Evaluation of the Homebuy scheme in England

Alastair Jackson

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Executive summary

Introduction

1 This study covers the period April 1999 to June 2000, during which time some 1,300 Homebuy purchases took place in England. It draws on the records of these purchases; interviews with government and funding bodies, housing policy organisations, eight registered social landlords and eight local authorities; and a questionnaire returned by 180 Homebuy purchasers.

2 The government's objectives for the Homebuy programme are to assist tenants of registered social landlords, local authorities and those nominated from waiting lists (who would otherwise have priority for social housing) to buy a home of their own; and to help meet the demand for social housing by creating vacancies in social housing stock and reducing waiting lists.

3 Homebuy provides an interest-free loan of 25 per cent of the value of the property purchased under the scheme (within maximum price limits). The loan is repayable when the property is sold (the amount repaid is 25 per cent of the value at the time of sale). Homebuy is one of a range of low-cost home-ownership initiatives; at the time it was introduced in England, the government abolished the Tenants' Incentive Scheme (TIS) and cut its funding of the Do It Yourself Shared Ownership (DIYSO) scheme.

4 Unlike other models of Homebuy, the current England-wide scheme does not allow the size of the interest-free loan to vary from its 25 per cent level; it is not open to those in housing need who are not registered on a local authority waiting list; and it does not restrict the purchaser's choice to properties in a given area.

5 Studies carried out prior to its introduction suggested that, compared to existing shared ownership models of low-cost home ownership, Homebuy would: be simpler to administrate; be easier to understand for purchasers; require a variable proportion of equity loan to cater for market conditions in different parts of England; and be vulnerable to inefficiencies if administered by too many organisations.

Homebuy purchasers

6 Registered social landlord tenants are ten times more likely than local authority tenants to purchase under Homebuy. This suggests that information about and marketing of the programme are not reaching both groups equally. Fifty per cent of Homebuy purchasers lived in their previous home for less than five years. Compared to all social sector tenants, those who take up Homebuy are three times as likely to be couples with children; one-third less likely to be single parents; and twice as likely to be aged under 45. Compared to other forms of low-cost home ownership, Homebuy has been taken up by a large proportion of black and minority ethnic households.

7 Those who purchase under Homebuy significantly increase their living space (and their garden space), and move to areas that they feel are better looked after and less prone to crime or unemployment. However,

their new homes are not in a better state of repair, and are no more convenient for work, shops and transport, or getting to family and friends. A majority of purchasers who originate in London feel that the rules surrounding Homebuy prevent them from buying the property, or in the area, they want (this applies to only one in four purchasers elsewhere). Only 18 per cent of purchasers outside London move more than ten miles when they buy; for purchasers in London, the figure is 43 per cent.

Comparing Homebuy, DIYSO and TIS

8 Homebuy purchasers are on considerably higher incomes than their predecessors who bought under the DIYSO programme. This difference is particularly marked in London and Southern regions. Homebuy purchasers are half as likely to be single parents as their counterparts under DIYSO. This characteristic of Homebuy is of considerable concern for registered social landlords and local authorities, and a significant number of the latter fund their own DIYSO programme in order to offer access to home ownership to lower income households who are unable to make use of Homebuy.

9 A related criticism is that the size of the Homebuy loan is inflexible in the face of considerable variation in the gap between incomes and house prices in different parts of the country, and in response to the income characteristics of different households. Modelling carried out for this study shows that, at nil extra subsidy cost, allowing Homebuy loans to vary between 15 and 30 per cent could have resulted in the average income of purchasers falling by 4 per cent. An alternative approach of offering larger equity loans in higher cost areas would bring Homebuy closer to the income groups who accessed DIYSO, although at significant expense in public subsidy terms.

10 Not surprisingly, those who take up Homebuy prefer it to shared ownership options, in particular in respect of the lack of rent payments on the 25 per cent balance of the property's value, and the greater sense of 'ownership' that this entails. In terms of monthly housing costs, Homebuy is more attractive than shared ownership at 50 per cent, and will be increasingly so if long-term mortgage rates continue to fall. Homebuy is also much more attractive to lenders because of the absence of a lease between the purchaser and the registered social landlord.

Providing the Homebuy programme

11 Homebuy forms part of a range of low-cost home-ownership programmes whose share of Housing Corporation funding has fallen considerably in recent years. This is felt to be in response to local authority priorities for rented housing programmes. Reflecting its objectives, the Homebuy programme is concentrated in the southern half of England. It is also thinly spread with 177 local authority areas seeing fewer than ten purchases each in the period April 1999 to June 2000. Nine per cent of local authorities account for 57 per cent of transactions in this period. Similarly, 11 registered social landlords administered five or fewer

transactions, with nine out of 44 registered social landlords accounting for 50 or more transactions each and 61 per cent of the programme.

12 Except in respect of the criticisms outlined in paragraphs 8 and 9 above, Homebuy is welcomed by the organisations that generally provide and fund low-cost home-ownership schemes. It is felt to be straightforward to administer and attractive to purchasers. There has been no difficulty in achieving programme targets. A number of registered social landlords would like to see an arrangement under Homebuy that is similar to shared ownership where a purchaser who gets into financial difficulties can apply to reduce their equity stake in the property; however, this is acknowledged to be expensive in terms of public subsidy.

13 The government's stated objectives for the Homebuy programme (see paragraph 2 above) are widely recognised and supported by registered social landlords and local authorities. However, these should be elaborated in order to address two interrelated issues:

- There should be a greater emphasis on the *housing needs* of households accessing Homebuy, particularly in relation to their income levels. It is not sufficient to say that the Homebuy programme is a success because output targets have been met and vacancies created in the social rented sector. Do It Yourself Shared Ownership achieves the same outcomes and helps households with considerably lower incomes access low-cost home ownership.
- In the recent past, low-cost home-ownership programmes have been used to boost programme outputs and this still drives the use of Homebuy both at government and local authority levels. Greater emphasis should be placed on the role of Homebuy in targeted intervention in local housing markets – for example, in creating diversity of tenure or in regenerating an area.

Sustainable communities

14 The criticism that Homebuy removes economically active tenants from the social rented stock is usually countered with the point that low-cost home-ownership programmes as a whole account for a very small percentage of movements out of social housing and into owner-occupation, and that restricting choice is not the way to foster the regeneration of run-down areas. In addition, it is felt that local authorities' priorities are for creating additional vacancies in the social rented stock. Nevertheless, a few registered social landlords and local authorities argue for flexibility in the application of Homebuy procedures, so as to allow (for example):

- a targeting of Homebuy to encourage purchasers to remain in the local area or to buy into an area undergoing regeneration
- greater encouragement to registered social landlords to offer voluntary purchase to tenants who have no legal right to purchase their own home (and therefore to encourage these households to remain in the area).

Value for money from public subsidy

15 Value for money from public subsidy under the Homebuy programme requires that those purchasing should not have been able to do so anyway without assistance. This study suggests that about 8 per cent (105 out of 1,318 transactions in the period studied) of Homebuy purchasers could have bought their property outright with a mortgage of 2.5 times their household income. Presumably, not all these households would be in a position to raise this level of mortgage and details of their circumstances are not known. In addition, about one in three Homebuy purchasers state that they would have bought anyway within three years had they not bought under Homebuy.

16 This study attempts to compare value for money from public subsidy between low-cost home-ownership and rented programmes. A crucial variable here is the extent to which, because of a low-cost home-ownership programme, a tenant gives up their tenancy and enters owner-occupation earlier than they would otherwise have done. The tentative conclusion is that Homebuy needs to bring forward the date on which a household leaves social renting by between three and five years in order to represent value for money compared to investment in a rented unit. Arriving at this result requires a number of assumptions to be made.

Evaluation and recommendations

17 Under Homebuy (and between April 1999 and June 2000), 1,318 households were re-housed, creating 967 vacancies in the social rented sector at costs ranging from an average of £16,000 in the Midlands and the North to £26,000 in London. Providers report significant over-subscription to the scheme. Homebuy improves on shared ownership models of low-cost home ownership: purchasers have a greater sense of ownership; mortgage lenders welcome absence of a lease agreement with the registered social landlord; and local authorities and registered social landlords find that it is straightforward to administer and to explain to prospective purchasers. This is a strong and stable beginning from which to consider and explore possible developments and refinements.

18 A disproportionate number of Homebuy purchasers are registered social landlord tenants, which creates a problem of equity between different groups of tenants and undermines the government's (presumed) intention that Homebuy should be equally accessible to registered social landlord and local authority tenants. *Recommendation*: the marketing of the programme to local authority tenants should be reviewed and strengthened.

19 The Homebuy programme is spread thinly amongst registered social landlords and local authorities. This must affect the marketing effort that can be given to it and the efficiency with which the programme is administered. *Recommendation*: the Housing

Corporation should consider setting a minimum number of transactions per year for registered social landlords and local authorities that want to take up the programme.

20 Some households who take up Homebuy would become owner-occupiers anyway if the programme was not available to them. There will always be marginal cases and this is not an area where hard and fast rules are appropriate. However, different landlords perceive the problem differently and take different approaches to targeting. *Recommendation*: a more detailed study of the issue of targeting the programme in relation to household incomes, leading to good practice guidelines, would be helpful.

21 *Recommendation*: the Housing Corporation should allow Homebuy to be adapted to local circumstances. This could include making it available as part of a regeneration programme – to a wider range of households but only in a defined area. Alternatively, it might be possible to adapt it to a 'homesteading' programme: the registered social landlord would carry out works to the structural elements of a property which is then sold on to a household which invests its own time and resources to complete the rehabilitation.

22 The strongest concern emerging from this study is that Homebuy is taken up by households whose incomes are much higher than their counterparts who buy under shared ownership. Local authorities and registered social landlords who deliver the programme feel that its success should not be measured simply in terms of numerical outputs reached and spending targets met. *Recommendation*: the operation and administration of the programme should consider the nature of the households that are benefiting from the programme.

23 A flexible Homebuy scheme could go some way to reaching lower-income households for the same total amount of public subsidy. A smaller amount of subsidy is spent on households that can afford a slightly larger mortgage (without being able to afford outright purchase), with the difference made available as higher-equity loans to lower-income households. *Recommendation*: the Housing Corporation should carefully review its reasons for not allowing a flexible proportion of Homebuy loan to be applied by registered social landlords, according to the circumstances of individual households.

24 If Homebuy is to reach the same groups that used to benefit under shared ownership, it will be necessary for a higher average level of subsidy to be made available. This is expensive under the Homebuy model because – by contrast with shared ownership – the lack of rent or interest payment means that any increase in the unsold equity has to be matched pound for pound with additional subsidy. *Recommendation*: the Housing Corporation should at least explore the possibility of making an average of 27.5 per cent, and perhaps 30 per cent, equity loans available in areas of high house prices.

25 Increasing the level of subsidy should not be the only avenue that is explored.

Alternative mechanisms to reach lower-income households may exist, for example by using mechanisms under land-use planning policy – Planning Policy Guidance 3 (Housing) – to secure land or housing at below market cost. Combining this with a Homebuy loan and controls over subsequent sales of the property could allow lower income groups to be reached at no extra public subsidy cost.

1 Introduction

Homebuy programme objectives

When introducing the Homebuy programme in July 1998 (Hansard, 30 July 1998, Col. 417), the then Housing Minister emphasised the following policy aims:

- a simplification of low-cost home ownership through the abolition of DIYSO and TIS, and their replacement with a single Homebuy programme
- Homebuy would be available to registered social landlord and local authority tenants and those who would otherwise receive permanent social housing, subject to appropriate eligibility rules
- Homebuy would be available only in areas where it relieves a shortage of social housing, and would not normally be offered in areas where there is no shortage of social housing.

In November 1998, the retention of local authority funded DIYSO was announced on the basis that some potential DIYSO purchasers would be unable to afford Homebuy. The statement again emphasised the need to rationalise the low-cost home-ownership programme overall at a time when the low-cost home-ownership share of housing subsidy was likely to fall (Hansard, 11 November 1998, Col. 192).

The Housing Corporation's Homebuy procedures guide (Housing Corporation, 1999) puts the aims of the scheme as follows:

- to assist tenants of registered social landlords, local authorities and those nominated from waiting lists (who would otherwise have priority for social housing) to buy a home of their own
- to help meet the demand for social housing in areas of housing shortage by creating vacancies in social housing stock, reducing waiting lists and re-housing those in priority need in vacated units.

Low-cost home ownership
The Housing Corporation's aims for low-cost home ownership as a whole are set out in its investment strategy document (Housing Corporation, 2000) as follows:

- to create vacancies and relieve pressure on waiting lists in areas of housing shortage
- to aid sustainability and regeneration by introducing tenure mix.

Both Homebuy and shared ownership should be used to help those who cannot afford to buy a suitable home within a reasonable 'travel to work' area but who can sustain the long-term costs of ownership.

Research objectives and policy questions

The Joseph Rowntree Foundation commissioned this study after 15 months of the operation of the English Homebuy scheme. Its objectives in doing so are as follows:

- to evaluate the success of the Homebuy programme
- compare its operation to that of other similar schemes and to other parts of the low-cost home-ownership programme

- report on its overall strengths and weaknesses as well as on specific issues such as the detail of its design, its affordability to purchasers, etc.
- assess its impact on communities that purchasers are leaving, and on other housing policy objectives
- assess its operation in different parts of the country.

A number of specific concerns and policy debates lie behind these overall objectives, and this report is also designed to address these issues. These are as follows:

1 Homebuy replaces two other forms of low-cost home ownership (DIYSO or Do It Yourself Shared Ownership[1] and the Tenants' Incentive Scheme). Because of the design of Homebuy, the concern is that lower income households who used to take up DISYO cannot now take up Homebuy.

2 The detailed design of any funding programme has an impact on who can take it up, how useful it is in addressing different types of housing needs, how difficult (and therefore how expensive) it is to administer, etc. This report provides a first opportunity to review these operational issues, whether and where the available funding has been taken up, and the characteristics of households who have bought under Homebuy, etc. Two particular concerns are:
   - Whether it needs to be more flexible, (a) in response to the considerable variation in the gap between household incomes and market housing costs in different parts of the country, and (b) to cater for the possibility that households' financial circumstances will change and they will no longer be able to meet their mortgage costs.
   - Whether it is taken up by households who could have bought on the open market without assistance (either now or in the near future) and therefore whether the programme represents value for money to the public purse. The reverse side of this question is whether Homebuy is being taken up by households who cannot in fact sustain the costs of home ownership.

3 Homebuy (and other forms of low-cost home ownership) tend to remove economically active households from the social rented sector, and therefore contribute to a problem of social and economic marginalisation of local areas and communities. The research question is, then, to assess the extent to which this effect is happening, and the policy question is whether the Homebuy programme could be modified in accordance.

Research methods

The research was conducted between September and December 2000. It involved the following methods:

- face-to-face interviews with relevant officers from the Housing Corporation; the Department of the Environment, Transport and the Regions; the Council of Mortgage Lenders; the Local Government Association; and the National Housing Federation

- telephone interviews with eight registered social landlords, eight local authorities and two mortgage lenders
- a postal survey of a further 20 registered social landlords (a postal survey of local authorities generated too low a response to be included in the report)
- questionnaires sent to 450 Homebuy purchasers from whom 180 replies were received.

Details of the organisations interviewed, survey formats, etc. can be found in Appendices 3 and 4.

Structure of this report

Chapter 2 describes the Homebuy scheme and its relationship to other low-cost home-ownership programmes. It explains possible variations on the Homebuy model, and briefly reviews existing research and evaluation of Homebuy and its relationship to other housing programmes and policies.

Chapters 3, 4 and 5 present the findings of this research from the perspective of:

- purchasers
- providers (principally registered social landlords and local authorities, but also including comments from mortgage lenders and the Housing Corporation)
- housing and related policy objectives.

Chapter 6 models the effects of two possible changes to the Homebuy model, and is followed by some conclusions and recommendations in Chapter 7.

2 Background

Overview of the Homebuy programme

The Homebuy programme for England was announced in August 1998 and started in April 1999. Operational problems meant that the first purchases under the scheme did not take place until October 1999.

Under the Homebuy programme, registered social landlords make an interest-free loan (Homebuy loan) to help a household to buy a home of their own on the open market. The funding for the Homebuy loan comes from the Housing Corporation as part of its Approved Development Programme. The Housing Corporation provides an allowance to meet the registered social landlords' costs in administering the programme. In dialogue with government and others, the Housing Corporation sets the policies and procedures under which the programme is operated.

The Homebuy loan: terms and conditions

The Homebuy loan is for 25 per cent of the value of the property that the household buys. Most households take out a mortgage to purchase the remaining 75 per cent but one-third of purchasers also invested their own savings into the property in order to decrease the size of their mortgage (see Table 1).

Both the Homebuy loan and the mortgage are secured by a charge on the property. If the purchaser defaults on their mortgage payments, the mortgage will take precedence in the distribution of receipts following repossession and sale of the property.

No time limit is imposed on the duration of the Homebuy loan – the purchaser can keep it for as long as they live in the home they bought with it. However, the purchaser:

- must repay the loan when the property is sold; there is no option for the purchaser to retain the Homebuy loan to help buy their next property
- can also repay the loan before selling their home; if so, the whole loan must be repaid – there is no option to repay just a proportion.

