to greatly expand supply of Shared Ownership homes

Restrictions on end-consumer eligibility have been relaxed significantly, increasing the market for the product and opening it up to existing property owners who are looking to upsize to a larger home to accommodate their growing family.



Constraints to supply

Whilst the government has taken steps to increase the supply of Shared Ownership, it still only accounts for a very small portion of the total housing supply. Housing associations face many challenges in delivering Shared Ownership homes. One of the main challenges is that S106 obligations only provide limited government funding for development and more must be done to boost delivery from private investment.

Affordability constraints have a direct impact on the economic viability of affordable housing schemes. Rising costs, particularly land and construction, means the private sector is unlikely to deliver enough affordable Shared Ownership homes to meet the underlying demand. Government intervention, from either funding or access to public land will play an important role to enable schemes where viability is a concern.

One of the main challenges is that Section 106 obligations only provide limited government funding for development and more must be done to boost delivery from private investment

To maintain the stock levels on balance sheets, Housing Associations have to redeploy the sale proceeds, but this may be difficult in areas where cost of delivery is out of kilter with property values.

Often access to land is limited particularly at the right price in the right location. Public bodies should take a long-term approach rather than maximising short-term capital receipts from sales of public land. Selling land on more favourable terms for development of Shared Ownership homes could improve the viability of schemes and help unlock supply in the market.

The government continues to explore methods to generate supply and has invited the private sector to propose methods on how it can be done in a consultation that ran until February 2019. The government is committed to creating a positive environment for the private sector to deliver Shared Ownership homes, either through acting as a facilitator, removing regulatory or other barriers or acting as a co-funder.

The government recognises the risk and financial uncertainty created for investors by staircasing, thus it is willing to provide loan funding to support the delivery of private Shared Ownership homes in order to remove this barrier. However, as a quid-pro-quo, the investors must offer Shared Ownership leases with the same terms or improve upon the terms of the standard form of Shared Ownership lease.

Shared Ownership as an asset class

Housing Associations – the typical owner

Shared Ownership homes are typically owned and managed by Housing Associations, which principally focus on providing affordable housing. Unlike social rented homes, the Housing Association does not need to allocate funds for maintenance as the purchaser is responsible for repairs and insurance under Shared Ownership leases. Furthermore, as partial owners, Housing Associations can reap some of the benefits from house price growth through staircasing receipts.

Income is derived from the rent that shared owners pay, which tends to start at 2.75% of the value of the unowned equity stake in their home. The starting rent is at a subsidised level in comparison to the market rents which is to enable affordability as well as capital repayments on the mortgage element and possibly the future staircasing. For Housing Associations, there is the comparable benefit that there is no commitment to capital costs, unlike rental properties.

The structure of the tenure provides long term inflation-linked income for the housing association in the form of rent which grows at RPI plus 0.5% annually. Whilst leases typically range from 125 years or longer, the expected cashflow and duration is uncertain as purchasers can choose when to increase their equity in the property through staircasing, thereby reducing their future rental payment liability.

As a social housing provider, there is some scope for the Housing Association to control Shared Ownership stock on the secondary market when the property comes up for sale and is not fully staircased. The Housing Association typically has up to 12 weeks to select a buyer before the property is sold on the open market.



Shared ownership rents start at 2.75% of the unowned equity and grow at RPI plus 0.5% annually

Whilst Shared Ownership provides an income stream to the provider that is protected from any central government policy changes following the assignment of Shared Ownership leases, amongst other benefits, there are some risks that Housing Associations bear which are unique to Shared Ownership tenures. Firstly, Housing Associations typically fund Shared Ownership through corporate borrowing, and whilst the cost of debt has remained low in recent years, there is the risk that as rates increase, financing will become costly, compared to the low incomes they receive on their equity.

Nevertheless, to this point, Housing Associations have been reluctant to divest, highlighting the quality of the asset, but simultaneously limiting the liquidity of the market.

The benefits of investing in Shared Ownership

Investment in Shared ownership closely resembles typical commercial assets. Investors are able to enjoy a low volatility, long-term index-linked rental income stream, without the commitment to full repairs, which falls on the occupant purchaser.

