Report on the GLA Flexible Tenure Pilot

Affinity Sutton

Contents

The starting point

In the Housing Covenant: Homes for working Londoners document, Mayor of London Boris Johnson outlined how the intermediate market, in his opinion, should operate in a way that is more similar to the open market. He said it should provide greater choice, flexibility and opportunities for mobility and improve the quality of the customer journey.

Customer choice is frequently limited since it is difficult for developing partners to vary the product offer, particularly because of planning or funding restrictions. As a result, customers do not always choose the best or most desirable product for their individual circumstances.

Affinity Sutton initially tested a product-blind marketing campaign at its site, The Lavenders in Sutton.

This was not a truly flexible tenure pilot as the apartments in one building were offered for sale on a shared ownership basis and the apartments in the other building, on an equity loan basis (FirstBuy). However, towards the end of the marketing campaign, the last few equity loan properties were also offered on a shared ownership basis, thus bringing the proposition into line with the pilot.

Following the initial test at The Lavenders, Affinity Sutton, in partnership with the Greater London Authority (GLA), undertook the full pilot at The Residences, Coulsdon, to offer a choice of shared ownership or equity loan to eligible applicants.

Objectives of the pilot

- The pilot was designed to separate the product (shared ownership or equity loan) from the property and to test several key aspects:

  - Whether separating the product from the property improves customer choice

  - What site specific barriers existed and potential solutions

  - What barriers and solutions are there to implement the approach more widely including:

    - how to appraise a site

    - how to market this approach

    - how boroughs and the GLA can take a more flexible approach in planning

    - how planning gain/quantum of affordable housing is to be delivered

    - how to determine to what extent customer demand can influence the parameters for a GLA investment programme

Why did we choose these developments?

The Residences, Reddown Road, Coulsdon

- There was a reasonable number of homes for sale (17)
- Timing meant the results would be gained quickly to assist further product development
- The Section 106 (s106) referred to 'intermediate' units rather than stipulating which products had to be offered
- There were some non s106 units
- The development was likely to attract a good level of interest due to location and mix
- Since the property values were seen as affordable to median income earners in the area, it was felt that The Residences would give a meaningful basis for comparison since potential customers could realistically choose and afford either product
- The fact that it represented an evolution in terms of values from The Lavenders was also interesting

The Lavenders, Culvers Avenue, Sutton

- Grant funding was available for both shared ownership and equity loan (FirstBuy)
- A high number of homes were for sale (38)

About The Residences

Reddown Road, Coulsdon

- 55 apartments; 17 apartments available with either shared ownership or an equity loan, in two buildings (Sandringham and Balmoral), plus 38 rented homes across three buildings

- Marketing started October 2012. All properties were reserved off-plan and are now sold or exchanged with first occupations in May and the remaining phase due for completion in July

- **Values:**
  - One-bedroom apartments: £150,000 – £160,000
  - Two-bedroom apartments: £200,000 – £222,500

- **Choice of ownership:**

  - **Shared ownership:**
    - initial share offered was 40% (one-bedroom apartments) and 35% (two-bedroom apartments) with 2.75% rent on the unsold equity. Minimum deposit of 5% of the share purchased was required. 25-75% shares were on offer, provided that the target receipts were achieved

  - **Equity loan:**
    - 20% equity loan provided by Affinity Sutton. Interest-free for first 5 years, then interest charged at 1.75% after that, rising at RPI+1% over a 25 year term. Minimum deposit of 5% of full market price was required. Product similar to FirstBuy although only Affinity Sutton has a second charge on the property


HADLEIGH
GROVE

About The Lavenders

Culvers Avenue, Sutton

- The second phase of a regeneration project with 38, one and two-bedroom apartments split across two buildings, all for sale

- The equity loan building offered a more balanced mix of property sizes, was closer to the river and was above a community centre. The shared ownership building which was entirely residential, had more two-bedroom apartments and was located further into the development

- Marketing started November 2011 and all properties are sold

- **Values:**
  - One-bedroom apartments: £145,000 - £158,500
  - Two-bedroom apartments: £170,000 - £195,000

- **Choice of ownership:**

  - **Shared ownership:**
    - initial share offered was 40% with 2.5% rent on the unsold equity. Minimum deposit of 5% required. 25 - 75% shares were on offer provided that the target receipts were achieved

  - **Equity loan:**
    - 20% equity loan (FirstBuy) provided by the GLA/Affinity Sutton. Interest-free for first 5 years, then interest charged at 1.75% after that, rising at RPI+1% over a 25-year term. GLA/Affinity Sutton retain a second charge on the property. Minimum deposit of 5% required

- In order to achieve an increased rate of sale on the last four apartments earmarked for equity loan, they were marketed as either shared ownership or equity loan. This resulted in two being sold under shared ownership and two sold with the equity loan


Choosing a property

Affinity Sutton obtained insights into consumer behaviour with each step of the process being documented or covered by a questionnaire. Affinity Sutton also conducted 20 in depth telephone interviews with purchasers who had exchanged/completed on their properties to gain further understanding of their choices.

Those interviewed represented a diverse cross-section of buyers, including singles, couples and families.

For the most part, the drive to buy was to have 'a place to call home' with more security than previous accommodation. Many were determined to buy to avoid spending 'dead money' on renting.

Consumer choice centres around five variables:

- Affordability: local incomes/levels of debt
- Availability of deposit
- Property size: two-bedroom properties are often more desirable than one-bedroom
- Location: the position on a development can drive choice
- Eligibility: the two products may have different eligibility criteria

"The smaller deposit needed to buy through shared ownership was perfect for me."

Shared owner at The Residences

"We chose shared ownership as it was the most sensible route for us and required a smaller deposit than an equity loan."

Shared owner at The Residences

"I was always looking to purchase a one-bedroom property."

Equity Loan purchaser at The Lavenders

"We wanted an apartment at the front of the building."

Shared owner at The Residences

"The choice between shared ownership and equity loan was extremely important."

Equity Loan purchaser at The Lavenders

Choosing a product

At The Residences, 16 purchasers chose shared ownership and just one chose equity loan.

At The Lavenders, 21 purchasers chose shared ownership and 17 chose equity loan. This included the four remaining apartments which were offered with true choice; two purchasers chose shared ownership and two purchasers chose equity loan.

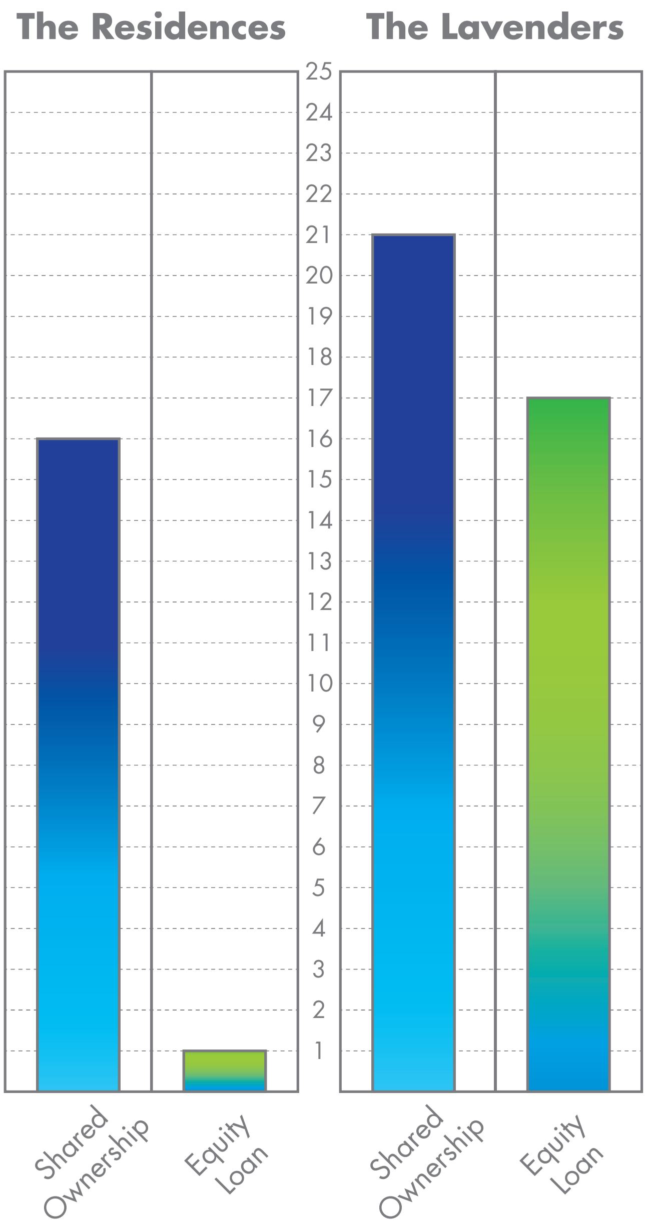
At the beginning of the process, the purchasers all thought that repayments on either basis would be cheaper than renting (which of course is correct). They stated that `throwing money away on renting' meant that they could never save enough for a deposit.