When the loan is paid off, the amount repaid must be 25 per cent of the value of the property at that time. If the value of the property goes up (or down) between the time of purchase and the time that the loan is repaid, the household will repay a larger (or smaller) cash amount than the Homebuy loan they originally received.

Households eligible for the Homebuy programme

During the period of this study, the Homebuy programme was not offered in about half of all local authority areas. Where it is available, in

Table 1 Size of mortgage taken by Homebuy purchasers, 1999/2000

	Mortgage as a percentage of purchase price				
	Under 40%	40–60%	60–70%	70% & under 75%	75%
Percentage of purchasers*	1.7	3.9	6.9	16.7	67.2

Source: Housing Corporation transaction data.

*Does not total to 100 per cent. The records of 33 purchases (3.6 per cent) cannot reliably be interpreted.

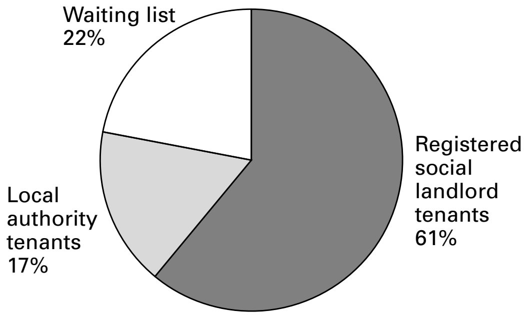
order to be eligible for Homebuy, a household must be either:

- a tenant of a registered social landlord or a local authority; or
- on a local authority waiting list for accommodation, in which case they must also qualify for social rented housing.

The household must not have been in receipt of Housing Benefit at any time in the year before they apply for the Homebuy scheme. They must also be unable to purchase a suitable property outright without a Homebuy loan.

In its first year, the Homebuy programme was overwhelmingly concentrated on existing registered social landlord tenants (see Figure 1).

Figure 1 Source of Homebuy purchasers



Source: Housing Corporation Homebuy transactions data, April 1999–June 2000 (*N* = 1,318).

Properties eligible for the Homebuy programme

Under Homebuy, a purchaser can buy a property anywhere in England. It must be in a reasonable condition, and be freehold or have a lease of over 55 years. There are restrictions on who can benefit from the Homebuy programme as well as limits on the value of the property that can be bought according to:

- the size of the household (a household of one or two people must normally purchase at a lower value limit)
- the Housing Corporation's system of Total Cost Indicators (TCIs).[1]

The value limits for 1999/2000 and 2000/01 were as shown in Table 2.

Table 2 Homebuy value limits by TCI cost group

	TCI A (£)	TCI B (£)	TCI C (£)	TCI D (£)	TCI E (£)
1999/2000					
Up to two bedrooms	105,900	85,300	73,500	64,500	58,400
More than two bedrooms	128,200	102,800	87,800	76,200	68,600
2000/01					
Up to two bedrooms	117,100	98,800	81,100	64,600	58,100
More than two bedrooms	143,000	120,600	97,800	76,700	68,700

Source: Housing Corporation: Total Cost Indicators, grant rates, rent caps and administrative allowances 2000/01 (August 1998 and August 1999).

Homebuy and low-cost home ownership

The Homebuy programme is an addition to a range of housing subsidy programmes that are collectively known as low-cost home-ownership programmes.[2] The design of these different programmes varies significantly.

Under *conventional shared ownership* (CSO), a registered social landlord builds or renovates a property and then sells a share (typically between 25 and 75 per cent) to the incoming household. The purchaser takes a mortgage or invests savings to buy this share, and pays a subsidised rent (and often a service charge) on the share that remains in the ownership of the registered social landlord. A lease is established between the purchaser and the registered social landlord, even if the property in question is a house not a flat.

The purchaser is able to buy further shares of the property from the registered social landlord (known as 'staircasing up'). The registered social landlord also has the discretion to buy back shares from the purchaser, up to the point where the purchaser no longer owns any equity and becomes a tenant in the property. Eligibility for CSO extends to all those in housing need, not just to existing tenants and people on local authority waiting lists.

Do It Yourself Shared Ownership (DIYSO) is very similar to conventional shared ownership except that the household finds for itself the property that it wants to part-buy. The registered social landlord will purchase the property if it considers it acceptable and then sell a share back to the household. The arrangements are then similar to conventional shared ownership.

Under the *Tenants' Incentive Scheme* (TIS), registered social landlord tenants were given a lump sum to help buy a property of their choice in the open market. This lump sum was not repayable so long as the tenant remained in the property that they bought for a minimum of three years. A similar scheme still operates for local authority tenants, at the discretion of each local authority.

When the Homebuy programme was announced in August 1998, the Housing Corporation also announced the abolition of TIS and DIYSO. After objections were received from registered social landlords and local authorities, the decision was taken to partially reinstate the DIYSO programme, by allowing local authorities to fund it with their resources (channelled through the Housing Corporation).

Variations on Homebuy

The model of Homebuy that was introduced by the Housing Corporation in 1999 differs in a number of respects from other Homebuy models that are or have been run, for example in Wales, in the London Borough of Hackney, and by the Joseph Rowntree Housing Trust. These are described in more detail in Appendix 1. The possible variations that these illustrate can be summarised as follows:

- The level of the interest-free loan can be varied. In Wales, it was fixed at 30 per cent (but is set to increase to up to 50 per cent in some areas). The Joseph Rowntree Trust ran a scheme that offered different levels of loan according to the household's circumstances.

- Eligibility can be extended to anyone in housing need rather than just to tenants and those registered on a local authority waiting list.
- In Wales, it is possible for a registered social landlord to build a property for sale under a Homebuy scheme – this is not an option under the English scheme.
- Under the Hackney scheme, purchasers had to buy within the Borough.

Previous reviews of Homebuy and low-cost home ownership

Within a much broader academic and policy literature on marginal and low-cost home ownership, a limited number of publications have looked in more detail at Homebuy schemes (or 'Equity Loan' schemes as they are sometimes referred to) and/or the operation of other low-cost home-ownership schemes. A longer review of this literature is presented in Appendix 2.

The main conclusions from this work are as follows:

- With a long-term fall in mortgage interest rates, the gap between the monthly costs of shared ownership and of outright ownership narrowed considerably in the 1990s. In turn, this makes Homebuy (which provides an interest-free loan rather than a subsidised rent) a more attractive form of low-cost home ownership.
- The level of the interest-free equity loan under Homebuy needs to vary across England to take account of variations in the gap between incomes and house prices.
- A significant advantage of Homebuy is that there is no lease between the purchaser and the registered social landlord. This makes the scheme simpler to understand, creates a greater sense of 'ownership', and makes the scheme more attractive to mortgage lenders who will also treat the equity loan as a deposit and therefore offer more attractive mortgage terms to the purchaser.

The work also highlights potential risks of Homebuy as being the following:

- There is a risk (as with all house purchases by low-income households) that purchasers over-stretch themselves financially in order to take up Homebuy. In particular, Homebuy models do not offer purchasers an option to reduce their mortgage if they do get into financial difficulties – something that is on offer under shared ownership models.
- There is a need for effective marketing and administration if this scheme is to be targeted on households who could not have bought otherwise.

On a wider canvas of overall housing policy objectives, these reviews have raised the following issues and questions:

- Whether there is a potential for a purely private model of Homebuy, funded by investors looking for capital gains on an equity stake. This question arises in a wider debate about flexible mortgage products that better reflect labour market conditions.
- Shared ownership and equity loan schemes are very popular with purchasers and have been over-subscribed.
- The number and variety of organisations offering low-cost home ownership can lead to inefficiencies in managing the programme, and the variety of low-cost home ownership 'products' on offer creates confusion for purchasers and lenders alike.
- It is possible to compare the value for money (in terms of public subsidy) that different low-cost home-ownership options offer, although this depends on making a number of assumptions including (crucially) the degree to which the programmes are targeted on households which could not have afforded to buy unassisted, and the degree to which the programmes encourage tenants to give up their tenancy earlier than they would otherwise have done.

Finally, concern is expressed at the way in which all low-cost home-ownership programmes tend to encourage better off tenants to leave the social rented sector, and therefore to further contribute to the marginalisation of estates and neighbourhoods that are already suffering exclusion from the social and economic mainstream.

3 Purchasers

Homebuy purchasers and social sector tenants

Introduction

As well as simply documenting the characteristics of Homebuy purchasers, this study looks at the contrasts between:

- households who bought under Homebuy (in 1999/2000) and under DIYSO (in 1998/1999); and
- households who bought under Homebuy and the households who take up the properties that they vacate.

Origin of Homebuy purchasers

In principle, the Homebuy programme is open to tenants of registered social landlords and local authorities, and to people on the housing waiting list.

In fact, registered social landlord tenant purchasers outnumber local authority tenant purchasers by about 3.5 to one (see Figure 1 in Chapter 2), whereas, for England as a whole, local authority tenants outnumber registered social landlord tenants by about 2.5 to one (Department of the Environment, Transport and the Regions, 2001). A registered social landlord tenant is ten times more likely to take up Homebuy than a local authority tenant.

There is nothing in the characteristics of the two groups of tenants that can account for this difference. *Housing in England 1998/99* (National Statistics, 2000) shows that, if anything, the types of households who purchase under Homebuy are better represented amongst local authority tenants than amongst registered social landlord tenants. Instead, this suggests that the marketing of the programme is reaching registered social landlord tenants better than it is reaching local authority tenants. In turn, this may be because the programme has only recently been introduced and the registered social landlords who run it can reach their own tenants more quickly than they can those of other landlords.

The 22 per cent of purchasers from the waiting list included 11 per cent who were previously private tenants, 7 per cent who had been living with family or friends, and just over 1 per cent who were previously owner-occupiers (CORE [continuous recording system for housing association data], 1999/2000).

Length of time in previous home

Homebuy purchasers had spent an average of seven years in their previous home – this figure is raised by a small number of purchasers who had spent 20 years and more in their previous home. Over half of purchasers who were previously social sector tenants had spent less than five years in their previous home: Table 3 compares Homebuy purchasers with all social sector tenants (who have by definition not yet ended their tenancy).

Household characteristics

Compared to social sector tenants as a whole, Homebuy purchasers are almost three times as likely to be couples with children and one-third less likely to be lone parents. Older single people account for about a quarter of all social sector tenants but virtually none of them become Homebuy purchasers (Table 4).

Similarly, 80 per cent of purchasers who were previously social sector tenants were aged between 25 and 44 compared to 36 per cent of all social sector tenants (see Table 5).

Table 3 Length of residence in home

	Length of time (years)					
	<1	< 3	<5	<10	<20	>20
Homebuy purchasers previously social sector tenants: length of time in previous home	1	26	52	87	96	4
All current social sector tenants: length of time in current home	13	30	43	60	80	19

Source: Purchaser survey (N = 159); *Housing in England 1998/99*, Table A4.1 (National Statistics, 2000).

Table 4 Household composition (per cent)

	Couple no children	Couple with children	Lone parent	Large adult group	One adult	Adult(s) over 60
All Homebuy purchasers	18	47	11	3	17	1
All social sector tenants	19	16	16	7	15	26

Source: CORE (N = 573); *Housing in England 1998/99*, Table A4.1 (National Statistics, 2000).

Table 5 Age of head of household (per cent)

	Age of head of household				
	16–24	25–44	45–64	65–74	75+
Homebuy purchasers who were previously social sector tenants	3	80	16	1	0
All social sector tenants	6	36	24	15	20

Source: Purchaser survey (N = 159); *Housing in England 1998/99*, Table A4.1 (National Statistics, 2000).

Seventy-seven per cent of purchasers had the same number of people living with them before and after the move. Ten per cent saw their household size increase by one person; 7 per cent decrease by one person; and 7 per cent decrease by more than one person.

Employment status

In 1998/99, 31 per cent of all social sector tenants were working full time or part time. Not surprisingly, the great majority of Homebuy purchasers in 1999/2000 were employed; however, for this study, data were collected on income levels rather than employment status. The data show a small minority of purchasers bought with a large deposit and had little or no mortgage repayments to be met from an income of less than £10,000 per annum. Perhaps 1 per cent and certainly no more than 2 per cent of purchasers fit into this category.

Ethnic origin of purchasers

The percentage of purchasers who describe themselves as not white (29 per cent) is significantly above the findings of previous studies (Table 6). The 1995 study of DIYSO (Bramley *et al.*, 1995) found 11 per cent non-white applicants. The 1998 study of low-cost home ownership (Dunmore *et al.*, 1998) referred to under-representation of non-white groups amongst purchasers without providing a precise figure.

Change in housing and neighbourhood under Homebuy

Change in number of people per bedroom
Buying under Homebuy gives households more room to live in; the proportion living with less than 1.5 people per bedroom rises from 39 per cent before purchase to 78 per cent afterwards (Table 7).

Change in house type
Before moving, 42 per cent of purchasers lived in a flat, 8 per cent in a maisonette and 50 per cent in a house or bungalow. After moving, 5 per cent lived in flats or maisonettes and 90 per cent in a house or bungalow. In London, 90 per cent of purchasers moved from a flat or maisonette and 20 per cent of purchasers moved into flats or maisonettes. Eighty-nine per cent of homes purchased had central heating.

Distance moved
The vast majority of Homebuy purchasers moved only a short distance to their new home (Table 8).

However, there was a marked regional variation in the distance moved, with purchasers in London moving much further than those elsewhere (Table 9).

The survey of purchasers asked respondents about the extent to which they agreed with a number of statements that compared their new and previous homes. Their comments are shown in Table 10.

Table 6 Ethnic origin of purchasers

	Black	Mixed	Other	White
Percentage of purchasers	22	3	5	71

Source: CORE (*N* = 541).

Table 7 Change in number of people per bedroom (per cent)

	Household members per bedroom					
	<1	Exactly 1	Between 1 and 1.5	Exactly 1.5	Between 1.5 and 2	2 or more
Before purchasing	5	20	14	23	13	26
After purchasing	7	41	30	4	11	8

Source: Purchaser survey (*N* = 168).

Table 8 Distance moved under Homebuy purchase

	Distance moved					
	Up to 1 mile	Up to 3 miles	Up to 5 miles	Up to 10 miles	Up to 20 miles	More than 20 miles
Percentage of purchasers	22	52	67	82	88	12

Source: Purchaser survey (*N* = 162).

Table 9 Distance moved by Homebuy purchasers in London

	Distance moved					
	Up to 1 mile	Up to 3 miles	Up to 5 miles	Up to 10 miles	Up to 20 miles	More than 20 miles
Percentage of purchasers	4	12	37	57	67	33

Source: Purchaser survey (*N* = 49).

Table 10 Comparing purchasers' current home and neighbourhood to their previous circumstances

Statements	Strongly agree	Agree	Neutral	Disagree
Current home is in better repair	23	22	37	18
Current home has more living space	53	21	16	10
Current home has larger garden	53	11	13	23
It is better to be buying than renting	84	14	2	0
Current home nearer to shops and transport	24	19	40	19
Easier to get to work from current home	16	16	42	26
Current home nearer family and friends often seen	17	18	37	29
Schools in current neighbourhood are better	26	18	44	12
More people near current home in work	34	25	33	8
Less crime in current neighbourhood	30	25	35	11
Current neighbourhood better looked after	39	30	23	8

Source: Survey of purchasers (*N* = between 156 and 169).

To summarise these responses:

- only 45 per cent of purchasers feel their new home is in better repair and nearly 20 per cent feel it is in worse repair
- almost 75 per cent of purchasers feel their new home offers more living space; 65 per cent of purchasers feel it offers a larger garden (note, however, that 50 per cent of purchasers previously lived in a flat or maisonette)

- not surprisingly, nearly all purchasers agree that it is better to buy than rent
- purchasers feel that they have moved into better neighbourhoods, rather than into areas that are more convenient for them
- a significant proportion of purchasers are 'neutral' about whether they live in better or more convenient areas (52 per cent of purchasers have moved three miles or less).

Purchasers were also asked which of these factors were most important in their decision to take up Homebuy. Again – not surprisingly – the wish to buy rather than rent was most important, followed by the need for more living space and the presence of a garden. Relatively unimportant in the decision to take up Homebuy was access to shops and transport, the number of people in the new area who were in work, and the convenience of getting to work.

Finally, the purchaser survey asked whether purchasers felt that the Homebuy rules had restricted their choice of property. Their responses are shown in Table 11.

DIYSO and Homebuy purchasers

Although DIYSO was still running as a local authority Social Housing Grant funded programme in 1999/2000, the fact that Housing Corporation support was withdrawn means it is not possible to make direct comparisons between DIYSO and Homebuy for that year. Instead, this section compares the DIYSO programme for 1998/99 with the Homebuy programme for 1999/2000.

The clear evidence of Tables 12 to 14 and Figures 2 to 5 is that, compared to DIYSO, Homebuy purchasers have significantly higher income levels and are:

- more likely to be two-adult households
- half as likely to be a single-parent household
- likely to be slightly older.

