



The Pomeroy Review of Prospects for Private Sector  
Shared Equity  
**Summary of Conclusions**



The Pomeroy Review of Prospects for Private Sector  
Shared Equity  
**Summary of Conclusions**

Communities and Local Government  
Eland House  
Bressenden Place  
London  
SW1E 5DU  
Telephone: 020 7944 4400  
Website: [www.communities.gov.uk](http://www.communities.gov.uk)

© Crown Copyright, 2008

*Copyright in the typographical arrangement rests with the Crown.*

*This publication, excluding logos, may be reproduced free of charge in any format or medium for research, private study or for internal circulation within an organisation. This is subject to it being reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the publication specified.*

Any other use of the contents of this publication would require a copyright licence. Please apply for a Click-Use Licence for core material at [www.opsi.gov.uk/click-use/system/online/pLogin.asp](http://www.opsi.gov.uk/click-use/system/online/pLogin.asp), or by writing to the Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU

e-mail: [licensing@opsi.gov.uk](mailto:licensing@opsi.gov.uk)

If you require this publication in an alternative format please email [alternativeformats@communities.gsi.gov.uk](mailto:alternativeformats@communities.gsi.gov.uk)

Communities and Local Government Publications  
PO Box 236  
Wetherby  
West Yorkshire  
LS23 7NB  
Tel: 08701 226 236  
Fax: 08701 226 237  
Textphone: 08701 207 405  
Email: [communities@capita.co.uk](mailto:communities@capita.co.uk)  
Online via the Communities and Local Government website: [www.communities.gov.uk](http://www.communities.gov.uk)

**75% recycled**

This is printed on  
75% recycled paper

July 2008

Product Code: 08 AHD 05440

ISBN: 978-1-4098-0307-2

## Contents

<b>Introduction and summary of conclusions</b>	5
<b>Annex A – Terms of Reference</b>	8

## Introduction

A review into the future of the private shared equity market was commissioned by Communities and Local Government in July 2007 in order to follow up the conclusions of the Shared Equity Task Force (SETF) which reported to the Department in December 2006. Communities and Local Government asked that the review should consider what has happened in the private shared equity market since December 2006 and whether there are any barriers which have held it back; and provide advice on what the future might hold for private shared equity. Key questions included in the terms of reference were:

- Is the market developing as the Shared Equity Task Force predicted?
- What shared equity products currently exist and how successful are they?
- Are any barriers to the development of the market due to market or state failures?
- What does the future of the private shared equity market look like and what can be done, by the public and private sectors, to facilitate its development?

The Terms of Reference for the review are at Annex A.

The review was based principally upon discussions held with a range of organisations drawn from building societies, commercial banks, investment banks, institutional investors, property advisors, independent financial advisers and house builders.

The fact-finding and discussions upon which the review was based took place between September and December 2007. Therefore the conclusions of the report (except where stated) are drawn from the state of the market, and opinions about it, as at that time.

The report will not be published in full as it contains commercially confidential information.

## Conclusions

1. There has been very little development of private sector shared equity since the Shared Equity Task Force reported in December 2006. Despite a variety of shared equity schemes other than the Government's own HomeBuy scheme, there has only been one truly unsubsidised private sector product, Flexishare run by Advantage, a subsidiary of Morgan Stanley. This scheme had a small volume and has recently been withdrawn from the market.

