

# MAYOR OF LONDON

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## Mayor of London response to Ministry of Housing, Communities & Local Government consultation: New model for Shared Ownership: technical consultation

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### Summary

1. While delivering homes for Social Rent remains at the heart of the Mayor's housing strategy and his priorities for housing market recovery in light of the likely economic impacts of Covid-19, there are also many Londoners who are unlikely to be able to access these homes and can afford rents above social rent levels, but who still struggle with housing costs.
2. Shared Ownership remains a popular option for Londoners who wish to access home ownership. These homes enable those who would struggle to buy a home on the open market, to do so with a much smaller deposit and lower earnings than would otherwise be required. However, in recent years there have been increasing concerns about the affordability of these homes, particularly in more expensive boroughs which have very high house prices. Other costs, such as rising service charges, can also lead to Shared Ownership properties becoming less affordable over time.
3. While the Mayor's powers to improve affordability for existing shared owners are limited, he is keen to be a strong advocate for them and to use his influence with affordable housing providers, and where possible his investment powers, to improve affordability and transparency around the ongoing costs of Shared Ownership homes.
4. The GLA's Strategic Housing Market Assessment (SHMA), published in 2017, sets out detailed estimates of London's housing requirements from 2016 to 2041.<sup>1</sup> The SHMA estimates that between 2016 and 2041, 11,869 intermediate homes need to be delivered in London each year. While good progress is being made in delivering all types of affordable housing, many more affordable homes, including intermediate homes, need to be delivered to meet London's housing need in coming years.
5. The Mayor recently consulted on a broad range of proposals in relation to intermediate homes, including how to address concerns with the affordability of Shared Ownership homes, and what more can be done to support delivery of these homes. Feedback received via the GLA's consultation on intermediate housing has informed the GLA's response to MHCLG's technical consultation on the new model for Shared Ownership.<sup>2</sup> In addition to the issues raised within MHCLG's technical consultation, the GLA consultation on intermediate housing highlighted two key issues that must be addressed to improve the experience of those living in Shared Ownership: the need for greater consistency, transparency and clarity in guidance for potential shared owners; and the need to ensure the lease extension process for shared owners is more effectively and actively managed.<sup>3</sup>

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<sup>1</sup> Greater London Authority, [Strategic Housing Market Assessment](#), November 2017

<sup>2</sup> The GLA [Consultation on Intermediate Housing](#) ran from 04 August 2020 until 11 October 2020, and has now concluded.

<sup>3</sup> Greater London Authority, [Intermediate housing: Part 1 Consultation Response Report](#), November 2020

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## *Transparency*

6. One of the key issues affecting the experience of shared owners, highlighted through the GLA consultation on intermediate housing, is the lack of detailed information and understanding of the Shared Ownership model. The GLA recognises the importance of ensuring that prospective and existing shared owners have access to the full range of information about Shared Ownership, including the rights and responsibilities of shared owners and landlords, as well as the full range of likely fees (including service charges, staircasing fees, permission fees and other charges) associated with a Shared Ownership home.
7. The GLA believes that clear information should be provided as early as possible in the marketing and sales process. To support this approach within London, the GLA will require all investment partners in the new Homes for Londoners: Affordable Homes Programme 2021-2026 to publish details of additional fees and charges (other than service charges) for Shared Ownership homes on their websites; and to provide a key features document to potential purchasers at the start of the marketing and sales period for all new the Shared Ownership homes.<sup>4</sup> In addition to the information already required through a key information document, as outlined in the Homes England Shared Ownership model form of leases, this key features document should include detailed information on the tenure of the property and the length of any lease; as well as the full range of potential costs, including any expected service charges, permission fees and any other charges (including those relating to resales and lease extensions). The Mayor urges the Government to introduce similar requirements on a national level through Homes England.

## *Lease length*

8. Lease extension provides leaseholders, including shared owners, with the opportunity to protect the value of their investment and ensure longer-term security in their home. However, the process of extending residential leases can be costly and complex, particularly when leases fall below 80 years in length. In recognition of this, the Law Commission recommended in January 2020 that lease extensions of 990 years replace the current requirements for houses and flats, of 90 and 50 years respectively.<sup>5</sup> This recommendation aims to make lease extensions the exception rather than the rule and protect leaseholders from the costs of lease extension wherever possible.
9. To further support Shared Owners through lease extension, the Government should work with the GLA to develop detailed guidance on the lease extension process, as well as follow the Law Commission's recommendations around setting reasonable standards for lease extension fees. This will help to mitigate any risks of unreasonable lease extension charges.
10. The GLA believes that leaseholders, including those living in Shared Ownership, should be protected as far as possible from unreasonably costly and burdensome leasehold extension processes. While the GLA strongly supports the aims of longer lease extensions, we believe these objectives can also be achieved for shared owners by encouraging the adoption of longer leases from the outset. The Mayor urges MHCLG and Homes England to introduce a longer standard lease term through the model lease for the new Shared Ownership model.

