



Evaluation of Social HomeBuy Pilot Scheme for
Affordable Housing
Final Report



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Centre for Urban & Regional Studies
University of Birmingham

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Department for Communities and Local Government

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Table of Contents

Acknowledgments	6
Executive Summary	7
1 Introduction	12
The Social HomeBuy Scheme	13
The Evaluation Research Project	14
Structure of the Report	15
2 Landlords' Views of Social HomeBuy	16
Registered Social Landlords	17
Social HomeBuy for Local Authorities	32
Conclusions of landlords' views	46
3 Tenants' Views of Social HomeBuy	48
Survey	49
Conclusions	62
4 Common Themes and Conclusions	63
Landlord Views	64
Tenant Views	69
Estimating Tenant Demand for Social HomeBuy	70
Conclusions	74
5 Considerations for Further Development of the Scheme	79
Annex 1 – Research Methodology	89
Annex 2 – Additional Survey Results	94
Annex 3: Assessing Tenant Demand – Methodology	108

List of Tables and Illustrations

Table 2.1 Responses of Local Authorities by Region (number)	32
Table 2.2: Whether operating Social HomeBuy (Number)	33
Table 3.1: Stage of Tenant Interest (Active Tenants Only) (Percentage)	51
Table 3.2: At what stage did or has your application reached? (Percentage)	52
Table 3.3: Respondents given reasons for Withdrawal from Scheme (Number)	53
Table 3.4 How Would You Rate The Social HomeBuy Scheme? (Percentage)	54
Table 3.5: What type of Property do you hope to buy? (Inactive Tenants who want to be homeowners) (Percentage)	56
Table 3.6: Reasons why you would not buy current property (Percentage of cases)	57
Table 3.7: Reasons for Not Considering Social HomeBuy (Percentage of Cases)	58
Table 3.8: Attitudes to Home Ownership (Tenants of Non-Participating Landlords Only) (Percentage)	59
Table 3.9: Do you want to be a home owner by region (Inactive tenants of non-participating landlords) (Percentage)	60
Table 3.10: When are you likely to become a home owner? (Tenants of Non-Participating Landlords Only) (Percentage)	61
Table 3.11: Knowledge of LCHO Schemes (Tenants of Non-Participating Landlords Only) (Percentage)	61
Table 3.12: What Property are you likely to purchase (Tenants of Non-Participating Landlords Only) (Percentage)	62
Table 4.1: Landlord Motivations for Participating in Social HomeBuy	64
Table 4.2: Barriers to Landlord Participation – Policy and Organisational	65
Table 4.3: Barriers to Landlord Participation – perceptions of Tenant Take-up	66
Table 4.4: Landlords’ Suggestions of Modifications to Social HomeBuy	67
Figure 4.1: Understanding Landlord Motivation for Participating in Social HomeBuy	68
Table 4.5: A Normative calculation of affordability	71
Figure 4.2: Understanding Tenant demand for Social HomeBuy	73
Table 5.1: Possible Implications for Rental Increases of Property Value Inflation	84

Table A2.1: Proportion of Households in Principal Dwelling Types	95
Table A2.2: Number of People in Household	96
Table A2.3: Age of Respondent	96
Table A2.4: Employment Status	97
Table A2.5: Length of residence at Current address	98
Table A2.6: Tenants who were owner occupiers at their previous address: Responses to the question 'Do you want to be a home owner?'	100
Table A2.7: Tenants who were owner occupiers at their previous address: Responses to the question 'What do you consider to be the advantages of home ownership?'	101
Table A2.8: Tenants who were owner occupiers at their previous address: Responses to the question 'What do you consider to be the disadvantages of home ownership?'	102
Table A2.9: Tenants who were owner occupiers at their previous address and were considering purchase: Type of purchase being considered	103
Table A2.10: Tenants who were owner occupiers at their previous address and were considering purchase: Why do they not want to buy current property?	103
Table A2.11: Age of Respondents	104
Table A2.12: Property Type	105
Table A2.13: Economic Status of Respondent	105
Table A2.14: Satisfaction with Property	105
Table A2.15: Satisfaction with Neighbourhood	106
Table A2.16: Household income	106
Table A2.17: Knowledge of Low Cost Home Ownership Schemes (Respondents answering Yes only)	107
Table A2.18: Length of Tenancy	107

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Executive Summary

The pilot Social HomeBuy scheme provides new opportunities for tenants who do not have the Right to Buy or Right to Acquire, or who cannot afford to purchase outright, to buy a share in their rented home. It is operated by both local authorities and registered social landlords who have opted into the scheme during the pilot period from April 2006 to March 2008. However, the Government announced on 12 December 2007 that Social HomeBuy continues as a voluntary scheme after the pilot period ended in March 2008 to increase opportunities for social housing tenants to access home ownership.

The Evaluation Project

The Centre for Urban & Regional Studies (CURS) at the University of Birmingham was commissioned by Communities and Local Government to undertake an evaluation of Social HomeBuy.

The aims of the study are:

- To understand the take up of Social HomeBuy and the characteristics of tenants who use the product.
- To understand the take-up of Social Homebuy by local authorities and registered social landlords, the regional variation and the role this plays within their local housing and organisational strategies.
- To understand the barriers to take-up of the product by both landlords and tenants.

This report outlines the progress made to December 2007 in implementing Social HomeBuy. In particular it focuses on the motivations behind the involvement of participating landlords and their experience of barriers to the implementation of the scheme both from an organisational and a tenant perspective. The report provides an insight into the perceptions of landlords who are not currently participating in the scheme and reports the barriers they perceive in offering this scheme.

Key Findings

Overall Social HomeBuy is viewed in a positive way by those tenants who have taken an active interest in the product.

The main attraction of Social HomeBuy to all tenants of participating landlords is the opportunity to access their own stake in housing equity at a price which is seen as being affordable. Most tenants are pursuing Social HomeBuy in order to become a home owner in a property and place with which they are satisfied.

For landlords who had adopted the scheme the benefits were seen in providing additional housing options for tenants to meet their housing aspirations, in creating mixed tenure neighbourhoods and in releasing resources to invest in creating additional social lets. Some landlords also viewed participation in the Social HomeBuy programme as an effective means for managing their assets.

By providing key information and affordability checks, landlords help to ensure purchasers make informed choices about the size of the share they can afford to buy and sustain. This enables purchasers to maximise the equity stake purchased but it does not always provide complete flexibility of choice for the buyer over the stake to be purchased.

Aspirations and attitudes towards home ownership are limited. For a variety of reasons many tenants do not want to be home owners at the present time and recognise the benefits of renting social housing:

- Affordability amongst social tenants will limit viable and sustainable demand for Social HomeBuy. An average of 70% of tenants receive benefits and therefore would be ineligible for a mortgage. Of the remaining 30% of tenants, demand remains limited by income, demand to be a home owner and the desirability of their current property. Demand for Social HomeBuy is likely to remain limited but Social HomeBuy is an important addition to the range of affordable home ownership products available. It is regarded by landlords as an important niche product within a strategy for meeting housing needs and aspirations.
- The attractiveness of property and location for sale will further limit take-up of Social HomeBuy and demand is likely to follow a similar pattern to the Right-to-Buy where houses with gardens on popular estates will see highest demand. Flats are likely to see more moderate demand.
- There is generally a limited familiarity and demand for shared ownership outside of London and the South East and this is likely to have an impact of potential demand for the scheme.
- Repairs and maintenance responsibilities post-sale are likely to remain a disincentive for tenants unless they are apportioned according to the equity stake owned.

In the high demand, high value housing markets Social HomeBuy has been more of a success. This is particularly the case for tenants of RSLs in properties with no Right to Buy or Right to Acquire. However, many local authorities feel that the Right-to-Buy is more attractive to tenants, reducing the potential interest in Social HomeBuy and meaning that there is a potential lack of return on any investment in the scheme.

Landlords had not necessarily collated evidence/undertaken extensive market research to assess potential demand when making the decision whether to participate.

Issues which may impact on the wider implementation of Social HomeBuy include:–

- **Organisational barriers:** Include a lack of local political support from members (LAs) or local authority partners (RSLs) due to perception of stock loss, the set-up costs associated with the scheme particularly where the RSL landlord is not already geared to housing sales, and issues related to negative impacts on RSL business plan from a loss of stock or where local authorities are engaged in stock transfer.
- **Tenant Barriers:** Most landlords recognise that home ownership is unaffordable for the majority of their tenants and that Social HomeBuy is likely to be within the reach of less than 30% of tenants. Overall the scheme is thought to offer a relatively unattractive discount to tenants particularly in comparison with Right to Buy and the lease arrangement with a rent charge together with the maintenance and repairs responsibility is seen as a disincentive.
- Not all tenants want to buy the property in which they currently live. Although under Social HomeBuy landlords may offer their tenants an alternative property within their housing stock, we found little evidence either of landlords offering this or of tenants being aware of the option.

However, Social HomeBuy provides benefits for tenants who want to become home owners but for whom purchase in the open market is not viable. It helps to provide choices for some tenants and particularly for younger households in employment but who live in high house price areas in London and the South East.

Furthermore, the scheme both reduces the risk that these households over-extend themselves financially in order to access home ownership and enables them to increase their share if their circumstances improve.

Future Considerations

The report outlines a number of areas which merit consideration. These relate to both landlord participation and tenant take-up:

Landlord Participation

- Facilitating development of new social housing through a “sales receipt top-up” to realise the full value of a property which is part-bought by a tenant. This would be linked to investment strategies of the landlord and to capital allocations made to the landlord under the National Affordable Housing Programme.
- Improving guidance of Social HomeBuy by providing common publicity materials. This may be co-ordinated through existing HomeBuy Agents or through the new Homes and Communities Agency.

Tenant Take-up

- Improved discounts for tenants by linking either to the levels available under the Right-to-Buy or by linking the discount as a proportion of the property value.
- Consideration should be given to encouraging landlords to use the flexibility available to them to monitor and charge a rent on the equity retained which ensures the attractiveness of the scheme to future buyers. If property values continue to increase and the target rent remains the same, the rent chargeable for future tenant-purchasers could be higher than the rent payable by existing tenant-purchasers and there is a risk that this rental element will be a further affordability barrier to take-up. Consideration could be given to lowering the target rent to ensure that new buyers can enter into the scheme affordably.
- Consideration of the sharing of repairs responsibilities between tenants and landlord as a means of improving the offer to tenants. Better information should be provided to inform tenants of the potential repair costs. This should outline both those costs falling in the initial period of 5 years referred to in the valuation of properties and the situation beyond this initial period.
- Ensuring a contingency is put in place for times of tenant hardship to prevent unnecessary repossession of property and promote sustainable home ownership. This may include use of discretionary rent-free periods and the development of hardship funds similar to those available to Right-to-Buy leaseholders.
- Additional consideration should be given to how tenant-purchasers can be insulated against large costs after this time through apportioned payments, interest-free loans and the development of hardship funds. Landlords should consider making more use of sinking funds to help purchasers stagger tenants' financial contribution to major repairs.

- Encouraging landlords to actively use the flexibility available to them to facilitate tenants to purchase a property other than the one they are currently living in and which is more attractive to buy because it better suits their household needs. This may also aid landlords in achieving more efficient stock management, e.g. in reducing under-occupation of larger properties.
- Consideration should be given to developing a means of encouraging tenants to develop savings and deposits in assisting them to access Social HomeBuy and other home purchase options. Methods might include the provision of providing equity release for tenants through incentivised savings schemes and providing an incentive for tenants to increase their equity stake in the property.

1. Introduction

- 1.1** Social HomeBuy has been introduced by the government to provide an opportunity for social tenants to purchase an equity stake in their rented homes. It is designed to enable social housing tenants to access housing based assets. The Social HomeBuy scheme was formally launched in April 2006 as part of the redesign of low cost home ownership products in England. Local authorities and Registered Social Landlords (RSLs)¹ were invited to pilot the scheme for an initial period of 2 years. The experience of this would inform how the scheme would be subsequently developed. This evaluation was designed to assist the process of revising and developing the scheme in light of this experience.

What is Social Home Buy?

The Social HomeBuy scheme provides new opportunities for tenants who do not have the Right to Buy or Right to Acquire, or who cannot afford it, to buy a share in their rented home.

Social HomeBuy is operated by both RSLs and local authorities. Participation in the scheme is voluntary but the Government is encouraging landlords to offer it.

To qualify, individuals must have been public sector tenants for at least 2 years (5 years for tenancies granted on or after 18 January 2005). Tenants may purchase a minimum initial share of 25 per cent of a home. The remainder of the equity is retained by their landlord who will levy a charge of up to 3 per cent of the capital value of their retained equity. A lower target average for the charge has been set at 2.75 per cent.

Buyers receive a discount on the initial share purchase. This is the Right to Acquire discount (generally between £9,000 & £16,000 – depending upon the local authority area in which the property is located), pro-rata to the share purchased. From April 2008 purchasers will be entitled to a discount on any further shares they buy, not just on the initial share.

Local authorities and RSLs grant long leases to purchasers. Purchasers are responsible for all repairs and maintenance costs. When a tenant wants to sell, if they do not own 100% of equity, they sell as a shared ownership property.

¹Throughout this report we use the term Registered Social Landlord (RSL) rather than Housing Association as only RSLs can receive funding under the Social HomeBuy pilot programme.

Landlords are able to retain all Social HomeBuy receipts, to invest in the creation of new social housing and affordable housing. A small proportion may be spent on other housing related projects. Social HomeBuy subsumes the previous Voluntary Purchase Grant scheme for RSLs tenants allowing tenants to buy 100% equity in their home at discount if they can afford to do so.

Some, but not all, properties which do not qualify for the Right to Buy/Right to Acquire schemes may be offered for sale under Social HomeBuy. There are some exemptions, including properties in designated rural areas and groups of properties for people with long term disabilities or special needs, which are exempt from the Right to Acquire scheme and which landlords are unable to sell under Social HomeBuy.

- 1.2** Social HomeBuy is one of three HomeBuy products which have now been made available. The other two products are New Build HomeBuy (formerly Shared Ownership) and Open Market HomeBuy (where the purchaser receives an equity loan to assist with up to 25% of the cost of purchase). The HomeBuy suite of products also includes the First Time Buyers Initiative which uses surplus public sector land to deliver affordable homes through private sector schemes. HomeBuy exists alongside the Right-to-Buy and Right-to-Acquire for social tenants.

The Social HomeBuy Scheme

- 1.3** The pilot Social HomeBuy scheme has been tested amongst both local authorities and RSLs. Take-up by local authority landlords at the time of writing this report was lower than amongst RSLs. It was initially taken up more enthusiastically by local authorities in London including Barnet, Camden, Croydon, Lambeth, Hammersmith & Fulham, and Southwark. However, other stock-holding local authorities have now begun to implement the scheme.
- 1.4** Social HomeBuy for RSLs is managed by the Housing Corporation. Unlike Social HomeBuy for local authorities, the RSL scheme has dedicated funding to cover the amount of the discount offered. As of March 2007 there have been 3 rounds of funding:
- Initial Pilot Phase (October 05-April 06): 4 RSLs (Notting Hill Housing Group, Guinness Housing Trust, Sovereign Housing and Places for People) formed an initial pilot programme in October 2005. All four RSLs had been developing similar in-house schemes and the pilot has enabled some individual interpretation and application of Social HomeBuy. Take-up has been positive in the pilots. The pilots are all

subject to ongoing monitoring and review. This report incorporates some of the findings of these reviews where they are available.

- Pilot Rounds 1 & 2: Following two national bidding rounds in March and October 2006, funding was identified to enable a further 73 housing associations to offer the opportunity to buy a stake in their rented home to around 2,000 tenants.

1.5 As of December 2007 when fieldwork for this study completed there had been 138 sales in total: 135 sales by RSLs and 3 by local authorities largely by early pilots. This figure had risen to 207 sales by end of March 2008.

The Evaluation Research Project

1.6 The Centre for Urban & Regional Studies (CURS) at the University of Birmingham was commissioned by Communities and Local Government to undertake an evaluation of Social HomeBuy.

1.7 The aims of the study are:

- To understand the take up of Social HomeBuy and the characteristics of tenants who use the product.
- To understand the take-up of Social Homebuy by local authority and registered social landlords, the regional variation and the role this plays within their local housing and organisational strategies.
- To understand the barriers to take-up of the product by both landlords and tenants.

1.8 This report outlines the progress made to date in implementing Social HomeBuy. It reports the number of landlords offering Social HomeBuy, the extent to which the product is available to their tenants and their perceptions of the scheme to date. In particular it focuses on the motivations behind the involvement of participating landlords and their experience of barriers to the implementation of the scheme both from an organisational and a tenant perspective. The report also provides an insight into the perceptions of landlords who are not currently participating in the scheme and reports the barriers they perceive in offering this scheme.

1.9 The research primarily focused on the barriers to participation by both landlords and tenants. As such, the focus of this report concentrates on the identification of such barriers and the considerations which could be made in improving the take-up of the scheme.

1.10 The research involved a number of stages. The initial stage encompassed a series of interviews with key stakeholders including the 5 initial pilot landlords. The second phase was research with social landlords. This involved an email survey of all stock holding local authorities, all RSLs who had been successful in bidding for funding for Social HomeBuy in the first two funding rounds and the largest 75 RSLs who are not participating in the scheme. The third phase was focused on tenants' views. This used a social survey of 600 tenants in 5 case study areas. The survey was supplemented by 11 in-depth interviews with respondents who had indicated a willingness to participate further in the study and focus groups with tenants in 6 areas. Further details of the research methods are provided in Annex 1.

Structure of the Report

1.11 The remainder of the report is structured as follows:

- Chapter 2 outlines the views of landlords to the scheme
- Chapter 3 provides details of tenants views and experiences of the Social HomeBuy scheme
- Chapter 4 highlights common issues across the scheme
- Chapter 5 presents conclusions and discusses implications for the development of the scheme.

1.12 In addition there are 3 technical annexes. Annex 1 outlines the methodology of the research project. Annex 2 provides a detailed methodology for the social survey and focus groups, together with detailed comparative and contextual data from the survey. Annex 3 outlines the methodology for estimating tenant demand.

2. Landlords’ Views of Social HomeBuy

KEY FINDINGS

- Where Social HomeBuy has been adopted, landlords see it as an important addition to tenants options for affordable home ownership. The benefits were seen in providing additional housing options for tenants to meet their housing aspirations, in creating mixed tenure neighbourhoods and in releasing resources to invest in creating additional social lets.
- Take up of Social HomeBuy by landlords has varied between sectors and regionally. Take-up has been strongest amongst RSLs, facilitated through a planned bidding programme. Take-up has been slower amongst local authorities.
- Social HomeBuy is at an early stage in its development and landlords have little clear evidence of what demand there might be from tenants.
- However, landlords see a number of barriers to the implementation of Social HomeBuy:
 - Organisational barriers include a lack of local political support from members (LAs) or local authority partners (RSLs), the set-up costs associated with the scheme particularly where the landlord is not already geared to housing sales, and issues related to negative impacts on the business plan from a loss of stock.
 - Most landlords recognise that home ownership is unaffordable for the majority of their tenants and that Social HomeBuy is likely to be within the reach of less than 30% of tenants. Overall the scheme is thought to offer an unattractive discount to tenants and the repairs arrangement is seen as a disincentive.
 - Many local authorities feel that the Right-to-Buy is more attractive to tenants, reducing the potential interest in Social HomeBuy and meaning that there is potential lack of return on the investment in the scheme.

2.1 This chapter reports:

- interviews with the initial pilot programme RSLs (4) and the first active local authority (LB Southwark)
- the results of an email survey of the largest 75 RSLs and stock-holding local authorities (209 for whom email addresses were available)

2.2 The focus of this part of the study was on the barriers to implementing the scheme in order to provide early feedback for developing Social HomeBuy further. The chapter reports the views of RSLs and local authorities separately because of the differential implementation of the scheme. A summary and synthesis of the findings is provided at the end of the chapter.

Registered Social Landlords

Implementation of the scheme

2.3 The initial pilot programme began in October 2005. Four RSLs had previously expressed an interest and participated in the initial pilot phase. The RSLs were:

- Notting Hill Housing Group
- Places for People
- Guinness Trust
- Sovereign Housing Group

2.4 Although based around a common funding mechanism and with a consistent overall framework, the pilot programme has been built around low cost home ownership products that some of these landlords were in the process of developing and trialled variations on the standard format. For example, Notting Hill Housing Group offer a 25% rent free equity stake to boost the affordability and attractiveness of the scheme in a high-price housing market area². Three of the landlords have targeted specific estates and property, the reasoning being either as a means of trialling the scheme across stock holdings or targeted towards areas where owner occupation is typically low and tenure diversification is seen as a means of aiding stabilisation and regeneration. Only one of the pilot RSLs has offered this programme across its entire stock assisted by its compact geographic stock holding in London.

2.5 Overall the pilot RSLs are judging Social HomeBuy as a success so far. In the high demand, high value housing market areas Social HomeBuy has been a significant success, especially for tenants in properties with no Right-to-Buy or Right-to-Acquire. However, emergent issues have arisen with regard to limitations on the take-up of the product. The main issue is the affordability of part-own-part-rent arrangements even at small percentage equity stakes particularly in high-price housing markets and the unattractiveness of tenants taking on full repairs responsibility when purchasing less than 100% of the equity. These issues are outlined more fully in the section titled "Barriers to tenant take-up".

