

What is the Share to Buy Program?

Alternative tenure models exist in housing markets across the world to help potential homebuyers enter into homeownership and increase overall housing affordability. The most common alternative tenure models are co-operative housing, lifetime leases and shared-equity housing.

This research insight aims to explore an alternative to traditional homeownership that could broaden households' choices for affordable housing. We explore, review, and provide more information on the Share to Buy program ("StB program" or "StB") in England. The StB program is an alternative tenure type that allows first-time homebuyers to purchase a home with a significantly lower down payment than through traditional homeownership. This research insight is the first part of an in-depth research series on the StB program.

What is England's StB program?

Creation of the StB program

In 2014/15, England created the StB program, an affordable homeownership scheme, aimed primarily at first-time homebuyers. It helps households with incomes below £80,000 (£90,000 in London) to enter into homeownership. These households would not otherwise be able to purchase

a home with the standard 15% down payment.¹ Under the StB program, a leaseholder can buy a share of at least 25% in any property and rent the remaining share from a landlord (a housing authority or publically listed company). Because the leaseholder requires a mortgage on only their share of the unit, their down payment is significantly lower than if they purchased the unit outright. The leaseholder has the opportunity to increase their share of the unit by a process called "staircasing." If the leaseholder staircases to 100% ownership, they no longer have to pay rent to a landlord and can sell the unit without consulting them.

¹ Nationwide triples minimum deposit for UK first-time buyers, The Guardian, June 17, 2020. <https://www.theguardian.com/business/2020/jun/17/nationwide-triples-minimum-deposit-for-uk-first-time-buyers>

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Improvements to the StB program

On October 17, 2019,² the UK Government announced major changes to the StB program. These improvements were made to make shared ownership more accessible for lower-income households and help leaseholders staircase to a larger equity share. Three major adjustments were:

- Tenants in new housing association properties delivered with government grants would have an automatic right to buy a minimum 10% share of their unit, with the ability to staircase. Prior to this major change, housing association properties did not have to offer the opportunity to buy a share in their rental units that were financed with the help of government grants.
- The initial minimum share ownership required was reduced from 25% to 10% for all StB homes.
- The leaseholder would be able to staircase their share of the home in increments of 1% instead of 10%.

Why England's StB program?

Innovative policy

The StB program is innovative because it gives participants more flexibility in terms of affordability than traditional homeownership does. Participants are able to purchase additional shares of the unit if they are in a financial position to do so, and the program allows first-time homebuyers (FTHBs) to enter into homeownership with significantly lower down payments than with traditional homeownership (1.25% down payment with StB, compared to 15% with traditional homeownership). The StB program has helped over 157,000 households enter into affordable homeownership in England since 2015.³

² UK Parliament House of Commons, *Right to Shared Ownership*, October 17, 2019. <https://hansard.parliament.uk/Commons/2019-10-17/debates/19101744000012/RightToSharedOwnership>

³ UK House of Commons Library, *Shared ownership (England): the fourth tenure?*, November 12, 2020, page 3. <https://commonslibrary.parliament.uk/research-briefings/cbp-8828/>

Impact of StB on affordable housing

StB's success from 2015/16 to 2018/19 has made it the largest affordable homeownership program in England.⁴ The program has had a significant impact on affordable housing, accounting for 34% of new affordable housing supply⁵ in 2018/19, up from 23% in 2015/16. In 2019, there were approximately 157,000 shared ownership households.⁶ While this represented less than 1% of all households, researchers estimate that the demand for shared ownership units could increase by more than 15,000 homes per year when England's Help to Buy equity loan program⁷ closes in 2023.⁸

Market conditions

The success of the StB program is partially due to its adaptability to market conditions. The new StB rules aim to help fix the major housing issues in England. According to Heriot-Watt University,⁹ some of England's main housing issues are unaffordable rents and mortgages, overcrowding, and "hidden households."¹⁰ These housing affordability challenges are partially due to insufficient new housing being built to meet demand, especially in London. Due to these conditions, potential FTHBs often struggle to save for a down payment. The StB program adapted to these conditions by decreasing the minimum down payment from 25% of the leaseholder's desired equity share to 10% of their desired equity share and by allowing leaseholders to staircase in increments of 1% instead of 10%. These changes make it easier for leaseholders to enter into shared ownership and increase their equity share of the property.

Some key terms used in this brief

StB: Share to Buy

Staircasing: The ability to purchase additional shares in one's shared ownership unit. The additional shares can be as little as 1% of the property's value.

Leaseholder: the shared ownership purchaser.

Landlord: the shared ownership provider.

Pros and cons of StB

Flexibility

Unlike traditional homeownership programs, StB provides leaseholders with the ability to select their equity share of the property. Leaseholders only have to purchase a minimum equity share of 25% in the property. Because of this, the minimum down payment under the StB program is 1.25%, compared to 15% in traditional homeownership. The lower down payment makes it easier for FTHBs to enter into homeownership. Leaseholders also have the ability to staircase and purchase more of the unit whenever they choose to.