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<sup>4</sup> Greater London Authority, [Homes for Londoners: Affordable Homes Programme 2021-2026](#), November 2020

<sup>5</sup> Law Commission, [Leasehold ownership: buying your freehold and extending your lease](#), January 2020

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## Response to consultation questions

### Reducing the initial minimum stake to 10%

#### *Unsecured lending*

11. The Mayor wants to ensure that new Shared Ownership homes are delivered via a model that will ensure that they are affordable to Londoners who would benefit most from intermediate homes. A key part of this is ensuring that affordable homeownership can be sustained. The GLA therefore agrees that it is not appropriate for applicants to fund a Shared Ownership purchase through unsustainable or unfair lending.
12. The MHCLG new model for Shared Ownership reduces the minimum share that people can buy at the initial point of purchase from 25% to 10%. Reducing the minimum initial share will allow people to access Shared Ownership with a lower deposit and mortgage amount. However, evidence suggests there are fewer traditional lenders that offer mortgages at these low levels,<sup>6</sup> which will reduce competition and might increase the need for alternative or unsecured lending. Unsecured lending can attract higher (and less affordable) interest rates. The GLA supports the Government's aim to protect the integrity of Shared Ownership and ensure those who access it are not exposed to unfair lending terms.
13. The GLA expects that Shared Ownership purchasers will take out a mortgage to purchase their initial share and purchase the maximum share that they can afford and sustain. This requirement is set out within the GLA's Capital Funding Guide for the current model, and is expected to remain a feature of the new model for Shared Ownership for the Affordable Homes Programme 2021-2026.<sup>7</sup> Within the existing model, approval to purchase without a mortgage will only be given in exceptional circumstances. The GLA intends to continue this approach with the new model for Shared Ownership.
14. The Government must ensure that any additional costs resulting from alternative lending are taken into consideration within provider affordability checks. Housing providers carry out affordability checks on all potential Shared Ownership purchasers to ensure that they can afford their new home, but this is particularly critical in the case of unsecured lending outside of the mortgage market. As part of the new model for Shared Ownership for the Affordable Homes Programme 2021-2026, the GLA expects housing providers to work with shared owners at an early stage to minimise any risk that mortgage payments and rents, taking into consideration any inflationary pressure on rents, cannot be sustained.

#### *Viability of the smaller initial stake*

15. The GLA recognises that the Government's proposals for a lower initial share are intended to improve the affordability of Shared Ownership and make it more accessible to households on a wider range of incomes. However, high level GLA modelling suggests that the improvement in affordability offered by a lower share may only be marginal. In addition, the lower initial share is likely to make starker the perception that it is unfair for shared owners to take on the full responsibilities of homeownership in exchange for a 10% stake.

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<sup>6</sup> Censeo Financial, [Shared Ownership Lenders: Autumn 2020 Insight](#), September 2020

<sup>7</sup> Greater London Authority, [Affordable Housing Capital Funding Guide: Section 4: Housing for sale](#), August 2016

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16. The GLA Housing Research Note on Intermediate Housing suggests that the median equity share purchased by Shared Ownership purchasers in London in 2017/18 was 35%, and only 23% of Shared Ownership purchasers purchased the minimum share of 25%.<sup>8</sup> This suggests it is unlikely that the majority of households will take up the offer of the 10% initial share. However, the option may bring a broader range of households into the Shared Ownership market.
17. High level modelling by the GLA suggests the lower initial share may make Shared Ownership more affordable to purchasers initially.<sup>9</sup> Affordability would predominantly be improved in higher value areas and in instances where the initial rent charged on the unowned equity is below the maximum of 2.75%. The lower initial share will likely need to be subsidised by higher grant rates, which may reduce the overall delivery of Shared Ownership when compared to the current model.
18. However, over a longer period, the GLA finds that the improvement in affordability (in terms of rent and mortgage payments) is only marginal. Assuming that the mortgage interest rate and amount of equity owned remains unchanged, but that the rent charged on the unowned equity increases each year (noting that the existing Shared Ownership model permits annual rents increases of up to RPI plus 0.5%), the GLA finds that affordability over a longer period may actually be worsened with the lower initial share. This issue is akin to the challenge when comparing the relative affordability of a 25% share and a 40% share – in both instances, the risk is that a shared owner does not staircase up from the lower initial share and ends up paying an exponentially increasing rent on the larger proportion of unowned equity. The affordability challenge is made starker by the lower initial share, as the proportion of unowned equity on which rent is charged, and which is subject to increases of up to RPI plus 0.5%, is larger.
19. Within the current model, the GLA requires shared owners to purchase the maximum share that they can afford and sustain. Housing providers should ensure that this practice continues at resale.