²Notting Hill Housing Group received Ministerial approval to trial the Option 1 variation of Social HomeBuy as described in the 2005 consultation paper "HomeBuy: expanding the opportunity to own".

- 2.6** Three of the pilot RSLs have indicated that the main message to take out of the pilot programme is to give Social HomeBuy more time both to develop and to pick up interest and sales from tenants. It is recognised that the product is still in its early days, that there are some teething problems with it and that tenants are getting used to what it is and how it works. There is a recognition that the product plays a role in providing part of a suite of housing options that can be offered to existing tenants, is a useful tool in managing assets and realising resources and that demand is likely to pick up as the scheme gains wider acceptance. However, one of the pilot RSLs did indicate that in the estates that they had piloted the product they felt that the likely demand had been met through this initial phase. They suggested that either tenants could not afford the scheme or that the product did not represent value-for-money to tenants who could afford it.
- 2.7** The initial pilot RSLs have indicated a need for modifications to be made to the scheme. Some steps have already been taken to do this (e.g. offering additional discount on further equity stakes which takes effect from April 2008) but further reconsideration of the scheme may be necessary to make it more attractive to tenants. Crucially there is recognition that demand is also affected by both the type of property available and its location.

Landlord Perception of Tenant Interest

- 2.8** Evidence from the email survey shows a mixed picture of take-up amongst participating RSLs. Enquiries about Social HomeBuy from tenants range from 10 to over 1500. Whilst this is largely reflective of both the size of the RSL and the stage at which implementation is at within the organisation, it also reflects some regional variation in demand. Demand is strongest amongst RSLs operating in higher pressure housing markets, particularly those in London and the South East, although there have been sales in other regions of the country.
- 2.9** There is also a difference in the conversion rate of expressions of interest into applications. It is perhaps unsurprising that the conversion rate is likely to be lower where there are a higher number of expressions of interest. Of the 15 RSLs who reported figures for both expressions of interest and applications, there was a median conversion rate of 18%. There is no clear pattern between the conversion rate and contextual factors such as the housing market or size of landlord stock. The explanation for these patterns may be as a result of both tenants' individual circumstances and the approach taken by RSLs in recording expressions of interest and the subsequent application procedure.

2.10 As with the conversion of expressions of interest to applications, the number of withdrawals by applicants varies across participating landlords. Again there are no contextual factors which appear to explain this. When asked about the reasons for tenant withdrawal, RSLs have highlighted a number of prominent issues:

- Eligibility of tenants – after the application is made some tenants are found not to be eligible for the scheme. The reasons cited for this tend to be current rent arrears.
- Affordability – the most often cited reason for tenant withdrawal is the realisation of the cost of moving to a rent plus mortgage arrangement. Tenants appear unaware that the property valuation is made on the open market value and as such do not appreciate its true cost. Even with small equity shares Social HomeBuy appears to remain unaffordable to some tenants and/or in some high price housing markets.
- Clarification of conditions of purchase – it is only after an application has been made that some tenants realise the extent of their commitment under the terms of the sale. In particular, the responsibility for all repairs and maintenance despite only purchasing a part share in the property is realised by some tenants only after making an application. Further confusion appears to arise around the discount structure available both in terms of the maximum discount vis-à-vis high valuation in some areas and the availability of discount for the purchase of further equity stakes. It should be noted that further discount will be available on additional shares purchased from April 2008³.
- Mortgage product availability – several landlords have indicated that the limited number of mortgage products available, their apparent uncompetitiveness and the lack of information and awareness about these products by lenders' front-line staff is an additional barrier which may be responsible for the withdrawal of some applications.

2.11 These reasons suggest two underlying problems:

- Despite the best intentions of all stakeholders to provide sufficient and suitable information to tenants early on in the process, there is continued confusion for tenants. This indicates the need to provide clearer and more comprehensive information on a consistent basis. This could be provided through Communities and Local Government and the Housing Corporation and build on the good practice developed by some of the earlier participating landlords.

³From April 2008 new Social HomeBuy purchasers will be entitled to a discount on any further shares they buy, not just on the initial share.

- Structural issues related to the wider housing market are an impediment to tenants in realising equity shares under Social HomeBuy. Although the scheme is designed to assist households who are not able to afford to buy on the open market, rising house values are making it difficult for tenants to realise their aspirations. Although purchase of smaller equity shares for some may be a partial solution, a larger number of tenants may be excluded from ownership because they cannot afford the minimum stake. This issue is outlined more fully below.
- 2.12** Evidence from the pilot RSLs indicates that a majority of those who use Social HomeBuy as a means of accessing home ownership are purchasing a 100% equity stake in their home. Discussions with officers in these RSLs indicates that the requirement for tenants to maximise the stake bought according to their income and savings provides a strong incentive to seek to maximise the stake further. The other driver is the conditions around responsibility for repairs and maintenance which make part own-part rent arrangements less attractive for tenants. Amongst the tenants of these landlords, some do not have a Right-to-Buy or Right-to-Acquire and therefore have not previously had the opportunity to purchase their current home.
- 2.13** Notting Hill Housing Group have offered the scheme across all of their general needs housing stock. The other three pilot RSLs have been selective in their application of Social HomeBuy, applying it to particular estates. In part this has been because their stock is more dispersed than for Notting Hill and also because as a result of this they face different challenges across the stock. In the main Social HomeBuy has been used to assist with other management strategies in particular to assist with regeneration activity, property improvement and tenure diversification in estates where there is presently low levels of owner occupation.
- 2.14** A number of RSLs in Pilot Rounds 1 and 2 are targeting Social HomeBuy at specific parts of their stock. The reasons for this are:
- Where stock is not eligible for Right-to-Buy/Right to Acquire.
 - Areas of low owner-occupation.
 - Management factors – this includes where shortages for particular housing types have been identified and therefore excluded, areas which have been designated for regeneration and where sale to tenants may limit opportunities for demolition and where there are covenants on the properties restricting their use to affordable and/or rented housing.

- A desire to restrict the levels of take-up to avoid negative impacts on the association's business plan in particular in relation to securitising loans, especially where borrowing is property specific.
- In some areas a lack of support from local authorities within their housing strategies has limited the ability of RSLs to offer Social HomeBuy in those areas.
- A desire to pilot the scheme in the initial phases in order that teething problems can be identified and overcome.

RSLs Considering Participation in Social HomeBuy

2.15 Of the 17 RSLs responding to the email questionnaire who were currently not participating in Social HomeBuy, 6 have decided not to consider participation in the medium term. A further 2 RSLs have indicated that participation remains an option but without a timescale for decision and one association had applied for resources under round 2 but subsequently been rejected. The motivations and perceptions of those RSLs who are still considering participation in Social HomeBuy are discussed below.

2.16 The reasons given by those who have chosen not to participate relate to perceptions of their current situation, including:

- A perception that there are few affordability barriers to accessing owner occupation in their area.
- The preserved Right-to-Buy for the majority of tenants.
- Insufficient demand.

2.17 One RSL indicated that it was a management decision not to participate. None of these RSLs indicated that any evidence of demand had been collated in order to make these decisions.

Landlord Motivations for Involvement

2.18 For the initial pilot landlords, Social HomeBuy is being seen as a tool which can help RSLs achieve one of their commitments to sustaining balanced communities and stable neighbourhoods. By enabling tenants to buy their existing home, either outright or as an equity share, at an affordable price, RSLs are confident that this will stabilise the local population. Although social and income mixing is unlikely to be obtained directly as a result of any tenant undertaking Social HomeBuy, mixing as a result of later sale may be possible. The initial gain is the ability to retain those residents who might otherwise have left the estate and hope to benefit from their increased interest in the property and neighbourhood. It has been described by one RSL as revisiting the benefits of the early days of Right-to-Buy.

“By being able to offer shares the product does enable some tenants to buy their home that under Right-to-Buy/Right to Acquire they would not have been able to afford. The product has a good feeling factor and reflects positively on our association as tenants see us as providing added value.”

- 2.19** The second consideration has been the reinvestment opportunity provided by the scheme. Social HomeBuy is one means of enabling the release of resources back to RSLs for reinvestment in stock by normally providing new affordable housing. Notting Hill Housing Trust estimate that for every 10 units sold through Social HomeBuy at 100% of equity, 9 like-for-like units can be provided. However the amount of capital receipt and loss of rental income will vary according to the proportion of equity purchased and therefore calculations about stock replacement are more complicated to plan for. Furthermore it has been suggested that in most cases like-for-like replacement will be limited, e.g. where flats are sold local authority partners are often likely to request family sized accommodation thus reducing the number of units provided.
- 2.20** The main incentive for tenants is the ability to own their own home or a stake in their own home, especially where they do not have a Right-to-Buy or cannot afford to exercise a purchase right. In areas of high demand and high house prices the incentive is increased and more desirable property types (e.g. single family houses, flats in converted houses) in stable neighbourhoods are likely to be where the greatest take-up is.
- 2.21** For landlords in Pilot Rounds 1 and 2 the email survey responses highlight a series of motivations for landlords to participate in Social HomeBuy. These motivations concur with those indicated by the pilots and include:
- To create mixed tenure communities.
 - To meet latent demand for home ownership amongst tenants and meet issues of affordability.
 - To provide capital resources for the development of new affordable housing.
 - A number of responses indicated that they were motivated by a desire to satisfy the government and the regulator.
- 2.22** Although these RSLs were optimistic about the scheme there was a note of caution exercised by most in their adoption of the scheme. As with the pilots the main message is that it is early days for the scheme and that it is likely to be a learning experience for all involved. As noted by one response:

"We're interested in piloting to: a) better understand consequences and business plan implications and whether this was an opportunity or risk to the Association; b) See to what extent it may be viewed as a benefit to tenants; c) to see if it could be a useful tool in tenure diversification strategies, particularly in the HMR area in which we work."

Barriers to Landlord Involvement

2.23 A range of barriers impeding organisation take-up and implementation of Social HomeBuy are apparent from the research so far. Here we differentiate between those barriers which have been experienced by participating RSLs and those which are perceived may be an issue by non-participating RSLs. Emergent common themes amongst both sets of landlords relate to:

- Associations finances and business planning.
- Practicalities of offering the scheme on all housing stock.
- Political opposition to the programme from partners and stakeholders.

Actual Barriers (Participating RSLs)

2.24 Covering Costs of the Scheme: the most significant barrier to implementing Social HomeBuy is the resource intensive nature of the programme. Participating RSLs have indicated that start-up costs for Social HomeBuy are significant, one RSL describing the scheme as "resource hungry". The need to put in place advertising and marketing for the scheme, train staff to deliver the scheme and procure transactional services (e.g. valuations) is resource intensive. Under the pilot programme, RSLs receive funding to cover the discount on each sale. The RSL is allowed to keep the sales receipt and can use a limited proportion of the receipt to cover the costs of the scheme. In view of this some landlords have questioned the value of the scheme, particularly with regard to the value of the return vis-à-vis the outlay in set-up costs. Although some of these costs will be short-term and related to start-up only this should be seen as an impediment to organisations who are less enthusiastic about implementing Social HomeBuy. Examples of this include:

"This scheme is resource hungry. We will not be able to tell the drop out rate until the first completions are achieved, but already there is a low number of offers going through compared to the original interest received, with a significant amount of general administration and communication – required to support unsuccessful or speculative applicants through the initial stages of the process."

2.25 Misunderstanding of the Product: There is a large degree of misunderstanding of what Social HomeBuy is and how it operates amongst front-line staff who have to respond to queries from tenants in the initial days of the pilot. Some of the earlier responses from RSLs indicated how Social HomeBuy was confused with other HomeBuy products and there was a misunderstanding about how it could be applied to their stock. The most common misunderstanding was that a HomeBuy Agent coordinates Social HomeBuy sales in addition to other HomeBuy schemes and that tenants should be directed to them. Even where the organisation is operating Social HomeBuy, there is evidence that staff themselves require training to deliver the scheme. Whilst retraining is part of the “learning curve” identified by some RSLs it remains a cost and a practical barrier to implementation.

2.26 Fitting Demand to the Resources: Several RSLs have identified difficulties in anticipating demand in bidding for a funding allocation to deliver Social HomeBuy. All RSLs receiving resources through the programme have received funding based on the number of units sold. In some areas demand is perceived to have been under estimated whereas in other cases RSLs have had the opposite situation and over estimated demand.

“As the programme is a grant funded rather than a statutory programme, as with the Right to Buy and Acquire, initially it has been difficult to manage demand within the envelope of the grant secured for delivery of this scheme. We have maximised our opportunities to bid for further funding and will continue to do so, but it does make the programme more difficult to deliver should demand and the number of applications we can take forward to offer stage outstrip the funding secured.”

“Whilst we have indicated possible numbers of applications and take up in the questions above, we do not really have a clear idea of what the fall off rate will be. In addition, it is difficult to predict the likely levels of equity sales. Our allocation was based on an average sale of 50% equity share but it may be that the grant is used up on fewer units if tenants acquire larger levels of equity. Similarly, if more tenants choose to acquire smaller amounts of equity, we may be able to assist more residents than in the original bid.”

The programme itself is based on a two-year indicative allocation where RSLs draw down capital once sales have been made⁴. RSLs may be exercising caution and identifying potential risks. However, most RSLs have indicated that they have not undertaken extensive market research to assess potential demand. Therefore it is likely that over and under bidding are linked to a lack of market intelligence.

2.27 Political Opposition: whilst those RSLs which are participating in the scheme have the support of their boards, a number have indicated that they face political opposition to their involvement in Social HomeBuy from some of the local authorities in which they operate. Much of this opposition is based on a perception of a shortage of suitable affordable housing at a time of when housing need is believed to be rising. It is clear that RSLs are attempting to ensure that relationships with local authorities are not undermined by implementing Social HomeBuy and that this is having an impact on where Social HomeBuy is being offered.

2.28 Practical Problems: there are particular practical problems in the implementation of Social HomeBuy for RSLs. This is usually dictated by the nature of the housing stock held by the RSL. In particular two issues arise from this. The first is not likely to be a widespread issue and involves properties where there are restrictive covenants in the deeds of the property which can restrict the use of the property and prevent it being sold to an owner occupier. The second is potentially more important and applies where the property has a charge on it as part of lending arrangements for the association. In larger associations this can be overcome through the rearrangement of property portfolios. For smaller RSLs this can prevent some property being made available under Social HomeBuy. Some properties have limited time left on their leaseholds and may be problematic to purchase. This may be the case where RSLs have purchased and renovated existing property through leasehold themselves.

Perceived Barriers

2.29 Non-participating RSLs perceptions about barriers to their implementing Social HomeBuy are similar to participating RSLs:

- Managing Social HomeBuy Demand:

“Set-up costs vis-à-vis take-up, particularly for landlords who are presently not engaged in the sale of properties either through HomeBuy or other affordable and market sale scheme.”

⁴Since the completion of fieldwork for this study, the Housing Minister announced on 12th December 2007 that Social HomeBuy will continue as a voluntary scheme and Communities and Local Government are encouraging landlords to improve affordability and develop an option where maintenance costs are shared.

- Political Opposition from local authorities to plans to reduce the availability of affordable housing in their areas.

2.30 However, these organisations have raised some additional concerns:

- Concerns about increased residualisation: some RSLs are concerned about the wider impact of continued loss of housing stock and in particular the perceived loss of so-called “better tenants”. Whilst this is connected to concerns about the impact on RSLs’ income it is also related to perceptions about the continued residualisation of their stock and client base.

“We are already losing a significant number of properties and would not wish to add to this”

- Limited capacity to implement within the organisation: connected to the resources needed to set up Social HomeBuy in RSLs, there is concern from some landlords that they lack the staff capacity necessary to implement the programme:

“Discussions have taken place regarding the resources needed to implement the scheme and we do not have the capacity with current staffing arrangement.”

- Impact on Business Planning: a number of RSLs indicated that the sale of stock through Social HomeBuy would impact negatively on their business plans. The focus of these concerns was on the loss of rental income and the impact that will have in providing housing management services. This included:

“As a stock transfer [association] we have estate management responsibilities that are met from on-going rental income (e.g. estate wardens, Anti-Social Behaviour teams & grounds maintenance). Reducing rental income could affect our ability to improve services on these estates and these services benefit the whole community and protect the applicants’ investment in the property.”

Gauging Tenant Demand

2.31 Participating RSLs have provided little evidence of how they gauged potential tenant demand prior to implementing the scheme. Much of the reported evidence is based on how they are gauging ongoing and future demand and is therefore a post-hoc evaluation of the impact of Social HomeBuy amongst their tenants. Much of this market research is informal. A number of RSLs indicated that they were intending to survey applicants who had withdrawn their application and/or tenants who expressed interest in but did not apply for Social HomeBuy.

2.32 Amongst RSLs who are not participating there are a range of methods used to gauge demand. These range from comprehensive tenant surveys, through the use of information from previous generic tenant surveys to anecdotal evidence about potential demand. In some cases decisions not to participate appear to have been based on limited assessments of tenant demand, perhaps influenced by uncertainty about how best to assess this.

Landlords' views on Barriers to Tenant Take-up

Actual Barriers (Participating RSLs)

2.33 Affordability: financial issues dominate barriers to tenants' take-up of Social HomeBuy. RSLs recognise that affordability is likely to be a major barrier to take up of the scheme by tenants. Several RSLs have indicated that approximately 70% of their tenants are in receipt of benefits. Of the 30% remaining not all will have the financial resources to consider home ownership as a practical and sustainable option. Much of the concern is from RSLs operating in high-value housing markets, especially those in London and the South East:

"the overall value of properties in London means that in some more desirable boroughs purchase is still beyond the means of any but those customers whose personal financial circumstances have improved significantly since their original tenancy was issued. Only one or two applicants were beyond mortgagable age, but the overall question of sustainability for these applicants would also have been an issue."

2.34 However the issue of "low income households buying an expensive product" is apparent amongst most responding RSLs.

2.35 Affordability is also linked to the part mortgage/part rent arrangement of the scheme⁵. Several RSLs indicated that the cost of this arrangement and with rent at 3% of the marketable value of the property, overall housing costs are equal to or more than current rent levels. This is a disincentive for tenants to pursue Social HomeBuy.

2.36 Concern was also raised that some tenants would find it difficult to sustain home ownership. One particular concern expressed in both the interviews and the email survey was the requirement for tenants to maximise their equity stake according to current income. With the possibility of interest rate rises and the continued rise in property values increasing the rent payable on the retained equity, the present system may not leave sufficient

⁵The rental element is calculated at a maximum of 3% of the market value of the property at the time of sale, pro rata according to the proportion of equity purchased. The rent can be increased by a maximum of RPI plus 1% per year. The 3% level is a maximum and landlords have indicated to the Department that rents are on average between 2.5% and 2.75%.

flexibility for tenants to exercise a cautious approach to the purchase of equity stakes. For example, if a tenant's income would permit a 75% equity stake to be purchased but they only wanted to buy a 50% stake to be cautious there is a perception this would not be permitted. Although the guidance to landlords encourages the maximisation of equity purchased to be sustainable for the tenant-owner, the impression from landlords is that they are being asked to maximise the equity stake alone.

2.37 Discount Levels: the discounts on offer are generally seen to be too small. At the same time some housing associations feel that the current rent regime is too generous for sitting tenants in providing rents significantly below market rent levels, e.g. for some London associations whose tenants are in work and could possibly afford alternative housing options. At the time of the research the discount was only available on the first tranche of equity purchased. There is a suggestion from landlords that these are too low to be an incentive to encourage tenants to buy a stake in their property. In high-value housing market areas the discount available can offer very little reduction in the purchase price of the property. One of the pilot RSLs raised this issue in highlighting that some tenants perceive the product as a poor deal.

2.38 Some issues around discounts have already been addressed and the subsequent announcement that discount will be available on additional equity stakes will address some of these concerns. However, it may be necessary to reconsider the level of discount and how this is funded in order to make Social HomeBuy more attractive to tenants.

2.39 Repairs Responsibility: landlords have indicated that tenants are unhappy about taking full responsibility for repairs when purchasing equity stakes below 100%. This is a question of tenants paying some rent but without understanding why:

“Tenants don’t think the discount represents an incentive to tempt them out of renting and all the repair benefit that brings. Tenants don’t like the idea of paying rent (even if a lot less) and not get the benefits.”

If repairs costs can be apportioned according to the equity owned by the tenant this may overcome this barrier. This is explored further in chapter 5 of this report.

2.40 Connected to this is the need to provide tenants with greater certainty about future repair costs. Some RSLs have targeted Social HomeBuy at estates where major improvement work is programmed and in many cases there will be repairs necessary in the near future. Although any planned

repairs and maintenance to be undertaken over the next 5 years should be identified as part of the sale⁶, some tenants are thought to remain apprehensive about the likely costs and their ability to afford these.