For many of those interviewed, shared ownership or equity loan were the only routes open to them to buy. The main barrier to home ownership was not having sufficient deposit, although some mentioned that they were unable to secure a large enough mortgage because of their incomes but felt that they could afford the monthly costs.

From the interviews it would appear that offering shared ownership was very attractive to some purchasers and the equity loan option was attractive to others. Many were attracted to the homes themselves (location, size) and the fact that they were affordable. This led to a number of people contacting Affinity Sutton who might not have done so if there had only been one product available. Some of the purchasers were initially drawn to the homes having seen one of the tenures advertised and later shifted to purchase using the other product because it meant they could secure a larger flat, or own more of the property.

For many of those stating a preference, buying a new build property was an attraction in itself.

Take up of the different products



The flexible tenure pilot - The results

Consumer angle/profiling

In setting up the pilot, Affinity Sutton and the GLA wanted to establish several key points:

- Is the difference between shared ownership and equity loan fully understood?
- Would further explanation help purchasers decide the best route to take?
- What influences the ownership route taken?
- What is the profile of respondents by product?

Product selection

Generally, the equity loan route was seen as more aspirational and initially possibly more attractive, whereas shared ownership was the product that people could afford.

The table (right) compares the advantages and disadvantages of each product as described by the purchasers. These comments are not surprising; they merely reinforce the industry's understanding.

By offering two distinct products, Affinity Sutton allows applicants to explore what is more important to them; most notably, property size or purchasing method (product). Most chose the property size.

For example:

- Four applicants were able to buy a larger two-bedroom apartment through shared ownership rather than a one-bedroom apartment through equity loan

However:

- One purchaser chose to stick with the equity loan route and buy a smaller, one-bedroom apartment when their mortgage provider would not lend the full amount for a two-bedroom property

The research identified that for almost all purchasers it was more important to get the right home rather than to have a choice of product. Nonetheless, if choice of product had not been made available, these purchasers would have chosen a property that did not fully meet their needs or decide not to purchase at all.

Comparison of shared ownership vs. equity loan

Shared ownership	Equity loan
Advantages • Less deposit required • Lower overall costs • Lower income required • Flexible: can buy 25 – 75% shares • Can staircase to 100% • Offers flexible ways to pay Stamp Duty Land Tax including delaying payment	**Advantages** • Purchaser owns 100% of their home • No rent to pay • Seems simpler
Disadvantages • Purchasers only own a percentage of their home • Rent is payable on the unsold equity • Perceived difficulties in reselling (for a couple of purchasers)	**Disadvantages** • Generally bigger deposit required • Higher income required • Not flexible • Have to pay interest after 5 years

Moreover, for those who could not afford an equity loan, shared ownership could be a viable alternative. As Affinity Sutton also had another lower value development in the borough, there was the ability to cross-sell to applicants who could not afford the shared ownership route at The Residences.

Case studies

Adam Brock

When looking to buy his first home at The Residences in Coulsdon by Affinity Sutton, Adam Brock, 28, knew he had options when it came to home ownership, it was just deciding which route would suit him better – shared ownership or equity loan?

Initially, Adam was drawn to the equity loan scheme, as he was attracted by the thought of owning one hundred per cent of a new one-bedroom apartment. However, when he discovered he was able to afford a two-bedroom apartment through shared ownership he jumped at the chance of having the extra bedroom.

Adam purchased a 35 per cent share in his two-bedroom apartment for £75,000 in January 2013 and was able to afford a 20 per cent deposit for his new home.

Currently living with his sister in Kenley, whilst his new home at The Residences is being completed, Adam had been renting for four years and had previously been unable to save for a deposit. He says: "Renting was frustrating as I felt I was throwing money away, so when my sister suggested I moved in with her, it made complete sense – I was able to save money and one year later, thanks to shared ownership and Affinity Sutton, I was in a position to buy my first home.

"Buying through shared ownership has been the most affordable way for me to get onto the property ladder and there has been no downside for me buying through the scheme – I would recommend it to anyone! Being able to remain in the area I grew up in is great, with its close proximity to London and the countryside close-by, I couldn't ask for much more."

Melaine Munro

Melanie Munro had always assumed she would be unable to raise the deposit needed to buy her first home, but thanks to Affinity Sutton, her preconceptions were soon ousted. With flexible home ownership options offered to her – shared ownership or equity loan – Melanie was able to purchase a one-bedroom apartment at The Residences in Coulsdon, with only a five per cent deposit.

Melanie, 38, was initially attracted to a two-bedroom apartment offered at The Residences through shared ownership. However, when Affinity Sutton told her about equity loan, Melanie, who had known little about the scheme beforehand, was excited at the prospect of owning one hundred per cent of her new home.

After enquiring further, Melanie fell in love with a one-bedroom duplex apartment and purchased 80 per cent for £125,000 though equity loan, with a deposit of just £6,250. Melanie says: "When I found out about the flexible ways I could buy my new home, I was very relieved. I had always thought that deposits were high and I was almost giving up any hope of buying my own home; after renting with friends for three years in Coulsdon, I really wanted my own space and I was considering renting a one-bedroom apartment on my own. Thanks to the amazing low deposits required from Affinity Sutton and the equity loan's good mortgage rates, I am now delighted to be a new homeowner.

"Having weighed up my options, equity loan was perfect for me. Even though I could have afforded a two-bedroom apartment through shared ownership, I preferred the thought of owning more than just a share of my new home and I decided that I had no need for the second bedroom, plus I loved the split-level layout of the one-bedroom duplex apartment!"

Is the difference between shared ownership and equity loan fully understood?

Purchasers were often very reliant on the information provided by Affinity Sutton and the Independent Financial Advisor (IFA) as many had limited understanding of the purchasing options prior to contact. For most purchasers, this was extremely valuable information which they trusted implicitly.

> "I had questions, they had answers."
>
> Purchaser at The Residences

A few purchasers were slightly more wary of the advice given by the IFA, in case the IFA had vested interests in recommending a particular route. Not withstanding that, most purchasers had a mortgage placed by the IFA so may have overcome their concerns by assessing the pros and cons of the alternative ownership options.

Interestingly, at the outset, most applicants were more familiar with shared ownership than equity loan. Those who had taken out an equity loan had a solid understanding of it when interviewed. Those who could only afford shared ownership had either forgotten how the equity loan worked or knew less about it as it had never been a viable option for them.

What influences the ownership route taken?

