findings

www.jrf.org.uk

An evaluation of the 'Homebuy' scheme in England

In April 1999, 'Homebuy' was added to the range of low-cost home-ownership programmes designed to help low-income households in England (and social housing tenants in particular) into owner-occupation. Under the Homebuy model, purchasers receive an interest-free loan of 25 per cent of the purchase price of their home (by contrast, the Shared Ownership model offers 'part rent, part buy'). In this study, Alastair Jackson examined the success of the programme over its first 15 months. He found:

- **The Homebuy programme was fully taken up. Compared with Shared Ownership, Homebuy is preferred by purchasers (who feel a greater sense of ownership and independence) and mortgage lenders (because of its simplicity).**

- **People who buy under Homebuy have considerably higher incomes than those who buy under Shared Ownership. Because of this, local authorities do not see Homebuy as a substitute for Shared Ownership models. In its current format, Homebuy is not flexible enough to cope with the wide regional variations in income-to-house-price ratios in England.**

- **Making Homebuy available to lower-income households would be expensive in subsidy terms. However, more flexibility in the proportion of the Homebuy loan offered to purchasers could reduce the average income of purchasers at no additional cost in subsidy.**

- **People who buy under Homebuy give priority to having more space inside and outside their home. To a lesser extent they feel that they are moving to better neighbourhoods. The properties they buy are in no better condition and are not more conveniently located than the ones they have moved from.**

- **One-third of purchasers state that they would have bought a home anyway within three years had the Homebuy programme not been available to them. Nevertheless Homebuy appears to offer equivalent or better value for money compared with other low-cost home-ownership or rented housing programmes.**

JOSEPH ROWNTREE FOUNDATION

JULY 2001

Introduction

Homebuy is one of a number of low-cost home-ownership programmes delivered by registered social landlords. Subject to local authority support, such schemes aim to help lower-income households into owner-occupation and to create vacancies within social rented housing (or to alleviate the pressure on waiting lists). Some low-cost home-ownership programmes (including Homebuy) are only available to social sector tenants or people on a local authority housing waiting list. Funding comes from Government: in 1999/2000, this provided 4,000 low-cost home-ownership homes in England. Some local authorities also provide funding for the programme.

Under 'Homebuy', a purchaser is given an interest-free loan of 25 per cent of the price of the property they buy (subject to an upper price limit). The loan must be repaid when the property is sold and it can be repaid earlier. The amount repayable is 25 per cent of the value of the home at the time of repayment. Another form of low-cost home-ownership programme is 'Shared Ownership', which is split into two: Do It Yourself Shared Ownership (DIYSO) allows the purchaser to select a property to buy on the open market (subject to price limits), while conventional Shared Ownership involves a registered social landlord building or renovating a specific property for sale. In both cases, the purchaser buys part of the equity in the property (usually with a mortgage) and pays a subsidised rent to a registered social landlord for the rest. The proportion that purchasers buy is flexible: it usually ranges from 25 to 75 per cent. Over time, purchasers can buy extra shares, and in most cases this can extend to buying the property outright.

As Homebuy was introduced, Government stopped the 'Tenants' Incentive Scheme' which offered registered social landlord tenants a lump sum towards the purchase of a home. It also withdrew its funding of Do It Yourself Shared Ownership - local authorities could continue to fund this option if they chose to.

Homebuy purchasers

The study found that registered social landlord tenants are ten times as likely as local authority tenants to purchase under Homebuy, which suggests that these groups do not have equal access to information and marketing about the programme.

About half of all Homebuy purchasers had lived in their previous home for less than five years, and three-quarters were previously social sector tenants. Compared with 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 with other forms of low-cost home-ownership, Homebuy has been taken up by a large proportion of black and minority ethnic households: 29 per cent of purchasers described themselves as other than white.

As well as wanting to take up the opportunity of home-ownership, those who used the Homebuy option significantly increased their living space (and their garden space), and moved to areas that they felt were better looked after and less prone to crime or unemployment. However, their new homes were not in a better state of repair and were no more convenient for work, shops and transport or for getting to family and friends. Compared with only one in four purchasers elsewhere, the majority of purchasers from London felt that the price limits for Homebuy prevented them from buying the property they wanted or from buying in the area they wanted. Only 18 per cent of purchasers outside London moved more than 10 miles when they bought: for purchasers in London the figure was 43 per cent.

Comparing Homebuy and DIYSO

Because the introduction of Homebuy coincided with the withdrawal of Government funding of DIYSO, the study examined the extent to which the two programmes are substitutes for each other.

A Homebuy loan is fixed at 25 per cent of the purchase price, which means that the purchaser has to be able to afford a mortgage of 75 per cent of the price (most purchasers have few savings to contribute to the transaction). Under DIYSO, a purchaser can buy a share between 25 and 75 per cent of the property's value and pay rent on the remainder. The rent payments are eligible for Housing Benefit.