Shared Ownership assets offer an excellent opportunity for investors to enjoy a low volatility, long-term index-linked rental income stream

House price appreciation at staircasing can top up the landlord's return in the form of capital value growth, albeit at the expense of the income stream. However, under the right management model this can be overcome through a re-investment strategy, providing an opportunity for investors to maintain or enhance the inflation linked income. Thus in the long term, rental income streams can be predictable.



Enabling diversity amongst Registered Providers

Until recently, Shared Ownership has not been given the “air time” that it deserves as an asset class within the investment community. Investors have been deterred by the complexities associated with the product, as well as the difficulties in accessing stock with meaningful scale, which would allow for a strategic case for material investment into the product.

There have been some specific obstacles to private sector investment. Historically, the main stream lenders tended to be cautious of Shared Ownership assets being used as collateral on debt. According to the National Housing Federation, debt providers on average have allowed 15% -20% of their lending to be secured against the assets, citing the risks of uncertainty relating to staircasing and the early redemption of loans and investments.

Consequently, Shared Ownership stock held on balance sheets has restricted Registered Providers’ (RPs) borrowing capacity as they have been unable to fully utilise their assets to raise capital. Additionally, conservative valuations of Shared Ownership stock, mainly due to the lack of transparent evidence of transactions, has also restricted the potential opportunity to maximise the assets utility.

Although staircasing can potentially reduce the long-term rental income streams, it also gives an opportunity for RPs to benefit from a considerable cash injection and crystallisation of potential capital gain from any property value appreciation when it occurs.

This income can be reinvested into more development and further increase the social housing stock.

However, in reality, stagnant earnings growth relative to house price inflation has prevented large numbers of purchasers being able to staircase to outright ownership. Although, there has not been a consistent and transparent reporting of staircasing statistics in the sector, RPs’ experience indicate low rates of staircasing over the long term, resulting in more predictable and stable rental income streams from Shared Ownership assets.

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In addition, the greater the size of a Shared Ownership portfolio, the smoother the average staircasing experience will be, making Shared Ownership assets one of the most desirable but under-appreciated asset classes for institutional investment.

Investment Market: seizing the opportunity

Over the past few years, a number of investors seeking long-term, inflation protected income from real estate investments, have deployed a considerable amount of capital into Shared Ownership through a combination of investment models. Whilst some have chosen to follow the traditional Housing Association route of acquiring affordable housing assets through developers’ S106 obligations, others have simply acquired unrestricted open market units and provided them to the market on a Shared Ownership basis. Although the acquisition of S106 packages have created a significantly deeper affordable housing transactions market than ever before, providing open market units as Shared Ownership has become a considerable method of generating additionality to already consented housing schemes.

Although it is no longer a requirement to be a Registered Provider of housing to own Shared Ownership assets, investors such as ReSI, Sage and Funding Affordable Homes, among others, have set up their own RPs in order to gain access to affordable housing investments. Operating within the regulatory framework enables investors to not only access to grant funding, but also enables them to leverage their relationships with Local Authorities for delivery and investment into affordable housing.

Over the past few years, a number of investors seeking long-term, inflation protected income from real estate investments, have deployed considerable amount of capital into Shared Ownership through a combination of investment models

Case studies



CBRE GI acquired the residual equity interest of 230 Shared Ownership dwellings from Derwent Living in 2015. According to the publicly available information, the price paid for the portfolio was £9m against the initial income of £400,000 per annum.

In 2017, CBRE GI also secured the acquisition of circa 250 Shared Ownership units from Aviva Investors for a consideration of c.£13m. This deal reflected a notably low initial yield against the price paid and the portfolio income was secured with leases to a number of Housing Associations.

At the start of the year, CBRE GI launched a new £250m fund which will employ a lease-based investment model; the stock will be owned by the fund and leased to existing registered RPs. The fund will target a 6% return to investors.



Funding Affordable Homes have purchased 66 Shared Ownership units under 2 separate transactions at the Landmark Pinnacle tower in Canary Wharf and Island Point in the London Borough of Tower Hamlets. The units will be managed by Poplar HARCA on a 20 year management agreement.