- 2.41 Availability of Alternative Products:** one of the main reasons tenants may not take up Social HomeBuy is that they do not want to buy the property that they currently live in. Tenants currently living in an attractive property in good quality neighbourhoods do find Social HomeBuy attractive, especially where they do not qualify for the Right-to-Buy or Right-to-Acquire. This is part of the context for the success of Social HomeBuy amongst tenants of Notting Hill Housing Trust. However, where alternative low cost home ownership products are available the appeal of Social HomeBuy may be diminished. This is likely to arise in two different ways:
- Where tenants are eligible for Right-to-Buy or Right-to-Acquire and they like the property they live in, Social HomeBuy will only be attractive if they cannot afford to buy the property outright.
 - Where tenants do not like the property they live in they are more likely to utilise other low cost home ownership products as part of a strategy to move.
- 2.42** There may also be other solutions available to tenants to meet their housing aspirations. In lower value housing market areas there may be opportunities to buy outright in the open market.
- 2.43 Lack of Understanding of the Product:** landlords perception is that some tenants may be confused by Social HomeBuy and the shared ownership concept. This is compounded by the confusion of some front-line housing staff at the time of this study about the range of products and responsibilities for delivery of each.
- 2.44 Lack of Mortgage Products:** tenants may be further disincentivised by the lack of competitive mortgage products available in the market. At the time of the research both landlords and the Council for Mortgage lenders were aware of only 5 lenders with products available to Social HomeBuy purchasers. These are based on existing Shared Ownership mortgage products. However all five are similar and offer little difference in price and extras. Tenants who are taking up Social HomeBuy therefore cannot access mainstream mortgage products which offer a more competitive rate of interest.

⁶This is covered under a Section 125 notice in the Right-to-Buy and landlords are advised to outline such details as part of a sale under Social HomeBuy.

2.45 The majority of RSL tenants are reliant on benefits. Approximately 30% have income from employment. This limits the pool of tenants for whom home ownership is a viable and accessible option and further highlights how Social HomeBuy will be a niche product in a RSL's portfolio.

2.46 Restrictions on Property Use: leasehold arrangements that are set up under Social HomeBuy may make it unattractive for existing tenants. Restrictions on practices such as sub-letting may also make Social HomeBuy appear less attractive than the private purchase of another property. It was described by one RSL as “petty restrictions in the lease”. The impact of these restrictions is to present Social HomeBuy as a form of second-class home ownership rather than a support into owner occupation.

2.47 The barriers are encapsulated in this quote from a non-participating RSL:

“The scheme is far too complicated, and seems to have been devised to put tenants off rather than to take it up! The fact that it is a one-off discount, a relatively low level of incentive, bearing no relationship to more generous discounts available through the Right-to-Buy, may lead to tenants’ aspirations being deflated and the way in which funding is being made available are significant barriers. Judging by the four RSL pilots it’s no surprise that initial interest falls away rapidly. Tenants will share wider concerns of home purchasers about timing of purchases in relation to the performance of the economy – interest rates, job security, and potentially falling house prices leading to negative equity. Tenants are also likely to be put off by the full information on the ongoing costs of home ownership –e.g. building insurance, annual maintenance costs, external repairing and decorating, costs of replacing kitchens, bathrooms etc., service charges.”

Modifications to the scheme for RSLs

2.48 Landlords have provided suggestions of ways to modify Social HomeBuy to meet some of the challenges posed by the problems highlighted above:

- **Discount levels:** there is a clear indication from RSLs that the discount system needs to be rethought. Communities and Local Government have already announced that the discount will be pro-rated according to equity stake purchased and from April 2008 discount will be available on successive equity stakes purchased. A further idea suggested is to increase the discount available by basing it on a percentage of the property value. These suggestions have been incorporated in the considerations outlined in chapter 5 of this report.

- **Continued assistance with repairs:** there are several suggestions that tenants should be provided with continued assistance with repairs. This may be pro rata according to the equity stake owned by the tenant and the housing associations costs may be grant funded. Another suggestion is that day-to-day repairs are the responsibility of tenants whilst planned maintenance is undertaken by the RSL.
- **Enable equity purchase with nil-rent:** a number of RSLs have indicated that enabling equity purchase with nil-rent would improve the attractiveness of the scheme. This would be similar to part-buy arrangements already undertaken by private developers. Notting Hill Housing Group already operates this on 25% of the retained equity and other RSLs are actively looking at options to offer this further.
- **Remove restriction on reuse of sales receipts:** RSLs want to have greater flexibility over the use of sales receipts. Although there is general acceptance that the provision of new affordable homes is a priority this is not always straightforward to deliver. Equally with pressure on their budgets, RSLs want some increased flexibility to reinvest receipts in existing stock beyond the permitted uses outlined in the Disposable Proceeds Fund guidelines⁷.
- **Flexibility over financial assessment of applicants:** the requirement for RSLs to maximise the equity stake purchased by tenants needs further clarification to allow for greater flexibility. The requirement is a possible barrier for some tenants who may be concerned about sustainability and over extending themselves.
- **Provide greater certainty in the funding of the scheme:** RSLs want greater certainty over the funding for the scheme. To enable this to happen landlords suggest that funding is made available on the basis of applications received rather than perceived demand and resource allocation made on a three-monthly basis.

⁷<http://cfg.housingcorp.gov.uk/server/show/nav.3545>

Social HomeBuy for Local Authorities

2.49 The e-mail survey provides a robust picture of Social HomeBuy within the local authority sector. We have data from 74 Local Authorities in England (out of 211 contacted). The regional pattern of response is shown in table 2.1.

South East	14
London	14
East Midlands	12
Eastern	14
Yorkshire & the Humber	6
West Midlands	4
North West	5
North East	4
South West	1

2.50 This pattern of response may suggest that interest in Social HomeBuy is stronger in Southern and Eastern regions.

2.51 It is still very early in the process for adoption of the Social HomeBuy scheme and while it is probable that non-respondents are predominantly neither operating nor actively considering adopting the scheme this will be a moving picture. Consequently the survey is more valuable for the indications it provides of what are the key considerations for local authorities rather than for the measurement of scale of uptake.

2.52 Local authority tenants are still eligible for the Right-to-Buy. Although there have been changes to discount arrangements and a significant decline in uptake of the Right-to-Buy, judgements related to Social HomeBuy made both by tenants and landlords are affected by the comparisons they make between Social HomeBuy and Right-to-Buy. Both schemes relate to purchase as a sitting tenant and so relate to the same property and location⁸. However the discount and other arrangements differ and comparisons are affected by the regional maximum discount ceilings for Right-to-Buy as well as market differences. The affordability of Right-to-Buy is likely to be higher where the maximum discount represents the highest proportion of market value and this is most likely to occur in

⁸ Although there is provision under the Social HomeBuy scheme to make another property available for purchase, the views expressed by both landlords and tenants did not indicate that this was a viable proposition.

lower priced markets within Northern and Midlands regions. The levels of discount available under Right-to-Buy and Social HomeBuy are the same in most of London and some parts of the South East where maximum discounts are set at £16,000. Elsewhere maximum Right-to-Buy discounts are higher than Social HomeBuy.

Landlord Take-up

- 2.53** Eight of the 74 Local Authorities responding to the survey⁹ were currently making or planning to make some properties available for sale to tenants under the Social HomeBuy Scheme. Six of these were London boroughs and 1 in each of the North East and Eastern regions. While each of the London Boroughs was a relatively large landlord (stock size over 10,000) the two other landlords had smaller stocks (below 5,000).
- 2.54** Sixty-six of the responding Local Authorities were not participating in the Social HomeBuy Scheme although some of these stated that they were still considering the Social HomeBuy Scheme. The regional distribution is illustrated in table 2.2.

Table 2.2: Whether operating Social HomeBuy (Number)			
	Yes	Still Considering	No
East Midlands	0	7	6
East of England	1	3	8
London	5	1	6
London	0	0	2
North East	1	2	1
North West	0	1	3
South East	0	3	10
South West	0	1	0
West Midlands	0	1	2
Yorkshire & Humber	0	2	3
TOTAL	7	21	41

⁹We have included 1 local authority where a face to face interview was conducted and generated the same data although the e mail survey form was not returned.

- 2.55** The estimates of take up of Social HomeBuy by tenants and the actual number of enquiries are very low at this stage and applications are even lower. In two cases the schemes were not yet operating and elsewhere had only recently commenced. Only two landlords reported more than 20 enquiries and the expected levels of completion over the year were very low: three landlords referred to completions of between 10 and 30 sales.
- 2.56** Examples of the publicity adopted to launch the scheme include writing to tenants who had withdrawn from the Right-to-Buy scheme during the last 18 months to advise them of the imminent launch of the Social HomeBuy pilot (178 cases generating four enquiries) and placing an advertisement in a magazine sent to all residents asking tenants to register their interest (a circulation of over 30,000 tenants which resulted in 87 tenants registering their interest). In another case all current Right-to-Buy applicants and recent withdrawals were contacted.

Motivations for Involvement

Participating Landlords

- 2.57** Of the local authority landlords participating in the scheme, six were applying the scheme to exactly reflect the properties and tenants eligible for the Right to Buy. This for example means that flats forming part of fully-fledged sheltered schemes would not be eligible for Social HomeBuy. The others had different exclusions:

“We have excluded properties that are due to be demolished under our regeneration plans, Large Panel System built high rise blocks, and the usual Right-to-Buy exclusions such as sheltered schemes.”

“Initially we are limiting the scheme to street properties where service charge liabilities tend to be lower.”

- 2.58** The key issues that determined the decision to participate were the desire to increase the range of choice to tenants, to promote home ownership options and the desire to generate capital receipts and be able to use 100% of these. Other factors referred to were:

- Bridging the affordability gap for tenants who wish to buy.
- Offering a route into more sustainable home ownership than available through the Right to Buy.
- Retention of economically active residents who wish to buy but can't afford to buy their existing home at present.

Non-Participating Landlords

- 2.59** A significant group among the local authorities that had decided not to participate in Social HomeBuy planned to review this decision at a later stage and were waiting to learn from pilots and the early experience or evaluation of the scheme. Some of these authorities had consulted with tenants forums or federations. In general tenants had shown a lack of interest and support at these consultations. Authorities referred to ongoing consideration, work being carried out to inform a decision, plans for stock transfer and to awaiting the results from piloting the scheme. There are references which indicate a lack of understanding of the scheme amongst both front-line staff and tenants.
- 2.60** Where landlords had made a more categorical decision not to participate this was based on considerations discussed below but in some cases was stated to be subject to review and it can be assumed that this applies in all cases and especially if the scheme is modified. Three examples illustrate different positions but a perception that works against participation:

The Council fully assessed the impact of the Social Homebuy scheme when the Government originally consulted on its introduction. We note that nationally the overall take up of the product has been modest. The greatest barrier to the product's success is the double whammy of high values and small discounts. The Government needs to consider increasing the level of discount available if the success of the scheme is to be encouraged.

Council has a target of increasing owner occupation in [town], but the parameters of Social HomeBuy and experience of other social landlords mean that is unlikely to be successful in its current form.

[within the council] Politically the scheme is not supported. Demand for council property is huge and the Council is concentrating on increasing the stock of affordable accommodation both to rent and to purchase but without selling shares in existing council stock.

Barriers to Landlord Involvement

Participating Landlords

- 2.61** The participating landlords referred to a number of issues that they felt would impact on take-up by tenants. These were not barriers to involvement as such but affected the expectations of and enthusiasm of landlords for the scheme. Reference has already been made to decisions by some local authorities to restrict Social HomeBuy to certain parts of the stock and their view that it would be unattractive where service charges were high. The major additional comments related to the following:

- Discount rules do not make the scheme very attractive;
- High house prices are a barrier, particularly in larger properties and in expensive areas;
- On 100% sales not being able to retain 100% of the capital receipt was a barrier¹⁰.

2.62 There was general concern about set up and administrative costs associated with the scheme and the smallest landlord participating commented that 'It is difficult for a small district council to resource the setting up of the scheme'.

2.63 The process of publicising and administering the scheme was very time consuming and the most active promoter of Social HomeBuy referred to problems arising from clarifications or modifications of the detail of the scheme at the very early stage when attempts were being made to launch it. This meant for example that early publicity material had to be changed. This authority was convinced that the scheme was beneficial to both the council and purchaser. However, differences, such as an LA's power to restrict or prohibit sub-letting where the sale is less than 100%, can make the product appear inferior in comparison to Right To Buy.

2.64 The means testing and assessment of affordability was seen as a key strength of the scheme – it enabled the potential purchaser to be advised about what they could afford: at the same time this was very staff intensive and time consuming and meant that the scheme was expensive to run.

Non Participating Landlords

2.65 The barriers to setting up or operating the scheme can be grouped under five headings:

- Clash with other policy initiatives
- Comparison with other home ownership strategies
- Costs and Resources
- Housing Need issues
- Limitations of the offer to tenants

¹⁰Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007 No 573 have amended this position to allow for retention of capital receipts from Social HomeBuy.

- 2.66 Clash with other policy initiatives:** Stock Transfer was cited as a reason for not participating in Social HomeBuy by authorities in the process of transferring stock. In some cases it was not considered the right time to launch a new scheme when preparing for LSVT or setting up ALMOs due to the lack of certainty over the effects on already volatile business plans was referred to in one of these cases. It is felt by local authorities in this position that resource and capacity constraints were a reason for not participating in Social HomeBuy further.
- 2.67** It was also suggested that there has been lack of clarity at the beginning re: implementation of HomeBuy generally. In one case the local authority made reference to having had initial meetings with HomeBuy Agents at both local and sub-regional level. However they pointed to a lack of clarity in the early days over the operation of the scheme, the role of partner RSLs in provision of other shared equity products and the overall linkages between HomeBuy schemes as a reason for not pursuing Social HomeBuy further.
- 2.68 Comparison with other home ownership strategies:** in two cases specific reference was made to other flexible ownership schemes offered by the council. One London Borough operated a cash incentives scheme that was felt to be much more attractive both to tenants and the council.

"The principle of homeownership has always been popular among our tenants. However, the recent reductions to discounts that apply to right to buy applications has seen a substantial fall in the number of completions going forward. We have previously marketed the "Open Market Homebuy" product scheme to our tenants. The level of interest has been limited as the reality of the scheme has meant that successful applicants need to identify affordable properties which do not in general exist in [Town]. Previous experience suggests that the limited number of LA and RSL tenants availing of Homebuy in the past have had to move substantial distances to find affordable properties within their income ranges. New Build Homebuy is still relatively popular among tenants where these opportunities arise. However, it is now becoming almost impossible to provide anything larger than a 1 bed for New Build HomeBuy in [Town] due to high market values and the need for relatively high incomes required to afford 2 and 3 bed units. A key barrier to potential take up of Social HomeBuy among (our) tenants is a combination of the high market values of the Council's properties and the relatively little impact the small discount has on the affordability of these properties among tenants."

Another authority outside London stated:

“... the Council had already acted to establish its own shared ownership product. We consider the Council’s scheme to be at least as attractive to tenants as the Social HomeBuy scheme. The Council’s scheme operates under the legal power (Section 32 of the Housing Act 1985) to dispose of dwelling houses on shared ownership terms. Two important features of the Council’s scheme are:

- *The Right to Buy maximum discount is applicable to the purchase of the full equity (i.e. a 100% share);*
- *While day-to-day repairs become the responsibility of the occupier, the Council retains responsibility for capital/structural repairs and improvements for which the occupier will be charged based on their percentage of ownership. Our shared ownership lease deals fully with this key issue of repairs obligations.”*

2.69 Costs and Resources: the barriers identified here include the difficulties (especially for smaller district councils) of resourcing the setting up and implementation of the scheme. One comment refers to the capacity within the Housing Department to tackle the policy and procedural requirements. There was seen to be a problem of providing comprehensive advice especially where there were a variety of products and some changed frequently. The costs are also high if the expectation is of a low take up. This issue was reflected in the planned use of receipts where reference was made to covering the cost of setting up and administering the scheme, and then reinvestment in stock. Specific reference was made here to the complicated methods for calculating service charges. There were also concerns about ongoing costs and subsidy. One authority referred specifically to awaiting clarification of subsidy issues and the cost to the HRA:

“We were keen to participate as a pilot borough and permission to do so was given at committee, subject to their being no financial disadvantage to us in doing so. We identified that for boroughs in a negative subsidy position, which is the majority of LAs in the country, that there is a cost to the council for each sale and hence we are unable to consider participation unless this financial penalty is removed”.

2.70 Others were looking at the financial implications:

“Major barriers remain with respect to the management of the programme. Unlike RSLs, Local Authorities will not be receiving grant for the implementation of the scheme.”¹¹

“Any property sold under Social Homebuy means a loss in the Major Repairs Allowance that we currently receive and we need to weigh up the loss of this compared with the monies we would receive from the sale.”

“As we understand it there is still not a suitable fully developed “off the peg” scheme which we could take on. We do not have a fully comprehensive leasehold management/ homeownership section, and therefore felt we lacked the expertise for operating a local scheme as a pilot (rather than implementing a fully developed “off the peg” scheme). Based on the previous demand for rent to mortgage purchases we doubt whether the demand for Social HomeBuy would justify the administrative expense of setting up a scheme. We are particularly concerned about the practicalities of any scheme for flats and maisonettes, due to the complication of setting viable levels of service charges, and possible divisiveness between HomeBuy and other leaseholders. If we charged too much, the scheme would not be worth entering. If we charged too little we would be subsidising leaseholders.”

2.71 Housing Need Issues: The perceived barriers here are that Social HomeBuy will lead to a loss of affordable housing. This was sometimes countered by interest in the ability to retain receipts for investment in affordable housing. However there were doubts about the scale of take up. These authorities were more likely to express concern about losses from their rental stock in situations where there was a high demand for such housing. Examples are as follows:

“There are serious concerns about the potential loss of more family social rented housing in an area where this is at a premium and where even families on average incomes find it very difficult to afford low cost home ownership/shared ownership even with very low shares of equity involved. We would want to see the impact of the voluntary pilot schemes before making any commitment.”

“We also would be concerned that people on the margins of home ownership were in a financial position to maintain their properties to a decent standard.”

¹¹ Under the Social HomeBuy pilot programme, RSLs have received funding via the Housing Corporation to cover the discount made available on sales.

“Social HomeBuy if successful will lead to a further reduction of affordable rented housing which is exactly the type of accommodation most in demand from the applicants with the highest need. There should be adequate measures in place for replacing lost stock so that the negative issues from Right to Buy are not repeated.”

“The key issue in the district is the lack of affordable housing with the latest Housing Needs Survey demonstrating that over 800 new affordable homes are required pa, an unachievable level. The capital receipts from Social HomeBuy would not be sufficient to provide reprovion on a unit for unit basis, so offering the scheme would merely reduce the amount of affordable housing available in the district.”

“ (This) is a high demand, low availability area for social rented housing, with concomitantly high levels of family homelessness . We have lost approximately 50% of our stock to Right to Buy. We were one of the only areas outside London to benefit from the reduction of Right to Buy discount to a £16K ceiling. Our Housing Requirements Study in 2004 showed a need for 1700 additional social rented properties per year. The city has a good record of take-up of shared ownership new-build, and we feel that it would be counter productive to develop participation in any scheme which has the effect of further reducing social stock numbers.”

“The City Council is currently seeking to address the challenges of accessing additional social housing supply in view of the high numbers of households. We have a statutory duty to house and combining this with the need to reduce the number of households currently in temporary accommodation in order to comply with Government targets. In addition there is strong evidence to suggest that the current social homebuy model is unaffordable to the City’s tenants owing to high property values, combined with the relatively small discounts available.”

2.72 Limitations of the offer to tenants: the reluctance of landlords to participate in Social HomeBuy reflects a widely held view among local authority landlords that it has limited appeal to tenants and in particular an unfavourable comparison with Right to Buy. Specific reasons given on this limited appeal include:

“[We] Cannot see any value in this scheme for (our) tenants. Currently tenants can get £38k discount for the Right to Buy, the full amount of Social HomeBuy discount is £16k and purchasers will only receive this full amount if they buy outright, with the discount reducing proportionately to the percentage share purchased and only payable on the first percentage

share bought. The amounts involved are so small compared to property prices that they will make very little difference to a tenants ability to buy and don't give any incentive compared to the Right-to-Buy."

"The drastic reduction in Right-to-Buy take-up since introduction of discount capping would not bode well for Social HomeBuy."

"Tenants wanting to become home owners appear to be able to afford to purchase under Right-to-Buy."

"Affordability of all housing costs – scheme could encourage marginal home buyers to purchase the minimum share and who then have difficulty in affording the full home ownership responsibilities of maintenance etc. 50% shares may not be financially attractive to purchasers locally. E.g. purchasing a 3 bed – monthly costs to a 50% share purchaser are very close to those for a Right-to-Buy purchaser many of whom now qualify for the maximum discount of £34,000."

"At present [the L.A.] feels that all of its existing stock is inappropriate for the Social Homebuy Scheme, as tenants prefer to purchase under the Right-to-Buy. Appropriate stock would be new build housing schemes and it is felt that the Social HomeBuy Scheme does not provide affordable housing for tenants and residents within the district. Therefore [the L.A.] has made the decision not to participate at present and will instead monitor similar schemes in the Region."