Table 11 Purchasers' views of effect of Homebuy rules on choice of property

	London purchasers (%)*	Non-London purchasers (%)*
'Homebuy rules did not restrict my choice of property'	46	75
'Homebuy rules meant I could not buy as large a house as I wanted'	38	20
'Homebuy rules meant I had to buy in a different area to the one I wanted'	44	15
'I wanted to buy a more expensive property but the Homebuy rules didn't allow me to'	45	20

Source: Purchaser survey (*N* = 53, London and 113, non-London).

*Percentages do not add up to 100 because multiple answers are allowed.

Table 12 Age of head of household: Homebuy purchasers and tenants (per cent)

	Under 21	21–30	31–40	41–50	51–60	Over 60
Homebuy 1999/2000	0.7	27	47	18	5.9	1.2
DIYSO 1998/99	1.4	35	40	15	6.0	2.0

Source: CORE (*N* = 364, Homebuy and 755, DIYSO).

Table 13 Household composition (per cent)

	Couple no children	2+ adults and children	One adult	Lone parent	Large adult group
Homebuy 1999/2000	19	49	19	11	3
DIYSO 1998/99	15	44	18	20	3

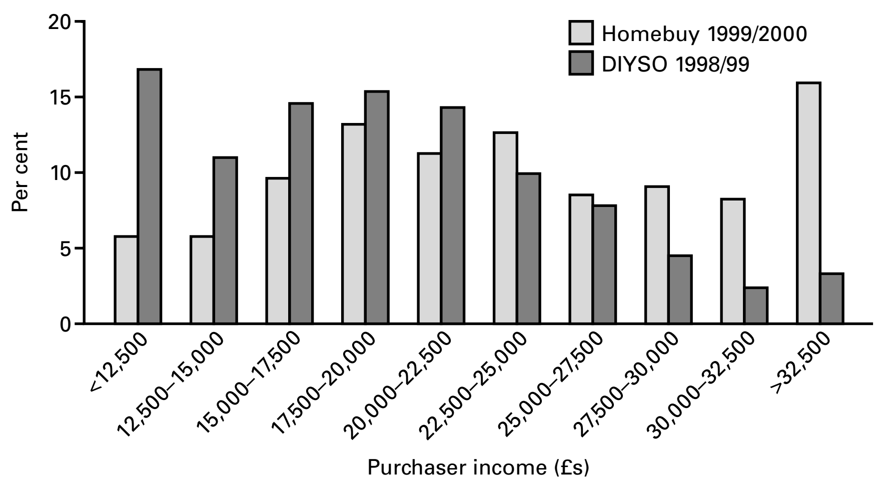
Source: CORE (*N* = 364, Homebuy and 755, DIYSO).

Table 14 Gross household annual income: Homebuy purchasers and tenants (£000s)

	<12.5	12.5–15.0	15.0–17.5	17.5–20.0	20.0–22.5	22.5–25.0	25.0–27.5	27.5–30.0	30.0–32.5	>32.5
Homebuy 1999/2000	5.8	5.8	9.6	12	11	13	8.5	9.1	8.2	14
DIYSO 1998/99	17	11	15	15	14	9.9	7.8	4.5	2.4	3.3

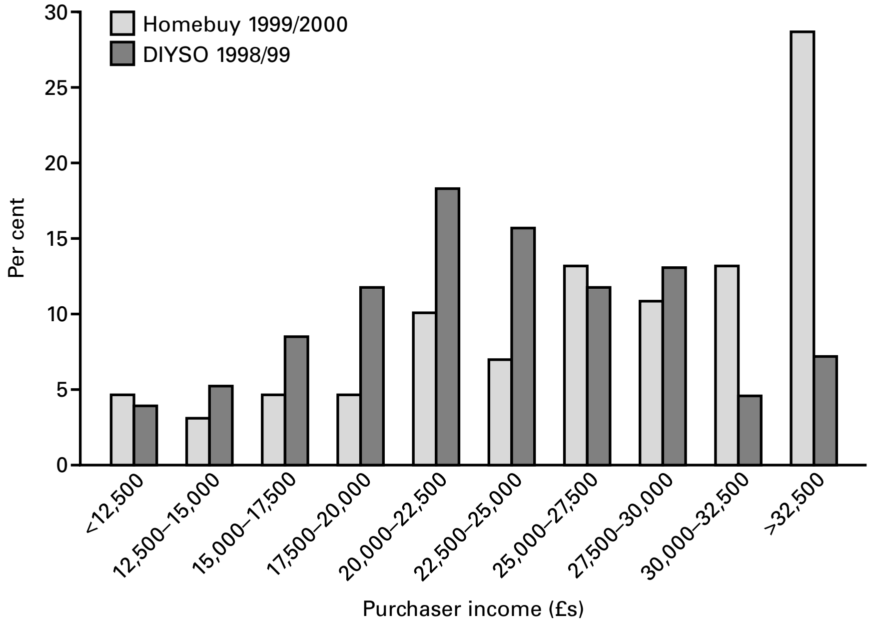
Source: CORE (*N* = 364, Homebuy and 755, DIYSO).

Figure 2 Incomes of Homebuy and DIYSO purchasers – England



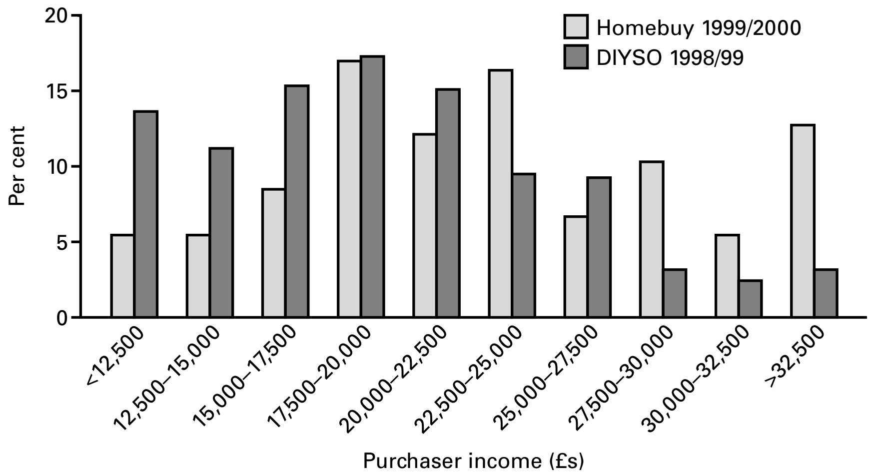
Source: CORE (*N* = 364, Homebuy and 755, DIYSO).

Figure 3 Incomes of Homebuy and DIYSO purchasers – London



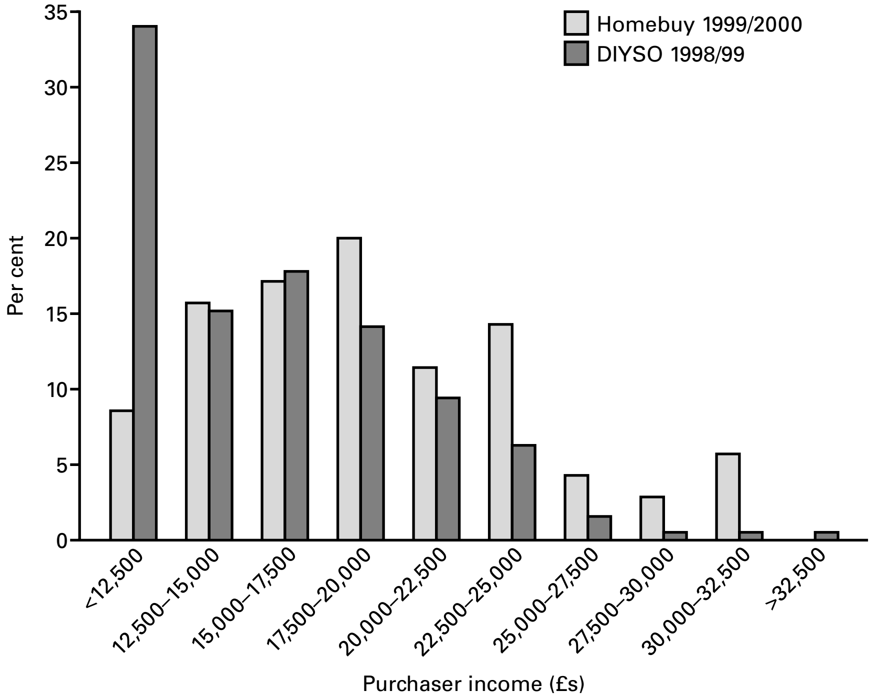
Source: CORE (*N* = 129, Homebuy and 153, DIYSO).

Figure 4 Incomes of Homebuy and DIYSO purchasers – South East, South West and East regions



Source: CORE (*N* = 165, Homebuy and 411, DIYSO).

Figure 5 Incomes of Homebuy and DIYSO purchasers – Midlands and North regions



Source: CORE (*N* = 70, Homebuy and 191, DIYSO).

Homebuy and shared ownership: purchaser views

The purchaser survey included the following question:

> *Some housing associations offer 'shared ownership' as well as Homebuy. Only if you know about shared ownership: do you think Homebuy is a better or worse option? Why?*

Not surprisingly, having decided to take up the scheme, the overwhelming majority of those who responded to the question felt that Homebuy was the better option. In summary, the points made by purchasers are as follows:

- There is no rent to pay in addition to the mortgage. This is equated by many of the responses with Homebuy being the cheaper option either outright, or because the purchaser is acquiring more of their home for the money they are paying.
- For some, the comparison with rents extends to the rent they used to pay as a tenant as well as the rent they would have had to pay under shared ownership – Homebuy is better value in both cases.

- There is a greater sense of ownership of the property with Homebuy than with shared ownership. In some cases, this is expressed in terms of being independent of the registered social landlord.
- Homebuy allows choice over the property to be bought (presumably in contrast to conventional shared ownership rather than DIYSO).

A sample of verbatim quotes illustrate these points:

Shared ownership normally only allows you to buy one of their homes in defined areas.

Homebuy enables you to choose your own home – which I think is very important.

I didn't like renting – I wanted to go to work. I didn't like paying £270 on rent.

Homebuy is better because you own the property.

With shared ownership the rent you pay on the half you do not own can be quite high and therefore you will be making larger monthly payments.

I think Homebuy is a better option as it's our mortgage, not paying half rent half mortgage.

Homebuy is a better scheme because you do not have to rent as well as part mortgage, also you feel that your home is your own.

No rent payments means more investment in your property.

Declaring to a mortgage lender that you have to pay rent is seen as outgoing expenditure, therefore decreases the amount you may borrow which can be counterproductive.

Homebuy is better, as you own the house. They own the loan.

There is no rent and you are made to feel it is your own home.

Shared ownership is more restrictive in choice of housing: waiting lists are very long.

The rents on shared ownership are too expensive.

Homebuy is much better because you feel the property is your own, even though the association has a charge on it. Also no need to pay rent on that part of the property.

I prefer Homebuy option as the property is your own, you do not need permission for everything and can choose when alterations can be made.

It feels like the home is yours this way.

Homebuy is simpler to understand and I don't have to pay half rent half mortgage.

While you know you still owe the housing association you are not paying rent at the crucial time of being in a new house.

Homebuy and shared ownership: affordability

Under Homebuy, purchasers pay only the interest and capital due on the mortgage they took out towards their 75 per cent equity share.

Under shared ownership, they pay a mortgage on their equity share of the property, as well as a rent (and normally a service charge) on the equity share that remains with the registered social landlord.

The effect of these different patterns of payment can be demonstrated by the following examples:

Property purchase price:	£60,000
Mortgage interest rate:[1]	7.0 per cent
Rent on unsold equity:	4 per cent plus a flat rate £100 p.a. service charge

Monthly cost of 75 per cent Homebuy	
Mortgage interest on 75 per cent of price	**£262.50**
Monthly cost of 75 per cent shared ownership	
Mortgage interest on 75 per cent of price	£262.50
Rent and service charge on 25 per cent of price	£ 58.33
Total	**£320.83**
Monthly cost of 50 per cent shared ownership	
Mortgage interest on 50 per cent of price	£175.00
Rent and service charge on 50 per cent of price	£108.33
Total	**£283.33**
Monthly cost of 25 per cent shared ownership	
Mortgage interest on 25 per cent of price	£87.50
Rent and service charge on 75 per cent of price	£158.33
Total	**£245.83**

It quickly becomes clear that, assuming that the percentage of the Homebuy loan is fixed, three variables affect the comparison between Homebuy and shared ownership:

- the proportion of the property equity purchased under shared ownership
- the mortgage interest rate payable on the equity purchased
- the rent payable on the equity that remains with the registered social landlord.

And the question of which is better value for money is then determined by which of the following two boxes represents the larger monthly sum:

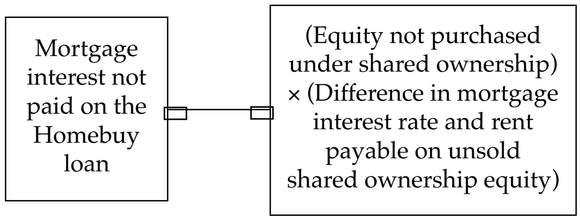
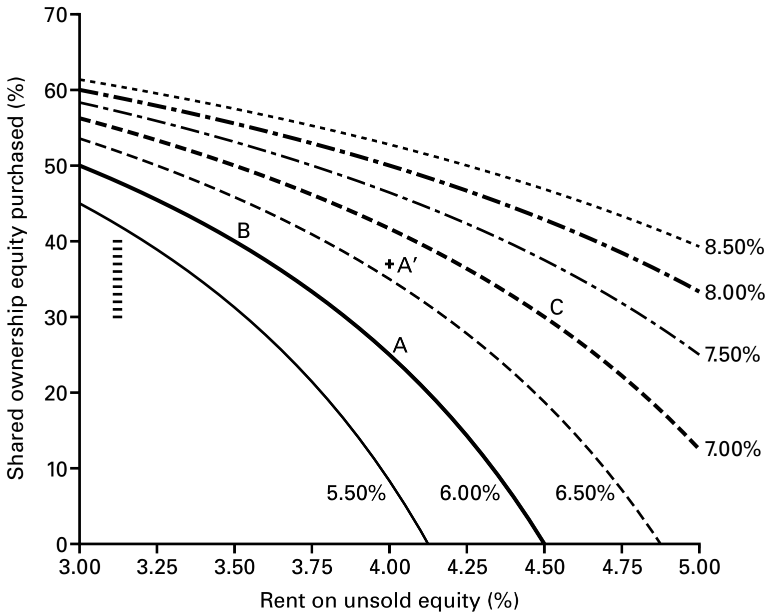


Figure 6 attempts to illustrate the relationship. It relates the rent payable on the unsold equity (bottom axis) to the proportion of equity purchased under shared ownership (side axis) at different mortgage interest rates. A point on a line represents a position where the monthly costs of shared ownership (at the given equity share and rent level) is equivalent to the monthly cost of 75 per cent Homebuy.

For example, at Point A on the figure, a mortgage rate of 6 per cent and with rent on unsold equity of 4 per cent, Homebuy has the same monthly cost as a 25 per cent shared ownership purchase of the same property. (This holds true whatever the actual cost of the property.) Point B represents the equivalence

Figure 6 Comparing Homebuy and shared ownership costs at different mortgage rates



Source: Author's calculations.

between a 40 per cent shared ownership share at 3.5 per cent rent on unsold equity and a 75 per cent Homebuy purchase – again at a mortgage rate of 6 per cent. Point C is for a 7 per cent mortgage interest rate; here, a Homebuy purchase at 75 per cent is equivalent to a 30 per cent shared ownership arrangement with rent of 4.5 per cent on the unsold equity.

Any combination of equity share and rent level that is above a given mortgage line implies that the shared ownership purchase is more expensive than the equivalent Homebuy purchase. Thus, point A′ represents a shared ownership purchase at 37 per cent equity and 4 per cent rent on unsold equity. This is more expensive than Homebuy (at a 75 per cent level) at a 6.5 per cent mortgage interest rate. However, it is cheaper than Homebuy at a 7 per cent mortgage interest rate.

4 Providers

Size and distribution of programme

Trends in low-cost home-ownership programme approvals

The trends in the composition of the Housing Corporation's Approved Development Programme (ADP) are summarised in Figures 7 and 8. First, within a falling volume of outputs, the share of the mainstream programme for rent has grown significantly since the mid-1990s. Up until 1997/98, government policy was that a minimum of 25 per cent of ADP had to be spent on the low-cost home-ownership programme and the withdrawal of this constraint has seen an overall swing back to the rented programme.

Second, the abolition of TIS has had a dramatic effect on the outputs of the low-cost home-ownership programme, with Homebuy more or less replacing DIYSO in terms of volume.