ReSI formally entered the Shared Ownership market in 2018 when it acquired 34 unrestricted new build apartments in Totteridge Place from Crest Nicholson for £16.45m. Using a combination of low cost long-dated debt alongside GLA grant funding, ReSI will be able to offer the units as Shared Ownership providing much needed “additionally” to affordable housing. Metropolitan Thames Valley Housing, one of the largest Housing Associations and a recognised leader in Shared Ownership, will act as managing agent for the properties.

Furthermore, ReSI entered into a new Housing Investment Partnership agreement with Morgan Sindall Investments Limited. The agreement aims to increase the (HIP) supply of Shared Ownership. The partnership will initially target the delivery of 1,500 Shared Ownership homes with a value of up to £300m.



heylo housing is one of the leading, specialist Shared Ownership providers in the UK and it now owns and manages one of the largest Shared Ownership portfolios in the sector.

heylo was backed by Lancashire County Pension Fund in 2014 which saw its total funding increase to £300m over the next two years. Subsequently, heylo acquired a for-profit registered provider in order to accelerate its supply and deploy £1bn of institutional capital into Shared Ownership. heylo offers a number of derivatives of Shared Ownership model and HomeReach product has become one of its most successful delivery platforms. heylo has recently secured additional £80m capital from BAE Pension Fund.



Backed by Blackstone and Regis Plc, Sage first entered into the affordable housing investment market in 2017 and since then has deployed a significant amount of capital into affordable housing assets. According to Social Housing Magazine, Sage had 200 social and affordable homes under management and contracted on another 4,800 housing units with an estimated value of £700m. Sage is targeting to deliver 8% risk adjusted returns to its investors.

Key investment drivers for Shared Ownership investment:

- RPI linked rental income with 0.5% additional uplift per annum
- The secure Residential leases granted to households following stringent affordability test
- Shared Ownership leases are equivalent to commercial FRI leases which transfer all of the maintenance, repairs and insurance responsibilities to shared owners, as a result, requiring very little management
- Diversified rental income from a range of households with strong record of low default rates
- Unlike other affordable housing products, Shared Ownership rents are protected from policy changes
- In addition to inflation protection, total returns are linked to house prices growth through staircasing which has provided Housing Associations with a significant kicker

Key risk considerations for Shared Ownership investment:

- Exposure to house price inflation fluctuations through contractual staircasing mechanism
- Investment interest is typically subordinated to mortgage lenders, unless initial share purchased with cash
- Uncertainty associated with the timing and quantum of staircasing
- Risk of substitution through reinvestment in the event that cost of delivering new Shared Ownership units exceeds the capital return from the original investment
- Restrictive criteria written into the historic S106 obligations which may limit the ability to access security
- Scalability of investment as a dedicated strategy

Some of the high ranking factors on the risk spectrum relating to the Shared Ownership investments are illustrated above. Large parts of these risk factors can be mitigated within a well-balanced, geographically and demographically diverse Shared Ownership portfolio. However, access to the existing portfolios which are predominantly owned by Housing Associations, will require investors to have a deeper understanding of the sector, asset class, and untimely be open to a greater degree of risk sharing.

Return considerations for Shared Ownership investment:

- The pricing of Shared Ownership assets has ranged between 2.5% - 4% in terms of net initial yield on total capital employed
- They can vary considerably based on the risk associated with the type of transaction
- Whilst a lease based acquisition of residual equity interest of Shared Ownership attracts the lowest cost of capital, the number of investment opportunities based on leases have been limited
- Golden Brick or forward funding arrangements are by far the most common methods of accessing the Shared Ownership assets. However, due to the inherent development and sales risks associated, the pricing tends to be at the higher end of the yield spectrum
- As a consequence of affordability pressures and high consumer demand, Shared Ownership is a highly liquid asset
- Other considerations for pricing include the vintage of the Shared Ownership assets within the portfolios, geographical spread, exposure to South East and London and restrictive S106 and Shared Ownership lease terms
- Assuming a defensible annual house price growth, Shared Ownership investments can provide investors with a risk adjusted total return that falls within a range of 6-8%
- A Shared Ownership portfolio is relatively easy to assemble as investors do not require unbroken blocks as the management/maintenance obligations sit with the owner-occupier, not investor.