The study found that Homebuy purchasers earn considerably more than those who bought under the DIYSO programme. For England as a whole and in 1998/99, 58 per cent of DIYSO purchasers earned less than £20,000 per year. For the 1999/00 Homebuy programme only 33 per cent of purchasers earned less than this. This difference is particularly marked in London and the Southern regions. This is of considerable concern to registered social landlords and local authorities, so much so that a number of the latter fund their own DIYSO programme in order to continue to offer access to home-ownership (with a choice of which property to buy) to lower-income households who are unable to make use of Homebuy.

Because the loan level is fixed nationally, Homebuy is inflexible in relation to the variation in the gap between incomes and house prices in different parts of the country, and in relation to the housing subsidy requirements of different households. Modelling carried out for this study suggests that (at no extra subsidy cost) a more flexible Homebuy loan would have lowered purchasers' average incomes, but not to the extent of matching the DIYSO programme. To do that would require an increase in the percentage of the Homebuy loan to 32.5 per cent, which would add 30 per cent to its subsidy costs.

Not surprisingly, those who had taken up Homebuy preferred 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

Government funding of low-cost home-ownership programmes has fallen considerably in recent years. This is because of cuts in the overall programme for additional social housing, and in response to local authorities' preference for rented housing programmes.

The Homebuy programme is concentrated in the southern half of England. It is also thinly spread, with 177 local authority areas seeing fewer than 10 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 the 44 participating registered social landlords accounting for 50 or more transactions each and 61 per cent of the programme.

Local authorities and registered social landlords felt that Homebuy is 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.

Mortgage lenders welcome Homebuy and in particular the absence of any lease between the purchasers and the registered social landlord (a lease is necessary under shared ownership arrangements). However, the small size of the programme means that they question whether, in purely financial terms, it is worth the effort required to set up the administrative arrangements in order to offer loans to Homebuy purchasers.

Sustainable communities

Low-cost home-ownership programmes are criticised for removing economically active tenants from social housing estates. This is an inevitable outcome of the Government's aim to offer low-income households a choice of which property they buy, and to target the programme on social sector tenants in particular. Indeed, many local authorities support the programme precisely because it creates additional vacancies in their social rented stock.

Overall, Homebuy accounts for less than 2 per cent of all the households who move each year from social rented housing into owner-occupation. Of these, 60 per cent are not leaving an area that is dominated by social housing and 33 per cent move less than two miles to their new home. Homebuy therefore represents a very small contribution to a wider movement from social housing into owner-occupation.

Nevertheless, some registered social landlords and local authorities argue for flexibility in the application of Homebuy procedures to allow them to contribute better towards the regeneration of an area. For example, this could allow the targeting of Homebuy to encourage purchasers to remain in the local area or to buy into an area undergoing regeneration. It might also involve greater encouragement to registered social landlords to allow sitting tenants to purchase their own home even where they have no statutory right to do so. This would offer tenants who were thinking of purchasing the opportunity to do so and remain in their existing neighbourhood.

Value for money from public subsidy

Value for money for public subsidy under the Homebuy programme requires that those purchasing should not have been able to do so without the assistance of an interest-free loan. Value for money also depends on the extent to which, because of Homebuy, a social sector tenant gives up their tenancy and enters owner-occupation earlier than they would otherwise have done.

The study suggests that 8 per cent of Homebuy purchasers could have bought their property outright with a mortgage of 2.5 times their household income. Not all these households would be in a position to raise this level of mortgage but 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.

The study also suggests that the Homebuy scheme would need to have brought forward the date a household leaves social renting by between three and five years in order to represent value for money compared with investment in a rented unit. Arriving at this result requires a number of assumptions to be made, and there is no reliable way of assessing the extent to which the timing of a decision to purchase is affected in this way.

Conclusion

The researcher concludes that in many respects the Homebuy model of low-cost home-ownership is preferable to shared ownership. It is simpler to understand and to operate, and purchasers prefer the greater sense of ownership that it provides. It compares well with social rented housing in terms of value for money for the public subsidy required.

However, Homebuy is being applied too inflexibly to cope with regional variations in incomes and house prices in different parts of England, and the average income of those who take up the programme is considerably higher than for the DISYO programme from which Government has withdrawn its funding support. The author concludes that Government should issue a clearer statement of the income groups that it considers should be helped by low-cost home-ownership programmes, rather than allowing this to be the outcome of other decisions about the design of the programme.

About this study

This study was undertaken in Autumn 2000, and covers 1,318 Homebuy transactions that took place between April 1999 and June 2000. It draws on the records of these purchases; interviews with Government and funding bodies, housing policy organisations, 8 registered social landlords and 8 local authorities; and a questionnaire returned by 180 Homebuy purchasers.

How to get further information

Further information about the study can be obtained from Alastair Jackson, Department of Town and Regional Planning, Sheffield University, Sheffield S10 2TN. Tel: 0114 222 6923, email a.m.jackson@sheffield.ac.uk. The full report of the study **Evaluation of the Homebuy scheme in England** by Alastair Jackson is published for the Foundation by YPS (ISBN 1 84263 040 7, price £13.95).

JOSEPH ROWNTREE FOUNDATION

Published by the
Joseph Rowntree Foundation
The Homestead, 40 Water End, York YO30 6WP
Tel: 01904 629241 Fax: 01904 620072
http://www.jrf.org.uk
ISSN 0958-3084