Summary report

Low cost home ownership and the credit crunch

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TENANT SERVICES AUTHORITY

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A report on regional markets and competition with private developers

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The aim of this study was to expand upon earlier research, Low Cost Home Ownership: Affordability, Risks and Issues. The specific aims of this research were (i) to explore the nature of regional markets for low cost home ownership (LCHO) offered by housing associations (HAs) since the downturn and (ii) to clarify the impact of private developer shared equity schemes on HAs and the degree to which HAs are competing with these schemes. HAs and developers were interviewed to explore these issues, in addition to other key stakeholders such as the Home Builders Federation and major mortgage providers to the LCHO sector.

This research was funded by the Tenant Services Authority.

Regional housing association sales of LCHO

The research took place in a very depressed general housing market. The study found that there were significant variations in demand for LCHO between regions, within regions and even within localities. The market for LCHO products appears to be stronger in areas where longer-term gains appear higher, where there is current market activity and for houses rather than flats and larger rather than smaller units. As a result, the market can vary street by street as well as between localities and regions.

The study suggested that the North West and the West Midlands have seen the largest slowdown in sales, mainly on flats. In the East of England, sales of LCHO in the growth areas and the London commuter belt were stronger than in the north of the region and in the lower value areas such as Bedfordshire. In London there was a lot of variation in the success of LCHO schemes between boroughs. HAs reported that it very much depended on the area. Kensington and Chelsea, West Camden and Hackney, for example, were selling well, whilst LCHO units in Croydon were struggling to sell. Flats were generally more difficult to sell than houses. However, in parts of London, the London commuter belt and the growth areas of the East of England, flats were still being sold.

Private developer shared equity schemes

Private developers were offering shared equity schemes in most areas, generally on a 75/25% basis and on apartments rather than houses. Availability is often limited, as the schemes are very costly for developers to offer and depend on their pipeline and market sales. The schemes were regarded as a way in which stock might be sold in a difficult market where property values were falling and also as a way to generate much-needed cash flow. Sales of developer shared equity properties are variable, but many report that they are an important part of current business since the downturn. Developers said that the schemes would be short term and would not be maintained in a more stable market.

Competition in the LCHO market

The developer-led schemes do generate some competition for potential LCHO purchasers. Private developers have a range of schemes and incentives on offer including financial incentives such as support for legal costs. There were more incentives being offered by HAs in response, such as free carpets and curtains. They were relatively small in comparison to the incentives offered by private developers. HAs felt that they were able to compete with the developer shared equity schemes as they believe they offer a better product, are more trusted and provide long-term support to purchasers. The only concerns were that developers can offer more incentives and have more flexibility. The issue of competition between LCHO schemes is not currently seen as of particular importance, probably because the 'larger' questions of house prices and mortgage availability dominate.

Purchasers of housing association and developer products

There were some changes to the characteristics of those now purchasing LCHO. Some HAs reported that people on lower incomes in the eligible group can no longer afford LCHO because of the restrictions on mortgage borrowing. Instead, LCHO was being purchased by households with rather higher incomes. Buyers are often taking on lower proportions, reflecting greater concern about both payments and capital values. But this move 'upmarket' is also about the availability of mortgages, the effect of credit scoring and the need for a down payment. In the current housing market and more general economic climate, the most important benefits of the LCHO product relate to risk sharing. A new purchaser is only taking on part of the risk that capital values will fall – the rest lies mainly with the government (especially given the Mortgage Guarantee Scheme). Taken together with lower outgoings, LCHO clearly offers valuable security to the purchaser deciding whether or not to purchase in an uncertain market.

Young first-time buyers, singles and couples were the target group for developers, largely because the shared equity schemes were being offered on small units and apartments. The developers felt that purchasers of their shared equity schemes would have been able to have bought outright before the downturn but were now hampered by the limited availability of mortgage finance.

Lack of mortgage finance

The lack of mortgage credit is probably the defining issue in the market at the present time. However, there are many different elements which are impacting on an individual's capacity to obtain a mortgage. First, the financial institutions are themselves heavily constrained with respect to funding. Second, potential LCHO purchasers generally have less access to parental and other assistance and therefore find it more difficult to raise the deposit. Third, the types and sizes of properties on offer are more likely to be subject to down valuation, so the dynamics of the process can be more difficult. Fourth, because they are responsible for public funding, HAs cannot always respond to market pressures to make it easier for mortgage deals to be completed in a changing market. The process of obtaining a mortgage and completing a sale is complicated by the specifics of mortgage lenders' requirements (eg not too much exposure on a single site), of valuations and the impact of down valuation, and inherent inflexibilities in the subsidised sector.

The future

Looking forward, the three fundamental issues relate to mortgage availability, confidence in the market and the extent and nature of the development pipeline. At the present time all three need continued detailed monitoring and analysis.

For further information

The full report, Low Cost Home Ownership and the Credit Crunch: A Report on Regional Markets and Competition with Private Developers, is available from the TSA website and at www.cchpr.landecon.cam.ac.uk

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