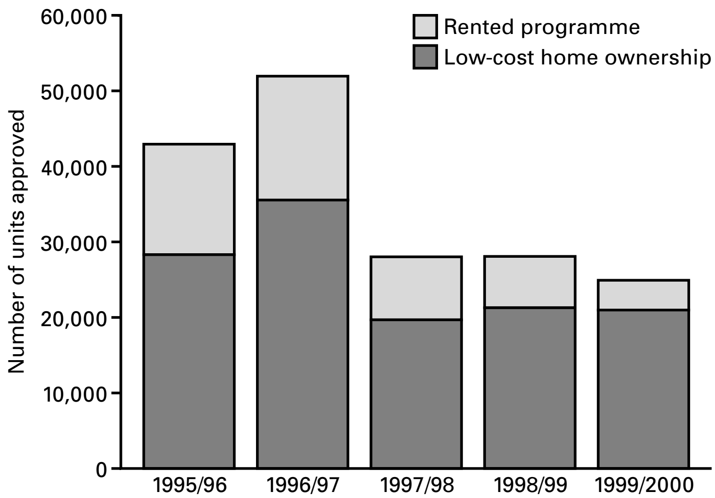
Distribution of the Homebuy programme

Distribution relative to housing need

Figure 9 illustrates the distribution of Homebuy transactions completed between April 1999 and June 2000, relative to the Housing Needs Index for 1999/2000.[1]

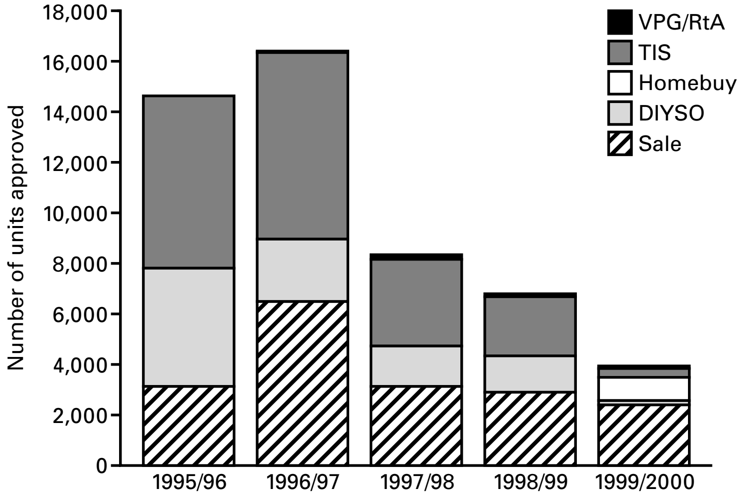
The pattern is clear: relative to this measure of housing need, the Homebuy programme is over-represented in London, the southern and eastern regions, slightly under-represented in the Midlands and very much under-represented in northern regions. This is what we would expect; the HNI uses different kinds of housing needs measures to arrive at an overall picture of housing need throughout England. By contrast, Homebuy is specifically targeted at the gap between incomes and house prices, and this gap is greatest in the southern regions of the country.

Figure 7 Approvals (rented programme and low-cost home ownership), 1995/96 to 1999/2000)



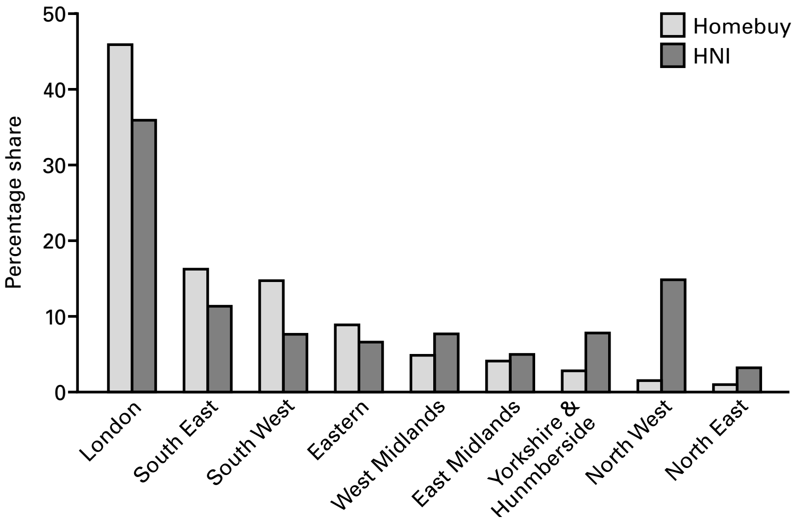
Source: Housing Corporation Investment Report 1999/2000.

Figure 8 Approvals within the low-cost home-ownership programme, 1995/96 to 1999/2000



Source: Housing Corporation Investment Report 1999/2000.

Figure 9 Distribution of Homebuy transactions relative to the Housing Needs Index



Source: Housing Corporation transactions database/Department of the Environment, Transport and the Regions.

Distribution by local authority

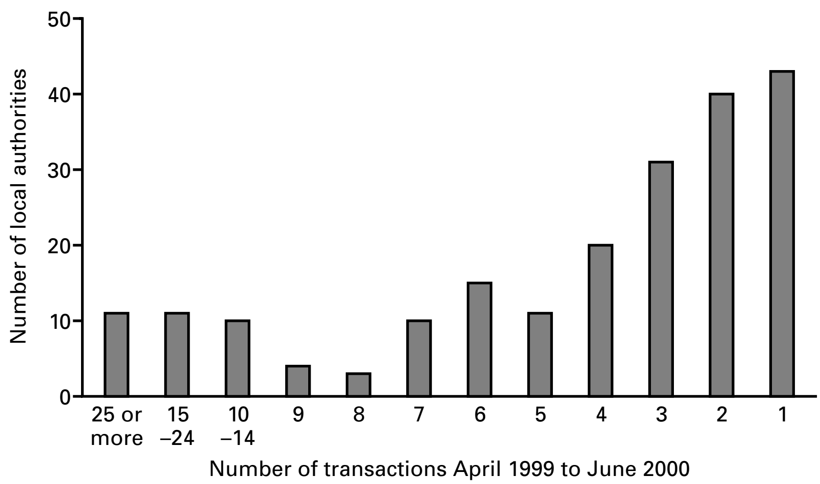
The distribution of the Homebuy programme by local authority shows a long 'tail' (Figure 10). Between April 1999 and June 2000, there were 1,318 Homebuy transactions. In 83 local authorities, there were only one or two Homebuy transactions in the period, and there were fewer than ten transactions in 177 local authorities. There were over ten transactions in a further 32 authorities; between them these represent 9 per cent of local authorities and 57 per cent of transactions.

This pattern alludes to a dilemma of programmes such as Homebuy – one of equity between tenants in different areas (a similar problem is revealed by the fact that registered social landlord tenants are ten times more likely to take up Homebuy than their local authority counterparts – see Chapter 3). In this instance, no one in the London Boroughs of Bexley, Greenwich, Havering and Redbridge purchased through Homebuy during the period covered by this study. Presumably, these Boroughs chose not to support the Homebuy programme; clearly, however, there must be tenants and waiting list applicants who would have benefited from Homebuy to the same extent as people in neighbouring Boroughs where the programme did run.

Distribution by registered social landlord

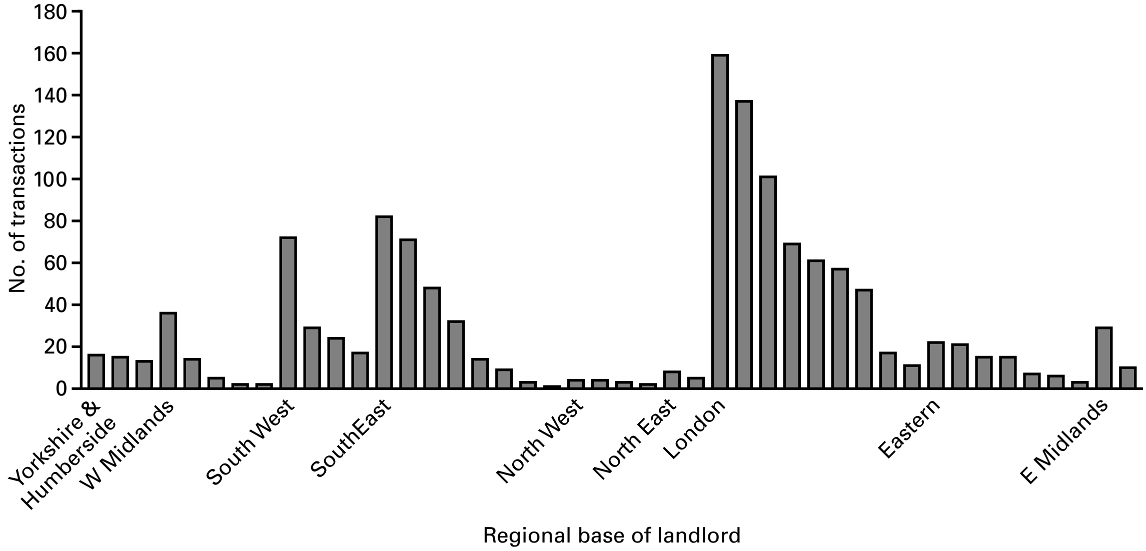
The distribution of the Homebuy programme by registered social landlord is shown in Figure 11. Again, a long 'tail' exists of registered social landlords that undertook a very few Homebuy transactions in the period: 11 registered social landlords had five or fewer transactions in the period April 1999 to June 2000. This 'tail' includes 13 transactions in the North West region, which were split between four registered social landlords (and five local authorities).

Figure 10 Distribution of Homebuy programme by local authority



Source: Housing Corporation transactions database.

Figure 11 Distributions of Homebuy transactions by registered social landlord and region



Source: Housing Corporation transactions database.

Comparing Homebuy, TIS and DIYSO

Views of registered social landlords

Tenants' incentive scheme

Amongst registered social landlords, there is little regret over the ending of TIS, although a number did comment that the scheme was very popular with tenants and was a cheap way of creating vacancies in the social rented sector – at the risk of it going to tenants who were going to move on anyway. Some commented that take-up used to be stronger in difficult-to-let housing. TIS was also a much larger programme, although with lower unit administration allowances for registered social landlords. Finally, TIS grant is 'lost' as opposed to Homebuy (and shared ownership), which can be recycled by the registered social landlord.

Income groups

All registered social landlords referred to the difference in income groups that are reached by Homebuy and DIYSO. This is both in absolute terms (the average Homebuy purchaser is on a higher income) as well as in the flexibility of the product (DIYSO adapts itself to the needs of a greater range of household incomes). This is expressed as a very significant weakness of Homebuy and a strength of DIYSO, and is often referred to in terms of certain groups being 'excluded'.

A number of registered social landlords commented that DIYSO used to be taken up by households with a lump sum but no earned income; for example, single parents emerging from a relationship breakdown. With DIYSO, the lump sum allows a choice of property, whilst the rental element is eligible for housing benefit.

Costs
Registered social landlords all acknowledge that Homebuy is a more popular product than DIYSO amongst those who can afford it. This is attributed to the problem of DIYSO rent plus mortgage payments beginning to approach the cost of outright ownership – alternatively expressed as Homebuy offering a higher equity stake in the property for a lower cost. In addition, even the most straightforward lease agreement creates a feeling of dependency for the DIYSO purchaser. Homebuy offers a much 'cleaner' relationship, including the fact that purchasers do not have to deal with a registered social landlord as well as a lender (or that the registered social landlord has no ongoing management burden).

Conventional shared ownership
Registered social landlords refer to the distinctive role played by conventional shared ownership in terms of investment in new or renewed stock. The conventional shared ownership (CSO) model creates an income stream that in turn allows the registered social landlord to take and manage risk. By contrast, the only choice of location that CSO offers to the purchaser is between the different schemes being undertaken by registered social landlords working in an area.

Flexibility
A smaller number of registered social landlords refer to the advantage of flexible tenure that shared ownership allows. A number have not yet introduced policies to allow 'staircasing down' and they tended to question the cost-effectiveness of such measures. However, a larger number were clear about the need for models of flexible tenure and opportunity to intervene and prevent a household from losing their home.

A minority of registered social landlords question the decision to make the Homebuy loan interest free as opposed to low interest. They point out that the scheme is regressive; more subsidy is given to those on higher incomes who can afford more expensive homes.

Other comments
Registered social landlords do not agree with the proposition that there are too many low-cost home-ownership products on offer. Anticipating the possibility of further change in the low-cost home-ownership programme, a minority of registered social landlords interviewed see a merit in an all-encompassing model for the tenure, based on Homebuy, but with the freedom to make local adjustments to price limits and the size of the equity loan.

Views of local authorities
In general, the views of local authorities are similar to those of registered social landlords.

Tenants' Incentive Scheme
Again, TIS is not greatly missed, although some local authorities refer to the low unit cost per property vacated. A majority of local authorities referred to the recycling of grant that DIYSO and Homebuy allows, and to agreements with local registered social landlords about how this recycling would operate.

Homebuy and DIYSO
Every local authority interviewed mentions the difference in income groups reached by the two programmes, and the possible disappearance of DIYSO is perceived as creating a significant gap in housing programmes. A significant number of local authorities run their own DIYSO

programme in order to meet the needs of groups who cannot access Homebuy. In the words of one authority, some of the low paid can be very low paid, but also in stable employment and able to take on longer-term financial commitments.

DIYSO therefore offers greater flexibility. In London, the perception is also that a majority of Homebuy purchasers are moving out of the Borough to find suitable property within their price and income limits. However, local authorities agree that those who can will choose to buy under Homebuy ahead of DIYSO.

These local authorities see the need for the Housing Corporation either to reintroduce DIYSO or to adapt Homebuy to meet the needs of lower income groups. However, they acknowledge the significant unit cost of larger interest-free equity loans.

Conventional shared ownership

Although they acknowledge the role that CSO plays in achieving a mix of tenures and in offering a form of home ownership to lower income households, a number of local authorities also report experience of marketing problems with one or more CSO schemes in their area.

Views of government, lenders and policy bodies

An issue for all these bodies is the complexity of shared ownership models by contrast to the simplicity of Homebuy. Shared ownership is referred to as a 'dual tenure'; leases are at best complex and at worst the source of management problems, which include the failure of lenders and registered social landlords to communicate about purchasers in difficulty.

In broad terms, different low-cost home-ownership initiatives are seen as covering the same ground. Government bodies therefore had a reason to rationalise the programme by ending some options (TIS, initially DIYSO as well) when Homebuy was first introduced. The choice of a 25 per cent level of equity was made in order to achieve a similar level of costs (to the purchaser) as 50 per cent DIYSO. In the event, there has been no problem in ensuring take-up of the programme at this level.

The difference in income groups reached by DIYSO and by Homebuy is also acknowledged. Associated with this is a view that, at some point on the income scale, owner-occupation is not a sustainable option whatever the model being used to deliver it. However, there is no precise view about where this point occurs.

Lenders were very positive about the introduction of Homebuy, and in particular the absence of a lease between the purchaser and the registered social landlord. Some lenders who were not taking on shared ownership business are entering the Homebuy market.

This study has no hard information about the performance of lenders' mortgage books in the shared ownership sector. However, two issues are raised in this respect. First, the average shared ownership 'problem loan' takes much longer to resolve than the average standard loan. Second, despite attempts at standardisation, each shared ownership lease requires individual legal attention. Even then, this has not avoided problems with the operation of some 'mortgagee in possession' clauses. The low-cost home-ownership sector is a marginal one to begin with and, compared to Homebuy, shared ownership carries significant complexity and therefore cost to lenders who decide to enter the market.

Detailed design of the Homebuy scheme

The features of the Homebuy programme that were tested in interviews and in surveys are as follows:

- the eligibility criteria and in particular the fact that Homebuy is restricted to social sector tenants and waiting list applicants
- the choice of 25 per cent as the level of the equity loan, and the fact that this level is fixed for all purchasers
- the fact that purchasers can only buy out the entirety of their equity loan; they cannot do so in stages and there is no facility for this equity loan to be increased
- the choice of value and size limits for the properties that can be purchased
- the fact that, by its nature (and in contrast to shared ownership), there is no ongoing relationship or contact between the purchaser and the registered social landlord.

Eligibility criteria

A minority of registered social landlord and local authority interviewees feel that eligibility restrictions should be extended to include all local households (subject to their being in housing need). The reason given is one of equity between groups. A few interviewees also argue that the exclusion of households who had claimed Housing Benefit in the year running up to their application should not apply.

However, in general, the eligibility rules are accepted – in some cases, the evidence of a long waiting list for places on the scheme is put forward in support of this position.

A number of local authorities impose additional rules of their own, for example restricting Homebuy to particular areas or to tenants who give up a larger property. For the registered social landlords concerned, this has an impact on the rate at which eligible applicants come forward, but not to the extent of risking an under-performance against targets.

25 per cent equity loan

Opinion on this issue is divided, but almost all respondents are critical of the existing situation in some way or other.

Outside London, the 25 per cent level of equity loan means that applicants who would previously have benefited from DIYSO do not benefit from the Homebuy programme. A number of the local authorities interviewed are running a local authority Social Housing Grant funded DIYSO scheme to fill the gap that this has created. In addition, some applicants could purchase a suitable property with a 20 per cent or even a 15 per cent equity loan (any less than this and it becomes difficult to discriminate between those who need an equity loan and those who could afford to buy unassisted).

A minority view is that the higher income needed to access Homebuy ensures that very marginal households are not tempted into home ownership.

These views are also expressed in London, where an increase in the size of the equity loan to an average of 30 per cent is felt to be vital. It is acknowledged that this will increase unit public subsidy costs. (Doubt is also expressed that a shared ownership model could cope with the situation.) London interviewees comment that, as a result, Homebuy is disproportionately being taken up by people moving some distance to the cheaper areas of London or away from the capital altogether. (This is confirmed by the survey of purchasers: see Table 9 in Chapter 3.)