2.73 Sustainability of Marginal Home Ownership: local authorities have demonstrated a concern that Social HomeBuy may promote marginal home ownership which is unsustainable for tenants whose financial position is weak. They are concerned both about the impact for households and how stock may be bought back in the case of households who fall into difficulties with the arrangement. These are demonstrated in the following quotes:

"Any scheme would need to include careful assessment and advice on the financial obligations being taken on. It would probably also need to include: a mechanism for reverting to a Council tenancy for part owners. Some arrangement for sharing owners costs or part owners such as insurance and maintenance. This will mean that there will still be significant management cost."

"It was felt [in the local authority] that Social HomeBuy was encouraging those at the margins to pursue homeownership regardless of whether or not it was affordable. It was not felt to be a good scheme for either tenants

of the local authority. In relation to tenants they would be responsible for maintenance and repairs and have to pay a mortgage as well as rent. In terms of the Local Authority, stock is greatly reducing through Right-to-Buy and regeneration, yet the demand for council properties is huge and so it was felt that more selling off additional council properties was not appropriate."

"Concerns that buyers and especially part buyers are able to cope with the ongoing costs of ownership. ... How well purchasers of Council housing are coping with maintaining their homes and adapting them to their needs and if this is storing up problems for the future."

"We believe it may be difficult for those interested in Social HomeBuy to maintain payments for the mortgage, rent and repairs on the property. The rent is calculated on the capital value of the share retained by the Landlord and this is higher than the target rent they are used to paying."

Landlords' Views on Barriers to Tenant Take Up

2.74 Barriers to tenants take up fall under three headings:

- Incomes and affordability.
- Lack of demand for shared ownership.
- Unfavourable comparison with Right to Buy.

2.75 Incomes and Affordability: the difficulties of affording the Right to Buy in view of high house prices or low incomes were consistently referred to:

"Right to Buy sales are dropping so we are not expecting a high level of interest in Social HomeBuy"

"Our Needs and Markets study indicates that 70% of new households cannot afford to buy and only 39% can afford to rent without financial assistance/ Income information gathered from new Council tenants since 2004 (LA CORE data) indicates that the number of existing tenants who could afford to buy 50% to 100% of the equity is limited. We anticipate that a well targeted intensive marketing exercise would be essential – requiring significant staff resources"

"Income levels among prospective purchasers in this area are such that a scheme is not likely to generate enough capital to meet our policy objectives, unless the scheme provides for equity share arrangements. Effectively this is creating a new market segment and arrangements will be required to deal with the occupiers part interest when they want to move

home or die. This is in addition to the other ongoing management required (referred to above)/ We do not know what level of "market" is viable and what effort will be required either by the Council or others to make a viable market."

"High and still rising property values in the district have significantly reduced Right to Buy sales. While the scheme theoretically offers an alternative to those aspiring to purchase those high prices are also likely to discourage take-up as tenants who could buy outright would receive better discount under the Right-to-Buy and those that can't will be buying shares in a property they can't afford to purchase and it is highly questionable as to whether they would ever be able to afford to staircase to 100%."

- 2.76** These issues also have different emphasis depending on local housing market circumstances:

"In some parts of [...] outright private home ownership can be achieved at lower cost than Social HomeBuy, although house condition may be poor."

"The costs of property in the City and the 'restricted' discount entitlement make the Social Homebuy initiative a poor value for money option for home ownership when compared to outright Right to Buy."

"In this area, if tenants can afford to buy a 25% share they are on the borders of being able to afford full purchase in another (lower priced) area."

"the same factors of affordability affecting the Right-to-Buy currently will also influence tenants' view of SH."

- 2.77** Some other issues related to ongoing costs:

"The major item would be the repairing responsibilities, the client may be able to get on the housing ladder, but effectively it is not much cheaper as they have to find the money for rent as well as mortgage and have no assistance if anything goes wrong."

- 2.78 Lack of demand for shared ownership:** the issue of take up links with views that shared ownership is not popular and that discount arrangements under Social HomeBuy are relatively unattractive:

“There is some evidence from landlords that have tested tenant response that shared ownership is a less popular option. Also discounts are applied pro rata to the share purchased so may not be seen as attractive as the discount offered under Right-to-Buy”

“Experience of the low take up of rent to mortgage, and difficulty with equity sharing nominations to housing associations.”

“Not directly – but there is little tenant take-up of existing s/o schemes & homebuy despite promotional campaigns in the Tenants newsletter.”

2.79 Unfavourable comparison with Right-to-Buy: views expressed were as follows:

“We anticipate that tenants may feel that the scheme is unfair, because it will not allow them to receive the benefit of the full discount that they would receive if they used the Right-to-Buy, and which they would have received had they acquired an eventual 100% ownership via the Rent to Mortgage scheme or the old Right-to-Buy shared ownership scheme.”

“Would be unlikely that any tenants would choose homebuy over Right-to-Buy as in this area the cost of part buy part rent would be more than the full mortgage.”

“Discount arrangements can compare unfavourably with normal Right-to-Buy especially for people who want to staircase purchase.”

“Because discount conditions are less favourable than Right-to-Buy tenants will opt for the latter even though it is less sustainable and affordable.”

Modifications

2.80 When asked ‘Are there modifications to Social HomeBuy that you think would encourage take up?’, landlords reported a number of issues:

- **Discount arrangement:** responses most commonly referred to discount arrangements:

“The discount issue is absolutely crucial. It does appear illogical and inequitable that the full discount entitlement is not available to a purchaser acquiring an eventual 100% ownership. Because the discount is based on Right to Acquire figures, large sums of money are not involved – it is the principle that is difficult to justify to potential applicants.”

- **Improved capital retention or financial support for landlords:**

some landlords referred to a need to increase the proportion of sales receipts they are able to retain in order to improve the schemes attractiveness to them. These receipts could then be used for reinvestment in their stock.

"On 100% sales not being able to retain 100% of the capital receipt."¹²

Related to this was a desire to see additional support within the scheme to facilitate its management.

"Some assistance with on going management costs [of the scheme] so that the maximum amount of capital receipts can be ploughed back into new housing and improvements to existing stock."

- **Apportionment of repairs costs:** landlords see the need to improve the offer to tenants through better apportionment of repairs responsibility. This is seen as a way of providing visible value to the tenant of their rental payment.

"Shared repairing obligation pro rata to the proportion of the [equity of the] property owned"

"it is possible that we shall apportion repair service charges pro rata according to the percentage stake acquired. Charging 100% of repair costs when a tenant is buying e.g. a 25% stake is considered to be a likely barrier to a purchase proceeding."

- **Consolidation with right-to-buy:** it was suggested that the Right-to-Buy should be removed as it was the presence of this alongside Social HomeBuy that affected take up and drew people into less sustainable home ownership. This issue was referred to by a number of landlords and examples were given of Right-to-Buy purchasers who had overstretched themselves and been unable to sustain home ownership status after they had bought. In these cases it was argued that Social HomeBuy offered a way of avoiding such over commitment. However where Right-to-Buy appeared to be more generous (perhaps in relation to discount arrangements) there was a view that tenants would opt for the more generous scheme even though it involved the risks associated with taking on an unaffordable burden.

- **Access to mortgage finance:** issues were raised about access to mortgages and the reluctance of lenders to support the scheme. Some suggestions were for local authority mortgages or the ability to refer applicants to lenders that were willing partners. Under present arrangements local authorities are not permitted to recommend mortgages but some would like to be able to provide improved

¹² Capital Finance Regulations have subsequently been changed so that LAs can keep 100% receipts from 100% sales.

information about the range of products which may be available to tenants. Reference was also made by one local authority to the lack of Sharia law compliant mortgages as an issue.

“The Council could provide mortgages at a more favourable rate and it would simplify the product whereby rent and mortgage payments can be made direct to the Council.”

- **Smaller equity shares:** local authority landlords have raised the possibility of allowing smaller equity shares to be purchased. This is seen as a means of facilitating more sales amongst their tenants thereby improving the value of the Social HomeBuy scheme.

“Enabling tenants to buy a smaller tranche (10%) was consistent with the underlying aim of the scheme.”

- **Consideration of how to improve the scheme for flatted accommodation:** other authorities referred to issues associated with flats or specialist dwellings. These included reference to stock not eligible for Right to Buy such as sheltered housing where applications would only be accepted from those tenants who qualified under the Right to Buy. More importantly concerns were expressed that Social HomeBuy looked as if it was a scheme conceived for houses. For some local authorities with mostly flatted stock, it was not particularly attractive. There were particular reservations about flats and maisonettes being included and reference was made to service charge complications, and potential divisiveness between various groups of leaseholders. The issues about payment for repairs and maintenance are particularly significant in flats where bills can be very high and can fluctuate from year to year and where these bills and service charges generally complicate calculations of affordability and need to be taken into account along with rents and mortgage payments.

Conclusions of landlords' views

- 2.81** Social HomeBuy is seen as a positive development by landlords. Landlords recognise that some of their tenants want to be homeowners and that this scheme facilitates this demand where the right-to-buy/right-to-acquire does not exist or where outright ownership is unaffordable for the tenant. At the same time some landlords see Social HomeBuy as a positive factor in fostering balanced and sustainable communities. Without the scheme they feel that more mobile tenants will leave in order to meet their aspirations. Social HomeBuy enables these tenants to remain in the communities. They see further benefits in the release of capital through sales and the ability to reinvest this resource in new social housing.

- 2.82** However, the scheme is at an early stage and most landlords, particularly amongst local authorities, are awaiting the results of pilots and the early experience of those operating the scheme before deciding to offer it themselves or expand availability across their stock. There is a general scepticism about demand and take up and how prudent it is to incur the costs associated with the scheme if take up is likely to prove very low. The scepticism derives from the declining take up of the Right to Buy and the view that Social HomeBuy is less attractive than Right-to-Buy (and perhaps also other flexible home ownership policies). The lack of attractiveness derives from views that tenants do not favour shared ownership but are exacerbated by the unfavourable comparison with Right-to-Buy in relation to discount. While these factors apply generally there is a variation between the comparisons. These relate to both affordability issues (house prices and incomes) and the levels of maximum Right-to-Buy discount that apply. The affordability of Right-to-Buy is likely to be higher where the maximum discount represents the highest proportion of market value and this is most likely to occur in lower priced markets within Northern and Midlands regions. Outside these regions potential take up may be higher but the discount arrangements and other aspects mean that even here there is little expectation of high take up.
- 2.83** The interaction between these factors means that potential take up of Social HomeBuy will be highest among long standing, more affluent, non-stock transfer housing association tenants living in more attractive properties and especially in the high price (sub) regions. It will be lowest where properties are less desirable and among long standing tenants of stock transfer housing associations and tenants of local authorities where there are other accessible and more attractive routes into home ownership (including the right to buy and cash incentives to move).

3. Tenants Views of Social HomeBuy

KEY FINDINGS

- Tenants' views of Social HomeBuy were gathered through survey work. This was carried out in 5 localities which reflect the variation in housing markets and house prices across England, to assess whether differences in local housing market situations have a significant influence on attitudes to Social HomeBuy.
- Not all tenants want to be homeowners. The social rented sector plays an important role in providing good quality rented accommodation for this group.
- There is a group of tenants who are already actively considering Social HomeBuy. They are tenants of participating landlords. In comparison to the wider tenant population this group is younger, more likely to be in employment and is also likely to have been tenants for over 10 years.
- Of this group, the majority of tenants had reached a stage where they had considered Social HomeBuy but not yet made an application. Of those who had made an application, 57% had either withdrawn their application or been rejected by their landlord. The most common reasons for withdrawal or rejection were affordability.
- Of the remaining tenants of participating landlords who are inactive in Social HomeBuy, the two main reasons for not participating are either that their income is too low or that they do not like the property and/or area that they currently live in. Of those who want to be home owners, the majority are looking to move property in order to meet their aspiration.
- There is a group of tenants who have not yet had the opportunity but for whom Social HomeBuy would offer an additional housing choice. This group is small and is limited by affordability. The demand is from tenants who want to be home owners and who would consider buying their current property.
- Demand for Social HomeBuy is likely to remain limited but Social HomeBuy is an important addition to the range of affordable home ownership products available.
- For tenants of RSLs, some are interested in Social HomeBuy because they do not have the Right-to-Buy or Right to Acquire.
- Tenants who have considered Social HomeBuy expressed concerns about repairs and rent costs were they to continue with a purchase under the scheme.

- 3.1** The previous chapter of this report has indicated landlords' perceptions of the likely influences upon tenants' attitudes to Social HomeBuy. The attractiveness of the Social HomeBuy scheme is not likely to be the same for all tenants and there are a number of fundamental factors that are likely to influence attitudes towards the scheme. Whether their landlord participates in Social HomeBuy will be important and other variable factors will include the individual and household circumstances of tenants and the housing that tenants are living in.
- 3.2** In order to better understand the attitudes of tenants towards the Social HomeBuy scheme, we have carried out research with tenants:
- A social survey of 600 tenants in five case study areas.
 - In-depth interviews with tenants who had indicated in the social survey that they were potentially interested in Social HomeBuy.
- 3.3** In this chapter we divided tenants into two groups: Inactives and Actives.
- **Inactives** – those who have not expressed an active interest in Social HomeBuy. This group may contain those households who have applied for other HomeBuy products, those who are considering the Right to Buy/Right to Acquire or those for whom home ownership is not an immediate option.
 - **Actives** – are those tenants who have enquired or applied for Social HomeBuy including those who have completed a purchase through the scheme.
- 3.4** The remainder of this chapter analyses the responses of tenants generated through questionnaire based face-to-face interviews with some 600 tenants in different parts of the country.

Survey

- 3.5** The purpose of the survey, rather than to achieve strict representativeness, is to understand the key barriers to uptake of Social HomeBuy and the key dimensions affecting attitudes to Social HomeBuy. The survey has been designed to explore the attitudes of different groups and to understand these attitudes rather than to calculate precise proportions of the tenant population that fall into different categories in terms of likely interest in the scheme.
- 3.6** The survey work has been carried out in five localities which are referred to as case study areas throughout this chapter. These five areas were selected to enable us to assess whether differences in local housing market situations have a significant influence on attitudes to Social HomeBuy and we have included areas which partly reflect the variation in housing

markets and house prices across England. The five case study areas selected were London (Southwark, Hammersmith and Fulham, Kensington and Chelsea); the East Midlands Growth area (Kettering and Wellingborough); the North West (Chorley); the North East (Newcastle); and the South West (Bath and North East Somerset). The latter was also selected to ensure that we included a significant rural representation within the study. In each of these areas we identified one or more social landlords whose tenants would be included in the survey. In the South West we referred to only one stock transfer landlord (Somerset Community) and in the North East, only one local Authority (Newcastle) but elsewhere we have one or more local authority and RSL landlords.

- 3.7** This group of landlords also includes local authorities and RSL which were actively engaged in the Social HomeBuy scheme and local authorities that were not yet involved. This enabled us to analyse responses according to whether or not the landlord was an active participant. Where landlords are participating it is more likely that tenants will have received information about the Social HomeBuy scheme and as a result will have given it some consideration.
- 3.8** By including some landlords actively involved in Social HomeBuy we were also able to include a separate sample of tenants who had actively expressed interest in the scheme. This could have been a request for more information, could have been a formal application and could indeed have resulted in an application being processed by their landlord. We identified the addresses for this group through their landlords although they were not identified separately for the interviewer and the same questionnaire was administered as for all tenants. This was designed to ensure that we had a sub-sample of actively interested tenants. Their insights into the scheme are likely to be different reflecting a greater involvement in processes of application. In later sections of this chapter we refer to this active group separately.
- 3.9** Because the Social HomeBuy scheme is at an early stage the number of actively interested tenants is relatively small. Out of the 610 households interviewed in this study, six had completed a purchase under Social HomeBuy and the analysis in this chapter refers to the 604 who were still tenants at the time of interview. This includes 103 who fall into the “active” group¹³. The remaining 500 were selected from within the tenant population of each local authority, taking no account of whether they had expressed an interest or otherwise in Social HomeBuy.

¹³ Active tenants are those who have expressed an interest in Social HomeBuy, made an application or are completing a sale under the scheme

3.10 An overview of the social survey results are reported in Annex 2. In this chapter we provide a more detailed analysis referring to active and inactive tenants and to the different case study areas. In this analysis we explore the attitudes to different dimensions of the Social HomeBuy scheme and alternatives to it. And on the basis of this we draw conclusions about the scheme as a whole and its appeal to different groups of tenants in different places and properties.

Active Tenants

3.11 There were 103 active tenants interviewed as part of the survey. The active tenants are dominated by households where the respondent was aged between 25 and 55. In comparison to the overall sample, there were proportionally more tenants who lived in flats who were active. This may be accounted for by the larger proportion of active tenants and landlords in London where flatted accommodation is more common. The majority of respondents were in employment and there was a wide spread of household incomes amongst this group¹⁴.

3.12 The majority of these active tenants want to be home owners (61%) although there is no urgency with which they want to become home owners. Both the minority who do not wish to be homeowners and the long lead in times for those wishing to be home owners would suggest that even if they have expressed an interest in Social HomeBuy, tenants potentially see the scheme as something between renting and owning.

Experience of Social HomeBuy process

3.13 Of the respondents whose landlord was participating in Social HomeBuy, the majority were considered inactive. As indicated in table 3.1, 31% of respondents who had heard of Social HomeBuy have proceeded to a point where they have submitted an application.

Not Considered/ Expressed Interest/Applied	34
Considered But Decided Not To Apply	19
Considered But Not Yet Applied	11
Considered And Applied	31
Not Sure/Can't Remember	5
Total	98

¹⁴A profile of all respondent groups is presented in tables A2.12 to A2.18 in Annex 2.

- 3.14** Of households who considered but have not applied for the scheme (20 respondents) the main attraction was the chance to acquire an asset. The main attractions of the scheme were the prospect of getting on the property ladder (five responses) and gaining increased control and possession of the property (four responses). The affordability of the scheme was a crucial driver in attracting interest, either being seen as cheaper than buying outright or offering a sufficient discount to make it worthwhile. Interestingly five respondents suggested that they had expressed an interest partly out of curiosity after receiving information from their landlord.
- 3.15** However, all of this group have subsequently indicated that they have not continued with an application. The reasons for this again were driven mainly by affordability, income and finance. It would appear that once tenants received more information about the scheme then they made more informed decisions in relation to their financial means. Three respondents referred to the discount being insufficient as a reason for not applying.
- 3.16** Twenty-six respondents had applied for Social HomeBuy with their landlord (Table 3.2). At the time of being interviewed 21 of these respondents had left the scheme without completing their purchase. As the table below indicates, the main stages at which applicants withdrew was at the initial screening stage (9 respondents) and once they had received their valuation.

Table 3.2: At what stage did or has your application reached? (Percentage)

Applied To Registered Landlord	8
Application Rejected/ Not Eligible	35
Approved – But Have Not Confirmed	3
Approved – Decided Not To Continue	11
Valuation – Not Continued Before M/Offer	31
Valuation – Not Continued After M/Offer	4
Valuation Accepted/Awaiting M/Offer	8
Total	26

- 3.17** The main attractions of the scheme for this group match those of the previous group. The opportunity to own an asset is major driver suggested by 16 respondents. The price of the product is also seen as attractive (14 respondents), either because it is a cheaper alternative to other home ownership options or that it enables households to buy what they can afford when they can afford it and is therefore a flexible option. Only

one respondent explicitly referred to their like of their current property as a reason for applying, however within this category a majority of respondents had previously indicated that they were satisfied with the property and so this may not be an immediate consideration for tenants. These reasons would suggest that for those tenants who are seriously considering Social HomeBuy, price is important but that the asset owning opportunity is the main driver.

- 3.18** The main reason for refusal of Social HomeBuy applications by the landlord was either financial or because the respondent had not been a tenant for long enough. Tenants' views of why they did not proceed are set out in table 3.3. Issues of affordability emerge as the most important factor.

Table 3.3: Respondents given reasons for Withdrawal from Scheme (Number)				
	Approved-Decided Not To Continue	Valuation-Not Continued Before M/Offer	Valuation- Not Continued After M/Offer	Approved-Decided Not To Continue
Income Too Small/Don't Earn Enough	1	1	0	2
Discount Is Not Large Enough/Too Small	0	3	0	3
Financially Out Of Reach/Too Expensive	3	2	1	6
Landlord Couldn't Give A Proper Valuation	0	1	0	1
Valuation Too High	0	3	1	4
Rent payment required would be excessive	0	0	1	1
Think It Is/Was Overpriced	0	1	0	1
Number Of Cases	3	8	1	12

Multi-response question. Sum is more than number of cases.

- 3.19** Very few respondents claimed to have received independent financial advice at any stage in their application. This is not to say that tenants were not given such advice. Rather it may reflect a confusion on the part of the applicant or their not understanding that financial advice may have been given as part of any application for a mortgage.