The extent to which buyers had a real choice was varied. Circumstances were divided as follows:

Open-minded but limited choice:

They had no specific preference or were not completely informed about the options but affordability constraints meant that they did not have true choice. This meant that they had to choose shared ownership or decide not to proceed

Switch:

Started out favouring one option but switched to the other; largely because the alternative was not available or unaffordable

True Choice:

The buyer was open-minded; both options were affordable; the decision was based on the evaluation of the pros and cons of each option and the property they could buy

Single minded:

Had a clear preference for shared ownership or equity loan at the outset, meaning that their evaluation of the alternative route was limited and only confirmed their decision. There were some applicants who only wanted equity loan; when they found out that this was not affordable, these applicants withdrew from the process

No real choice:

There was a home available that met their requirements so it didn't matter what product was available

Why shared ownership?

In most cases, the decision to choose shared ownership was down to affordability and accessibility. Lack of funds for a deposit was often a constraint.

Shared ownership did have attractions over and above other routes into home ownership; flexibility was cited as a positive feature – enabling the purchaser to buy the share that they could afford and then having the opportunity to staircase to full home ownership at a later stage.

Most buyers were keen to own outright and had aspirations to staircase as and when their circumstances allowed.

For some of the purchasers who had a true choice, the option of being able to purchase a two-bedroom apartment with shared ownership appealed over buying a one-bedroom apartment with an equity loan.

- Average share purchased at The Residences: 40%
- Average share purchased at The Lavenders: 42%
- Average deposit at The Residences: £8,500

"The low rent will allow me to save enough to staircase."

Purchaser at The Lavenders

"Loads more positives than negatives. I am very happy with shared ownership. There are no downsides."

Purchaser at The Residences

"Shared equity was not for me – the deposit (requirement) and higher repayments."

Purchaser at The Residences

"Shared ownership enabled me to purchase a two-bedroom apartment, rather than a one-bed."

Purchaser at The Residences

Why equity loan?

These were most appealing to those who couldn't quite afford to buy in the open market. It was perceived as preferable to shared ownership as purchasers own 100% of the property.

One purchaser who chose shared ownership said that if they had recourse to 'bank of mum and dad' they would have opted for equity loan but they did not wish to do so (Single Minded).

At The Lavenders, if faced with a choice on a similar property size, almost all those who were able to purchase through equity loan, did so. They liked the fact that they did not have to pay rent on part of the property and owned 100%.

At The Residences, only one buyer chose product over property size (True Choice). The remaining purchasers that could have chosen either product opted to trade product for a larger property (True Choice).

In general, equity loan was the less familiar of the two choices; most people started out with reasonable knowledge of shared ownership, but few understood equity loan.

- Average deposit at The Residences: £13,000

"You want to own it and be sure it's yours."

Purchaser at The Lavenders

"Choice of tenure was not relevant as we only wanted equity loan."

Purchaser at The Lavenders

"I was not eligible for shared ownership (as I did not live or work in SW London) but qualified for equity loan (FirstBuy)."

Purchaser at The Lavenders

What is the profile of the purchasers?

Affinity Sutton captured the profile of the purchasers by product chosen, to include age, profession, income group, etc. The target audience for the development was expected to be:

- Young professionals
- Couples/single occupants
- Couples/single parent with one child

Priority was given to social tenants and Ministry of Defence employees and then first time buyers from the Croydon/SW London area. Despite mailing tenants registered with FirstSteps and Affinity Sutton's own tenants, none were reserved by social tenants in this instance (they usually account for an average of 5 - 10% of sales).

(See appendices for full breakdown of customer profile - pages 34 - 39)

Aspiration, product knowledge, affordability, deposit, property size and location were all initial influencing factors.

Marketing

Affinity Sutton marketed both the development itself and the purchase options.

The pilots were branded 'Your Choice*' and aimed to communicate what was on offer and make the choice as simple as possible. Affinity Sutton developed a leaflet explaining the different product options and showed examples to compare costs for both products.

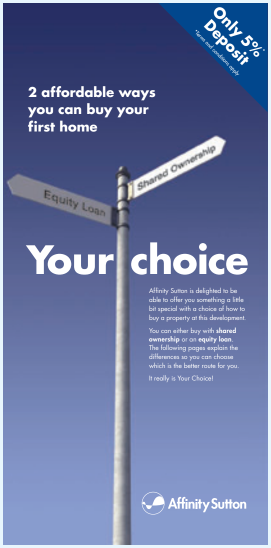
The Residences was branded with clear, impactful hoarding and was advertised on various websites:

- FirstSteps
- Affinity Sutton website
- Rightmove
- Zoopla
- Share to Buy
- Croydon.gov.uk
- Social media including Facebook and Twitter

Press adverts were taken out in:

- First Time Buyer magazine
- Homefocus magazine
- Evening Standard
- Metro
- Croydon Local Authority magazine

*An Affinity Sutton brand name



In addition, Affinity Sutton attended:

- First Time Buyer show
- FirstSteps new homes show
- Wandsworth & Croydon Council Housing Options Day

Media coverage was secured in:

- First Time Buyer magazine
- Home Focus
- London Housing News
- South East Housing News
- This is Croydon Today
- Croydon Advertiser and others

Marketing

The total number of enquiries received during the marketing period was 399 split:

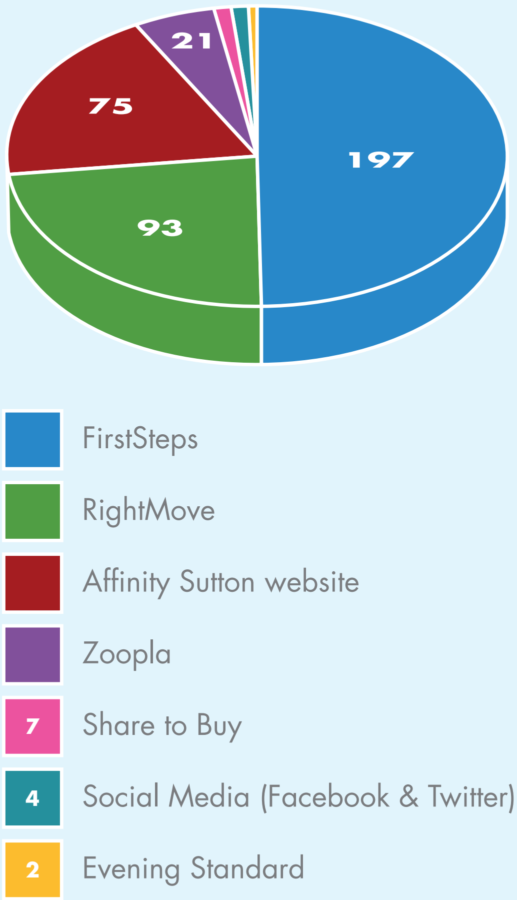
- 197 from FirstSteps
- 93 from Rightmove
- 75 from the Affinity Sutton website
- 21 from Zoopla
- 7 from Share to Buy
- 4 from Social Media (Facebook and Twitter)
- 2 from Evening Standard

Of the 399 enquires, 49 financial assessments were undertaken.

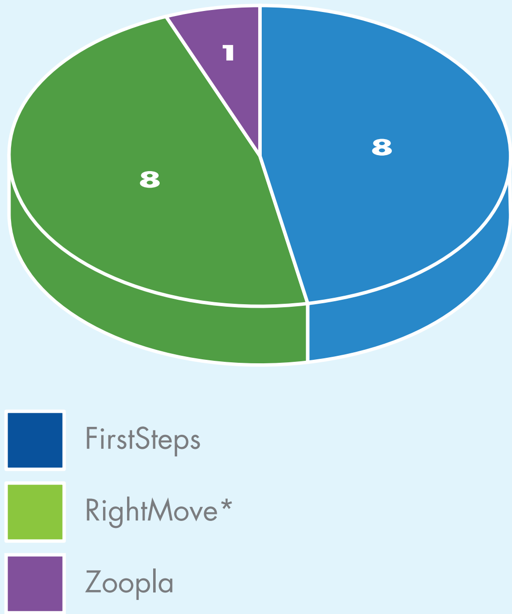
The actual sources of enquiry for the purchasers were:

- 8 from FirstSteps
- 8 from Rightmove*
- 1 from Zoopla

Enquiries received
Source of enquiry



Actual sources of enquiry
Purchases



* This level of conversion is unusually high

The sales process

Affinity Sutton's team is tasked with specific sales targets for each development. At The Residences, there were no additional or specific targets set for either product type to ensure there was no bias towards one product or another, allowing customers to choose and not be influenced by the sales person or process.