In all areas, there is no problem in meeting and exceeding allocations. There is a sufficient demand for Homebuy; the concern is for the nature of this demand.

Fixed level of equity loan

A majority of interviewees feel that the Homebuy programme should allow a flexible level of equity to be offered to different households. The model would be that registered social landlords undertake to achieve an average of 25 per cent equity loans across all applicants, but have the discretion to offer more or less according to household circumstances.

None of the local authority and registered social landlord interviewees opposes such a proposal. A few feel it unnecessary given that they are taking up their allocations under existing rules. Others have not given it any consideration.

No facility to increase the equity loan, or to decrease it in stages

There is no call for the 25 per cent equity loan to be repayable in stages.

A minority of registered social landlords feel strongly that it should be open to them to offer an increased equity loan in cases where a household experiences financial difficulties. They feel that they have the internal procedures to prevent this being abused, but that this would enable them to help a small number of households who at present have to give up their home only to be re-housed elsewhere in the social sector on the basis of their housing need. Again, it is acknowledged that this would be expensive in public subsidy cost terms. They also point to the precedent of shared ownership, which does allow for assistance to be given to shared owners in difficulty (although only a minority of the registered social landlords interviewed have procedures in place to allow shared owners to 'staircase down' in this way).[2]

Others argue against this; home ownership does carry risks and Homebuy purchasers should not be any more protected against them than other purchasers. They also comment that it is both rare for a purchaser to need to reduce the equity in their property and that, in most of these cases, the need is to revert to full rent rather than a lower level of ownership.

Value limits for the property to be bought

These are generally not considered to be a problem outside London. In some cases, there is a restricted choice of properties available within the value limits, particularly when the household size means that a four- or five-bed property is needed. A number of interviewees commented that income limits not property values are the constraining factor in their (non-London) area.

In London, value limits do present a problem. Purchasers have to move some distance in search of a lower value property, to the extent that some local authorities are less enthusiastic about Homebuy because it entails a loss of economically active population. All London interviewees feel that recent increases in value limits have failed to keep pace with property price inflation. They again acknowledge the impact of raising value limits on the unit subsidy cost of the Homebuy programme.

One interviewee suggests linking the availability of Homebuy loans in Inner London to sites where planning agreements have secured a reduction in land prices, in order to overcome the problem of high property prices whilst avoiding excessive public subsidy costs.

Size limits for the property to be bought

The Homebuy procedures state that the two-bedroom price limit should apply to households with one or two members. One interviewee commented that this adversely affects households with one parent plus one child as opposed to two parents plus one child. However, none of the other interviewees has concerns about this limit.

Relationship between purchaser and registered social landlord

This is not seen as an issue of concern. Indeed, many registered social landlords comment that purchasers value the sense of being independent of the registered social landlord and free from any lease or management arrangement. This reflects the comments received from purchasers; when asked to compare Homebuy with shared ownership, many explicitly refer to the greater sense of independence and of being in control that shared ownership provides.

In the medium term, registered social landlords will need to approve any significant alterations to properties and to become involved once the Homebuy purchaser sells up or decides to buy out their loan. No problems are anticipated in this respect.

5 Homebuy and housing policy

Programme objectives

The formal objectives of the Homebuy programme are set out at the beginning of Chapter 1 (they can be summarised as helping tenants into home ownership and creating vacancies in the social rented stock). The first part of this chapter interrogates these objectives in the light of the experience of registered social landlords, local authorities and others in administering and observing the programme over its first 15 months.

Response to formal objectives

The interviews confirm that policy makers and influencers, registered social landlords and local authorities all recognise the two main objectives for Homebuy set out above. The interviews reveal a variety of emphasis and interpretation of these basic principles between different agencies and in different regions:

- They refer to home ownership as a *preferred tenure* – to be achieved where possible. This preference is of course reflected in the views of Homebuy purchasers set out in Chapter 3. In this respect some (but only a minority) argue that Homebuy should be made available to all local households irrespective of tenure or status on the waiting list.
- Most local authorities, and to a lesser extent registered social landlords, refer to the popularity of programmes that *offer choice* to local people, even if limited resources mean that only a minority will actually take advantage of Homebuy.
- In London especially, the concern is for the *housing needs* of an intermediate group of low- to middle-income people who cannot afford to buy locally because of recent trends in house prices.
- In some local authority areas, there is an explicit policy to target tenants who give up larger properties; elsewhere, the programme is limited to more popular estates and areas for which there is a longer waiting list.

A number of interviews also refer to the role of low-cost home-ownership in *boosting overall outputs* from the Housing Corporation's Approved Development Programme. It is acknowledged that policy has moved on from the early- and mid-1990s when a minimum 25 per cent spend on low-cost home-ownership programmes was required by government, and that investment programmes are much more 'bottom up' in their content.[1] Nevertheless, the view is that Homebuy and similar programmes do serve a purpose for government of increasing the volume of lettings produced from a given capital investment. Put another way, the issue of the unit cost of each new letting that is created remains important. This is examined in greater detail later in this chapter.

Some local authorities and registered social landlords refer to ways in which Homebuy can be adapted to meet local concerns. These sometimes sit uneasily within the programme's dominant objectives and include efforts to:

- target Homebuy as part of a strategy to re-house people from an area due for redevelopment

- blend Homebuy into a wider strategy in order to alter the overall balance in the local authority between social renting and owner-occupation.

A further objective that some local authorities referred to was to retain purchasers within the area. Homebuy does not allow for this and in some cases the local authority would like to see it doing so.

Critiques and alternatives

Whilst there is general support for what Homebuy sets out to achieve, there is also concern (and to an extent outright criticism) either that the particulars of the scheme mean that these objectives are only partially met, or that other desirable objectives are overlooked.

1 The dominant critique is that Homebuy does not in fact meet the needs of all low-income households and, in particular, that there are groups who were assisted by DIYSO who are no longer assisted by Homebuy. Thus, while Homebuy does meet an objective of 'assisting tenants [and others] to buy a home of their own', this does not pay sufficient attention to which tenants are being helped, particularly in relation to their income. The argument is that there are households who have sufficient income to want to consider home ownership, or who do not need the extent of subsidy provided by local authority or registered social landlord rent levels, but who cannot access Homebuy.

2 A related issue concerns the position of households who have a lump sum – perhaps as a result of a relationship breakdown or inheritance – but a very low income (or who are dependent on welfare benefits for their income). Under DIYSO, these households were able to purchase a small share of their property outright (as little as 25 per cent) and then rely on Housing Benefit to pay the rent due to the registered social landlord.

3 A further critique is that Homebuy disperses the subsidy that it uses (to wherever the purchaser decides to buy a property), rather than concentrating it in areas that have been identified as needing regeneration and investment. The view is that meeting the housing needs of low- and middle-income groups is not incompatible with targeting investment in an area, and this hints at a model where the Homebuy purchaser would receive the subsidy only if they bought in a given area.

4 Related to this critique is the view that Homebuy encourages purchasers to leave the social rented sector and more deprived areas, to be replaced by households in acute housing need. This entails the loss of working, economically active households who are in a position to contribute greater 'social capital' to the area. The next section looks at this argument in greater detail.

A number of interviewees, and in particular a majority of local authorities, did not subscribe to this last critique of Homebuy. They remain concerned that Homebuy does not reach far enough down the income scale of potential purchasers, but do not criticise it for affecting the mix of tenants in the social rented sector. This is in part a pragmatic position, given that Homebuy accounts for a very low proportion of all departures from the sector.

Homebuy and sustainable communities

Background

Homebuy (along with DIYSO and TIS) has been criticised for undermining the creation or support of sustainable communities in the social housing stock.

This critique focuses on the fact that, compared to the social rented tenant population as a whole, Homebuy purchasers tend to be wealthier (because they are also much more likely to be employed) and younger, and also tend to include a greater proportion of two-parent households. Similarly, the households that take the place of Homebuy purchasers are by definition in housing need and therefore also tend to be on low incomes or unemployed, etc.

Homebuy therefore exacerbates what is termed the residualisation of the social housing tenure and the social housing stock. The characteristics of households who enter the tenure mean that concentrations of relative deprivation occur within the social housing stock. Homebuy then encourages those households that are more successful to leave the tenure. Over time, these processes lead to the concentration of poverty and confirm the reputation of the tenure as one of ‘last resort’.

Of course, the problem of social exclusion is one that the current government has shown itself eager to tackle. The rest of this section looks at the extent to which Homebuy is or is not affecting the demographic and economic profile of particular areas and the social rented tenure as a whole.

Homebuy and movement out of the social rented tenure

Housing in England 1998/99 (National Statistics, 2000) shows that, of the 20.4 million households in England, 12 per cent or 2.36 million had moved at least once in the previous year. Of these, 402,000 moved into owner-occupation (as distinct from moved within owner-occupation).

In 1999/2000, the Housing Corporation and local authority SHG programme achieved 5,100 low-cost home-ownership completions, including 927 Homebuy completions (in turn, this includes 178 households from housing waiting lists). The previous year, an estimated 47,000 households moved out of a local authority or registered social landlord home and into owner-occupation. In addition, an estimated 35,000 social housing tenants purchased their own homes (National Statistics, 2000, Table A3.2). In the three years to 1998/99, some 130,000 local authority and registered social landlord tenants moved to owner-occupation and a further 120,000 bought as sitting tenants (National Statistics, 2000, Figure 4.4).

Assuming that movement in the overall market in 1999/2000 was similar to that in 1998/99, Homebuy purchases by existing local authority and registered social landlord tenants (i.e. excluding waiting list applicants) accounted for about 1.6 per cent of all physical movement out of social housing and into owner-occupation (i.e. not including purchases by sitting tenants).

The purchaser survey asked purchasers to describe the area around their previous home. Sixty-one per cent of registered social landlord and local authority tenants described the area they came from as 'a council or housing association estate' or 'mainly council or housing association accommodation'. This means that a sizeable minority of Homebuy purchasers are leaving the social rented tenure.

The purchaser survey also looked at how far people had moved under Homebuy. One-third moved less than two miles, and two-thirds of people who were previously tenants had moved five miles or less (although, in London, these proportions were one in ten and one-third respectively – see Table 9 in Chapter 3).

Characteristics of Homebuy purchasers and existing and new social sector tenants

Tables 15 to 17 clearly illustrate the different characteristics of Homebuy purchasers, existing social sector tenants and new social sector tenants (i.e. the group that replaces the Homebuy purchasers in the social housing stock).

Views of registered social landlords

The registered social landlords interviewed for this evaluation all recognised the issue of residualisation of the social housing tenure. There was considerable variety in their views about whether Homebuy contributed to the problem:

- The dominant response was that Homebuy is about offering choice to tenants and freeing up vacancies within the rented stock. Its impact on the sustainability of communities has either

Table 15 Age of head of household: Homebuy purchasers and tenants (per cent)

	16–24	25–44	45–64	65–74	75 and over
Homebuy purchasers	2.5	80	16	2	0
All social sector tenants	6	36	24	15	20
New social sector tenants	49	40	8	4	0

Source: Purchaser survey (*N* = 159); *Housing in England 1998/99*, Tables A1.3 and A2.18 (National Statistics, 2000).

Table 16 Household composition: Homebuy purchasers and tenants (per cent)

	Couple no children	Couple with children	Lone parent	Large adult group	One adult	Adult(s) over 60
Homebuy purchasers	18	47	11	3	17	1
All social sector tenants	19	16	16	7	15	26
New social sector tenants	14	24	22	5	35	n/a*

Source: CORE (*N* = 573*); Housing in England 1998/99*, Tables A4.1 and A2.20 (National Statistics, 2000).

*Included in previous column.

Table 17 Gross household weekly income: Homebuy purchasers and tenants (per cent)

	Under £100	£100–200	£200–300	£300–400	£400 or more
Homebuy purchasers	0.7	2.1	17	30	51
All social sector tenants	36	37	13	7	7
New social sector tenants	50	17	14	12	5

Source: Housing Corporation transactions database ($N = 870$); *Housing in England 1998/99*, Tables A1.11 and A2.22 (National Statistics, 2000).

not been considered, or is not felt to be of importance in comparison to these primary objectives.

- A number substantiated this position by pointing out that the Homebuy programme is taken up by about 0.025 per cent of all existing social sector tenants in any one year and that a majority of their purchasers are moving very short distances.
- One registered social landlord responded that tenants who are satisfied with their existing landlord are less likely to choose to take up Homebuy.

However other responses were more ambiguous:

- The role of local authorities in deciding priorities is emphasised, and the view is that any strategic priority to create and sustain mixed areas and neighbourhoods is overridden by the operational priorities of maximising vacancies in the social rented stock.
- Some local authorities expressed a wish to retain Homebuy purchasers within their area, for example by restricting their geographical choice of new property.
- One registered social landlord pointed to a problem of poor quality stock restricting the choice of Homebuy purchasers who might want to remain in the area.

A number of registered social landlords responded that, whatever the operational realities of housing need and size of programme, Homebuy is a missed opportunity to contribute to meeting housing aspirations and housing need, *and* sustainable communities. What could instead be achieved are:

- flexibility of tenure *in situ*, for example by offering Homebuy to tenants to buy their existing homes (or alternatively greater promotion of the availability of the Voluntary Purchase Grant)
- a restricted Homebuy programme whereby tenants could purchase only in given areas as part of an effort to attract a greater mix of tenures, or to encourage investment in the existing housing stock.[2]

For these landlords, the concern over loss of tenants through Homebuy is not just about neighbourhoods; it is also about the increase in turnover in their own stock, and the fact that new tenants are more likely to place demands on management and support services.

Local authorities

The local authorities interviewed for this study provide a range of responses to the question of sustainable communities.

In London, the concern is with the income groups that can benefit from the scheme ahead of any impact on existing communities and areas. Both in London and in the South East, local authorities described Homebuy as a 'middle-income' rather than a 'low-income' scheme. Those who do take it up still have to move some distance in order to find a property they can afford. That said, where it can be made to work, the scheme is used in order to free up rented properties. This remains the operational priority ahead of broader strategies to achieve tenure mix and more sustainable communities.

Away from London, local authorities acknowledge the potential problem, but again emphasise issues of offering choice to tenants, and the fact that most purchasers move a relatively small distance. Whilst one authority would welcome the option to restrict the choice that Homebuy offers in terms of where a property can be bought, others see no reason why a household should be restricted in their choice simply because they have purchased through Homebuy.

One local authority reported using Homebuy to offer alternative accommodation to private sector tenants and owner-occupiers in a mixed tenure area that they had identified for comprehensive demolition and re-building.

Other interviews

Three main points are emphasised in interviews with policy and government bodies.

First, the objective of creating sustainable communities will be met by creating places where people want to live. Restricting mobility and choice to existing tenants is likely simply to put back the time at which they decide to move anyway. It is a blunt instrument with which to improve the social and economic fortunes of an area.

Second, the overall size of the Homebuy programme (and of low-cost home ownership generally) is such that they cannot make a significant contribution to delivering solutions, or exacerbating the problem, of social exclusion or sustainable communities. Furthermore, the Approved Development Programme procedures allow local authorities to make use of Homebuy to the extent that they see appropriate for their circumstances. Within the limits of Housing Corporation policy and procedures, local authorities can also adapt Homebuy to fit local circumstances.

Third, and in relation to the previous point, there is a desire to see greater flexibility in the use of Social Housing Grant in the pursuit of local objectives. In this respect, some of the Housing Corporation's policies and procedures are felt to be unnecessarily restrictive. For example, it should be possible to allow a variable level of equity loan under Homebuy, according to a household's circumstances, around a national or regional average. More ambitiously, it should be possible to devise local programmes that meet both existing output requirements (such as creating new lettings in the existing stock) and others (such as ensuring concentration of investment in a given area, or greater mix of tenure in an area).

Value for money from public subsidy

Introduction
Assessing value for money across social housing investment programmes is a complex task. Any conclusions depend on the choice of which costs and benefits to take into account, and on the assumptions that inevitably have to be built into any but the most basic calculations.

Simpler models look only at financial information. Even here, it is difficult to attach a reliable figure to (for example) the financial benefits of new build or investment in the fabric of the stock that conventional shared ownership programmes provide – as opposed to DIYSO and Homebuy that predominantly involve transactions in the second-hand market. This report looks at the social effect of Homebuy on areas that purchasers move out of. There is no reliable, comparative method for measuring these effects in terms of the value for money obtained from the resources involved.

This section of the report therefore looks at two relatively straightforward questions. First, could or would Homebuy purchasers have bought anyway, unassisted, if the Homebuy grant had not existed? Second, how does public subsidy spent on Homebuy perform in relation to public subsidy spent on other parts of the Housing Corporation's Approved Development Programme (for example on rented housing or conventional shared ownership)?

Would the purchaser have bought without Homebuy?
The purchaser survey asked purchasers whether they would have become a home owner anyway if Homebuy had not been available to them. The precise question was:

> *Please imagine that you had not had the opportunity to buy somewhere under Homebuy. Where do you think you would be living now?*[3] *And where do you think you would be living three years from now?*

The results are shown in Table 18.