## Introducing gradual staircasing

### *Implementation of the gradual staircasing model*

20. The consultation rightly recognises that some shared owners struggle with the costs of purchasing additional shares once they are in their home. Any new scheme will need to ensure legal, financial and administrative burdens associated with gradual staircasing are minimised, for both shared owners and housing providers. In addition, gradual staircasing processes need to be transparent so that shared owners are made aware of the risk that the costs of paying legal fees for each percentage share means they could pay more than compared to traditional staircasing through one legal transaction.
21. The fees currently charged for staircasing vary across the sector; and, therefore, the benefit of the Government's proposal will vary depending on the level of fees set and incentives offered by each provider to promote staircasing. While it is broadly positive that valuation, administrative and mortgage fees will not be paid in the gradual staircasing model, the GLA is of the view that the need for legal advice creates a cost that may remain a fundamental barrier to the gradual staircasing model. The GLA urges MHCLG to identify options for keeping associated legal fees for shared owners to a minimum for gradual staircasing transactions. The GLA is also conscious that

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<sup>8</sup> Greater London Authority, [Housing Research Note: Intermediate housing: The evidence base](#), August 2020

<sup>9</sup> Affordability is calculated on the basis that, for a dwelling to be considered affordable, spend on housing costs (including mortgage repayments, rent and service charge) should not exceed 40% net annual household income. For high-level affordability modelling, this assumes net income is equal to 70% of gross income. This assumption is aligned with the approach set out in the London Plan and London Plan Annual Monitoring Report.

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there are costs to the provider associated with staircasing, and believes that the Government must ensure that these costs are not transferred elsewhere.

22. Given the relative costs of gradual versus traditional staircasing, the GLA is of the view that at best there will be low take up of this new approach and at worst there is a risk shared owners may end up unintentionally overpaying for their staircased shares if they are not fully informed of the true costs. The GLA believes that clear information on the staircasing process, including the relative costs of gradual versus traditional staircasing, should be provided to prospective purchasers of Shared Ownership homes to ensure residents are sufficiently informed about future costs. MHCLG should consider how to ensure that providers communicate this information as early as possible in the marketing and sales process. The GLA will support the provision of this information by requiring all investment partners in the Affordable Homes Programme 2021-2026 to provide a key features document to potential purchasers at the start of the marketing and sales period for all new Shared Ownership homes.

## Updates to repairs and maintenance

### *Scope of proposed repairs inside the home*

23. The GLA recognises the affordability challenges faced by some shared owners in relation to repairs and maintenance liabilities – the GLA’s consultation on intermediate housing revealed concerns among Londoners around the affordability of Shared Ownership, in that shared owners are liable for 100% of repairs costs. The GLA, therefore, welcomes the Government’s proposal to re-balance repairs and maintenance liabilities more proportionately between housing providers and shared owners over the first ten years of the life of a new home.
24. The transfer of the liability for repairs and maintenance onto housing providers for a ten-year period may reduce costs for new shared owners; however, there is some risk that this approach could have a negative impact on the ability of housing providers to deliver new homes and invest in existing ones. Feedback from providers suggests any additional cost liability may need to be subsidised by higher grant rates, and may result in a reduction in overall delivery.
25. The suggested scope of repairs inside the home aligns with the definition of repairs in Section 11 of the Landlord and Tenant Act 1985 and is considered acceptable. The GLA recommends that the Government expands the scope of repairs to include building safety measures inside the home, for example the installation and repair of Automatic Fire Suppression Systems, including sprinklers.
26. It is right that the responsibility of major works and external repairs should remain with the landlord, if these works relate to remediation works to address building safety issues. The Mayor’s response to the MHCLG Select Committee pre-legislative scrutiny of the draft Building Safety Bill, expressed concern at the creation of a new building safety charge, and the proposal that these funds be used to cover remediation works, including removal of unsafe cladding and other non-cladding remediation works. It would be wrong for shared owners to bear the costs of historic errors in construction that they played no part in causing. It is, therefore, welcome to see the new model for Shared Ownership returns responsibility for these works to landlords.

### *Cap on the cost of essential repairs inside the home*

27. The GLA recognises the importance of ensuring that the costs that can be claimed by a shared owner for essential repairs inside the home are reasonable and proportionate.