The sales team was responsible for overseeing the whole process, from initial marketing to legal completions. Sales Executives were the first point of contact with the customers and the team would explain the different options available. They received specific product training and a script was prepared to ensure that the message was consistent and the same terminology was used (this is especially important for sales teams that are less used to selling equity loans).

The sales team also briefed the FirstSteps agent about the pilot so that they were aware it was taking place.

Before applicants were passed to the IFA for assessment, they were asked for their FirstSteps application form and credit report so the financial advisor would only have pre-qualified leads. This did not reflect Affinity Sutton's usual process; applicants are usually initially assessed by the IFA without producing a credit report. The credit report is required later in the process.

FIRSTSTEPS to home ownership in London

The role of the Independent Financial Advisor (IFA)

Since Affinity Sutton is not regulated to give financial advice, it decided to work with just one of its IFAs to give consistent and accurate information and correct presentation of choices.

The IFA chosen was Sherwins, which played a crucial role in the process and was fully part of the project team. Purchasers were not obliged to take a mortgage out through Sherwins – although 15 out of 17 mortgages were actually placed by them. This is a high conversion rate reflecting the fact that buyers were pre-qualified, before being passed onto Sherwins, which took a more involved role in the process.

The IFA's role was to explain accurately and clearly the different product options, carry out an initial affordability assessment and identify which option better suited each applicant. Additionally, it identified and advised which mortgages were suitable.

The research showed that most purchasers relied on advice from a range of sources to help them understand their options and make a decision.

Most people who spoke to the IFA appeared to have a clear idea about their options by the end of the discussion. For a few, speaking to the IFA was an important step in clarifying the options and helping them finalise their decision. Almost all the interviewees thought that the role the IFA was very important.

> "I didn't have the foggiest how it worked but the financial advisor explained everything in simple layman's terms."
>
> Shared ownership purchaser at The Residences

As with all intermediate products, the financial assessment was produced using the Homes & Communities Agency (HCA) calculator. The results about which option was better for each applicant and their affordability was fed back to Affinity Sutton.

As is often the case, purchasers had little awareness of their borrowing power or costs involved. Once the purchaser had discussed options with the IFA, they were asked to complete a short questionnaire to gauge product understanding.

Both shared ownership and equity loan products were available with a 5% deposit. Although a semi-exclusive 95% loan-to-value mortgage from Santander, pioneered by Affinity Sutton, was available, no applicants took it up; this was because this mortgage product is not available via an intermediary.

Early filtering of applicants with credit issues meant that there were generally few problems with the application process and less administration time for all concerned.

Conveyancing/legal process

Affinity Sutton's disposing solicitor, Sharratts, was part of the project team and attended all project meetings.

It was agreed that the Memorandum of Sale (M.O.S.) would clearly indicate which ownership option the purchaser had chosen. The two sets of paperwork were developed in advance by Sharratts so the sellers' packs could be sent out immediately following the reservation and the M.O.S. being issued.

Affinity Sutton used the model HCA lease for all shared ownership sales, irrespective of whether they were s106 units or not.

For the equity loan paperwork, Affinity Sutton had its own equity loan products and uses a private sale lease with additional information provided in relation to the equity loan. In accordance with the Consumer Credit Code, a Buyers' Illustration was created and each equity loan applicant was provided with their own personal calculated example which explained how the interest would be charged and when and how this could fluctuate.

Affinity Sutton offered its purchasers access to a panel of solicitors who were fully briefed on the process. They had reviewed the sellers' pack and associated paperwork beforehand, asked questions and gained a clear understanding of the different options and the provenance of the equity loan funding.

An equity loan would normally incur an arrangement fee of approximately £275, charged by the disposing solicitor, to the purchaser. To ensure a completely level playing field, Affinity Sutton decided to absorb these costs for the duration of the pilot. However, it is not realistic to continue to absorb these costs across more developments or indeed a programme; going forward these costs would be charged direct by the solicitor to the purchaser.

Sharratts has reported that each product was equally simple to administer. Third party solicitors also reported that the process was simple and clear. This feedback should assist future process development for products such as Help To Buy. Its predecessor, FirstBuy, had a rather complicated process associated with it.

The role of the Local Authority

Affinity Sutton has a good working relationship with The London Borough of Croydon which is pro-active and seeks innovative ways to help its residents.

Affinity Sutton, Croydon Council and the GLA met early on to discuss the pilot and gain support. This was followed by regular meetings and discussions with the enabling team as well as written briefings to other stakeholders.

The s106 of the Town & Country Planning Act which allows councils to enter into agreements with prospective developers to achieve certain community benefits, assisted this pilot greatly as the definition of intermediate housing was non-specific (i.e. there was reference to 'intermediate housing' rather than shared ownership specifically) so it lent itself easily to flexible tenure without requiring any deed of variation. The remaining units were non s106 so not caught by any definition.

Going forward, it is recommended that the GLA encourages local authorities to have a broader definition in their s106s to allow maximum flexibility.

If there is already a signed s106 in place then Registered Providers (RPs) could seek a deed of variation although this may be unrealistic if the Local Authority is intransigent. Additionally, the RP is rarely party to the s106 so any deed of variation is dependent on other parties. As a result, seeking a deed of variation can often create a barrier to acquisition. If the schemes were sufficiently attractive to Affinity Sutton, a deed of variation might be sought, usually prior to exchanging contracts. It is probably less realistic to assume that Affinity Sutton would seek a deed of variation if already in contract. In essence, this is a matter for individual RPs to judge how big a barrier this is, on a case by case basis.

Through his Housing Covenant and supplementary planning guidance, the Mayor of London is encouraging Local Authorities to be more flexible in their planning definitions in the intermediate market to ensure that homes are built to benefit more Londoners and thereby increase mobility. This would prevent Londoners from being precluded from the help available or becoming trapped and unable to move as their circumstances change.

Grants and IMS

Prior to the pilot, Affinity Sutton agreed with the GLA how the information would be inputted into the computerised Investment Management System (IMS).

It was decided that there would be a standard shared ownership submission for all units sold and that any equity loan upside would be kept by Affinity Sutton. As part of this, the GLA issued a letter, for audit purposes, acknowledging that anomalies for this scheme would occur and would be accepted. A consequence of this is that the IMS has been updated in London, allowing future flexible products to be recorded much easier.

GLA funding was therefore treated as grant and recycled through the Recycled Capital Grant Fund (RCGF) although it was understood that such an approach could not be sustainable if it were part of a wider programme.

Forecasting product take up

Modelling product take up at The Residences would not have been that easy:

- Values were slightly below average for London
- Affordability in this part of London is not especially high and debt levels are quite high

However, as median incomes are firmly in line with Affinity Sutton's shared ownership profile, a higher proportion of shared ownership sales were expected.

In a higher value area, greater income levels would be anticipated but not necessarily larger deposits. This also points to a model whereby the majority of sales would be for shared ownership, since it requires lower deposits.

In lower value areas, especially outside London (in some parts of the Midlands and the North of England), it is expected that the overlap of applicants for the two products would be considerably greater.

Many other factors can be taken into account too when modelling:

- Location
- Property values
- Property mix
- Target audience
- Local affordability
- Debt levels
- Deposits
- RP attitude to risk

Route forward

Like Affinity Sutton, most RPs in London market a range of properties/values in different boroughs. Affinity Sutton believes the route forward is cross-programme rather than by individual development.