These figures should be treated with some caution. The responses cannot distinguish between people who are saying that they would hope to be able to purchase anyway without Homebuy (but could not in fact afford to) and those who actually would be in a position to buy outright.

However, the figures do suggest that a sizeable minority of Homebuy purchasers would have left the social rented sector anyway

Table 18 Purchasers' views of their options without Homebuy (per cent)

If you had not taken up Homebuy …	**'I would still be living in my previous home'**	**'I would have moved and I would be renting'**	**'I would have bought a home without a Homebuy loan'**
Where would you be living now?	76	16	9
Where would you be living in three years' time?	46	19	35

Source: Purchaser survey ($N = 177$).

within three years. Further analysis shows little correlation between these responses and the purchasers' income level. There is a regional pattern. Only 30 per cent of London purchasers thought that, without Homebuy, they would be owner-occupiers anyway in three years' time. The figure for the South East, South West and East combined is 38 per cent, and for the other regions combined it is 41 per cent.

Could the purchaser have bought without Homebuy?

It is of course a condition of the Homebuy scheme that applicants should not be in a position to purchase a suitable property on the open market without the help of a Homebuy loan.

Selection procedures

Registered social landlords assess the individual circumstances of Homebuy applicants, including their incomes, and reject some who are considered to be able to purchase a suitable property without the help of a Homebuy loan. Six of the eight local authorities interviewed leave this task to the registered social landlord (having discussed and agreed selection criteria), sometimes reviewing the choice made by the registered social landlord before the tenant confirmed is given the go-ahead. The other two local authorities undertake this selection themselves. Both use 'rules of thumb' to help them identify applicants who should be able to afford to purchase unaided. The emphasis during this process is also on preventing an applicant over-extending themselves when they cannot realistically maintain the commitment of Homebuy.

Registered social landlords in particular rely on a mixture of local knowledge and judgement, and the Housing Corporation's value limits in assessing whether a given household needs Homebuy assistance in purchasing. However, they acknowledge that some purchasers might have been able to buy outright by choosing a different area or a smaller property. On the other hand, over-prescription in this respect would risk stifling the scheme.

Purchasers' incomes and house prices

Analysis of the Housing Corporation's database suggests that, in 8 per cent of cases, if the household had raised a mortgage of 2.5 times their declared income, this would have covered the entire cost of the property they bought without the need for a Homebuy loan.[4] In 3.5 per cent of cases, a mortgage of 2.25 times income would have been sufficient to purchase their property. This does not take into account any savings that the household had. It is also not known whether these households had other financial commitments (for example, in maintenance payments to a previous partner's household) that limited the size of the mortgage they could afford.

In response to the purchaser survey, 52 per cent of purchasers said they took out the largest mortgage they considered that they could afford; a further 29 per cent said they chose a less expensive property rather than maximising the size of their mortgage.

Value for money from Homebuy compared to other parts of the Approved Development Programme

In the years 1998/99 and 1999/2000, the total public subsidy invested under selected parts of the Housing Corporation's Approved Development Programme was as shown in Table 19.

Table 19 Approved Development Programme: total public subsidy per unit produced

	London		South East		West Midlands	
	1998/99 (£)	1999/2000 (£)	1998/99 (£)	1999/2000 (£)	1998/99 (£)	1999/2000 (£)
Rent	52,900	60,800	30,400	34,800	21,300	24,400
DIYSO	31,500		23,900		16,800	
TIS	15,700		12,200		10,900	
Homebuy		26,200		21,200		16,500

Source: Housing Corporation programme management database.

We have to consider what exactly this subsidy is purchasing. Investment in a rented unit purchases housing that can be used for many years, by successive tenants. The Approved Development Programme assumes that the costs of management and maintenance (including the major repairs needed when components of the property fail) will be met from the rental income. The subsidy is a one-off payment to secure a theoretically limitless stream of accommodation for people in housing need.

By contrast, investment in a TIS unit takes a household out of a public sector tenancy when it would – sooner or later – have moved out anyway. No additional housing is created. TIS simply brings forward, once only, the date on which a social rented property can be re-let. Whether TIS is value for money compared to the rented programme depends on how much earlier the tenant involved decides to move out of their home. It will not be worth spending many thousands of pounds on a grant to a tenant who would have moved a year later anyway.

Homebuy, DIYSO and CSO are different again. These programmes bring forward the date at which a social rented property can be re-let. They also create a public sector stake in the property that is purchased. The grant paid out at the start is recovered later if (or when) the purchaser buys out the registered social landlord's share of the property. If a shared ownership purchaser does not buy out the registered social landlord's share, the registered social landlord is able to make a further nomination to the property under the terms of the lease.[5]

Whether these schemes represent value for money depends on:

- the value of the property at some future date when the registered social landlord receives a payment from a shared owner who either sells the property or buys out the remaining equity; and
- how much earlier the original purchaser vacates their existing social rented dwelling.

Comparing TIS with a rented unit

In 1998/99, the average total subsidy cost per rented housing unit produced under the ADP was £52,900 in London. Using a standard Treasury discount rate of 6 per cent, this is equivalent to giving an annual subsidy of £3,170.

In 1998/99, the average TIS unit cost in London was £15,700. Again, using a 6 per cent discount rate, this is equivalent to approximately 5.6 years' worth of the annual subsidy of £3,170 that the rented unit represents. In other words, the TIS scheme represents value for money so long as the average purchaser is leaving their social rented property 5.6 or more years earlier than they would otherwise have done.

The comparative figures for London, the South East, and the West Midlands are as shown in Table 20.

Comparing DIYSO with a rented unit

The value for money (VFM) calculation for DIYSO has to be adjusted because, in the future, either the subsidy invested in the DIYSO property will be paid back, or the registered social landlord will be able to nominate further tenants or people in housing need into that unit.

DIYSO therefore brings benefits in terms of earlier release of a rented unit (as for TIS above) and a future asset. The total value of these benefits depends on:

- how much earlier the purchaser releases their rented property than would otherwise be the case
- the Treasury discount rate (currently 6 per cent)
- the number of years that the purchaser stays in their home before moving on
- the rate at which the property's value increases over that time.

In 1998/99, the average cost of a DIYSO unit in London was £31,500. If we assume that the property subsequently increases in value by 2 per cent per year and the purchaser stays in their new property for 15 years, DIYSO represents value for money so long as the purchaser left their social rented accommodation 4.8 years earlier than they otherwise would have. Table 21 presents a matrix of possible outcomes. The Treasury discount rate is fixed at 6 per cent throughout, and the model uses London DIYSO and rented unit subsidy costs of £31,500 and £52,900 respectively.

Tables 22 and 23 present similar data for the South East and for the West Midlands.

Comparing Homebuy with a rented unit

The approach is as for DIYSO, but using the 1999/2000 figures for the cost of a Homebuy and a social rented unit. The basic calculations for London, the South East and the West Midlands are shown in Table 24.

Table 20 Assessing value for money of TIS relative to renting

	London	South East	West Midlands
Subsidy cost of rented unit (£)	52,900	30,400	21,300
Equivalent revenue cost (£)	3,170	1,820	1,280
TIS grant cost (£)	15,700	12,200	10,900
Value for money calculation: years of social rented tenancy given up by TIS purchaser	5.6	8.2	11.3

Source: Author's calculations.

Table 21 London: value for money of DIYSO relative to renting

Years purchaser remains as a shared owner	Annual increase in property value (%)	VFM calculation: years of social rented tenancy given up by DIYSO purchaser
10	2	3.4
10	2.5	3.0
10	1.5	3.8
5	2	1.8
15	2	4.9
20	2	6.2

Source: Author's calculations.

Table 22 South East: value for money of DIYSO relative to renting

Years purchaser remains as a shared owner	Annual increase in property value (%)	VFM calculation: years of social rented tenancy given up by DIYSO purchaser
10	2	4.6
10	2.5	4.1
10	1.5	5.2
5	2	2.4
15	2	6.7
20	2	8.7

Source: Author's calculations.

Table 23 West Midlands: value for money of DIYSO relative to renting

Years purchaser remains as a shared owner	Annual increase in property value (%)	VFM calculation: years of social rented tenancy given up by DIYSO purchaser
10	2	4.7
10	2.5	4.1
10	1.5	5.2
5	2	2.4
15	2	6.8
20	2	8.7

Source: Author's calculations.

Table 24 Value for money of Homebuy relative to renting

	Years purchaser remains in Homebuy	Annual increase in property value (%)	VFM calculation: years of social rented tenancy given up by Homebuy purchaser
London	10	2	2.4
London	20	2	4.2
South East	10	2	3.5
South East	20	2	6.3
West Midlands	10	2	3.9
West Midlands	20	2	7.2

Source: Author's calculations.

Conclusions and caveats

This analysis indicates that Homebuy represents somewhat better value for money (in public subsidy terms) than DIYSO, and that both these programmes are noticeably better value for money than TIS.

It also shows that the relative value for money of Homebuy and DIYSO compared to renting depends on how long the purchaser remains in the property they have bought (or how long it is before they buy the remaining equity). Arguably, the purchaser under Homebuy has less incentive to move on or to buy out the remaining equity because the Homebuy loan is interest free, while, under DIYSO, the purchaser is paying rent on the equity they have not purchased. It is, of course, much too early to be able to make a comparison of the subsequent behaviour of purchasers under the two programmes.

The analysis presented here measures the benefit to the public sector of Homebuy, TIS, etc. in terms of freeing up a rented unit. It does not pay attention to a number of issues that could quite reasonably be brought into an assessment of value for money. These include, for example, the extent of housing need of the household that enters Homebuy compared to DIYSO, or compared to all first-time buyers.

The analysis also suggests that Homebuy in London is better value for money than in the South East or in the West Midlands. Again, this assumes that the households that take up Homebuy have the same characteristics (e.g. they are in the same relative housing need) and have the same behaviour (e.g. the offer of Homebuy has the same effect in terms of inducing them to give up a rented property earlier than they would otherwise have done). This has not been tested.

6 Improving the Homebuy model

Introduction

Two issues have been highlighted at several points in this report. First, the fact that the income distribution of Homebuy purchasers is significantly higher than that for the DIYSO programme. Second, registered social landlords and local authorities have argued for greater flexibility within the Homebuy programme, in particular in respect of the level of the equity-free loan that is extended to purchasers. Related to this and to the concern about the income of purchasers, there have also been arguments for raising the average level of Homebuy loan from 25 to 30 per cent, and perhaps above.

This chapter explores the scope and the impact for tackling these two issues. In doing so, it makes use of a sample of 1,120 actual purchasers under the Homebuy scheme who completed their purchase between April 1999 and June 2000 (the number excludes those purchasers whose financial details were inconsistent; for example, where the records appear to show that their mortgage plus deposit plus Homebuy loan do not add up to the price of the property they purchased).

Flexible Homebuy loans

The 1,120 purchasers in the sample benefited from Homebuy loans of 25 per cent each, to a total value of just under £22.2 million. Between them, they also borrowed mortgages amounting to £64.4 million and invested £2.3 million of their own savings as deposits on their homes. The average Homebuy purchaser took out a mortgage of 2.67 times their income. This ranged from a ratio of just over 1 to over 4.

It is possible that the purchasers who borrowed less than the average mortgage in relation to their incomes could in fact have afforded to borrow more. They would still have needed a Homebuy loan, but not the full 25 per cent share of the property's price. By offering these households a lower level of loan, the savings made could be redistributed to other Homebuy purchasers in the form of an equity loan of above 25 per cent.

This has been simulated as follows. First, it is assumed that everyone who borrowed at a level below the average income multiplier (of 2.67) is in fact in a position to borrow more.

- The amount of their extra borrowing is fixed at half the difference between their income multiplier and the average income multiplier for all purchasers (2.67). For example, someone who originally borrowed 2.0 times their income has their mortgage increased to 2.33 times their income.
- No increase was placed on those who borrowed more than the average income multiplier.
- No increase is imposed if this would otherwise have taken the purchaser outside the need for any Homebuy loan at all.[1]

The result of this increase in borrowing levels is that Homebuy purchasers can buy their homes with a lower average level of equity loan. The saving is £3.2 million over the 1,120 purchases or an average of £2,927 per transaction.

Second, the saving is then redistributed at a flat rate amongst all the 1,120 purchasers – as an increase of £2,927 in their Homebuy loan.

- As a result, they now need a lower level of mortgage. As a consequence, their income could fall and they would still be in a position to take part in the programme.

The outcome of this simulation is therefore two income distributions – one of the actual Homebuy scheme in 1999/2000 and one of the income distribution that would have been possible if some people had borrowed a larger multiplier of their income and others less. The total subsidy cost is the same in either case.

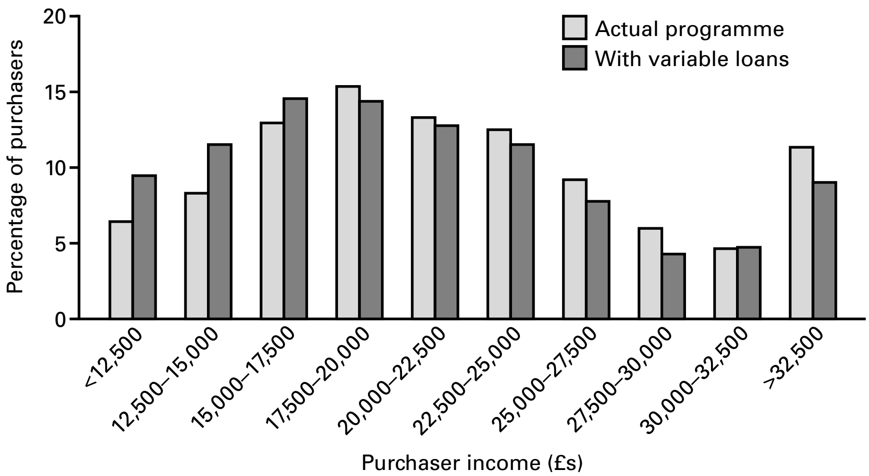
The two income distributions are illustrated in Figure 12. The impact has been noticeably to lower the income distribution, and the average purchaser income falls by 4.3 per cent, or nearly £1,000, from £22,310 to £21,350.

The effect on the distribution of Homebuy equity loans is shown in Figure 13. This goes from a uniform 25 per cent to a range from 4 to 39 per cent. Clearly, it would be impractical to offer 4 per cent equity loans; however, under this simulation, 88 per cent of loans lie between 15 and 30 per cent. The average remains at 25 per cent; this simulated redistribution has been achieved at nil extra cost in terms of Social Housing Grant.

More generous Homebuy loans

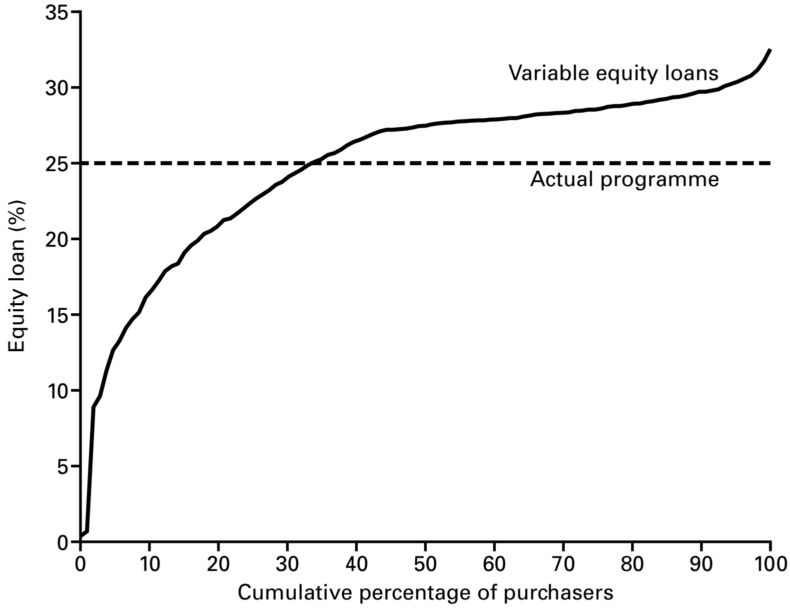
Arguments for a higher level of Homebuy loan overall break down into two components. First, a higher level of subsidy would be needed in order to offer 25 per cent loans on higher price properties in London and the South East. This might allow higher income households to take up Homebuy and remain in the local area. However, it would not help lower income households whose income is such that they cannot afford to buy a property at the value limit anyway. It also requires more detailed knowledge of property prices and patterns than has been collected in this study.

Figure 12 Income distribution of purchasers without and with variable equity loans



Source: Author's calculations.

Figure 13 Distribution of equity loan after allowing variable loan percentages



Source: Author's calculations.

In fact, most of the arguments encountered for a higher level of Homebuy loan are made in respect of the income levels of households able to make use of the scheme. In particular, DIYSO is being used to fill what is perceived as a gap between incomes at the bottom of Homebuy and the top of social renting tenants.