3.20 No respondents gave details of how they were planning to finance the purchase of their equity stake in the property. Nor was any information provided about the size of the equity stake being purchased or the discount received in the survey. However, in the follow-up interviews with a selection of respondents, one commented on the motivation for maximising the equity stake purchased:

"I just figured I can afford to buy 100% so why not? Why don't I just go for it? Because then in the event that I want to sell it I don't need to worry about the fact that it's partly owned and I have to come to an arrangement with the council." (LA Active Tenant, London)

And another respondent referred to the perceived pointlessness of buying a share:

"Because there didn't really seem to be any point going for a share. It is just one of those [things], why would you buy a share in something?" (Purchaser, Ex-HA, South Midlands)

3.21 Twenty-five percent of active respondents view the scheme as neither good nor poor and 24% not knowing (Table 3.4). However, of those respondents who have an opinion, 38% consider the scheme good compared with just 14% who consider it poor.

Table 3.4 How Would You Rate The Social HomeBuy Scheme? (Percentage)

	Total
Very Poor	4
Fairly Poor	10
Neither Good Nor Poor	25
Fairly Good	20
Very Good	18
Don't Know	24
Total	84

- 3.22** One respondent who had completed their purchase gave a robust endorsement of the scheme:

“For me it was brilliant. As I say it was brilliant because the property was low priced. Had the property been higher priced it wouldn’t have been anywhere near such a good deal.” (Purchaser, Ex-HA, South Midlands)

Inactive Tenants

- 3.23** There were 501 tenants interviewed who were inactive, i.e. they had not expressed an interest in Social HomeBuy. This group is divided into two groups: inactive tenants whose landlord is participating in the Social HomeBuy scheme and inactive tenants whose landlord is not presently participating in the scheme. The first group has already been exposed to Social HomeBuy and therefore this analysis will focus on the reasons why they have not expressed an interest in the product to date. The second group is much broader and is likely to contain tenants for whom Social HomeBuy may be a potential means of accessing home ownership but who have not yet had the opportunity to express an interest in it. The report considers the profile of these tenants, their attitudes to home ownership and the characteristics of tenants who may take-up Social HomeBuy at a later date.

Inactive Tenants of Participating Landlords

- 3.24** Tenants of participating landlords who are inactive in Social HomeBuy could be perceived as a group who are unlikely to want to participate having already been exposed to the scheme. Although tenants of participating landlords, this group of respondents were the least likely to have heard of the Social HomeBuy scheme (21% compared with 36% of respondents overall), lower even than tenants of non-participating landlords (28%). The majority of respondents in this group reported a household income below £15,000 (55%) and the majority were economically inactive (36%), retired (16%) or unemployed (14%). This profile indicates a group for whom homeownership is likely to be difficult to reach economically.
- 3.25** Aspirations for homeownership in this group are limited. Fifty-one per cent of respondents do not want to be home owners. Of those who indicated that they would like to be a home owner in the future, a majority of respondents either did not know when this was likely or indicated a time scale over years ahead. Therefore the propensity of this group to become homeowners appears limited. However, 43% of this group do want to be homeowners and therefore their non-participation in the Social HomeBuy scheme cannot be explained solely by this factor.

3.26 If we consider the type of property that this group would wish to buy, very few expressed a desire to buy the current property in some form of shared ownership, either Social HomeBuy or another shared ownership scheme. Significantly 33% would want to buy the current property through the Right to Buy/Right to Acquire suggesting that the shared ownership element is a barrier to their involvement with Social HomeBuy and that the outright purchase of their property is more desirable. However, tellingly a large proportion of respondents indicated that they would hope to buy another property, either privately or through a shared ownership scheme, as indicated in table 3.5.

Table 3.5: What type of Property do you hope to buy? (Inactive Tenants who want to be homeowners) (Percentage)

Current Property Through Right to Buy/Right to Acquire	33
Current Property Through Shared Ownership/HomeBuy	7
Another Property Through Shared Ownership	13
Another Property Privately	39
Don't Know/Not Sure	23
Number of Cases	80

Multi-response question. Percentage sum is more than number of cases.

3.27 The respondents were asked why they had not considered Social HomeBuy. Together with the issues highlighted in the table above, the reasons cited were most often the inappropriateness and unattractiveness of the property as both a home and an investment (Table 3.6). The size of property is a major factor highlighting that the property presently occupied may not match households aspirations. Equally the condition of the property is seen as a detraction and this factor corresponds with concerns expressed by several respondents in the survey about the responsibility for repairs after equity purchase. Alongside this, inactive respondents identified dissatisfaction with the local neighbourhood as a factor in reducing their interest in buying.

Table 3.6: Reasons why you would not buy current property (Percentage of cases)	
Type Of Property	11
Size Of Property/Lack Of Space	36
Property Falling Down	18
Walls Of Property Thin So Noise Problems	4
Don't Like Property	7
Wouldn't Be Able To Sell Again	4
Property Has Bad Electrics	4
Don't Feel Safe (In This Property)	4
Due To Troublesome Kids/Yobs In Area	4
Due To The Neighbours	14
Don't Like Area Live In Estate So Want Move	39
Due To Service Charge	4
Discount Too Low	4
Don't Have The Money/ Can't Afford It	4
Because You Can't Buy From HA	4
Number of cases	44

Multi-response question. Percentage sum is more than number of cases.

3.28 Respondents were subsequently asked why they had not considered Social HomeBuy (Table 3.7). The responses are consistent with the views outlined above. In many cases there is also recognition that home ownership is not a suitable option for them. In particular this is focused on the affordability of the scheme but also reflects the fact that some tenants are happy as they are. Amongst those respondents who want to be home owners, the main factors are both the property and interestingly affordability.

Table 3.7: Reasons for Not Considering Social HomeBuy (Percentage of Cases)

	Responses
Too Old	13
Ill Health/Disability	8
Not Interested/Happy As Are	29
Do Not Feel It Is The Right Time	4
Discount Is Not Large Enough/Too Small	4
Do Not Like Current Property Enough To Buy It	4
Do Not Like Neighbourhood/Area	13
Financially Out Of Reach/Too Expensive	33
Don't Think I Could Afford To Buy Etc	8
Financial Reason (Unspecified)	4
Want To Live Closer To Family/Friends	4
Am On Benefits/Income Support	8
Worried It Would Be Too Much For Me	4
Don't Agree With Selling LA/RSL Properties	4
Number Of Cases	34

Multi-response question. Percentage sum is more than number of cases.

3.29 Taking this analysis together, there are two main reasons for the lack of activity amongst some tenants of participating landlords:

- The first is the affordability of home ownership for tenants. Even if a discount is available and the property valuation is below that of wider market trends, tenants remain uneasy about their ability to afford to purchase even a part stake in their property. As such there is recognition of the benefits of renting.
- The second reason relates to the attractiveness of the property and neighbourhood that the tenant is in. Even if tenants feel they are in a position to buy, they recognise that the opportunity available to them through Social HomeBuy does not represent a good or safe investment and they are looking for alternative ways of becoming homeowners. This is highlighted by one tenant interviewed in depth:

"Ideally we would like to own our property but like I say when we first had it valued with the Housing Association it was a little bit high for us... the amount we were quoted, I mean for the house that we live in we just thought it was quite high for the house that we live in." (HA Active Tenant, Chorley)

3.30 Although issues relating to the discount were raised directly by only a small proportion of these respondents, overall across the sample there is a distinct opinion that the discount available under the scheme does not represent good value for money.

"I thought it was pathetic. You know we've lived here for 27 years and they give us, what, I don't know, it's like £15,000 or something... You know we've been paying rent here for 27 years... it's an insult really, what they offered us, the discount." (HA Inactive Tenant, London)

Tenants of Non-participating Landlords

3.31 The profile of respondents whose landlord was not participating in Social HomeBuy at the time of the research is indicated in tables A2.12 to A2.18 in Annex 2. As illustrated, the respondents were skewed towards an older age group. As such a significant proportion of respondents are both retired and have been tenants for over 20 years. Sixty-two percent of respondents had a household income below £15,000.

3.32 A majority of respondents in non-participating landlords do not want to be home owners in the future and only 2 respondents out of 330 were in the process of buying a property (Table 3.8). Seventeen per cent of respondents definitely wanted to be home owners and fourteen per cent were considering home ownership but not definitely. These figures would suggest a limited pool of potential home owners amongst tenants who have not already had the option of Social HomeBuy.

In Process Of Buying/Applying	1
Yes, Definitely	17
Yes, Maybe	14
No	61
Don't Know/Not Sure	7
Total	330

3.33 The regional differentiation in these responses is important to note (Table 3.9). Respondents in London show the greatest propensity to want to be home owners. In contrast those in the North and particularly the North East show a much more limited enthusiasm to be home owners.

Table 3.9: Do you want to be a home owner by region (Inactive tenants of non-participating landlords) (Percentage)

	London	North East	South Midlands	South West	North West	Total
In Process Of Buying/ Applying	0	0	0	2	0	1
Yes, Definitely	25	9	26	14	22	17
Yes, Maybe	38	11	9	21	9	14
No	38	73	58	54	64	61
Don't Know/Not Sure	0	7	6	10	6	7
Total	8	85	53	115	69	330

- 3.34** It is useful to consider the responses to the question about what the disadvantages of owning a home are. In London where tenants think that purchasing will be more expensive the main disadvantages were related to the cost of accessing ownership. Repair costs are a secondary factor but not seen to be as significant as in other regions. Outside of London the main disadvantages are the repair costs associated with owning a property and significantly, more respondents are concerned about the possibility of getting into debt. These results would imply that in London the barriers are entry costs whereas outside London the barriers relate to expectations and ongoing costs incurred in home ownership. Therefore compared with London, home ownership is not as attractive even when affordable and that expectations about the market in London may make potential home owners less nervous once they become an owner.
- 3.35** Attitudes to the benefits of renting confirm this position. In London the advantages of renting are closely related to the affordable level of rent whereas outside of London the main advantages are the undertaking of repairs by the landlord.
- 3.36** Overall, this would suggest that for Social HomeBuy and other low cost home ownership schemes it is insufficient to solely address the access opportunities to home ownership but also to convince tenants about the sustainability of home ownership in relation to ongoing costs, particularly repairs and maintenance.
- 3.37** When asked what timescale they would expect to buy a property within, there appears to be no rush amongst tenants to become home owners (Table 3.10). A majority of respondents (52%) suggested this would happen in more than 2 years time and a further 31% were unsure when

they might become home owners. Again this indicates a limited demand for home ownership amongst this group and does not suggest that there is a large unmet demand currently.

Table 3.10: When are you likely to become a home owner? (Tenants of Non-Participating Landlords Only) (Percentage)

Within The Next 6 Months	2
Between 6 Months And A Year From Now	5
Between 1 And 2 Years From Now	10
Over 2 Years From Now	52
Don't Know	31
Total	102

3.38 Knowledge of low cost home ownership schemes amongst respondents whose landlord is not participating are lower than respondents whose landlord is participating. Again, a majority of respondents had heard of the Right to Buy/Right to Acquire but lower proportions had heard of other low cost home ownership schemes. Unsurprisingly a lower proportion of respondents whose landlord in not participating had heard of Social HomeBuy than amongst respondents who are tenants of participating landlords, although the figure is perhaps higher than might be anticipated for a group of tenants who have not been exposed to the product.

Table 3.11: Knowledge of LCHO Schemes (Tenants of Non-Participating Landlords Only) (Percentage)

	Right to Buy/RTA	New Build HomeBuy	Open Market HomeBuy	Cash Incentive Scheme	Social HomeBuy
Yes	72	15	5	7	28
No	24	80	93	88	66
Don't Know	4	5	2	5	6
Total	330	330	330	330	330

3.39 This group of respondents have not had the opportunity to use the Social HomeBuy scheme and therefore it is interesting to consider their possible demand for the product. As stated in table 3.9, 31% of respondents thought they would like to be homeowners in the future. This group of respondents were asked what property they were likely to purchase (table 3.12).

Table 3.12: What Property are you likely to purchase (Tenants of Non-Participating Landlords Only) (Percentage)

Current Property Through Right to Buy/Right to Acquire	46
Current Property Through Shared Ownership HomeBuy	8
Another Property Through Shared Ownership	7
Another Property Privately	33
Don't Know/Not Sure	7
Total	61

Multi-response question. Percentage sum is more than number of cases.

- 3.40** Respondents were asked why they would be interested in buying their own property. The reasons varied but focused mostly on the location of the property, the neighbourhood, and the size, condition and amenity offered by the property.
- 3.41** Factors related to location and the characteristics and condition of the property are the main factors influencing aspirations to purchase the current property. These then create secondary concerns, for example the difficulty of selling the property at a later date.
- 3.42** This analysis demonstrates that there is a demand for Social HomeBuy but that the product will appeal to certain tenants in particular circumstances. Using the profiles identified above we provide an estimate of the possible demand for Social HomeBuy in chapter four.

Conclusions

- 3.43** The evidence about tenant views obtained through the social survey highlights the different circumstances and aspirations of tenants and the way in which these affect the likelihood of using Social HomeBuy. The implications of these differences are discussed more fully in chapter four.

4. Common Themes and Conclusions

KEY FINDINGS

- This chapter analyses the synergies between the issues outlined in chapters two and three.
- The benefits of Social HomeBuy are:
 - It enables tenants to meet their housing aspirations in becoming home owners and gaining access to a financial asset. Where tenants like their current home and location, this enables them to meet their aspirations without the need to move. For those tenants for whom outright ownership is unaffordable, Social HomeBuy provides an opportunity to build a stake in the property and a financial asset.
 - The scheme enables landlords to assist their tenants in meeting their aspirations whilst both retaining more mobile tenants within their communities and enabling reinvestment in new social lets.
- However, there are some significant barriers which prevent Social HomeBuy from realising the potential that it may otherwise reach:
 - Aspirations and attitudes towards home ownership are limited. For a variety of reasons many tenants do not want to be home owners at the present time and recognise the benefits of renting social housing.
 - Affordability amongst social tenants will limit viable and sustainable demand for Social HomeBuy;
 - Repairs and maintenance responsibilities post-sale are likely to remain a disincentive for tenants unless they are apportioned according to the equity stake owned;
 - The attractiveness of property and location for sale will further limit take-up of Social HomeBuy and demand is likely to follow a similar pattern to the Right to Buy where houses with gardens on popular estates will see highest demand. Flats are likely to see more moderate demand.
 - Social HomeBuy remains unattractive in comparison with the Right to Buy. The Right to Buy discount is higher and therefore where tenants have a Right to Buy they are less likely to want to pursue Social HomeBuy. Tenants do not readily understand how the product works or its benefits.
 - There is generally a limited demand for shared ownership, particularly in areas outside of London and the South East.

- 4.1** This chapter brings together a summary of the main findings from the work with both landlords and tenants, and identifies common points of synergy to be addressed in the future development of the Social HomeBuy scheme.

Landlords' Views

- 4.2** The implications of the research with landlords are that if it continued in its current form, Social HomeBuy is unlikely to generate a significant increase in numbers. However it is unclear whether this is because the product is unattractive to tenants or that too few landlords are offering the product and only in selected areas.
- 4.3** Landlord perceptions and experiences of the scheme to date are summarised in the following paragraphs.
- 4.4** Overall, there is enthusiasm amongst social landlords for Social HomeBuy. The biggest factor affecting the different motivations of local authorities and RSLs relates to the availability of the Right to Buy (Table 4.1)

Table 4.1: Landlord Motivations for Participating in Social HomeBuy

Common	
<p><i>Some enthusiasm about providing choice and providing affordable access to home ownership</i></p> <p><i>Opportunity to create mixed tenure estates/break-up mono-tenure estates</i></p> <p><i>Ability to keep and reinvest sales receipts to create additional social lets</i></p>	
LA Specific	RSL Specific
<p><i>Expectation of low take up and high costs seen as problematic</i></p> <p><i>Relationship with Right to Buy seen as problematic</i></p>	<p><i>Absence of Right to Buy means there is likely to be some pent up demand for purchase</i></p> <p><i>Reinvestment opportunity when capital is released from stock</i></p>

- 4.5** The organisational barriers to participation are linked primarily to the resource implications of running the scheme (Table 4.2). Firstly landlords do not wish to commit resources to setting up a scheme which may have a limited demand from tenants when they have other demands on these resources. Secondly there is often local political opposition to the scheme. Local authority participation is sometimes blocked by council members and RSLs suggest that pressure is placed on them not to participate by local authority partners. In both instances Social HomeBuy is perceived as a further diminution of social housing stock, particularly in areas with high levels of housing need.

Table 4.2: Barriers to Landlord Participation – Policy and Organisational	
Common	
<i>Setting up systems and high costs especially associated with abortive applications</i>	
LA Specific	RSL Specific
<i>Clash with other policy initiatives</i> <i>Comparison with other home ownership strategies</i> <i>Costs and Resources</i> <i>Housing Need issues</i> <i>Limitations of the offer to tenants</i>	<i>Adequately assessing tenant demand in order to bid for and target available resources</i> <i>Opposition from stakeholders, especially partner local authorities</i> <i>Practical problems linked to loans secured on property, lending gearing and restrictive covenants in property deeds.</i>

4.6 Landlords recognise the limitations of tenant take-up (Table 4.3).

- With an average of 70% of tenants receiving benefits, the pool of potential purchasers is limited by affordability factors.
- The scheme is not as attractive as the Right to Buy for local authority tenants and Social HomeBuy is expected to be viewed in relation to this.
- Landlords anticipate that tenants will be unhappy with the level and availability of discount on share purchases.
- Furthermore with rent paid on the retained equity but responsibility for repairs passed to the tenant, landlords assume that tenants will not see the benefits of the scheme.

However, it is recognised that there is pent-up demand for home ownership among RSL tenants who do not have the Right to Buy and this may be expressed through applications for Social HomeBuy.

Table 4.3: Barriers to Landlord Participation – perceptions of Tenant Take-up

Common	
<p><i>Overall affordability for low income households vis-à-vis high property values</i></p> <p><i>Underlying Cost.</i></p> <p><i>Issues to do with discount (i.e. only available for the initial share but addressed in subsequent amendment of scheme from April 2008)¹⁵.</i></p> <p><i>Misconceptions about scheme.</i></p> <p><i>Arrangements related to purchasers financial responsibility for all maintenance and repairs costs irrespective of share purchased.</i></p> <p><i>Confusions arising from the different ways of proceeding if a local authority or HA tenant based on variations in the scheme.</i></p>	
LA Specific	RSL Specific
<p><i>Lack of demand for shared ownership</i></p> <p><i>Unfavourable comparison with Right-to-Buy</i></p>	<p><i>Alternative affordable housing products are more attractive for some tenants</i></p> <p><i>Lack of mortgage products available</i></p> <p><i>Restrictions on use of property under lease</i></p>

- 4.7** So that the scheme can be improved, landlords have indicated a range of modifications that could be considered in reviewing the scheme (Table 4.4). These range from small scale changes related to the continued availability of discount, (discount will be available on the purchase of further shares from 1 April 2008) through changes in the apportionment of repairs responsibilities, to a full review of affordable housing scheme for social tenants through to a review of the Right to Buy.

¹⁵See footnote 3, page 20.