If the GLA would like a market-led approach to its affordable housing, then the key is to offer a market-led grant approach with neither the GLA nor the RPs taking the majority of the risk. The debate is how much grant to ask for:

- Too high: if an RP asks for too high a grant level (because the majority of units have been modelled as shared ownership) then they run the risk that funding is not allocated

- Too low: if an RP asks for too low a grant level (because the majority of units have been modelled as equity loan) then the RP takes all the risk

Affinity Sutton proposes an average level of grant is adopted based on 100% take up of shared ownership. The RP would then market the scheme under Flexible Tenure and if it performed 'better' (i.e. it sells more equity loan than projected) then it could either recycle the grant as RCGF, thus allowing more homes to be built over time, or hand back some of the grant to the GLA. If the latter approach is taken, it is suggested that a proportion of grant (say, 50%) is paid only on the last sale on a development. As a result, the RP would only draw down the net amount of grant outstanding.

This proposal would have the effect of sharing the risk and reward between the RP and the GLA.

Key lessons and conclusions

As a result of this pilot, Affinity Sutton has highlighted a number of findings:

- Need to identify suitable developments:
  - Use appropriate due diligence to identify good locations which will be popular to the relevant target audiences and are affordable (e.g. The Residences is in a good suburb of Croydon, close to local amenities and transport links and there is little shared ownership activity in the area)

- Ensure that the s106 definition of 'intermediate' allows Flexible tenure

- Be well prepared in advance of marketing:
  - pull together a small team who can work together with a clear understanding of objectives plus roles and responsibilities

- An integral role for the IFA and solicitor within the team is crucial

- Purchasers like to have choice, albeit financial circumstances often determine the ultimate decision (similar to the open market). Nonetheless, purchasers like to be able to choose between:
  - different products
  - different property layouts, sizes and location

In financially constrained times, the Industry cannot help everyone all the time, so it is important that it identifies who it wants to help:

- Shared ownership is a really popular, flexible product for lower-middle income working households:
  - proven over more than 30 years
  - still has a fundamental role to play in assisting this target audience onto the property ladder
  - allows resale to another suitable household making it a sustainable product, helping generations of shared owners
  - ability to staircase also makes it adaptable to owners' changing circumstances

- Equity loans also hold significant appeal to purchasers once explained. However, by definition, it targets people who:
  - have a higher income
  - are closer to being able to buy a property outright
  - lack sufficient funds for a deposit for an outright purchase

Given the charitable status of RPs, Affinity Sutton and its peer group is especially effective in targeting their marketing to applicants with low-middle incomes. Whilst there is clearly an overlap between customer groups (especially in low value areas outside London), in general, equity loan requires higher disposable income and a larger deposit, which is not the traditional target audience for intermediate housing.

One question asked during the process was whether offering a choice increased the rate of sale versus offering a scheme of just shared ownership. The short answer is 'no'. In the case of The Residences, it slowed down the process slightly as many applicants had to go back and review their options when their first choice was not available. In the case of The Lavenders, offering FirstBuy significantly reduced the sales rate due to the bureaucracy surrounding the FirstBuy process. This could be offset by the ability to cross sell - applicants who generally contacted us to buy through one product were not turned away as they had an alternative option. Applicants were also able to choose shared ownership with lower values at another scheme just two miles away in Purley and also resale (second hand) properties.

In assessing the impact, it's a balance between the fact that the choice appealed to applicants who liked to feel that they were in control against increased time to reserve and exchange. Notwithstanding this, if a scheme is marketed sufficiently in advance this trade off should be manageable.

A few additional questions could be asked:

- If more one-bedroom apartments had been available, would equity loan have been more popular?

- If the equity loan had been offered at 65% instead of 80%, would more people have taken up equity loan? Is this level sustainable?

The future

Flexible Tenure has been rolled out through the London Mayor's Housing Covenant to offer even more choice to low-middle income hardworking families to include a 'Rent to Save' product. Affinity Sutton has successfully bid for grant to offer this choice at several developments in London and will continue to monitor consumer demand carefully and adapt its offering accordingly.

A number of providers have been allocated grant for Flexible Tenure. This paper documents just the beginning of the journey in customer understanding of the role of choice in purchasing a property. It is recommended that future lessons and conclusions are shared across the Industry and Affinity Sutton has offered to co-ordinate these findings on behalf of the GLA.

In the recent Budget, the Government announced the £3.5 billion programme for the 'Help to Buy' equity loan and 'Loan Guarantee'. Although strictly speaking outside the scope of this report, it is felt that this report must stand in the context of any new initiatives. The 'Help to Buy' equity loan replaces the FirstBuy product with the principal differences being that the HCA and GLA will fund the full 20% equity loan and most of the other eligibility criteria associated with Government initiatives no longer apply. At the time of writing, the only constraints are that properties above £600,000 are not eligible; it only applies to new build and purchasers must not have a legal interest in another home.

How will shared ownership in London fare in the face of this new initiative? Whilst Affinity Sutton believes there is a place in the market for two products in London, they target different customer groups. The answer is 'no change'; shared ownership still continues to offer a flexible step onto the property ladder for low to middle income households who are precluded from the equity loan product as they cannot afford 75% of the purchase price, nor the 5% deposit of the full value.

Shared ownership is more sustainable than the equity loan as it offers future generations of these households the opportunity to buy a resale shared ownership property.

Notwithstanding this, Affinity Sutton urges the GLA to look carefully at the respective value for money of the two products: an average property worth £350,000 in London requires £70,000 as a 'Help to Buy' equity loan. If the same property were offered as shared ownership, it would require approximately £15,000 as grant. That means that 4.6 shared ownership properties could be provided for one equity loan product. In reality, the comparsion is not 'like for like'; equity loan is treated as a financial transaction which is off UK PLC's balance sheet, whereas shared ownership support is grant on the balance sheet.

If the Industry with its supporters, stakeholders and lenders could find a way to change the way financial support for shared ownership is accounted for, then a true level playing field would start to exist. Then more funds might become available for shared ownership and the value for money debate would become very interesting.

Appendices

Appendix 1 - Summary of results for The Residences

	The Residences			
	Shared ownership		Equity loan	
	One-bedroom apartment	Two-bedroom apartment	One-bedroom apartment	Two-bedroom apartment
Full Market Value (FMV)	£150,000 - £160,000	£200,000 - £222,500	£150,000 - £160,000	£200,000 - £222,500
Final take up (Number of apartments)	16		1	
Mix	3	13	1	
Initial share for sale/ % FMV paid	40%	35%	80%	
Range of shares sold/ % FMV paid	25 - 55%		80%	
Average share sold/ % FMV paid	40%		80%	
Salary range	£14,500 - £59,000		£49,500	
Median Salary	£31,104		£49,500	
Deposit range	£3,000 - £30,000		£13,000	
Median deposit	£8,500		£13,000	
No of 5% deposits	10		0	