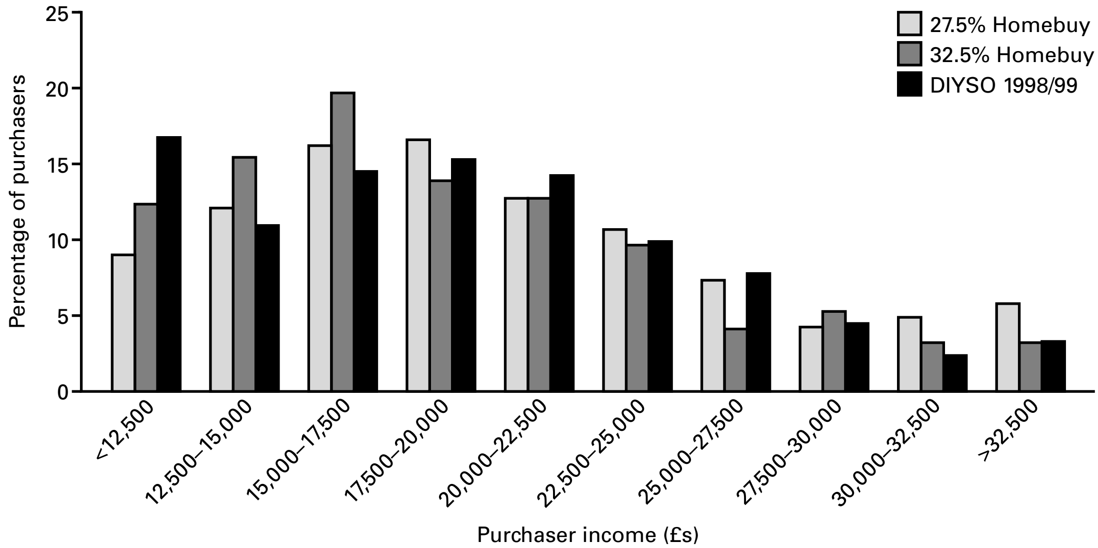
The second simulation therefore examines what level of Homebuy loans would be required for Homebuy to be an affordable option to people who did benefit from DIYSO in 1998/99. Chapter 3 compares the distribution of people who purchased under DIYSO in that year and under Homebuy in 1999/2000. This simulation examines what average level of Homebuy grant is needed to achieve similar distributions.

The results of this simulation are summarised in Figure 14. These show that, as the level of Homebuy grant increases, the income distribution of purchasers lowers. Average incomes fall from £21,400 for 25 per cent Homebuy, to £20,600 for 27.5 per cent and £19,100 for 32.5 per cent.

There is, of course, a cost implication in terms of the increase in grant needed to fund the higher levels of equity loan. From an average of £19,900 per unit for 25 per cent Homebuy, these costs rise to £21,900 and £25,900 respectively for 27.5 and 32.5 per cent Homebuy.

This simulation should be treated with some caution. No account has been taken of any differences in the types and costs of properties purchased under Homebuy in 1999/2000 and DIYSO in 1998/99. However, in order to help comparison with the 1998/99 DIYSO programme, income figures for the Homebuy programme for 1999/2000 have been deflated by 4.5 per cent.

Figure 14 Income distributions with 27.5 per cent Homebuy, 32.5 per cent Homebuy and for DIYSO in 1998/99



Source: Author's calculations.

7 Conclusions and recommendations

The success of the Homebuy programme depends on the criteria by which it is to be judged.

This study shows that against the most straightforward of criteria:

- the sums that have been allocated to it have been spent within the constraints set out by the government's housing policies and the Housing Corporation's procedure guides
- between April 1999 and June 2000, 1,318 households were re-housed, creating 967 vacancies in the social rented sector at costs ranging from an average of £16,000 in the Midlands and the North to £26,000 in London
- the marketing effort of registered social landlords and local authorities was sufficient to overcome administrative delays incurred at the very start of the programme; registered social landlords and local authorities report significant over-subscription to the scheme.

In many respects, Homebuy is a clear improvement on shared ownership models of low cost home ownership:

- purchasers like the greater sense of ownership that it affords them and, of course, the fact that they pay no interest or rent on the equity they have not bought
- lenders are comforted by the absence of a lease agreement between the purchaser and the registered social landlord
- local authorities and registered social landlords find that it is straightforward to explain to prospective purchasers.

This is a strong and stable beginning from which to consider and explore possible developments and refinements. The conclusion of this study is that there is room to improve the programme at a number of different levels. These recommendations are set out below, starting with relatively simple measures and working towards more complex issues.

Marketing Homebuy

A disproportionate number of Homebuy purchasers are registered social landlord tenants. This suggests that local authority tenants are not being reached by information and marketing efforts. Arguably, this does not matter if the programme is delivered and vacancies are created; however, it remains a problem of equity between different groups of tenants and undermines the government's (presumed) intention that Homebuy should be equally accessible to registered social landlord and local authority tenants. Registered social landlords and local authorities should review the position at the local level and ensure that information about the scheme does feature in housing offices, tenant newsletters, etc.

The Homebuy programme is also spread relatively thinly amongst registered social landlords and local authorities. This must affect the marketing effort that can be given to it in low-volume areas and organisations, as well as the efficiency with which the programme is administered. This is recognised by registered social landlords and local authorities, who also consider that a relatively local presence is important if the programme is to be properly marketed and targeted. Nevertheless, the Housing Corporation should consider suggesting a minimum number of transactions per year to local authorities that want to take up the programme.

The Homebuy programme also creates a challenge to the promotion and marketing of other low-cost home-ownership models based on shared ownership. This study has not attempted to examine the details of shared ownership leases, and the rents and service charges imposed on unsold equity. Nevertheless, if the Homebuy model is valued for being easier to understand and simpler to administrate, this suggests that *greater* clarity is needed in the operation of shared ownership, perhaps with some degree of standardisation across the sector.

Targeting Homebuy

There is evidence from this study that some households who take up Homebuy would become owner-occupiers anyway if the programme was not available to them, or could have bought their property outright by taking out a larger mortgage (but one that remains affordable in relation to their declared income). Inevitably, there will always be marginal cases in any system designed to allocate scarce resources and this is not an area where hard and fast rules would be appropriate. Nevertheless, it appears that different landlords perceive the problem differently and take different approaches to targeting their programme. In this context, a more detailed study of the issue, leading to good practice guidelines, may be helpful.

Greater flexibility in the application of Homebuy

Even if the Homebuy product is not changed in terms of the proportion of the equity loan, the Housing Corporation should allow its application to be adapted to local circumstances. This might include making it available as part of a regeneration programme – for example, to a wider range of households but only to purchase properties in a defined area. Alternatively, it might be possible to adapt it to a 'homesteading' programme; the registered social landlord would carry out works to the structural elements of a property, which is then sold on to a household that invests its own time and resources to complete the rehabilitation.

Reaching lower income households – flexible equity loans

The strongest concern emerging from this study (and given that the Housing Corporation no longer funds a DIYSO programme) is that Homebuy is being taken up by households whose incomes are, on average, considerably higher than their counterparts who make use of shared ownership models. It is the view of the local authorities and registered social landlords who deliver the programme that success should not be measured simply in terms of numerical outputs reached and spending targets met, and without considering the nature of the households that are benefiting from the programme.

This study demonstrates that a flexible equity loan scheme can go some way to reaching lower income households for the same total amount of public subsidy. Less subsidy is spent on households that can afford a slightly larger mortgage (without being able to afford outright purchase), with the difference made available as higher equity loans to lower income households. To this end, the Housing Corporation should carefully review its reasons for not allowing a flexible proportion of equity loan to be applied by registered social landlords, according to the circumstances of individual households. This local flexibility is of course applied throughout the shared ownership programme.

Reaching lower income households – higher average of equity loans

If Homebuy is to reach the same groups that used to benefit under DIYSO, it will be necessary for a higher average level of subsidy to be made available. This is expensive under the Homebuy model because – by contrast with shared ownership – the lack of rent or interest payment means that any increase in the unsold equity has to be matched pound for pound with additional subsidy.

The Housing Corporation should at least explore the possibility of making an average of 27.5 per cent, and perhaps 30 per cent, equity loans available in areas of high house prices. That said, increasing the level of subsidy should not be the only avenue that is explored. Alternative mechanisms to reach lower income households may exist, for example by using mechanisms under land use planning policy – Planning Policy Guidance 3 (Housing) – to secure land or housing at below market cost. Combining this with a Homebuy loan and controls over subsequent sales of the property could allow lower income groups to be reached at no extra public subsidy cost.

The size and application of the Homebuy programme

The size of the Housing Corporation's low-cost home-ownership programmes has fallen dramatically over the last few years. This reflects the choices made by local authorities in prioritising the spend of ADP resources in their area, in particular following the removal of a target of 25 per cent spend of low-cost home ownership that was previously applied to the ADP from the centre. Whilst Homebuy is clearly very popular with purchasers, an increase in the size of the programme would require either the re-imposition of a target level of spend, or greater use of it by local authorities. The former option seems unlikely in the current policy context; the latter may be a long-term outcome of the government's emphasis on an all-encompassing, cross-market role for local authority housing strategies.

Homebuy and shared ownership

Homebuy is clearly preferred by purchasers and lenders, because of its simplicity, and the greater sense of ownership (and actual and perceived value for money) that it affords. Local authorities and registered social landlords acknowledge these strengths but remain concerned that the incomes of Homebuy purchasers are significantly higher than those under shared ownership programmes. If

Homebuy could be made more flexible, and in some areas more generous, there would be little basis for retaining DIYSO. If these changes to Homebuy are not made, the case exists for retaining DIYSO despite its complexity.

Conventional shared ownership is different again in that it can be geographically targeted. Again, it is possible to envisage variations by which a targeted Homebuy model would address this.

Notes

Chapter 1

1 In the event, DIYSO has been retained but can now be funded only from local authority resources, not from the Housing Corporation's Approved Development Programme.

Chapter 2

1 Total Cost Indicators (TCIs) are used throughout the Housing Corporation's investment programme. They are a means to stop subsidy being used to buy expensive properties when suitable and cheaper alternatives are available. TCIs are set according to cost groups of local authorities, derived from the Housing Corporation's analysis of variations in land and construction costs. For example, TCI A relates to central London, TCI B to outer London and high-cost areas in the South East, and so on down to TCI E.

2 There is no room here to describe all these schemes in detail. A review of schemes in operation up to 1995 can be found in Chapman Hendy Associates (1995).

Chapter 3

1 For the sake of simplicity this analysis assumes a repayment mortgage with the percentage rate quoted including both interest and the repayment of capital.

Chapter 4

1 The Housing Needs Index (HNI) is used as a comparator because it guides the overall distribution of ADP spending. It is constructed by the Department of the Environment, Transport and the Regions using data about stock condition, homeless households, overcrowded households, etc. The choice of data to include and their relative weight is, ultimately, arbitrary and open to political influence. Bearing this in mind, the HNI does provide a measure of relative housing need between regions.

2 What is at issue here is the source of the funds that the registered social landlord uses to help a purchaser in difficulty. The Housing Corporation allows registered social landlords to 'recycle' SHG that is left over as a result of (for example) the sale of a property. This recycled SHG cannot be used to extend further help to a Homebuy purchaser. By contrast, it can be used to help a DIYSO or shared ownership purchaser facing similar difficulties.

Chapter 5

1 With the caveat that a new regional dimension to housing policy and housing investment decisions is being introduced with regional housing statements and the reduced emphasis on resource distribution according to the Housing Needs Index.

2 This has similarities with the 'Homesteading' model of low-cost home ownership under which purchasers are offered properties in need of substantial repair together with subsidy for the cost of acquisition and works.

3 'Now' is between one month and one year after the purchaser actually bought under Homebuy.

4 The data does not include the composition of household income (e.g. whether it is from one or more earners).

5 There are other differences between Homebuy and DIYSO, notably that DIYSO was in principle open to anyone, not just tenants or waiting list applicants. This distinction is not considered important. Anyone can register on a waiting list (under the provisions of the 1996 Housing Act) and the registered social landlords carry out the same eligibility assessments, income checks, etc. on all applicants.

Chapter 6

1 The reasoning for this is that, as registered social landlords assess purchasers' needs, these cases presumably represent people whose borrowing capacity is limited for reasons that the available data does not explain.

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Appendix 1: Other Homebuy models

Introduction

At the time of its introduction to England, Homebuy had been running for a number of years in Wales. Chapter 2 of this report suggests that links existed between what was happening in Wales and the decision to introduce Homebuy to England.

The Joseph Rowntree Foundation, and the London Borough of Hackney, have also made use of the Homebuy model for locally based programmes that offered purchasers an interest-free equity loan, redeemable when they sell up, to help them into owner-occupation. This appendix briefly reviews these alternative models.

The Welsh model

Tai Cymru introduced Homebuy in 1995. It is similar to the later English model of Homebuy in all respects apart from the following:

- It offers a 30 per cent equity-free loan (England: 25 per cent) to the purchaser.
- It is open to anyone with a housing need who cannot afford a suitable property on the open market (England: applicants must be social sector tenants or on the waiting list).
- It can be used to buy a property that a registered social landlord has built for sale specifically under this programme (England: this is not an option).
- A purchaser cannot buy out the 30 per cent equity-free loan within a year of buying under Homebuy (England: no such restriction).

As of 31 March 2000, registered social landlords in Wales held charges on 1,814 properties acquired under Homebuy. It is not known how many more have been provided where the original purchaser has sold on and/ or repaid the equity loan.

The Welsh Homebuy model was introduced following two research exercises to investigate the potential demand for Homebuy (Bramley *et al*., 1996; Research & Marketing Ltd, 1996). These are felt to have been very helpful in establishing that there was indeed a demand, in designing the Homebuy product (for example, in relation to the level of the equity loan), and in preparing guidance for Tai Cymru and Welsh registered social landlords in administering and marketing the programme.

Rachel Terry evaluated the Welsh model in 1996 and her comments are reported in Appendix 2 of this report. Broadly speaking, these are similar to the findings of this study: Homebuy is a more popular option for purchasers who can choose between it and shared ownership; it is popular with lenders; and it is perceived as a much simpler scheme to administer.

In November 2000, the National Assembly for Wales published a report under the title of *Better Homes for People in Wales: The National Assembly for Wales' Proposals for a National Housing Strategy* (National Assembly for Wales, 2000), which included a review of private housing markets and Homebuy. This proposes further promotion of the Homebuy and Homefinder schemes (at the expense of shared ownership), and making Homebuy more flexible by varying the percentage of the equity loan.

Homebuy in Hackney

The London Borough of Hackney has undertaken its own version of Homebuy in recent years (marketed as 'Hackney Homebuy'). The context for this is tenure diversification in a borough with a very large proportion of social housing. Hackney residents have traditionally accessed home ownership by moving away: the Borough wants to change this. Their strategy statement aims at raising owner-occupation rates from 29 to 40 per cent, at the same time as lowering local authority and registered social landlord owned housing from 58 to 46 per cent.

Under 'Hackney Homebuy':

- purchasers are offered a 30 per cent equity-free loan
- there is no opportunity for purchasers to repay this loan for the first three years
- the amount repayable is 30 per cent of the new market value of the property (as for the standard Homebuy)
- purchasers have to buy in the Borough of Hackney.

The scheme was offered alongside the Housing Corporation Homebuy scheme. Purchasers who expressed a desire to buy in Hackney were offered the opportunity to do so under the more generous terms of 'Hackney Homebuy'.

In 1999/2000, a total of nine households took up 'Hackney Homebuy', with an average of £31,000 of equity loan per household. A larger programme had been envisaged in conjunction with a local private sector housing development; however, this fell through when the developer withdrew from the non-contractual arrangement.

Hackney had at first envisaged running the programme in 2000/01 but withdrew after an assessment of market conditions suggested that the subsidy required per unit would be in the range of £38,000–50,000. This was considered unviable given other priorities. The funds were instead allocated to a conventional shared ownership scheme marketed exclusively for Hackney residents. The Borough will be reviewing market conditions in future years and may return to the 'Hackney Homebuy' scheme if it is considered to be a viable option once again.

Elsewhere in the Borough, an s.106 planning agreement has delivered a scheme where a number of new homes on the site are offered for sale at a 30 per cent discount on market value. No SHG is involved and the discount is absorbed by the developer. This time the purchaser cannot repay the loan for four years.

The Joseph Rowntree Housing Trust

In 1998, the Joseph Rowntree Housing Trust offered three properties for sale at 60, 70 and 80 per cent equity levels (based on open market valuations) on their estate in New Earswick in York. At the same time, other properties on the estate are being offered for open market sale, as part of an initiative to establish a mix of tenure in the area.

The scheme was undertaken with the Foundation's own resources, which enabled the Trust to set its own guidelines and policies including a range of initial equity levels. The 80 per cent equity sale has since been changed to a rented property because of a change in the household's circumstances. Again, this would not be possible under Housing Corporation policies and regulations.

Appendix 2: Previous reviews of Homebuy

A number of reviews of Homebuy and low-cost home ownership have taken place in recent years. This appendix briefly reviews the conclusions and recommendations of these reports.

In 1995, Rachel Terry produced a study for the Joseph Rowntree Foundation arguing for a simplification of the shared ownership models of low-cost home ownership into what she termed an Equity Loan Scheme (Terry, 1995).