2. There has been a significant amount of interest by the private sector in developing shared equity schemes, however, these initiatives have been put on hold by the credit crisis which began in the middle of the review. It is less likely that financial organisations will launch new products which have untested risk attached to them in the current environment.
3. Leaving aside the credit crisis, the main constraint on the development of private shared equity has been the difficulty of finding investors willing to take the exposure to house price risk which is inherent in the shared equity concept, and to do so in significant volumes. The reasons for this reluctance include:
  - uncertainty about future house price movements coupled with the absence of a hedging market through which to lay off risk
  - lack of knowledge of the cash flows which investors would face, particularly in relation to “staircasing”
  - simple lack of familiarity with what would be a new investment concept for institutions who would not individually wish to be first to take it up
  - for a large scale scheme to take off, there would need to be an organisation which actively designed and promoted it to both investors and mortgage intermediaries, but no institution has so far stepped into this role.
4. While various policy or fiscal measures were suggested most had already been identified and considered by the Shared Equity Task Force. There is no major measure that government could take which would radically transform the situation.
5. So far as the future outlook for private shared equity is concerned, it is relevant to note that:
  - although there have been concerns about the affordability and complexity of shared equity, a significant number of people interviewed for this review considered that a demand for such products does exist, not only at the bottom of the housing ladder, but also further up it
  - some appetite for holding house price risk has been demonstrated by investors, even though not always in the form of private shared equity
  - reputable institutions whose judgement would generally be respected in the market have taken the potential for shared equity seriously, even though very little has actually yet occurred

- a number of those involved considered that an important barrier to progress so far has been the lack of familiarity with shared equity and its newness, rather than a fundamental flaw in the concept
  - the need for affordable housing continues to exist and, as mortgage lenders apply tighter financial criteria to loans, the opportunities for buyers to “stretch” into conventional mortgages becomes more limited, thus making shared equity more attractive
6. Although there can be no certainty of what may happen in the future, these factors suggest that there is a reasonable prospect that attempts to establish private shared equity could be renewed once more favourable market conditions return.

## Annex A

### TERMS OF REFERENCE

#### *Background*

- In December 2006, the Shared Equity Task Force reported on ways to increase the number of households able to access home ownership through Shared Equity products and to examine the case for Government intervention in this market.
- The report sets out the steps Government would take to remove barriers and stimulate the development of market products, as well as enhancing the efficiency of its public programmes.
- The Task Force believed that the market for shared equity products was set to grow, and increasingly expected that the aspirations of those households closest to the market could be met in the market, reducing the need for Government support for these groups.
- Following the work of the Shared Equity Task Force :
  - the Housing Corporation launched a competition for the private sector to come forward with innovative ideas for future joint ventures on shared equity products
  - the market is now developing some shared equity products
  - the Government has challenged the private sector to help 40 000 households with shared equity products by 2010
  - in the meantime it considers that there may be barriers to the market development of shared equity and that more may need to be done to foster this market. In particular this may be of relevance to the development of subsidised shared equity products.

#### **Terms of Reference**

Advice that will:

- follow up the findings of the Shared Equity Task Force
  - What has the Government done to try and remove the barriers identified by the SETF?
  - Is the market developing as the SETF predicted?

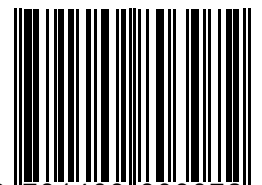
- identify shared equity products in the market and the type of households they will help
  - How many private shared equity products already exist, or are in the pipeline? What are their features and who are they aimed at?
  - What is the estimated take-up of these products and what is the impact on the target audience?
  - Are they having the intended effect?
- identify whether there are market or state failures holding back development by the private sector of shared equity products for the target audience, together with options for reform if necessary
  - What is the private sector perception of Government involvement in this market? Is it holding its development back?
- assess future likely impact of private shared equity schemes
  - Is the provision of products by the private sector likely to change in the future? If so, how?
  - What products are likely to be successful?
  - Should Government have a role and if so, what should it be?
- advise on the implications for joint public/private funding of shared equity products
- assess the interest of the private finance sector who are currently providing equity loans, or have products in the pipeline, in working with Government to provide equity release products, and if equity release firms are interested in offering equity loans.

### **Interviews**

The review will be informed by a number of discussions with individuals and organisations involved in the private shared equity market, or with an interest or potential interest.

**ISBN: 978-1-4098-0307-2**

ISBN 978-1-4098-0307-2



9 781409 803072