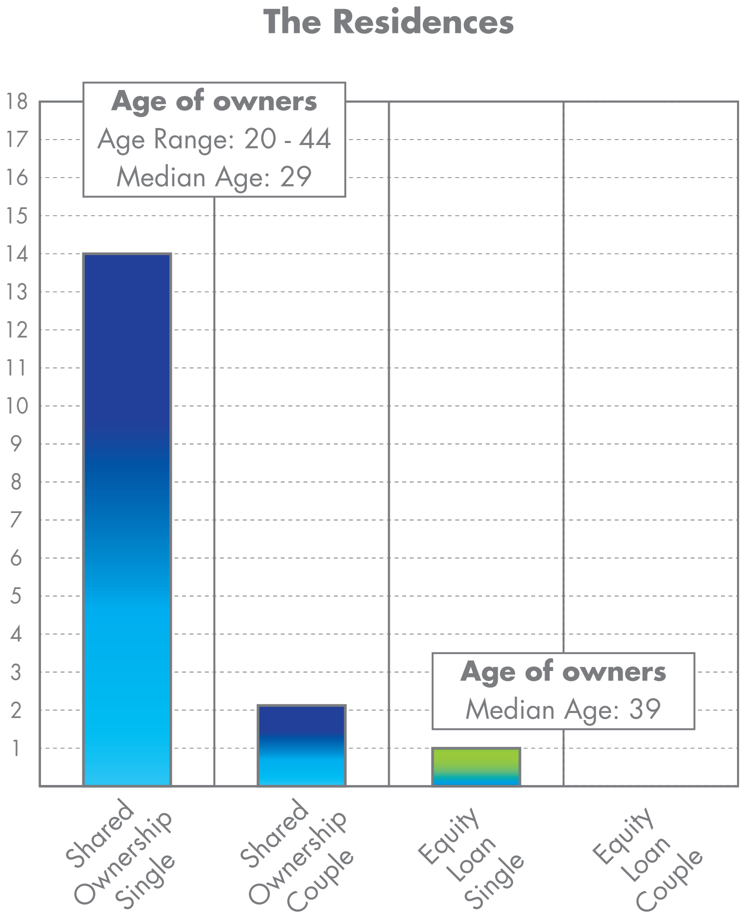
- All data taken from principal purchaser

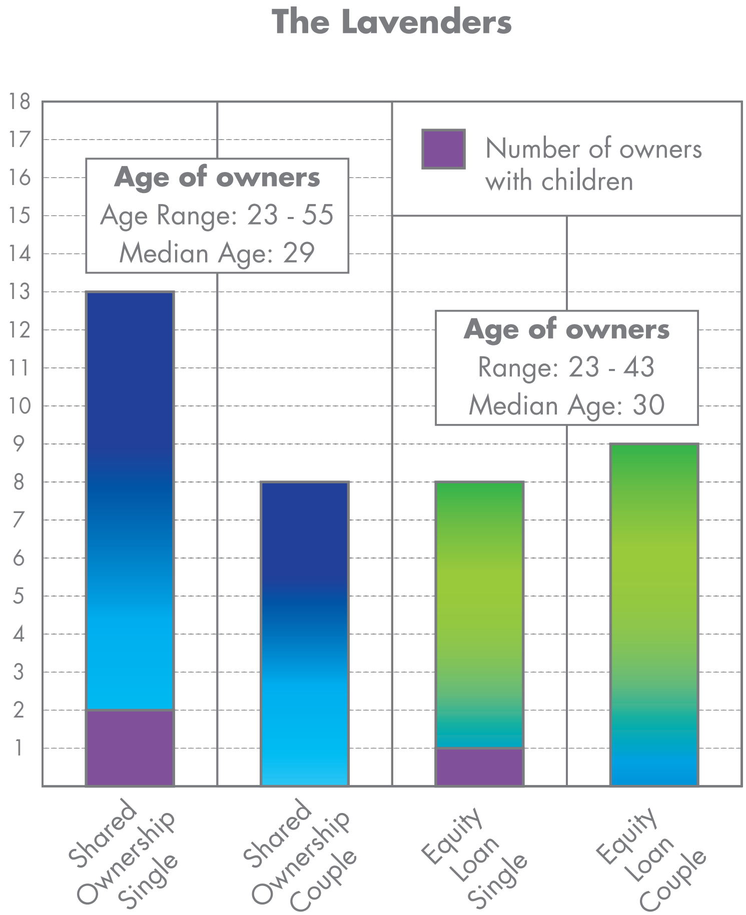
Appendix 1 - Summary of results for The Lavenders

	The Lavenders			
	Shared ownership		Equity loan	
	One-bedroom apartment	Two-bedroom apartment	One-bedroom apartment	Two-bedroom apartment
Full Market Value (FMV)	£145,000	£170,000 - £195,000	£140,000 - £158,500	£170,000
Final take up (Number of apartments)	21		17	
Mix	5	16	8	9
Initial share for sale/ % FMV paid	40%		80%	
Range of shares sold/ % FMV paid	40 - 58%		80%	
Average share sold/ % FMV paid	42%		80%	
Salary range	£19,225 - £49,800		£25,808 - £55,000	
Median Salary	£27,585		£35,584	
No of 5% deposits	14		data unavailable	

- All data taken from principal purchaser

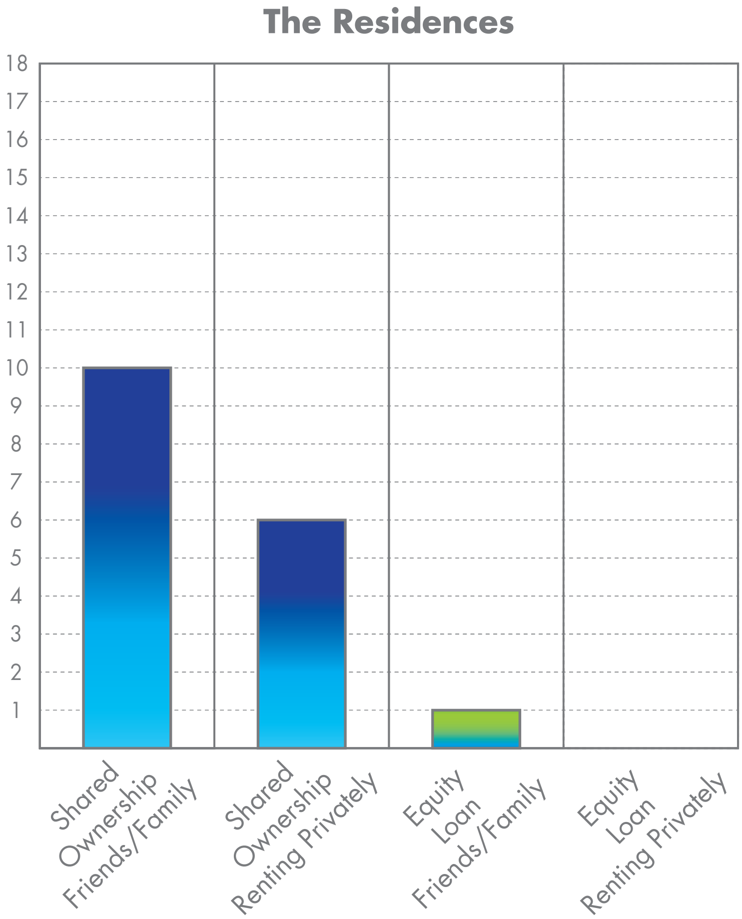
Appendix 1 - The mix of single vs couple owners and their age range