Table 4.4: Landlords' Suggestions of Modifications to Social HomeBuy

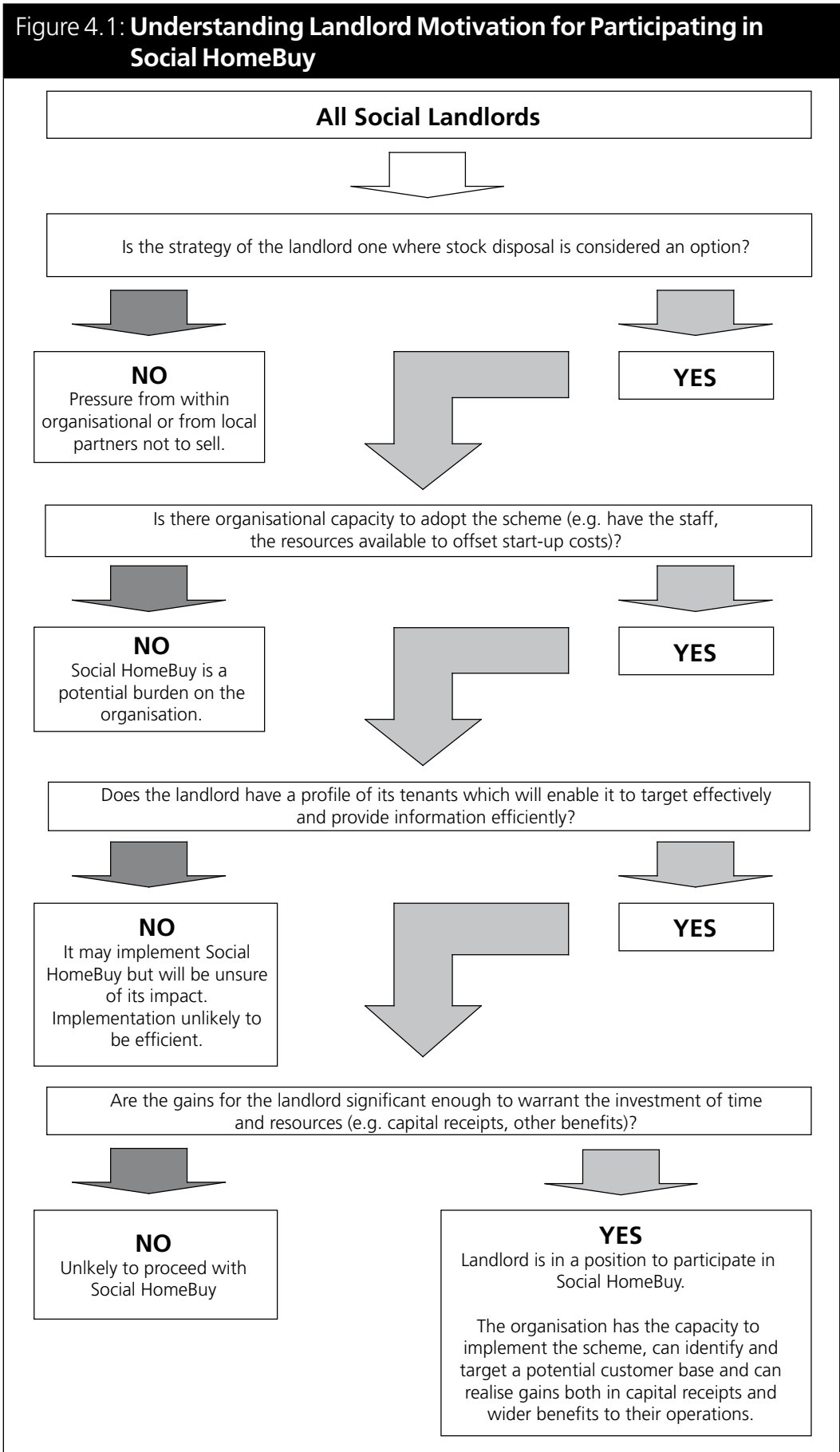
Common	
<p><i>Discount arrangements: a continued right to discount may encourage take up as would higher discount rates in line with Right to Buy.¹⁶</i></p> <p><i>Arrangements related to maintenance: apportion repairing obligation pro rata to the percentage of the property owned.</i></p> <p><i>Arrangements related to full retention of capital receipt where there is full (100%) sale.¹⁷</i></p> <p><i>Mortgage arrangements: the Council could provide mortgages at a more favourable rate and it would simplify the product whereby rent and mortgage payments can be made direct to the Council.</i></p> <p><i>Issues were raised about access to mortgages and the reluctance of lenders to support the scheme.</i></p> <p><i>The 3% cap on rent is too high, this could be reduced.</i></p> <p><i>There was need to develop a standard form of lease including a right of pre-emption and prohibition of sub letting.¹⁸</i></p> <p><i>Enabling tenants to buy a smaller tranche (10%) was consistent with the underlying aim of the scheme.</i></p>	
LA Specific	RSL Specific
<p><i>Review Right-to-Buy alongside Social HomeBuy</i></p>	<p><i>Enable an equity purchase scheme with nil-rent</i></p> <p><i>Remove restrictions on the reuse of capital receipts</i></p> <p><i>Greater certainty of funding for RSLs to manage demand</i></p>

4.8 The views expressed by landlords suggest that there is a series of questions that they address in determining their participation in Social HomeBuy. This is illustrated in figure 4.1. This indicates the key dimensions that need to be addressed in order to increase landlord participation. These relate particularly to start-up costs and the arrangements for reinvestment of sales receipts.

¹⁶ See footnote 3, page 20.

¹⁷ This has been amended – see footnote 10, page 37.

¹⁸ The Housing Corporation has now published a model lease on its website for use by RSLs in Social HomeBuy: <http://www.housingcorp.gov.uk/server/show/ConWebDoc.7526>



Tenants' Views

4.9 The Survey provides two important dimensions:

- The views and experience of tenants who have expressed an active interest in Social HomeBuy.
- Indications of the issues affecting attitudes to home ownership, Social HomeBuy and other home ownership schemes among tenants who have not expressed such an interest.

4.10 In interpreting the survey results we should exercise caution for two reasons:

- This is a snapshot survey in a rapidly changing area. Both policy change and market changes (interest rates, expectations about changes in interest and house prices) are likely to affect attitudes and subsequent uptake.
- While the survey does not have any dramatic biases and does not exclude key groups it should not be assumed to be representative in a strict sense and caution should remain over precise quantification.

4.11 Bearing these cautions in mind we can be confident that the survey alerts us to the issues and considerations that are important for different groups of tenants. It enables us to identify the nature of barriers (although not always to precisely quantify the proportion of tenants likely to be affected nationally).

4.12 Overall Social HomeBuy is viewed in a positive way by those tenants who have taken an active interest in the product. The main attraction of Social HomeBuy to all tenants of active landlords is the opportunity to access their own stake in housing equity at a price which is seen as being affordable. Most tenants are pursuing Social HomeBuy in order to become a home owner in a property and place with which they are satisfied.

4.13 A small number of tenants (of RSLs) may see Social HomeBuy as a way of purchasing 100% of the equity and be able to move away from place and properties that they are not satisfied with and/or exit the social rented sector.

4.14 However, the drop out amongst active tenants indicates that Social HomeBuy is not always affordable to tenants who thought it would be either because household income is too small or valuations are higher than anticipated by the tenant.

4.15 The survey data suggests that in considering the likely take up of different home ownership schemes there are four important issues:

- Household circumstances: do these make home ownership attractive or feasible? For many households they do not because – older age, disability, benefit dependency, income and economic circumstances affect access to finance for house purchase or the judgement about taking on what is seen as an important financial commitment. It is important to recognise tenants’ concerns about repairs and maintenance costs and not just about finance for house purchase. There are tenants of participating landlords who have not considered Social HomeBuy because their circumstances are served best by renting.
- The aspiration to own: not all of those whose household circumstances do not present problems for purchase want to do so. In some cases this may be explained by past experience and in others may change over time.
- Housing situation: is the dwelling that the tenant currently lives in attractive to buy? In the occupiers’ view is it unattractive in terms of its type, design, construction or repair? In the occupiers’ view is it too small? In the occupiers’ view is the neighbourhood unattractive?
- Information provided about the product both being available to tenants and being understood by potential purchasers: e.g. is it clear what the rental element will be for the tenant after purchase. This implies there is a need to consider how information is better targeted at those tenants who are potential purchasers.

Estimating Tenant Demand for Social HomeBuy

4.16 The survey and other data presented in this report provides evidence that can be drawn upon to assess the potential impact of Social HomeBuy and other home ownership products. In this section we attempt to use the survey data to more directly assess impact. We do this in two ways:

- A normative calculation indicating what proportion of the inactive group in the survey can afford to purchase; and
- an alternative calculation of latent and manifest demand.

A detailed description of the methodologies is set out in Annex 3.

4.17 Affordability varies across the sample of respondents. Outright ownership affordability ranges from 2% in London to 11% in the South Midlands. However, based on the threshold valuation for a 25% equity stake in the average property a much higher proportions of tenants can afford to buy under this calculation (ranging from 32% in London to 86% in Newcastle).

Table 4.5: A Normative calculation of affordability

Equity Purchased	London¹⁹	Newcastle	South Midlands²⁰	South West	North West
Income required to purchase 100%	£34,215.21	£14,608.53	£21,926.82	£28,663.71	£19,877.55
Proportion of inactive tenants in sample with income at this level ²¹	1.6%	10.9%	14.5%	3.9%	10.5%
Income required to purchase 25%	£12,465.39	£5,487.20	£7,893.08	£10,259.98	£7,219.39
Proportion of inactive tenants in sample with income at this level	35.0%	79.4%	76.3%	44.2%	61.6%

- 4.18** This calculation demonstrates that affordability affects considerably more households in London and the South West under Social HomeBuy where housing market conditions are tighter, than in the other regions.
- 4.19** This is a normative view of how many could afford. It does not take into consideration household preferences for ownership or the type and location of the property they live in or may wish to purchase.
- 4.20** The alternative view is to consider expressed preferences amongst those who are notionally in a position to purchase their property. There are 99 households in the sample of tenants who are in employment and aged under 55. 38 of these are already active in the Social HomeBuy scheme leaving 61 who can be seen as potential purchasers under the scheme. Of this group, only 35 want to be home owners, the majority of whom see themselves as likely to buy in over two years time. Turning to the type of property they would buy, 19 would consider buying their current property.
- 4.21** Although the survey data does not enable a quantification of likely uptake of Social HomeBuy or other home ownership schemes, it does highlight the qualitative aspects which affect tenants' decisions to become home owners:
- It remains clear that affordability remains a barrier in high house price areas where preferences to buy may be high amongst those unable to currently afford. They referred to positive features of the property and area and to affordability as their major barrier.

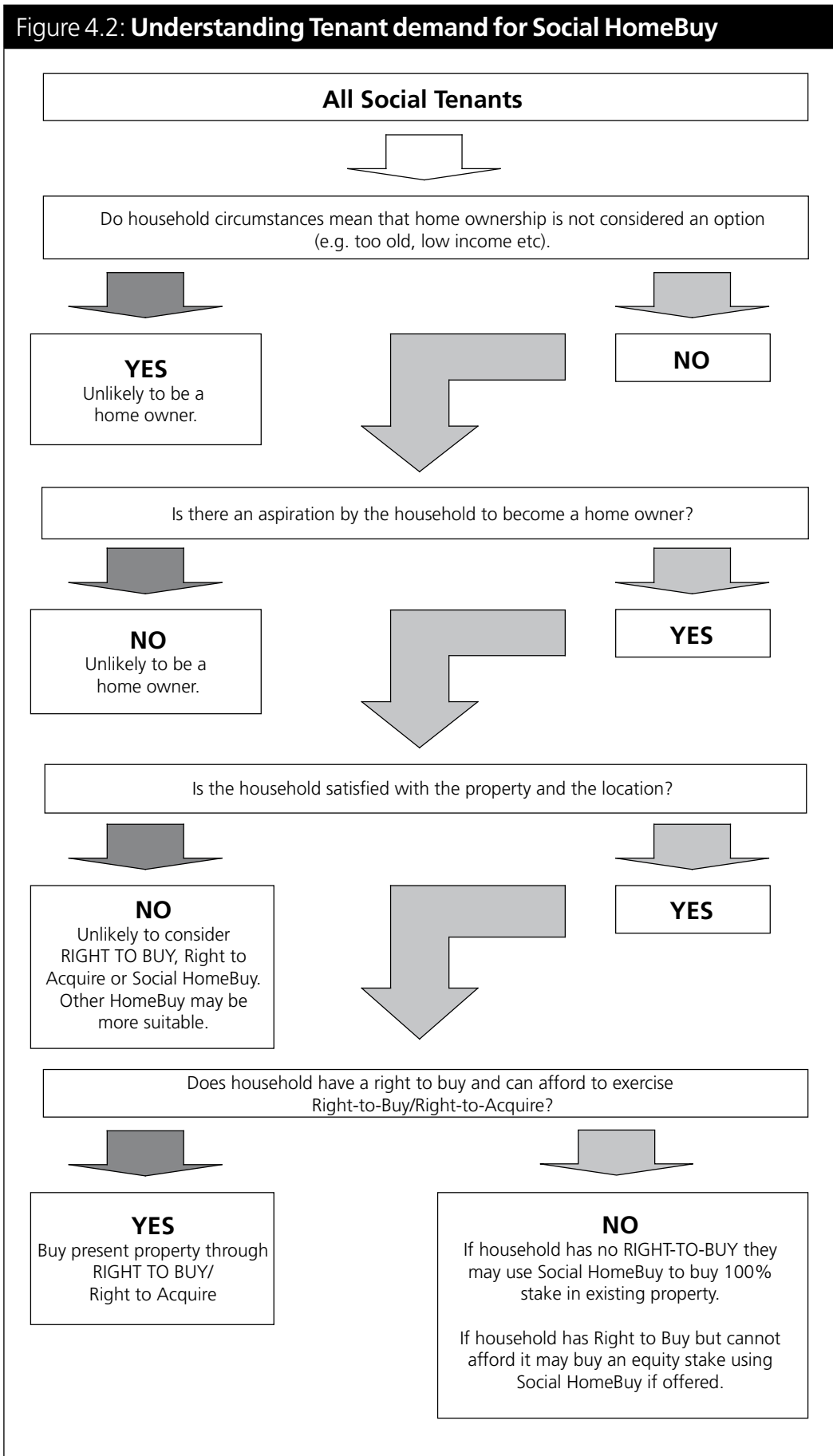
¹⁹ London calculations based on Southwark Right-to-Buy valuations which are lower than those in Kensington & Chelsea and Hammersmith & Fulham.

²⁰ South Midlands calculation based on Wellingborough RIGHT-TO-BUY valuations.

²¹ Excluding respondents who answered don't know or refused the question on income.

- Some tenants who appear to be able to afford to buy under Social HomeBuy have no desire to become home owners.
 - Some tenants would buy but either the property or the neighbourhood they are currently living in is not attractive enough to them for them to buy. In this situation improving affordability alone seems unlikely to alter the judgement about whether to buy.
- 4.22** This indicates that calculations of affordability based on income or employment alone are a poor guide to household attitudes and behaviour; there appear to be prior considerations before affordability is considered. Tenants who are in a position to buy rarely rule out purchase of their current home because it is too costly but rather rule it out (if they do so) because of prior considerations, or push factors, related to the property and location. These push factors are not easily balanced by the incentives presently available. Issues about discount levels, rent payments on retained equity and responsibility for repairs costs and arrangement are important. If these push factors are to be outweighed the incentive package requires reconsideration, as outlined in chapter five.
- 4.23** We could suggest a sequential process which progressively reduces the potential demand (Figure 4.2). This indicates where some modification to the scheme could increase uptake by tenants.

Figure 4.2: Understanding Tenant demand for Social HomeBuy



Conclusions

4.24 The views presented by both landlords and tenants highlight the various benefits and limitations of the Social HomeBuy product. It is clear that whilst there has been an enthusiastic take-up of the product by some landlords and tenants, that there are a number of common barriers which are limiting the impact of Social HomeBuy. This chapter of the report draws out the synergies between the landlord and tenant perspectives on the product.

4.25 The main benefits of the scheme are:

- Landlords and tenants can both benefit from the scheme.
- Tenants recognise the opportunity that Social HomeBuy provides to facilitate their accessing home ownership and enabling them to meet their housing aspirations. Where tenants like their current home and location this enables them to meet their aspirations without the need to move. It is of added benefit in enabling 100% equity purchase for those tenants for whom the right to buy or right to acquire is unavailable.
- For those tenants who want to gain the financial benefits of home ownership but for whom outright ownership is unaffordable, Social HomeBuy provides an opportunity to build a stake in the property and a financial asset.
- The scheme enables landlords to further assist their tenants in meeting their aspirations whilst simultaneously retaining more mobile tenants within their communities and enabling reinvestment in new social lets.

4.26 However, there are some significant barriers to the development and continued take-up of the scheme. These can be summarised as follows:

- Home ownership is an unattractive option for some households
- Affordability amongst social tenants
- Repairs and maintenance responsibilities post-sale
- Attractiveness of property and location for sale
- Unattractive comparison with the Right-to-Buy
- Limited demand for shared ownership
- The product is complex
- Availability of product to tenants

These issues are outlined below:

Home Ownership is an Unsuitable Option for Some Households

- 4.27** It is recognised by all that for some tenants renting is the preferred and most suitable housing option. This is an expressed judgement by the tenants themselves and combines rational considerations with preferences and feelings about suitable housing options. Therefore whilst a normative judgement about affordability may suggest that tenants could purchase their property, the expressed demand may be different based on the issues raised above. For example, during the focus groups in Central London, younger tenants were indicating that they were not ready at that stage to buy a property having only recently become an independent householder. While they were positive about ownership at some point in the future it was not the step they wished to take at the present time.
- 4.28** There are key regional differences in this pattern. Whilst in the South there is a greater propensity to want to be home owners, tenants in the North are more cautious. Landlords in these areas are as aware of these preferences and in some cases feel that once the product has been offered demand may be exhausted relatively quickly.
- 4.29** Finally there is a group of tenants who have previously been home owners. For the majority of them becoming a home owner again is not highly desirable and they appear more cautious about taking steps towards this.

Affordability

- 4.30** It is recognised by both landlords and their tenants that affordability of home ownership is likely to be limited. Landlords point to the economic profile of their tenants both in assessing the opportunity to participate in Social HomeBuy and in reflection of the uptake of the product once available to their tenants. They recognise that Social HomeBuy will offer an opportunity to some tenants in creating a lower income threshold through a reduced purchase valuation. However, the expectation is that even by reducing the income required to part purchase, take-up will be limited both by the number of tenants who are in employment and have incomes sufficient to meet even these levels and by tenants own caution with regard to housing costs.
- 4.31** Tenants themselves also indicate that affordability remains the most crucial factor in their consideration of Social HomeBuy. The survey results confirm the perceptions of landlords that a limited number of tenants are likely to be in a financial position to purchase the property that they currently reside in. Of those tenants who had applied but subsequently had their application refused, the majority cited financial reasons for the refusal. In addition, of those tenants who are inactive, affordability is the over-riding

reason why they have not considered applying for Social HomeBuy. Even where tenants have not had a financial appraisal, a significant proportion state that buying the property that they are in would be unaffordable to them.

- 4.32** Our calculations suggest that affordability will be a significant factor in limiting demand for Social HomeBuy. As the rental element of the deal is based on up to 3% of the property valuation it is possible that tenants purchasing smaller equity shares may, in a rising market, pay a higher monthly housing cost than tenants who purchase larger shares because over time the rental element would increase. Tenants purchasing larger shares will be more affected by changes in interest rates. This will further suppress demand for the product.
- 4.33** There are clear concerns by both landlords and tenants about the impact of changes in both rent levels and interest rates on housing costs and whether marginal home ownership is sustainable in the long term despite requirements for the landlord to carry out checks on current and future affordability.

Repairs and Maintenance Responsibility Post-Sale

- 4.34** The second most significant barrier to take-up of the product is the passing of responsibility for repairs and maintenance to tenants on sales of part equity. Landlords have identified this as one of the main drawbacks of the scheme and something which they perceive as limiting potential demand. Equally, when asked about the drawbacks of Social HomeBuy, tenants refer to the repairs responsibility as a factor against proceeding with the scheme. Tenants view the repairs issue in relation to rent on the retained equity and question what they receive in return for the rent if responsibility for repairs is transferred to them.

Attractiveness of property and location for sale

- 4.35** Unlike the other HomeBuy products, Social HomeBuy is a product for sitting tenants to part-purchase their current property. Demand is therefore based on the attractiveness of the property and the location it is in as much as the financial circumstances of the household. It is recognised by landlords that some properties are in a poor condition and unattractive for tenants to want to part purchase, especially in light of the transfer of repairs responsibilities and costs to the tenant. Some landlords have identified that it is the stock on more residualised estates where stock condition is worse that has been targeted by them for sale through Social HomeBuy. This is likely to reduce demand for the product.

Comparison with Right-to-Buy

4.36 A clear drawback for tenants of local authorities and LSVT associations who have a retained Right to Buy is the unfavourable comparison of Social HomeBuy in relation to the Right to Buy. Some tenants have suggested that the distinction between Social HomeBuy and the Right to Buy is artificial:

"I don't understand why you have to have two schemes. You could have Right to Buy and they could give you the two different options on Right to Buy. Do you want to buy 100%? Do you want to buy 25%? The Social HomeBuy is the same thing as Right to Buy but you can decide what share you want to buy. A bit of bureaucracy there." (LA Active Tenant, London)

4.37 Discount levels available under Social HomeBuy are not as generous as those under the Right to Buy and at the time the research was undertaken tenants were only able to receive discount on the initial equity stake purchased. Where the Right to Buy is available to tenants, landlords assume that this will be the most attractive option. There may be a pool of local authority tenants who cannot afford to purchase outright and for whom Social HomeBuy will be a possibility.

4.38 Where Social HomeBuy is attractive is to those tenants for whom a Right to Buy or a Right to Acquire is not available. The scheme provides an opportunity to own provided that the landlord makes the scheme available in those circumstances.

Limited demand for shared ownership

4.39 There is an overall impression that few tenants have either an understanding of shared ownership or a desire to become a shared owner. In London and the South East the propensity towards shared ownership is higher, reflective of the longer term affordability problems of the region and the acceptance of households for this form of tenure. However, attitudes to shared ownership remain lukewarm in the rest of the country. Social HomeBuy as a form of shared ownership may have limited take-up, particularly in the local authority sector.

4.40 Evidence from sales data to date illustrates that Social HomeBuy is predominantly being used by sitting tenants to purchase their current property where the Right to Buy is not an option. The majority of sales have seen the purchase of 100% of equity. Some landlords have reported that this is the result of a requirement to seek a maximisation of equity purchased according to tenants' income but it also reflects tenants' desire to purchase the property outright.

The Product is too complex

4.41 Overall the scheme is seen as being too complex and not easily understood. In response to our research, tenants and, equally often, officers have displayed a misunderstanding and lack of knowledge about Social HomeBuy, usually confusing it with other HomeBuy products. Tenants have queried the clarity of information provided to them indicating a need to rationalise informative material used by landlords. However, if officers are unable to understand the product there is likely to be an increased likelihood of confusion for the tenant.