Her report highlighted the fact that, with a fall in mortgage interest rates, the gap between the monthly costs of shared ownership and of outright ownership had narrowed considerably since the early 1990s. She also reported Scottish studies of shared ownership that showed a considerable degree of satisfaction with the tenure, although there had been no recent purchaser survey in England. In the report's final section, she outlines a new 'Equity Loan Scheme' (ELS) product. What she describes is very similar to the Homebuy scheme:

- ELS is an interest-free loan of a variable amount set according to the means of the purchaser as well as local market conditions. Terry suggests a range between a minimum of 13 to 17.5 per cent of property value, and a maximum of 37.5 to 50 per cent of property value. (Homebuy takes no direct account of the purchaser's income; the loan is fixed at 25 per cent of property value.)
- The amount repayable should be the same proportion of property value as the original loan.
- Because the registered social landlord does not rent a share of the property to the purchaser, there is no lease. This is a much simpler arrangement than for shared ownership.
- The registered social landlord has no control over who moves into a property once the original purchaser sells up. On the other hand, the original purchaser has no restrictions when they choose to sell up.

The following year, Rachel Terry prepared a report on the Welsh Homebuy Option for the Housing Corporation, the Joseph Rowntree Foundation and a group of seven registered social landlords (Joseph Rowntree Foundation, 1996). She draws out similar comparisons and adds the following advantages of Homebuy from a registered social landlord perspective:

- The lack of a lease makes the relationship with the purchaser more straightforward.
- The purchaser has a greater sense of being a full owner than they do under shared ownership.
- The interest-free loan is treated by the mortgage lender as a deposit so the purchaser gets access to favourable mortgage terms.

She also adds the following disadvantages:

- Households may overstretch themselves financially in order to take up Homebuy.
- There is less likelihood of being able to transform from Homebuy to renting than there is from DIYSO or CSO to renting.

- Given no targeting on social tenants, Homebuy and low-cost home ownership in Wales create few vacancies in social rented properties.
- Competitive bidding for the Homebuy programme may have led to under-investment in sales and marketing by registered social landlords.

On the question of the choice of the proportion of the property value that is covered by the loan, Terry argues that:

> *A single equity loan percentage could not work in England because it would either be such a low percentage that the majority of target customers would not be eligible* [because they could not afford the larger mortgage involved], *or it would be at a level that a significant minority would be receiving a larger equity loan than necessary, and still a sizeable number of target customers would not be eligible.*
> (Joseph Rowntree Foundation, 1996)

She goes on to argue for:

- the Welsh Homebuy model to be adapted to the English market by introducing a variable equity loan (she suggests a range between 10 and 50 per cent)
- the possibility of part repayment of the loan
- targeting it at public sector tenants
- a realistic on-cost.

More recently, the National Assembly for Wales undertook a review of housing policies through a number of task groups, one of which included Homebuy in its report (Task Group 2, 2000). The report advocates the inclusion of Homebuy in all local authority strategy plans and an enhanced role for the programme. It also suggests the possibility of lenders offering a form of Homebuy and a review of the fixed rate 30 per cent of equity loan.

Reviews of low-cost home ownership

The most wide-ranging review of low-cost home ownership in recent years was conducted for the (then) Department of the Environment in 1993 (Cousins *et al.*, 1993). This involved a substantial survey of lenders and funders, providers (both housing associations and local authorities) and purchasers, as well as applicants and those who had moved out of the tenure. The report's overall conclusions were as follows:

- Shared ownership housing was very popular and seen by many as a stepping stone to full ownership.
- The demand for low-cost home ownership considerably exceeded supply, and meeting this demand would require an expansion in public funding.
- The then network of small providers was not best suited to implementing an increased programme.
- Organisational change was needed in the co-ordination of individual housing associations' efforts, the distribution of funding, and the integration with local authorities' strategic and enabling functions.

- The requirement for an average of 50 per cent equity loans under shared ownership limited its availability to lower income households because of the low demand for larger than 50 per cent shares.
- There was concern about the extent to which the Housing Corporation's value limits for properties kept pace with rising prices.

More recently, the Housing Corporation has commissioned two reviews of its shared ownership activities (Bramley *et al.*, 1995; Dunmore *et al.*, 1998). The 1995 evaluation of DIYSO reported as follows:

- Value limits set by the Housing Corporation were not a constraint in the first two years of operation; rather, the access costs and the deposit required were.
- Under the then market conditions, 50 per cent DIYSO cost 77 per cent of full ownership.
- In public subsidy terms, the unit cost of DIYSO cost was approximately half the unit cost of rented housing.
- DIYSO offered only a partial reduction in the risks of home ownership and 'downward staircasing' should be considered to address some of these risks. ('Downward staircasing' using the proportion of registered social landlord surpluses that are controlled by the Housing Corporation, was introduced in 1998.)
- There was greater demand for DIYSO in the South than in the North of England. However, patterns of take-up can only partly be explained by socio-economic and market factors, and the interest and performance of local authorities and registered social landlords were also important.
- DIYSO was too small to have an impact on national or local housing markets.
- The DIYSO purchasing process was complex, with three sets of solicitors involved. However, purchasers were satisfied with the service received from registered social landlords.
- DIYSO purchasers moved short distances. Their main reason was the opportunity to own their home and adjust to changing circumstances.

The report's recommendations included keeping the DIYSO programme broadly as it was, but with greater availability of 25 per cent shares; the possibility of 'downward staircasing'; and greater rationalisation and streamlining of procedures on the supply side.

The 1998 evaluation of low-cost home ownership came to broadly similar conclusions. It included an estimate of potential demand for the tenure (far exceeding likely funding); the view that knowledge of shared ownership tenures was relatively patchy; and a comparison of value for money obtained from different parts of the low-cost home ownership programme. Whilst DIYSO was felt to be more popular with purchasers, conventional shared ownership was felt by providers to offer more in terms of 'Housing Plus' (however, the report questions the effectiveness of this role). Take-up of low-cost home ownership was low amongst members of ethnic minority communities.

The report also simulated the place of an equity loan system (not then in operation) and compared this to the existing low-cost home-ownership products. Its recommendation was that either the equity loan system or 50 per cent DIYSO – but not both – should be run and that common eligibility criteria should apply across the low-cost home-ownership programme.

The Council for Mortgage Lenders published its own report on shared ownership in 1995, concentrating on issues of lending and markets (Chapman Hendy Associates, 1995). This reported support amongst lenders for the continued growth of shared ownership but a concern that the market remained immature with little known about the volume of underlying demand and the market for second-hand sales. Falling grant rates and mortgage rates were squeezing the space for shared ownership between social renting and full ownership, but its role would persist in areas of higher house prices. The study found no evidence of systematic problems with negative equity or bad debts amongst shared ownership borrowers.

Lenders and providers agreed on the need for greater publicity and marketing for the schemes. Lenders identified the multiplicity of low-cost home-ownership products as a problem that was preventing stable development of the sector.

Low-cost home ownership and housing policy

The reviews referred to above concentrate on the operation of low-cost home-ownership programmes rather than on questions of the role and importance of low-cost home ownership across the breadth of housing policy. This broader approach is, however, reflected in work for the then National Federation of Housing Associations (Terry, 1996) and the Joseph Rowntree Foundation (Cowans *et al.*, 1999).

The first of these reports raises the possibility of much greater flexibility for tenants, shared owners (and potentially full owners) to vary the proportion of the property that they own and that they rent. The report acknowledges that such a scheme implies significant political, fiscal and financial changes. In the meantime, some small steps could be taken to ensure that housing markets and subsidy systems are more responsive to the fact that households' employment patterns have become much more changeable.

The Joseph Rowntree Foundation's report focuses on the negative impact of housing policies that have encouraged home ownership as the tenure of choice, imposed a needs-based allocation systems onto social housing and sought value for money in the form of lowest unit costs for additional social housing. This has led, the report argues, to a pattern of spatial segregation between social housing and owner-occupied housing, which also concentrates relative deprivation and creates social exclusion. Low-cost home ownership, therefore, has a role to play in creating a mix of tenures, whilst flexible tenure would allow households to remain in a community despite changing economic fortunes. The report also explores the potential for greater flexibility in funding through a ‘unified housing grant’ – a combination of additional grant subsidy with capital receipts and revenue surpluses that accrue to registered social landlords.

Appendix 3: Study methods

This study of Homebuy drew on a number of sources of information.

1 Previous studies of low-cost home-ownership models (detailed in Appendix 2).

2 Records of individual Homebuy transactions between April 1999 and June 2000 held by the Housing Corporation.

3 CORE lettings data supplied by the National Housing Federation.

4 Interviews carried out with staff responsible for administering the Homebuy programme within the following local authorities:
   - Royal Borough of Kensington & Chelsea
   - London Borough of Tower Hamlets
   - London Borough of Hackney
   - New Forest District Council
   - Plymouth Borough Council
   - Hereford City Council
   - Broadlands District Council
   - Bradford Metropolitan Borough Council.

5 Interviews carried out with staff responsible for managing the Homebuy programme within the following registered social landlords:
   - Notting Hill Home Ownership
   - Tower Homes
   - Swaythling Housing Association
   - Devon & Cornwall Housing Association
   - East Midlands Housing Association
   - Mercian Housing Association
   - Anglia Housing Group
   - North British Housing Association
   - The Joseph Rowntree Housing Trust.

6 Interviews with staff responsible for lending policies at the Cheltenham & Gloucester, and the Nationwide.

7 Interviews with the Department of the Environment, Transport and the Regions; the Council for Mortgage Lenders; the Local Government Association; the National Housing Federation; and the Housing Corporation.

8 A survey of Homebuy purchasers. Survey forms were distributed by the registered social landlords involved in the interview programme to all people who purchased in the period between April 1999 and October 2000 (in effect between October 1999 and October 2000 due to delays in starting the Homebuy programme). Approximately 360 forms were sent out and 178 completed forms were returned. A copy of the survey form is reproduced in Appendix 4.

Appendix 4: The survey form

HOW WELL IS THE HOMEBUY SCHEME WORKING?

SURVEY OF PEOPLE WHO HAVE BOUGHT WITH A 'HOMEBUY' LOAN

Thank you for taking the time to complete this survey. The results of the survey will contribute to a report about how well the Homebuy scheme is working and how it could be improved.

You may feel that some of these questions are quite personal. Please remember that you cannot be identified from the replies you give to the survey, and this guarantees that it will remain entirely confidential. If you choose to enter for the prize draw your details will be kept entirely separate. *It is very important that the person who fills in this form is the person who has bought under Homebuy (or is a joint purchaser).*

1 Your previous home and the people you lived with there

When you answer these questions, please ignore any temporary accommodation you lived in for a short time as a part of your move into your current home

Was your previous home … *(tick as many as apply to you)*

Rented from the council ☐ Rented from a housing association ☐
Privately rented ☐ Owner-occupied ☐

A flat ☐ A maisonette ☐
A house or bungalow ☐

How long had you lived there? _______ years **How many bedrooms did it have?** _______
How many people lived in your previous home? _______
What were the first four elements of your previous postcode? ______ ______ ______ ______
Example: if the postcode is PK67 4YH, first four elements are P K 67 4

Were you or your partner the tenant or the owner of your previous home? YES/NO
If you answered 'no' was the tenant or owner
Your parent(s) ☐ Your previous husband/wife/partner ☐
A friend ☐ Other (please describe) ____________________
____

How would you describe the housing around your previous home?
A council or housing association estate ☐ Mainly council or housing association housing ☐
Mainly private renting ☐ A mixed area ☐
Mainly owner-occupied ☐

2 What would have happened without Homebuy?

Please imagine that you had not had the opportunity to buy somewhere under Homebuy. Where do you think you would be living now?

I would still be living in my previous home ☐

I would have moved and I would be renting my home ☐

I would have bought a home without a Homebuy loan ☐

And where do you think you would have been living three years from now?

I would still be living in my previous home ☐

I would have moved and I would be renting my home ☐

I would have bought a home without a Homebuy loan ☐

3 Your current home and the people who live with you

Through which housing association did you buy your home? ________________

When did you buy your home?____(M) ____(Y) How many bedrooms does it have? _______

What are the first four elements of your postcode? ______ ______ ______ ______

About how far have you moved?_______ miles

Is your current home … *(tick as many as apply to you)*

A flat ☐

A maisonette ☐

A house or bungalow ☐

Freehold ☐

Leasehold ☐

Does it have full central heating? YES/NO

Please give details of the people who live in your current home starting with yourself.
Include anyone who only lives with you part of the time (for example under joint custody arrangements)

	Age	Male/ female	Earning a wage?	Relationship to you (e.g. partner, child)	Did they share your previous home?	Do they pay rent to you?
Yourself						
Person 2						
Person 3						
Person 4						
Person 5						
Person 6						
Person 7						
Person 8						

4 The experience of buying under Homebuy

How do you rate the service you were given by the housing association or registered social landlord as you went through the Homebuy scheme?

Better than expected ☐ As expected ☐

Not as good as expected ☐

Do you have any particular comments about this service?

____

____

Some housing associations offer 'shared ownership' as well as Homebuy. <u>Only if you know about shared ownership</u>: do you think Homebuy is a better or worse option? Why?

____

____

From the following statements, please tick the ones that apply to you

The Homebuy rules did not restrict my choice of property ☐

The Homebuy rules meant I couldn't buy as large a property as I wanted ☐

The Homebuy rules meant I had to buy in a different area than the one I wanted ☐

How much did you pay for solicitors and surveyors when you bought your home? £ ___________

How did this compare to what you expected to pay?

Much more ☐ A bit more ☐

As expected ☐ Less than expected ☐

5 Comparing your old home and your current home

Please indicate how strongly you agree with each of the following statements. Please also choose three factors that were most important to you in your decision to take up Homebuy

Compared to my previous home or neighbourhood…	Strongly agree	Agree	Neutral	Don't agree	3 most important
My current home is in a better state of repair	☐	☐	☐	☐	☐
My current home has more living space	☐	☐	☐	☐	☐
My current home has a larger garden	☐	☐	☐	☐	☐
It is better to be buying than renting	☐	☐	☐	☐	☐
The schools in my current neighbourhood are better	☐	☐	☐	☐	☐
My current home is nearer to shops and public transport	☐	☐	☐	☐	☐
It is easier to get to my work from my current home	☐	☐	☐	☐	☐
My current home is nearer friends and family I see often	☐	☐	☐	☐	☐
More people in my current neighbourhood are in work	☐	☐	☐	☐	☐
There is less crime in my current neighbourhood	☐	☐	☐	☐	☐
My current neighbourhood is better looked after	☐	☐	☐	☐	☐

6 Being a home owner

Please indicate approximately how much your household income is per year, before tax and National Insurance have been deducted *(include your partner's earnings if any)*

Less than £12,500 ☐	£12,500 to 15,000 ☐	£15,000 to 17,500 ☐	£17,500 to 20,000 ☐
£20,000 to 22,500 ☐	£22,500 to 25,000 ☐	£25,000 to 27,500 ☐	£27,500 to 30,000 ☐
£30,000 to 32,500 ☐	£32,500 to 35,000 ☐	£35,000 to 37,500 ☐	Above £37,500 ☐

In five years' time, and after allowing for increases in prices and the cost of living, do you think that your income will be …

Less than now ☐	Same as now ☐
A bit higher ☐	Quite a lot higher ☐

At the time that you bought under Homebuy, did you … *(tick as many as apply to you)*

Take out the largest mortgage you could afford ☐

Choose to have a small mortgage when you could instead have chosen a larger property or one in a better area? ☐

Want to buy a more expensive property, but the Homebuy rules didn't allow you to ☐

How much did you pay for your current home (including the Homebuy loan)? £ ___________

What size of mortgage did you take out to buy your home? £ ___________

Did you invest any savings in your current home? YES/NO If yes, how much? £ ___________

Do you have any savings at the moment (other than a pension)? YES/NO If yes, how much? £ ___________

Please provide some details about your mortgage

How much each month does your mortgage cost you at the moment? £ ___________

Do you have mortgage payment protection insurance (to help pay your mortgage if you lose your job)? YES/NO

What kind of mortgage product do you have?

Endowment ☐ Repayment ☐

Other (please describe): ____

____

Do you feel you got enough financial advice when you bought under Homebuy? YES/NO

If 'no' please provide details

____

____

Did the survey on your home show the need for major repairs within 5 years? YES/NO

How do you intend to tackle repairs that are needed? *(tick all that apply to you)*

I can tackle any repair jobs myself	☐	My home needs repairs that I can't afford	☐
I have friends or family who can help me	☐	I am setting money aside for future repairs	☐

7 What will happen next?

How much longer do you expect you will stay in your current home?

Less than 3 years	☐	3 to 8 years	☐
8 to 15 years	☐	More than 15 years	☐

Please tick as many of the following statements as apply to you

As soon as I can afford to I will look around for a better home ☐

I expect to have children (or more children) and then I will need a larger place to live in ☐

I will repay my Homebuy loan before I sell my home ☐

Within the next 5 years, I expect that I will have to move because of my job ☐

I don't expect I will be able to move again without another Homebuy loan ☐

I don't expect I will move again before my children have left home ☐

Thank you for completing this survey. Please return it to: *Alastair Jackson, University of Sheffield, Department of Town & Regional Planning, Geography and Planning Building, Winter Street, Sheffield, S3 7ND** (in the stamped addressed envelope provided).

*The University of Sheffield have kindly agreed for this address to be used for the return of completed survey forms. The University has no involvement in the survey itself.