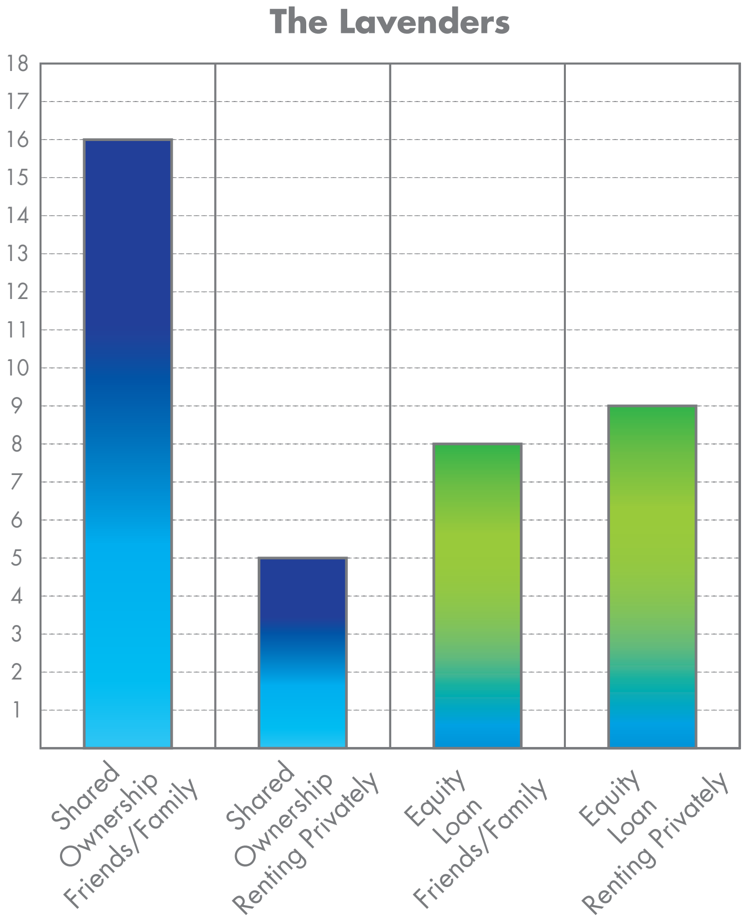




- All data taken from principal purchaser

Appendix 1 - Previous accommodation status

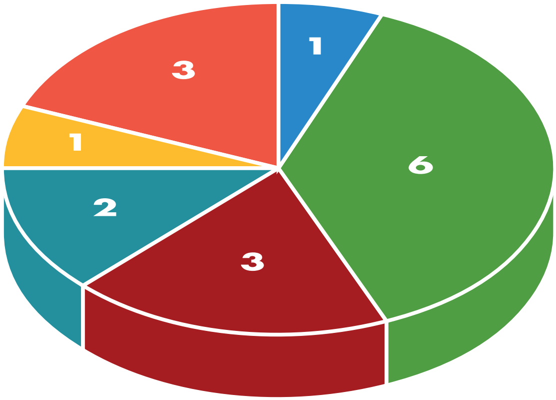




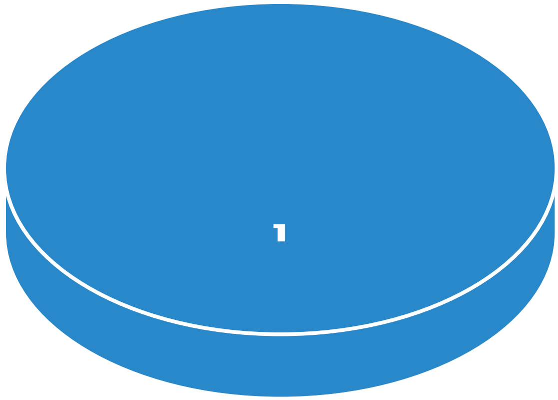
- All data taken from principal purchaser

Appendix 1 - The purchasers’ professions

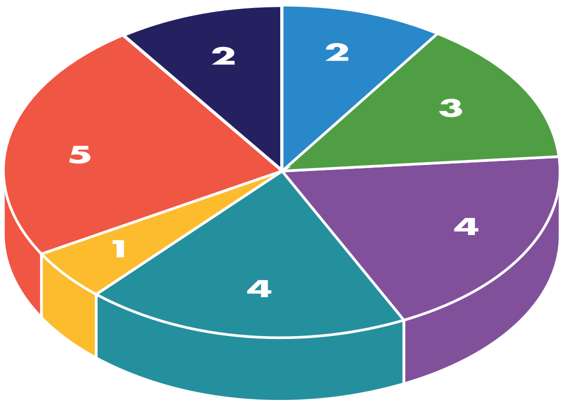
The Residences
Shared Ownership



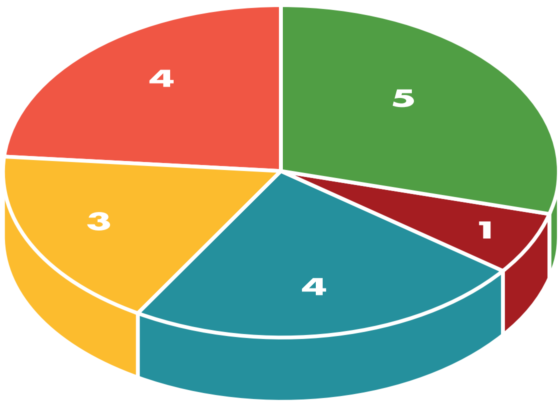
The Residences
Equity Loan



The Lavenders
Shared Ownership



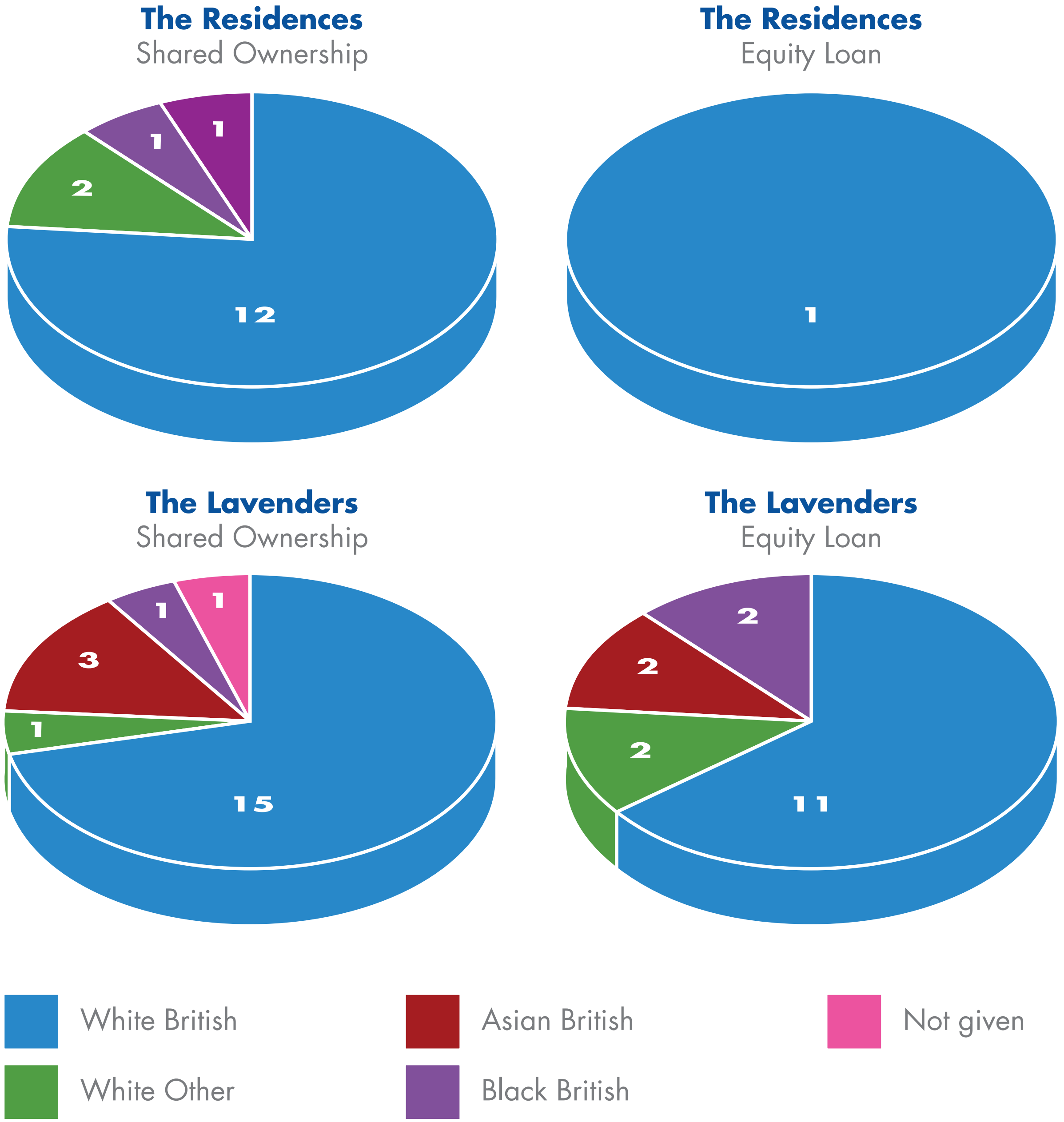
The Lavenders
Equity Loan



Professional
Secretarial
Supervisor
Blue collar
Managerial
Clerical
Skilled
Key worker
Not recorded

- All data taken from principal purchaser

Appendix 1 - The purchasers' ethnic origins



- All data taken from principal purchaser

Appendix 2 – Explanation of the products available

Shared ownership

The purchaser buys part of a property and pays rent on the rest:

- Buy: own between 25% and 75% of the property's full market value
- Rent: pay a subsidised rent on the remaining share, which Affinity Sutton owns

A property is purchased with a deposit (as little as 5%) of the share purchased and a mortgage.