Availability of product to tenants

4.42 The product itself has been applied selectively by specific landlords and in a number of cases to particular property types and locations. As explained above the basis for these decisions is varied. Yet the impression overall is confusing for the tenant. Unlike the Right to Buy which is available as a right to secure tenants, Social HomeBuy is even more selective than the Right to Acquire. There may be other tenants who would be interested in the scheme but for whom their landlord is not participating or has not included their property in the scheme.

5. Considerations for Further Development of the Scheme

KEY CONSIDERATIONS

Considerations for Improving Landlord Participation

- Improving co-ordination of Social HomeBuy to provide common publicity materials and co-ordination of the scheme.
- Facilitating development of new social housing through a “capital receipt top-up” to realise the full value of a property which is part-bought by a tenant.

Considerations for Improving Tenant Take-up

- Improved discounts for tenants by linking the discount either to the levels available under the Right to Buy or at a proportion of the property value.
- Consideration should be given to encouraging landlords to use the flexibility available to them to charge a rent on the equity retained which ensures the attractiveness of the scheme to future buyers.
- Ensuring a contingency is put in place for times of tenant hardship to prevent unnecessary repossession of property and promote sustainable home ownership.
- Consideration of the sharing of repairs responsibilities between tenants and landlord as a means of improving the offer to tenants.
- Better information should be provided to inform tenants of the potential repair costs.
- Additional consideration should be given to how tenant-purchasers can be insulated against large costs after this time.
- Encouraging landlords to actively use the flexibility available to them to facilitate tenants to purchase a property other than the one they are currently living in.
- Consideration should be given to developing a means of encouraging tenants to develop savings and deposits in assisting them to access Social HomeBuy and other home purchase options.

- 5.1** This chapter draws together the key issues that have emerged from the research and highlights important considerations for the next phase of the scheme. These particularly relate to removing the barriers to participation identified for both landlords and tenants.

- 5.2** Social HomeBuy is regarded by landlords as an important niche product within a strategy for meeting housing needs and aspirations. It helps to provide choices for some tenants and addresses the issues raised in the Hills review of social housing²². It appears particularly valid for younger households in employment but who live in high house price areas in London and the South East. It both reduces the risk that these households over-extend themselves financially in order to access home ownership and enables them to increase their share if their circumstances improve.
- 5.3** In order for Social HomeBuy to play a fuller role in housing strategies, two areas for attention have been identified in this report. These are:
- Improving landlord participation.
 - Improving attractiveness to tenants.

Improving Landlord Participation

- 5.4** There are clear barriers to the participation of landlords in the scheme. For Social HomeBuy to be rolled out by more landlords these need to be addressed. The priority should be in improving the incentive for landlords to participate. There is a distinction in some of these recommendations between local authority landlords and RSLs.
- 5.5** The existing incentive for the majority of landlords will be the ability to replace stock lost through sales. As most social landlords have local political pressure not to lose existing stock the ability to replace stock could be enhanced. However, at the present time the volume of sales is too small to facilitate significant stock replacement and the requirements of partner local authorities for replacement priorities do not enable a like for like solution. For example, one RSL in London suggested that 10 sales at 100% equity are required for nine like-for-like unit replacements but that their partner RSLs require family units rather than one or two bedroom flats and that development costs are rising partly through limited land availability.
- 5.6** The solution to this problem is complex. Social HomeBuy does not operate in isolation from other housing policies either at a local or national scale.

²² John Hills – Ends and Means: The Future Role of Social Housing in England (see: <http://www.communities.gov.uk/housing/strategiesandreviews/hillsreport/>)

Assessing Demand

5.7 Defining demand is an important starting point. Local authority housing strategies should identify whether there is a cohort of households:

- a. who are presently tenants;
- b. who want to be home owners; and
- c. for whom home ownership at present is unaffordable.

As identified in chapter 4, this group may benefit from Social HomeBuy or other low cost home ownership schemes. This assessment will provide a basis for decisions about whether to operate Social HomeBuy and any likely stock loss associated with low cost home ownership schemes.

Facilitating Investment in Social Housing

5.8 Where stock is lost it is important to balance local needs and ensure that delivery mechanisms are in place to compensate for any reduction in capacity through new housing investment. Although Social HomeBuy provides capital for reinvestment in new social lets, the small volume of sales and the resultant limit on capital release means that the reinvestment opportunities facilitated are limited. Consideration should be given to ensuring that the National Affordable Housing Programme is aligned to these needs. However, local authorities will play a key role in ensuring that across their housing market areas that a range of partners can deliver against these needs.

5.9 One solution to enable new development could be through more innovative funding solutions. This will in part require investment by central government and may be incorporated into existing capital funding streams. A possible development of this may be a "capital receipt top-up" either in the form of a direct cash payment or for local authorities an additional capital allocation. It could operate as follows:

- Matching of the capital receipt by government to the full 100% value. e.g. if 50% of equity is sold to the tenant, the LA or RSL would receive the equivalent of 50% plus the amount of any discount provided to ensure that the full cost of the unit is recovered. The landlord would be required to use the capital receipt for the development of a new social housing unit.
- An additional means of ensuring that the capital receipt top-up is incorporated into existing funding streams, or to add value to the National Affordable Housing Programme is to take the capital receipt top-up into consideration in the bidding for social housing grant in later rounds.

5.10 Alternatively, consideration could be given to the reuse of capital receipts for reinvestment in existing stock. Some landlords have viewed Social HomeBuy as a means of gaining investment in stock for tenants. This strategy may not be effective if tenant preferences expressed in this research are correct and the quality of the property and estate are poor. Allowing landlords to reuse receipts to facilitate their obligations under the decent homes standard may enable a more productive use of receipts and encourage participation by landlords.

Set-up Costs

5.11 An additional disincentive for a large number of landlords is the cost of setting up and running the scheme. Presently the number of sales seen by landlords has not sufficiently justified the costs of establishing systems and employing or training staff unless a large team already exist – dealing with Right to Buy, Right to Acquire and HomeBuy. It is clear that most RSLs lack such a team and this places a heavy burden on their resources compared with the return even though landlords can recover their administration costs from the capital receipts of sales under Social HomeBuy.

5.12 For local authority landlords there is an additional issue in that every local authority has to develop its own scheme. Unlike the Right-to-Buy, Social HomeBuy is being developed ad hoc by individual local authorities. Presently there is no common publicity and, pertinently, the legal processes are being devised individually by local authorities to meet their own perceived needs. This raises the costs and the time involved in setting up the scheme for local authorities. There are therefore three areas that merit consideration:

- Firstly, Communities and Local Government could consider developing common guidelines and a toolkit for local authorities based on good practice from participating landlords.
- Secondly, national consolidation of the scheme is essential to improve the implementation, delivery and effectiveness of Social HomeBuy. This is likely to take two forms:
 - A consolidation of Social HomeBuy with the Right to Buy could streamline the system bringing Social HomeBuy into line with the present Right-to-Buy scheme. This would require modification to existing, or the introduction of additional legislation, but would make the process much more straightforward and allow national approach.

- HomeBuy Agents or the new Homes and Communities Agency could be drawn upon to operate the scheme at a sub-regional level. This would enable common publicity, advice and provide economies of scale for operating the scheme. The agents would be subsidised by government rather than the present system of landlords funding the initial cost before recouping from the sales receipts.
- Thirdly, consideration should be given to opening the existing Communities and Local Government local authority forum to a wider audience, including RSLs, and tailoring it to the needs of different groups of landlords. This would be an opportunity for local authorities and RSLs to learn from one another about current procedures. Once they have decided to participate Communities and Local Government should support in-house workshops for a wider group of staff in that local authority.

5.13 These significant changes may assist in promoting wider adoption of the scheme by landlords and more effective delivery. However, other factors may be too large to overcome through these and participation may remain limited, particularly for smaller landlords to whom stock lost has both a financial implication for business plans and impacts negatively on their ability to meet local housing need.

Improving Attractiveness to Tenants

5.14 From the results of the survey and focus groups it is clear that the barriers for tenants are about uncertainties in the housing market and an anxiety about the sustainability of home ownership for the household. The format of the current scheme has the propensity to place tenant-buyers in an exposed economic position. As uncertainty remains about interest rates, tenants may be reluctant to commit to a flexible cost. The rental element is based on property valuation and there is a potential that the rent payable will continue to increase as property values continue to increase. For those at the margins of home ownership these are difficult choices to make without any form of security to assist them should their economic position change.

Affordability

5.15 The options available at present in Social HomeBuy bring it within the reach of most tenants who are likely to be interested in the scheme in most parts of the country. However, in very high price areas with rising property values a smaller equity entry point could assist a small number of tenants. This would only be the case if total housing costs remained similar to existing levels for the household. The present target rent of 2.75% of market value

of the retained share is welcome in attracting tenants. Any increases in these rents should be limited as presently to RPI plus 0.5%.

5.16 However, rising property values may impact unfavourably on households who access the scheme at a later date. If the present rental formula is applied consistently to both existing and new tenant-purchasers, newcomers could face a situation where they face a higher rental payment for the same proportion of equity as an existing tenant-purchaser. Table 5.1 illustrates an example of this where two tenants each purchase a 50% equity stake in their property but a year apart (Table 5.1). Because of the formula used, if house price inflation is higher than RPI, the rent paid by the tenant who purchases in year two is higher than the rent of the purchaser from year one yet they both receive the same amount of benefit for their rent. This would require some reconsideration of the rental formula to ensure that rental element charged between tenants is equitable. If property values continue to rise the target rent and/or rental formula may need to be reconsidered to ensure affordability for potential new tenant-purchasers in future years.

Table 5.1: Possible Implications for Rental Increases of Property Value Inflation for 50% equity stake purchase

	Year 1	Year 2	
	Household 1		Household 2
Purchase Property Value	£100,000		£110,000 (Assuming house price rise of 10%)
Present Property Value	£100,000	£110,000	£110,000
Rent on 50% equity	£1,375	£1,423 (Assuming RPI of 3%)	£1,513

Sustainability

5.17 There are a number of considerations related to the access and affordability of Social HomeBuy. Consideration is required to reduce the impact of sudden change. This can take two forms:

- A rent free period enabling tenants to reorganise their finances.
- A hardship fund for extreme episodes of financial vulnerability.

As the landlord retains an interest in the property it is important that they are able to act responsibly and prevent unnecessary eviction of the household. However, assistance should not be limitless. Both the rent free

period and the hardship fund would be limited to a fixed period during which the household will be required to find a way out of their financial difficulties, including where necessary the sale of the property. Of course this will also require the landlord to facilitate an efficient sale process. An extension of this facility to Social HomeBuy tenant-purchasers could be considered.

Repairs

5.18 With regard to repairs there are 3 options which could be considered to change the present system:

- Repairs costs could be apportioned on a pro-rata basis according to the percentage of equity owned by the tenant.
- A system whereby if repairs are over a specified amount, costs are covered immediately by the landlord but are repaid by the tenant over a period of time. As the landlord retains a financial interest in the property this would ensure that repairs are undertaken when needed.
- Repairs could remain the responsibility of the landlord and covered by the rental element paid by the tenant.

5.19 Tenants do require increased certainty about likely costs of repairs in the short-term, particularly where landlords have already programmed large scale maintenance and where costs are unavoidable for the tenant, e.g. leaseholders in flatted accommodation. This is covered through section 125 of the Right to Buy regulations and the same principle applies to Social HomeBuy purchases. Consideration could be given to a policy where any repairs incurred in excess of, for example, £2,500 in the first five years after sale would not be incurred by the tenant.

5.20 Provision also needs to be made to assist tenant-purchasers meet the costs of any repairs which arise. The apportioning of repairs costs in-line with the equity owned by the household should be considered. This will ensure fairness of responsibility, contribute to transparency with regard to rental payments and facilitate financial sustainability for the household. The availability of interest-free loans and the development of hardship funds are already established practice amongst some landlords and in other areas of housing policy, e.g. private sector housing renewal. Good practice lessons could be employed from these. Landlords should also consider making more use of sinking funds to help purchasers stagger tenants' financial contribution to major repairs.

Incentivised Savings

- 5.21** It remains unclear to many tenants what is gained for the rental element paid on retained equity, i.e. there is no repairs service and therefore what is offered in return for rent. A possible solution is to create an incentive for tenants to continue to pay rent by creating a form of incentivised savings system. Our suggestion is to build on existing rent plus schemes on the retained equity. Under this the tenant is able to earn a share on the appreciating value of the property and the retained equity. This requires the development of a formula which will ensure that as property values increase, the tenant is able to acquire additional equity shares in the property. e.g. for every five years (as long as rent, repair and mortgage responsibilities are kept to) the tenant would earn an extra 1% of equity in the property. A variant of this equation is already used in the appreciation of Right to Buy discount by length of tenancy. The rent payment may then be viewed as not such dead money.
- 5.22** The rental element does need to be reviewed in light of rising property values. Presently, if the property valuation continues to rise, the rental element charged on the retained equity will rise at a greater rate than the mortgage repayment element. In a rising market this may lead to a situation where households who purchase a lower equity stake may face higher overall housing costs than a household who are able to purchase a larger equity stake because of the higher element of rent they are liable for. Consideration should be given to implementing a sliding scale within the rental formula so that the lower the level of equity purchased, the smaller the percentage of retained equity used for the rental calculation. E.g.: for 75% equity purchased the rental formula would be 2.75% of the retained equity but for 25% of equity purchased it may be 1.5% of retained equity. This would provide an extra incentive to lower income tenants to consider the scheme.

Incentivised Staircasing

- 5.23** In addition to encouraging tenants to save money towards home ownership, for those tenants who have become part-owners through Social HomeBuy, incentives are needed for the tenant to maximise the equity stake they initially purchase and to staircase upwards through subsequent equity purchases. Consideration could be given to rent free elements which would facilitate the maximisation of equity purchased. This could operate in two ways:
- A rent free element of equity (e.g. Notting Hill Housing Group (NHHG)) which would enable the tenant to potentially increase the initial equity stake purchased by reducing the relative cost of the rental element. This

would be similar to the model operated by NHHG which has proved successful in facilitating maximum equity purchase in a high value market area. The rent free element may be up to 25% of equity;

- A rent free period (e.g. first year) which would help tenants accumulate resources to purchase an additional equity stake. Consideration could be given to a link with a savings bond as part of this option.

5.24 In both cases it is likely that consideration will need to be given to a national fund to facilitate the system.

Discounts

5.25 As already identified, the discount on offer to tenants under the Social HomeBuy does not appear to tenants to be generous enough to attract them. The current discount within Social HomeBuy is also seen as complex and, because it is based on the Right to Acquire levels, it is not attractive for tenants who have a Right to Buy. A simpler formula could be considered for local authorities which links Social HomeBuy discounts with Right-to-Buy. A further suggestion linking discount to the property value was made by one respondent:

"I think it would work better if they offered a percentage discount. I think it would work better for people in more expensive properties. I mean it wouldn't have worked so well for me but obviously I've got friends up here that live in houses that just weren't interested because for them the discount wasn't worthwhile." (Purchaser, Ex-HA, South Midlands)

Mobility

5.26 None of the considerations above address the issues of households not wanting to buy the property that they currently live in. There is a need to encourage mobility within the social rented sector which can facilitate the take-up of Social HomeBuy but at the same time assist landlords in managing their stock and continuing to meet local housing needs. Landlords already have a discretion under Social HomeBuy to offer tenants an alternative property for purchase. Landlords should be encouraged to use this flexibility and in doing so help meet household aspirations and achieve more efficient stock use, e.g. in reducing under-occupation of larger properties.

5.27 Any consideration of such a mobility scheme would need to be carefully developed so as to ensure that it does not become a means for the cherry picking of remaining popular stock and further contributing to

the residualisation of the sector. Transfers to facilitate Social HomeBuy for tenants will need to be managed fairly within a wider allocations framework.

Monitoring of Social HomeBuy

5.28 Evidence related to many of the issues raised in this report will increase with the experience of the operation of the scheme. In order to capture this information effectively and to enable a continuing constructive review a continuous monitoring of the scheme referring to both local authority and RSL operation of Social HomeBuy is essential. The key issues for monitoring include those identified in this report.

Annex 1 – Research Methodology

Key Stakeholder Interviews

We have conducted interviews with 10 stakeholders. This includes:

- Key stakeholders at a national level including Communities and Local Government, the Housing Corporation, the National Housing Federation and Council for Mortgage Lenders
- Interviews with early participating landlords including local authorities and the four pilot RSLs
- Selected interviews with non-participating landlords.

This has provided a useful overview of the development and early implementation of Social HomeBuy.

Email survey of Landlords

This provides basic information on participation in Social HomeBuy and some initial indications of success and barriers to take up. Whilst the picture of which RSLs are participating in Social HomeBuy is clear through the funding arrangement, the participation by local authorities is limited and the reasons for non-participation are unclear. In order to address this gap and to add to the picture of the development of the policy we sent a simple and short (maximum 10 minutes to complete) email survey to all stock-holding local authorities to understand the level of participation in Social HomeBuy, the reasons why some local authority landlords have chosen to participate, the reasons why others have chosen not to and the advantages and disadvantages of both situations. The survey was sent to:

- All stock holding local authorities.
- All RSLs which received funding.
- The top 75 RSLs (by stock holding).

The survey was sent to all chief housing officers in local authorities which retained their own housing stocks (i.e. had not completed a full stock transfer) as recorded by the Government Office in the relevant region. The survey was sent to all RSL Chief Executives except where a specific Social HomeBuy contact was known to the Housing Corporation. The email survey was sent out twice following an initial low response: once in December and for a second time in March. The response rates are indicated in table A1.1. Overall the response rate is good and among housing associations is high. As the quality of the responses has also been good the results can be used with confidence.

Table A1.1: Email Survey Response Rate

	Initial Survey	Follow up	Total Response	%	Base
RSL	29	20	49	61.2	80
LA	48	37	85	40.3	211

Case Studies

The evaluation utilised a case study approach to explore the implementation of Social HomeBuy, tenant take-up and potential tenant demand. A range of areas was selected to reflect different housing market types and to include participating and non-participating landlords. In London the case studies covered a wide housing market area and three social landlords. In the other case study areas the study was confined to local authority boundaries. The characteristics of the case study areas are indicated in table A1.2.

Table A1.2:

Region	Inner London		South Midlands		South West	North West	North East	
	Hammersmith & Fulham	Kensington & Chelsea	Southwark	Kettering	Wellingborough	Bath & NE Somerset	Chorley	Newcastle
Tenure Structure (Source: 2001 Census)								
Social Rented	32.6%	26.0%	53.5%	13.6%	19.6%	14.3%	14.4%	33.4%
Number of Right-to-Buy Sales: 1980-2006 (Source: Table 648 Sales of Council Houses – CLG Live Tables)								
All	5217	2071	15462	2836	3320	485	1683	12458
Average Right-to-Buy Valuation								
2000/01	£103,908	£135,114	£66,644	£34,091	£40,025	£50,592	£39,761	£31,770
2005/06	£160,874	£279,282	£135,753	£87,106	£85,744	£111,323	£78,571	£60,130
% Change	54.8%	106.7%	103.7%	155.5%	114.2%	120.0%	97.6%	89.3%
3.5 times income needed (before discount)	£45,963.88	£79,794.87	£38,786.63	£24,887.56	£24,498.25	£31,806.57	£22,448.98	£17,179.96
3.5 times income needed (with maximum discount)	£41,392.45	£75,223.44	£34,215.21	£22,316.13	£21,926.82	£28,663.71	£19,877.55	£14,608.53
3.5 times income needed for 25% stake (with maximum discount)	£14,824.91	£25,946.85	£12,465.39	£8,021.07	£7,893.08	£10,259.98	£7,219.39	£5,487.20
Average House Price (Source: Land Registry – April 2007 Average Prices)								
2000/01	£262,793	£414,966	£192,900	£83,080	£83,080	£121,124	£55,669	£62,820
2005/06	£369,790	£589,037	£287,279	£146,106	£146,106	£209,103	£118,553	£136,663
% Change	71.1%	70.4%	67.1%	56.9%	56.9%	57.9%	47.0%	46.0%

Social Survey

The survey work was carried out in five localities which are referred to as case study areas throughout this report. These five areas were selected to enable us to assess whether differences in local housing market situations have a significant influence on attitudes to Social HomeBuy and we have included areas which partly reflect the variation in housing markets and house prices across England. The five case study areas selected were London (Southwark, Hammersmith and Fulham, Kensington and Chelsea); the East Midlands Growth area (Kettering and Wellingborough); the North West (Chorley); the North East (Newcastle); and the South West (Bath and North East Somerset). The latter was also selected to ensure that we included a significant rural representation within the study. In each of these areas we identified one or more social landlords whose tenants would be included in the survey. In the South West we referred to only one stock transfer landlord (Somerset Community) and in the North East only one local Authority (Newcastle) but elsewhere we have one or more local authority and RSLs.

This group of landlords also includes local authorities and RSLs which were actively engaged in the Social HomeBuy scheme and local authorities that were not yet involved. This enables us to analyse responses according to whether or not the landlord was an active participant. Where landlords are participating it is more likely that tenants will have received information about the Social HomeBuy scheme and as a result will have given it some consideration.

