Shared ownership:

a problem halved for first-time buyers?

This material is for professional intermediaries only

The generational challenge of rising house prices

Decades of rising house prices have stretched affordability to breaking point for thousands of prospective first-time buyers. The average house price stands at £228,000; eight times the average wage in the UK[1]. In the last decade alone, house prices have risen by 45%, supported by expansionary monetary policy and a chronic lack of housebuilding. By contrast, wages have risen half as quickly[2].

As a result, home ownership has plummeted for younger generations. Ten years ago, 55% of people aged 25-34 owned their own homes. This has fallen to 38%. Also, the average age of a first-time buyer is rising; standing at 33 years old today compared with 31, ten years ago[3]. The number of first-time buyers may have improved in recent months, but there's an awfully long way to go to reverse this trend.

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It's the upfront cost of purchase, including the size of the deposit, that's holding buyers back, rather than monthly mortgage costs. UK Finance data[4] shows that despite borrowers requiring far larger mortgages, repayments only account for 17% of a first-time buyer's income, down from 22% a decade ago.

Historically low interest rates have allowed mortgage lenders to offer lucrative mortgage rates. Meanwhile, the average first-time buyer deposit stands at an astonishing £44,635[5]. It's no wonder homeownership has been delayed for hundreds of thousands of buyers as they save for longer.

For many, owning a home seems a pipe dream, especially if not supported by the Bank of Mum and Dad, or if they're buying without a partner or spouse. It's no surprise, therefore, that single-adult households make up 51% of the private rented sector, yet account for just one-fifth of households that own a house with a mortgage[6].

Could shared ownership be the silver bullet?

The Government and the mortgage industry have sought innovative solutions to ease the problem for first-time buyers, through the removal of stamp duty and the introduction of the Help to Buy scheme. Despite tackling the core problem of deposit constrained buyers, shared ownership is less well known.

In a shared ownership scheme, a buyer purchases a share of a property from a housing association and pays rent on the remainder. The buyer then has the option to buy more of the property over time. Because the purchaser only needs a mortgage for part of a property, the required deposit is a lot lower.

There are already around 200,000 shared ownership homes in the UK, and given the Government's commitment to supporting affordable homes building, we can expect this figure to increase. In 2015 the Government announced a target of building 135,000 shared ownership homes, superseded by a £9.1bn commitment for affordable homes. In the 2019 Spring Statement, a further £3bn in funding support was guaranteed for housing associations. Brokers should therefore be prepared to see a higher number of shared ownership applications.

1 ONS House Price Index (January 2019); ONS Average Weekly Earnings (January 2019)
2 ONS House Price Index (January 2019); ONS Average Weekly Earnings (January 2019)
3 ONS English Housing Survey 2017-18
4 UK Finance Data 2018
5 ONS English Housing Survey 2017-18
6 ONS English Housing Survey 2017-18

The challenges for brokers

Shared ownership cases aren't straightforward, and not all lenders support this type of mortgage. Case complexities, and the ongoing relationship with housing associations, mean many mainstream providers' more rigid lending criteria and automated underwriting simply cannot support lending in this space. It's therefore vital that brokers know which specialists they can turn to for support, and how lenders' propositions match against the needs of their clients.

For instance, brokers need to consider whether there are restrictions on how much or when a buyer can borrow from a particular lender to increase the share they own in the future, or whether another specialist has criteria more suited to their client's circumstances. What proportion of the property do they wish to purchase, at what LTV, and does this limit their options?

Because of the added complexity of these cases, brokers may need to explain concepts such as staircasing (buying additional portions of the property), rental costs and mortgage costs. As shared ownership grows in popularity, buyers are making more informed decisions.

"The popularity of shared ownership can be seen in its significant growth in the last five years, with the volume of sites being built for the scheme having dramatically increased both from regular suppliers and particularly smaller new entrants. The market is currently served by 25 lenders, of which 15 will lend at 95% loan to value and several are now considering customers with adverse credit.

Moreover, with interest rates for shared ownership products having remained broadly stable in the last 12 months, we're now seeing lenders compete on criteria, especially around employment types and affordability. This is particularly visible amongst smaller lenders who are trying to carve a niche in this sector."

Craig Hall, Head of Broker Relationships & Propositions, Legal & General

As a specialist lender, Kent Reliance for Intermediaries has the experience and in-house expertise to help you place complex cases that mainstream providers usually can't.

Examples where we could help include:

- We have a strong track record with shared ownership loans, and will lend against 100% of the purchaser's share
- If your shared ownership case includes applicants with impaired credit (e.g. CCJs of £300 or under) we could still help, as we specialise in broader criteria
- We now offer five year fixed rates for shared ownership, providing purchasers with certainty of costs.

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