Creating social value through Shared Ownership

The shortage of affordable homes has left the UK in a housing crisis, with an overwhelming proportion of the population unable to purchase a home amid soaring house prices and limited wage growth in recent years. Whilst this is a problem across the nation, it is particularly severe in London and South East.

Shared Ownership helps tackle the affordability problem, supporting those who aspire to be homeowners but are unable to purchase on the open market due to having insufficient capital for the deposit. In addition to this, the tenure provides a social purpose benefiting the shared owners as well as having a wider range of economic benefits.

Socially responsible investing is gaining momentum with investors increasingly placing more importance on social value rather than just economics. Shared Ownership provides an opportunity for investors to meet these social requirements and generate a healthy income.

A study conducted by the Universities of Birmingham and Manchester, and funded by VIVID homes, found security and having control of their homes are some of the highest priorities for individuals. Whilst home ownership has the largest scope to achieve this, other forms of tenures can also provide this, particularly Shared Ownership.

Shared Ownership can positively impact wellbeing by providing those priced out of the market with affordable and secure homes with leases of 125 years or longer. It offers the opportunity to be homeowners and with greater control of their home compared to renting. Buyers have control over the location and property type with no limits on the number of bedrooms. This can provide access to more affluent areas or better quality homes that may be out of reach otherwise. Shared Ownership can also help low income households or those experiencing challenging life events such as a family break up, to maintain a home.

Financially, those in Shared Ownership may find the tenure a cheaper alternative to private rent, particularly in London and South East where rent is typically a significant proportion of income. Default rates are also lower for Shared Ownership as the stringent screening process means buyers are likely to be able to afford monthly payments. In addition to this, partial ownership means buyers are less exposed to falls in the housing market.

The Shared Ownership model can have a wider impact on society as well. The sense of ownership means shared owners tend to have a greater incentive to look after their home and the local area. Developers tend to find Shared Ownership provides a lower degree of sales risks than some tenures whilst delivering a more viable economic value than other affordable tenures and thus have a greater incentive to build them. This is critical in incentivising the development community to increase rates of delivery. Investors can also add pressure on developers to build homes in ways which improve social value. This can range from better design material and quality, open spaces that improve wellbeing as well as availability of local amenities and community space.

However, there is scope to further improve the social impact of Shared Ownership. Buyers find staircasing challenging, particularly with the numerous fees associated with the process. They also feel that they are caught out by covenants in the Shared Ownership lease, which can be complex and often be misunderstood at the point of purchase. If providers make it easier for buyers to staircase, then this would positively contribute to the perception of the tenure. As a result, the nature of the long leasehold means buyers and providers are more likely to build a better, sustainable relationship.

Shared Ownership helps tackle the affordability problem, supporting those who aspire to be homeowners but are unable to purchase on the open market



Avison Young and Shared Ownership

The UK affordable homes shortage is a well-known fact and does not require a debate.

Shared Ownership is one of the main stream affordable housing products which has a major role to play in delivering social value in communities where people live and work.

Avison Young are at the forefront of the promotion and support of housing delivery in the UK and Shared Ownership is one of the asset classes we feel passionately about. Our view is that the deployment of private capital into the sector increases the capacity for the delivery of “additional” affordable housing that we desperately need. Whilst we do not necessarily believe that home ownership is the panacea, many believe it is. If we are to make inroads into the structural undersupply of homes in the UK, the housing market needs to deliver more homes of all tenures and institutional ownership can help to underpin this.

Furthermore, growing affordable housing investment volumes have the potential to inject more liquidity and depth to the market which can help Housing Associations to free-up balance-sheet capacity and benefit from tighter pricing.

In recent months, Avison Young’s Residential Investment team have been involved in ReSI’s acquisition of Totteridge Place and formation of the HIP with Morgan Sindall Investments. We are currently advising on over £400 million of affordable housing transactions and a significant amount of this is through Shared Ownership.

Avison Young are at the forefront of the promotion and support of housing delivery in the UK and Shared Ownership is one of the asset classes we feel passionately about

If you'd like to talk to one of our team to discuss property services or any market leading research, please get in touch.

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