By including some landlords actively involved in Social HomeBuy we were also able to include a separate sample of tenants who had actively expressed interest in the scheme. This could have been a request for more information, could have been a formal application and could indeed have resulted in an application being processed by the local authority. We identified the addresses for this group through their landlords although they were not identified separately for the interviewer and the same questionnaire was administered this was designed to ensure that we had a sub-sample of actively interested tenants. Their insights into the scheme are likely to be different reflecting a greater involvement in processes of application.

Because the Social HomeBuy scheme is at an early stage the number of actively interested tenants is relatively small. Out of the 610 households interviewed in this study, 6 had completed a purchase under Social HomeBuy and the analysis refers to the 604 who were still tenants at the time of interview. This includes 103 who fell into the “active” group. The remaining 500 were selected from within the tenant population of each local authority, taking no account of whether they had expressed an interest or otherwise in Social HomeBuy. In order to facilitate the interviewing process the sampling frame to generate these interviews was based on clustered addresses within selected estates following discussion with the landlord organisation. Within these estates we sought to complete a quota of interviews to achieve a representative sample. The purpose of the survey, rather than to achieve strict representativeness is to understand the key barriers to uptake of Social HomeBuy and the key dimensions affecting attitudes to Social HomeBuy. In a situation where there is a new policy being developed and awareness of it is changing over time the survey has been designed to explore the attitudes of different groups and to understand these attitudes rather than to calculate precise proportions of the tenant population that fall into different categories in terms of likely interest in the scheme. Strictly the survey data will not be representative of the tenant population in the local authority as a whole; however, we have no reason to believe that there are any significant biases and we make comparisons with the tenant population in England as a whole to identify where the profile of our achieved sample differs significantly from this.

Annex 2 – Additional Survey Results

Overview of Survey Results

The earlier parts of this report have set out some of the likely influences upon tenants' attitudes to Social HomeBuy. These include the individual and household circumstances of tenants: their age, income, household structure. They also include expectations about moving, the housing that tenants are living in (the type of dwelling the views about how satisfactory it is and how marketable it would be if it was purchased), preferences to move elsewhere, the nature of the local market and affordability associated with this (house prices and expectations about the future). Whether their landlord participates in the Social HomeBuy pilots will also be important and, related to this, the information that tenants have received; the understanding that tenants have of the operation of the scheme and of their position within it; and the alternative opportunities for house purchase through the Right to Buy, local mobility schemes and other routes. The attractiveness of the Social HomeBuy scheme is not likely to be the same for all tenants and there are number of fundamental factors that are likely to influence attitudes towards the scheme. Levels of information about the scheme are also likely to vary significantly between tenants.

In order to better understand the attitudes of tenants towards the Social HomeBuy scheme social survey work designed to explore the attitudes of tenants towards the scheme has formed an important part of the current research. We have carried out questionnaire based face-to-face interviews with some 600 tenants in different parts of the country.

Interviews were completed with 604 households and these were distributed as follows:

- 147 in London
- 113 in Newcastle
- 110 in East Midlands
- 115 in South West
- 119 in North West

As outlined above, whether we refer to any one of these localities or add them together, we would not expect the households interviewed to be representative of the tenant population. The sample was drawn from selected landlords and estates and households that had expressed an active interest in Social HomeBuy were overrepresented. The sample provides a robust basis to explore the various factors affecting attitudes to social HomeBuy and to home ownership.

Comparison of Sample with Survey of English Housing

Before considering the data from the survey it is valuable to have some picture of which sections of the population are most strongly represented in the achieved sample. This is most effectively done by comparing key household characteristics for the achieved sample with the data for social rented tenants in the Survey of English Housing. In the following sections which describe the household characteristics of the achieved sample comparisons are also made with SHE data and a brief summary of the differences is included below.

Dwelling Type

Taking the sample as a whole the distribution between the main property types is set out in Table A2.1.

Table A2.1: Proportion of Households in Principal Dwelling Types		
	SH Survey	SEH Comparison
terraced housing	37	30
semi-detached houses	21	27
purpose built flats or maisonettes	34	36

Source: SEH 2005/06

The proportion in flats and maisonettes was highest in London and lowest in the East Midlands and South West. The proportion in terraced housing was highest in the East Midlands and the North West and lowest in Newcastle. Overall the sample included 207 tenants living in flats or maisonettes. Approximately one third of these lived on the ground floor and another third on the first floor and the majority of the remainder lived on the second or third floor of a block of properties.

The comparison with data for social rented households in the Survey of English Housing indicates that although the split between purpose built flats and houses in the present survey is very similar to the national picture terraced housing is over represented and semi-detached underrepresented.

Most tenants were living in properties of two, (37%) or three (41%) bedrooms. Nineteen per cent were in a property with one bedroom.

Household Size

Table A2.2 sets out the distribution of households by size and includes a comparison with social rented households in the Survey of English Housing.

Table A2.2 Number of People in Household		
	SH Survey	SEH Comparison
1 person	31%	43%
2 persons	27%	26%
3 persons	16%	15%
4 persons	14%	10%
5 persons	7%	5%
6 persons or more	4%	3%

Source: SEH 2005/06

This indicates that the present survey has a very similar representation of two and three person households, it under represents one person households and over represents larger households (four or more persons).

Age

Table A2.3 presents the age distribution of the person interviewed in the survey and includes a comparison with the age of the Household Reference Person in social rented households in the Survey of English Housing.

Table A2.3: Age of Respondent		
	SH Survey	SEH Comparison
16-24	8%	6%
25- 34	17%	14%
35-44	21%	19%
45-64	29%	29%
65 and over	26%	33%

Source: SEH 2005/06

This indicates that the present survey includes considerably fewer elderly persons (over 65) and that the three younger age groups are each slightly overrepresented.

Table A2.4 summarises data on the employment status of the household reference person and makes a comparison with the equivalent person in social rented households in the Survey of English Housing.

Table A2.4: Employment Status		
	SH Survey	SEH Comparison
Working full-time	19%	22%
Working part-time	10%	10%
Unemployed	11%	6%
Retired	27%	33%
Other	32%	30%

Source: SEH 2005/06

Fewer people in the Social HomeBuy survey referred to themselves as retired and more referred to themselves as unemployed. Less than one in three persons was in full-time or part-time work or were self-employed. The largest group among the 'other' category was people who referred to themselves as long term sick/disabled (12%); 11% were looking after family or caring for a relative. 44% of the second persons in the household were in employment, full-time or part-time or were self-employed.

Income

When asked about the forms of income received 40% of households referred to earnings from employment. This proportion was highest in London (52%) and lowest in Newcastle (24%) and the North West (34%). In the sample as whole 26% referred to a state retirement pension and further 11% to a pension from a former employer or a personal pension. 27% referred to income support and 21% to working families tax credit.

Figures on income are difficult to interpret especially because of a high level of refusal (16%) and an even higher level of refusal in London (33%). Significant proportions of the households providing details had incomes below £10,000. In Newcastle 68% reported an income below £10,000 and this compared with 24% in London, 40% in the East Midlands, 42% in the South West and 42% in the North West.

Length of Residence

Tenants interviewed had lived at their present address for very different periods of time (Table A2.5). Approximately one third had lived there for less than 5 years and just over a third for between 5 years and 15 years. Thirty per cent had lived at their present address for 15 years or more. While this pattern is broadly

comparable with social rented households in the Survey of English Housing there is some over-representation of households with more than 10 years residence at their present address.

Table A2.5 Length of residence at Current address		
	SH Survey	SEH Comparison
Less than 1 year	7	9
1 year, under 5 years	26	29
5 years, under 10 years	19	21
10 years, under 20 years	25	20
20 or more years	23	21

Source: SEH 2005/06

Satisfaction with Property and Neighbourhood

When asked, 'how satisfied are you overall with your property', 38% said very satisfied; 35% fairly satisfied; and 9% were neither satisfied nor dissatisfied. This left 10% fairly dissatisfied and 8% very dissatisfied.

Levels of satisfaction with neighbourhood were similar: 33% said very satisfied; 40% fairly satisfied; and 10% were neither satisfied nor dissatisfied. This left 9% fairly dissatisfied and 8% very dissatisfied.

Previous Tenure

When asked about the tenure of the property that they lived in before their current council or RSL property the responses were as follows:

- Some one out of every five tenants said that they were either living at home with their parents or living with other relatives or friends;
- One out of every three were previously renting either from another council or from another housing association;
- 19% were tenants of a private landlord; and
- 10% had previously been owner-occupiers.

Becoming a Home Owner

When asked whether they had taken certain steps to become a home-owner very few tenants indicated that they had done so. Of the 604 tenants interviewed:

- 30% said that they had considered home-ownership schemes:
- 5% had discussed the financial position with a bank and

- 4% had looked for property on the open market.
- 1% referred to having made an offer on a property.

The greatest proportion, 69%, said that they had not considered home-ownership schemes and had not taken any of these actions.

When asked if they wanted to be a home-owner in the future the responses were as follows:

- a minority (39%) expressed a definite view that they did;
- 54% stated that they did not want to be a home-owner in the future; and
- 7% were not sure or did not know.
- Only 1% were in the process of buying or applying to buy.

70% of the tenants who stated that they did not want to become a home-owner in the future or were not sure whether they wanted to do so had no plans to move house in the future and a further 12% were not sure.

Attitudes to Buying and Renting

In this context it is important to recognise the views expressed about the advantages of renting a property through the council or RSL. While 16% said that there were no advantages; 61% referred to issues to do with repairs and maintenance, services provided by the landlord and significant proportions of tenants referred to advantages associated with security of tenure and affordability.

While issues to do with repairs and maintenance figured less highly in London, issues to do with affordability were more important in London.

Tenants identified advantages associated with home-ownership but also expressed views about disadvantages. While 42% stated that there were no disadvantages of renting a property through the council or RSL, only 26% stated that there were no disadvantages of owning a property; and the disadvantages of ownership were particularly associated with repairs and cost issues.

Tenants who were previously home owners

Against this background it is interesting to explore the group of previous owner-occupiers in slightly more detail as they are scattered between the different case study areas and sub-samples that are discussed in this report. Sixty-four households identified themselves as previously having been home-owners; 51 buying with a mortgage, 10 owning outright and 3 having been in shared ownership with a housing association. The majority of this group said that they did not wish to become a home owner (Table A2.6).

Table A2.6 Tenants who were owner occupiers at their previous address: Responses to the question 'Do you want to be a home owner?'	
In Process Of Buying/Applying	2
Yes, Definitely	22
Yes, Maybe	12
No	56
Don't Know/Not Sure	8
Number of cases	64

When asked about the advantages of Home Ownership this group emphasised ownership itself and the capacity to carry out improvements (Table A2.7): the disadvantages that they identified related principally to paying for repairs (Table A2.8).

**Table A2.7 Tenants who were owner occupiers at their previous address:
Responses to the question 'What do you consider to be the
advantages of home ownership?'**

	%
No Advantages	12
More Security/Secure (Unspecific)	3
It's Yours/Own It/To Own Property	33
Have Something/Equity In House To Leave	17
Security In That Have Equity For Future	19
Can Choose Area/Where Live	5
Can Chose The Property You Want	2
Can Get Things Done Myself/Off My Own Ba	6
You Can Do What You Want (Improvements)	30
Can Move If Want To/ Don't Have To Wait	3
Can Make Money/Get Profit By Owning	12
Can Sell If Want	11
Don't Have To Pay Rent	2
Financially Better Off/ Financial Advant	2
Paying Into Something That Will Be Ours	8
Don't Know/Not Sure/ Never Thought About	5
<i>Number of Cases</i>	<i>64</i>

Multi-response question. Percentage sum is more than number of cases.

Table A2.8 Tenants who were owner occupiers at their previous address: Responses to the question ‘What do you consider to be the disadvantages of home ownership?’

No Disadvantages	23
Have To Do/Pay For/Find Money For Repair	47
Could Get Into Debt/ Financial Worry	11
No/Lack Of/Less Security/More Vulnerable	2
Property Can Be Lost If Don't Keep Up Pa	3
Things Can Go Wrong (Unspecific)	2
The Bills/Have More Bills	2
(More/Too) Expensive (Not Specific)	9
Difficult To Sell Etc	2
Can't Choose Neighbours Lumbered With Ne	2
Always Need Spare Money Behind You	2
The Cost/Expense/Being Able To Afford It	22
If Want To Move/ Have To Sell First	5
Don't Get Housing Benefit	2
Have To Have/Pay Own Buildings Insurance	3
Interest Rates/Mortgage Could Go Up	8
Don't Know/Not Sure/ Never Thought About	5
<i>Number of Cases</i>	<i>64</i>

Multi-response question. Percentage sum is more than number of cases.

Out of this group of previous owners 22 stated that they would or might want to become a home owner in the future and 10 of these would consider buying their current property – but mostly (9) through the Right to Buy or Right to Acquire and only 1 referred to a shared ownership purchase (Table A2.9). Those who would consider buying but only a property other than the one they live in referred to various dislikes about the estate and property they live in but also to the availability and costs of purchase (Table A2.10).

Table A2.9 Tenants who were owner occupiers at their previous address and were considering purchase: Type of purchase being considered	
Current Property Through Right to Buy/Right to Acquire	9
Current Property Through Shared Ownership/HomeBuy	1
Another Property Through Shared Ownership	1
Another Property Privately	8
Don't Know/Not Sure	5
<i>Number of Cases</i>	22

Multi-response question. Percentage sum is more than number of cases.

Table A2.10 Tenants who were owner occupiers at their previous address and were considering purchase: Why do they not want to buy current property?	
Size Of Property/Lack Of Space	2
Property Falling Down	1
Wouldn't Be Able To Sell Again	1
Due To Troublesome Kids Yobs In Area	1
Due To The Neighbours	1
Don't Like Area Live In Estate So Want M	4
Discount Too Low	1
Don't Have The Money/ Can't Afford It	1
Because You Can't Buy From Ha	1
It's Not For Sale	1
<i>Number of Cases</i>	9

Multi-response question. Percentage sum is more than number of cases.

Awareness of Home Ownership schemes

The tenants included in the survey had different awareness of existing low cost home-ownership schemes. Just over three out of every four (77%), had heard of the right to buy or the right to acquire and, although the proportion was lowest in Newcastle (64%), the figure was high everywhere. There was less certainty about the maximum discount available under these schemes: only 36% of the sample said that they were aware of the maximum discount available.

- Only 10% of tenants said that they had considered the right to buy or right to acquire and 73% said that they had not considered it.

- 17% of tenants said that they had heard of New Build Homebuy;
- 8% of tenants said that they had heard of Open Market HomeBuy;
- 7% of tenants said that they had heard of cash incentive schemes; and
- 36% of tenants said that they had heard of Social HomeBuy.

This figure for Social HomeBuy is clearly inflated to some extent by the nature of the sample for this survey and if we exclude the active group of tenants which had expressed some interest in the Social HomeBuy scheme, 26% of remaining tenants in the survey said that they had heard of Social HomeBuy. This is still a much higher proportion than is aware of the other HomeBuy schemes and suggests that there is some successful transmission of publicity.

Conclusions

The overview of the survey data shows that the sample of tenants has a different profile from that of social rented tenants as a whole in England. However the differences are not large and are unlikely to lead to an understatement of demand for shared ownership or home ownership. In particular the under representation of households over 65, of retired persons and of single person households reduces the numbers of households who could be expected to have less capacity and interest in house purchase. On this basis it the survey provides a robust basis for further analysis.

Profile of Respondents by Tenant Type and Key Indicators

Table A2.11 Age of Respondents					
	All Tenants	Active Tenants	Inactive Tenants		
			All	with participating Landlord	with non-participating landlord
Sample Size	604	103	501	171	330
16-25	9	5	10	9	11
26-35	17	24	15	19	13
36-45	21	25	20	24	18
46-55	16	20	15	20	12
56-65	11	8	11	9	13
66+	24	11	27	16	32
refused	3	7	2	4	1

Table A2.12: Property Type					
	All Tenants	Active Tenants	Inactive Tenants		
			All	with participating Landlord	with non-participating landlord
Sample Size	602	103	499	171	328
House	61	57	62	49	69
Flat	39	43	38	51	31

Table A2.13: Economic Status of Respondent					
	All Tenants	Active Tenants	Inactive Tenants		
			All	with participating Landlord	with non-participating landlord
Sample	594	103	491	162	329
Employed	29	53	24	25	23
Unemployed	13	12	13	14	13
Retired	26	13	29	16	35
Economically Inactive	29	17	31	36	29
Refused	4	6	3	9	0

Table A2.14: Satisfaction with Property					
	All Tenants	Active Tenants	Inactive Tenants		
			All	with participating Landlord	with non-participating landlord
Sample	604	103	501	171	330
Very Dissatisfied	8	7	8	12	6
Fairly Dissatisfied	10	7	10	10	10
Neither Satisfied Nor Dissatisfied	9	13	8	13	5
Fairly Satisfied	35	27	37	44	34
Very Satisfied	38	47	37	20	45

Table A2.15: Satisfaction with Neighbourhood

	All Tenants	Active Tenants	Inactive Tenants		
			All	with participating Landlord	with non-participating landlord
Sample	602	102	500	170	330
Very Dissatisfied	8	7	8	8	8
Fairly Dissatisfied	9	13	8	7	8
Neither Satisfied Nor Dissatisfied	10	14	9	15	6
Fairly Satisfied	40	29	43	51	38
Very Satisfied	33	37	32	19	39

Table A2.16: Household income

	All Tenants	Active Tenants	Inactive Tenants		
			All	with participating Landlord	with non-participating landlord
Sample	602	103	499	169	330
Less than £5000	10	6	10	11	10
£5000-£9999	30	19	32	22	37
£10000-£14999	15	6	17	21	15
£15000-£19999	6	9	6	9	4
£20000-£24999	4	4	4	4	4
£25000-£29999	2	4	2	2	2
£30000-£34999	2	2	2	4	2
£35000-£39999	1	1	1	1	1
£40000 or more	1	4	1	2	0
Don't Know	13	16	12	10	13
Refused	16	30	13	15	12

Table A2.17: Knowledge of Low Cost Home Ownership Schemes (Respondents answering Yes only)					
	All Tenants	Active Tenants	Inactive Tenants		
			All	with participating Landlord	with non-participating landlord
Sample	604	103	501	171	330
Right to Buy/ Right to Acquire	77	95	73	74	72
New Build HomeBuy	17	22	16	16	15
Open Market HomeBuy	8	19	6	7	5
Cash Incentive Scheme	8	10	7	7	7
Social HomeBuy	36	85	26	21	28

Table A2.18: Length of Tenancy					
	All Tenants	Active Tenants	Inactive Tenants		
			All	with participating Landlord	with non-participating landlord
Sample	603	103	500	171	329
Up to 5 years	28	15	31	30	31
6 to 10 years	21	27	20	30	19
11 to 15 years	16	26	14	22	10
16 to 20 years	8	11	7	7	7
Over 20 years	27	21	28	18	34

Annex 3: Assessing Tenant Demand – Methodology

The survey and other data presented in this report provides evidence that can be drawn upon to assess the potential impact of Social HomeBuy and other home ownership products. In this section we attempt to use the survey data to more directly assess impact. We do this in two ways:

- A normative calculation indicating what proportion of the inactive group in the survey can afford to purchase; and
- An alternative calculation of latent and manifest demand.

However, we cannot say with certainty that either a) the income profile of the sample is representative of the tenant population in each area or b) that the respondents will have the same desire to be a home owner or want to buy their current property. Therefore the data enables us to unpack the factors which influence tenant demand and to provide a basic indication of the likely level of demand for Social HomeBuy under these condition. For a more accurate forecast, more accurate modelling will be required.

Normative Calculation

This calculation uses the survey data on household income at a case study level and compares this with the amount required to purchase a council owned property in each area. It estimates this from the valuations for sold council properties in 2005/6 and making the following assumptions:

That affordability relates to :

$$Y = ((V-D)/3.5)+R$$

Where Y is the income required to purchase a stake in the property, V is the base date valuation, D is the discount and R is the rental element on retained equity in shared ownership.

These are tentative and indicative calculations that provide an indication of scale. At every stage the data is far from ideal and the low response rate to the question on incomes adds to the caution with which these results should be viewed.

Expressed Preference Model

The second calculation of affordability draws on other responses to the survey. It again includes a normative calculation but based on age and economic activity rather than income. So in this case we have identified a potential pool of demand by selecting households which are:

- either 1 person households with that person aged under 55 and in full time employment or self employed; or
- include 2 or more persons where at least 2 people are in some form of paid employment (full or part time and including self employment) and the household reference person is under 55 yrs.

These households are those for whom home ownership is a practical possibility. Because it is based on employment and not solely income it assumes that some households will have a regular income and so allow a mortgage to be secured but one which is not enough to facilitate outright ownership. Identifying likely demand for Social HomeBuy is based on:

- A desire to be a home owner (those tenants answering “yes – definitely and “yes – maybe” to the question “Do you *Want To Be A Home Owner?*” in the survey).
- Tenants who would consider buying the property that they currently live in.

This filtering process allows us to identify a cohort of tenants for whom Social HomeBuy is a possible means of becoming a homeowner.