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28. The GLA supports the proposal to implement a cap on the amount that a shared owner can claim for essential repairs inside the home, as this strikes a balance between providing meaningful support to residents and managing the additional delivery costs to housing providers. The GLA requests that further information be made available on how the £500 cap on essential repairs has been arrived at. The GLA is also of the view that the value of the cap should be kept under review and be updated to reflect any inflationary pressures or any unexpected changes in average costs.
29. While the introduction of an annual cap on the cost of essential repairs inside the home will help housing providers to plan for expenditure, the GLA is of the view that flexibility for residents should be maintained to ensure that residents do not have to bear significant costs if multiple or expensive repairs are required in any given period. For this reason, the GLA agrees that the annual repairs budget should be rolled over, but suggests that the Government consider how this repairs budget could be managed over a longer period. Any approach to managing and monitoring the repairs budget for each home should make it as easy as possible for shared owners to claim back costs as well as minimising administrative burdens for housing providers.
30. The GLA also encourages the Government to further consider what support it can offer to re-balance repair and maintenance liabilities more proportionately between housing providers and shared owners, including both existing shared owners and those living in homes that reflect the new model after the initial ten-year period.

## *Process for reclaiming eligible repairs expenditure and resolving disputes*

31. The consultation asks for views on the process that should be put in place to enable shared owners to reclaim eligible repair expenditure from their landlord and resolve disputes. The GLA is of the view that the process must help to avoid instances where residents undertake repairs inside the home in the expectation that they will be able to reclaim the money, only to find subsequently that they are unable to claim it back because the work is ineligible.
32. The Government should require housing providers to publish clear information on the process for reclaiming eligible repairs expenditure, and the dispute resolution process, on their websites. The key features document provided to prospective purchasers of Shared Ownership homes should provide clear information on what is and is not included within the scope of eligible repairs expenditure, and the cap on the cost of essential repairs within the home.

## **Pre-emption clause and nominations period**

33. MHCLG's technical consultation recognises the desire of many shared owners to have greater control over the resale process; and proposes giving shared owners the option to end the eight-week pre-emption period at the four-week mark if they would prefer to pursue an open market sale.
34. Desire to ensure pre-emption period works for both shared owners and housing providers must be balanced with the need to protect affordable housing stock. Even where landlords hold long lists of prospective buyers interested in Shared Ownership, the GLA has concerns that the four-week pre-emption period is not sufficient for housing providers to nominate an onwards purchaser for a Shared Ownership home. By reducing the pre-emption period to four weeks, there is a risk that this policy will lead to an accelerated loss of affordable housing stock. For this reason, the GLA does not support the proposal to reduce the pre-emption period to four weeks.
35. The GLA consultation on intermediate housing revealed that the resale process is one of the key challenges facing shared owners who wish to move to a more appropriate home. Some

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respondents commented that housing providers' processes can delay moves – specifically, the pre-emption clause and the challenge of finding prospective purchasers that meet the housing providers' eligibility criteria within a reasonable timeframe.

36. However, one of the issues raised by respondents to the GLA consultation on intermediate housing was a lack of clarity and consistency around the processes for resales, meaning many shared owners do not understand the resales process until they embark on the process themselves. The GLA believes that residents' dissatisfaction around the resales process could be largely resolved if clear information on the resales process (including the pre-emption clause and nominations period) were provided to purchasers up front in a 'key features' document, as will be required of providers in receipt of grant through the Affordable Homes Programme 2021-2026.

## **Delivering the new model through Section 106 developer contributions**

### *Transitional arrangements*

37. The GLA is of the view that transitional arrangements should remain flexible, to ensure the planned pipeline of Shared Ownership homes is not adversely impacted and to allow some flexibility for local authorities to determine whether it is appropriate for new homes to be based on the new model for Shared Ownership.
38. The GLA notes the intention that the new model will be delivered through Section 106 (S106) developer contributions and will be the subject of a Written Ministerial statement. To assist Local Planning Authorities and help ensure a consistent approach, the Government should provide standard S106 clauses for the new model for Shared Ownership.

### *Delivery issues*

39. As noted throughout this response, the proposed changes to the new model for Shared Ownership (including the lower initial share and introduction of greater repairs cost liabilities for providers) may need to be subsidised by higher grant rates for Shared Ownership, which may reduce levels of affordable housing delivery, including homes for Social Rent.
40. Moreover, the GLA notes that one of the key concerns of providers in relation to the new model for Shared Ownership, is that the delay in implementation is creating uncertainty. The GLA urges the Government to provide further clarity on the final terms of the new model lease as soon as possible, so that providers are able to make informed bids for Shared Ownership grant within the Affordable Homes Programme 2021-2026.