Over time, the purchaser can increase the ownership proportion through 'staircasing', thereby decreasing the amount of rent due.

The purchaser owns the property outright once they have staircased to 100%. They can do this at any time if they wish.

Equity loan

The purchaser owns 100% of the property, but only pays for 80% of the value immediately:

- Mortgage: generally for 75% of the property's value plus 5% deposit
- Loan: Affinity Sutton lends the remaining 20% which is interest-free for the first five years with interest payable (usually around 1.75%) after that. The loan is repaid on the sale of the property or after 25 years, whichever is sooner. Affinity Sutton has a second charge on the property

or

- Loan: The GLA lends 10% and Affinity Sutton lends 10% which is interest free for the first five years with interest payable (1.75%) after that. The loan is repaid on the sale of the property or after 25 years, whichever is sooner. This is the FirstBuy product and the GLA/Affinity Sutton each have a second charge on the property

Appendix 3 – The costs involved with Your Choice at The Residences (examples)

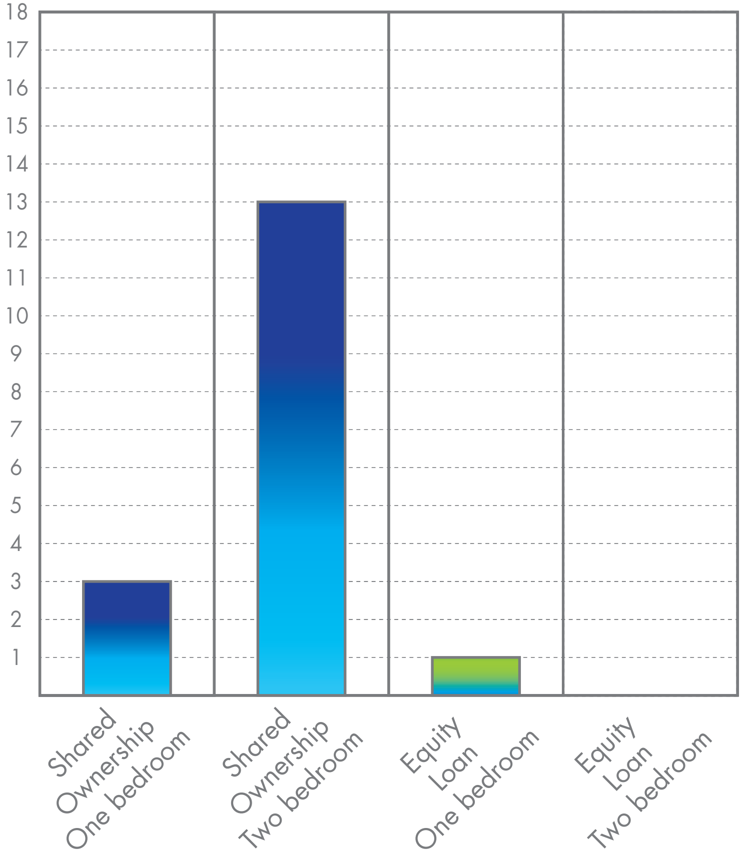
	Shared ownership		Equity loan	
	One-bedroom apartment	Two-bedroom apartment	One-bedroom apartment	Two-bedroom apartment
Full market value	£150,000	£200,000	£150,000	£200,000
Minimum share for sale	40%	35%		
% you pay of full value			80%	80%
Value of share	£60,000	£70,000	£120,000	£160,000
5% deposit	£3,000	£3,500	£7,500	£10,000
Minimum mortgage required *	£57,000	£66,500	£112,500	£150,000
Approximate monthly mortgage repayments	**£337**	**£393**	**£607**	**£810**
Approximate monthly rent	**£206**	**£298**		
Total monthly outgoings **	**£543**	**£691**	**£607**	**£810**
Approximate monthly interest charge after five years			**£44**	**£58**

* Figures are illustrative only; mortgage repayment rate is 5% for shared ownership and 4.25% for equity loans, based on a 25 year mortgage

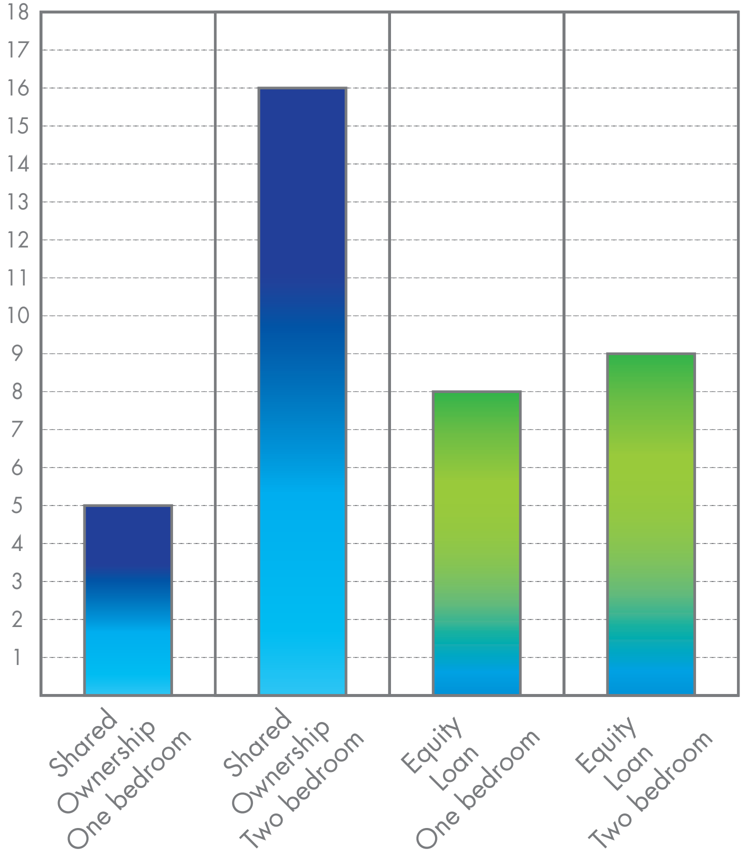
** Excludes service charge and bills

Appendix 4 – Property size sales split by product

The Residences



The Lavenders



Affinity Sutton

With over 57,000 homes and a 100 year history, Affinity Sutton is one of the biggest providers of affordable housing in England. As a business for social purpose, it invests in what it believes matters most – its residents and its communities.

Affinity Sutton completed 1,200 new properties last year and provided much needed new homes for around 3,000 people. Its new homes are designed to meet a range of needs and for many offer that all important first step on the property ladder through opportunities such as shared ownership (part buy/part rent) and equity loans.

www.affinitysutton.com | sales@affinitysutton.com | 0300 100 0303

Sherwins

Sherwins has over 25 years of experience of working with London and South East based housing associations and affordable housing providers. It has an unparalleled knowledge of funding home purchases under affordable housing schemes and works closely with both the GLA and HCA on new initiatives. Sherwins enjoys strong support from mortgage lenders and regularly has access to exclusive funding for affordable schemes.

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Sharratts

Sharratts is a boutique legal firm providing a professional, affordable service specifically for Social Housing providers and their partners.

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Committed to excellence, it is recognised as a social housing specialist and acknowledged within the sector as experts in the field.

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