⁴ England's affordable homeownership schemes are Help to Buy, Share to Buy, and Lifetime ISA (savings account for first-time homebuyers).

⁵ Affordable housing supply: housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidized route to homeownership and/or is for essential local workers).

⁶ Savills Research, *Shared Ownership*, June 12, 2019, page 2. https://www.savills.com/research_articles/255800/282797-0

⁷ "The Help to Buy equity loan program allows first-time buyers to borrow a minimum of 5% and a maximum of 20% (40% in London) of the full purchase price of a new home." UK Government.

⁸ Savills Research, *Shared Ownership*, June 12, 2019, page 2. https://www.savills.com/research_articles/255800/282797-0

⁹ BBC, *Housing crisis affects estimated 8.4 million in England – research*, September 22, 2019. <https://www.bbc.com/news/uk-49787913>

¹⁰ Hidden household: A household that a person cannot afford to move out of. This includes house shares, adults living with their parents, and people living with an ex-partner.

Long-term price stability

A leaseholder with a StB unit has more long-term price stability compared to a private renter. The leaseholder does not have to increase their share of the unit if they cannot afford to, and their landlord can only charge a maximum of 3% of the value of the property. A leaseholder does not have to worry about sharp increases to their rent if their property value increases significantly. This is because, instead of recalculating the value of the property each year to determine rent, annual rent increases at a specified percentage above the Retail Price Index (RPI). If a leaseholder thinks that there will be increases to home prices or the RPI in the near term, they can staircase to keep their costs stable.

Affordability

Leaseholders in the StB program typically have lower monthly payments compared to traditional homeowners (Case Study: Affordability Advantages for Leaseholder) or market renters (average private rent of £868 in 2019).¹¹ The lower down payment and monthly costs reduces the minimum income required to enter into homeownership.¹²

Complexity

Like other non-traditional homeownership programs, StB has shortcomings. The StB program is complex to the average homebuyer because it introduces aspects that are not applicable to standard/traditional renting or owning of a unit. For example, StB includes staircasing agreements and restrictions surrounding resale. The complexity of StB can make it difficult for potential buyers, developers, and lenders to easily understand it, and thus take part in it. A study done by YouGov for Aster Group in 2017 showed that 60% of people surveyed did not understand the main benefits of StB, and only half of the people surveyed knew that banks offered mortgages on shared ownership homes.¹³

Mortgage availability

There is limited mortgage availability and less favourable interest rates for shared ownership housing. Some financial institutions view the StB program as too complex and elect not to provide mortgages. This may make it more difficult for leaseholders to obtain a mortgage.

Case study: Affordability advantages for leaseholders

The case study shown in table 2 compares the old StB program (original rules before the amendments in 2019), the proposed StB program (2019 adjustments included), and traditional homeownership. When comparing the new StB program with a traditional mortgage, the key impacts on the leaseholder are as follows:

- **Advantage: Lower down payment and mortgage payments.** The new StB program requires only £1,250 for a down payment and carries a monthly cost¹⁴ of £687.50. This is significantly lower than the £25,500 down payment and monthly mortgage payment of £1,253.61 required to purchase the unit using a traditional mortgage.
- **Advantage: Easy to increase equity through staircasing.** The new StB program makes it easier for a first-time homebuyer to enter into the housing market. Its simplified staircasing rules will allow StB participants to increase their equity share in the unit in 1% increments instead of 10% increments.
- **Disadvantage: More sunk costs.** Leaseholders in the new StB pay 93.1% of their mortgage payments to sunk costs, which is significantly more than the 45.7% with a traditional mortgage.

¹¹ NimbleFins, *Average Rent in the UK 2021*, December 2020. <https://www.nimblefins.co.uk/business-insurance/landlord-insurance-uk/average-rent-uk#cost>

¹² Savills Research, *Shared Ownership*, June 12, 2019, page 3. https://www.savills.com/research_articles/255800/282797-0

¹³ Aster Group, *Another Way: How Shared Ownership Can Improve The UK Housing Market*, September 2017, page 8. [https://s3-eu-west-1.amazonaws.com/aster.co.uk/IMAGES/Corporate/Our reports/Another-way-Aster-Group-shared-ownership-report.pdf](https://s3-eu-west-1.amazonaws.com/aster.co.uk/IMAGES/Corporate/Our%20reports/Another-way-Aster-Group-shared-ownership-report.pdf)

¹⁴ Administration costs associated with financing for the mortgage and staircasing are excluded to simplify the case study.

StB Case Study

	Old StB program	New StB program	Traditional homeownership
Property value at initial sale	£250,000	£250,000	£250,000
Equity share purchased at initial sale	25%	10%	100%
Payment to landlord at initial sale	£62,500	£25,000	£250,000
Down payment: 5% StB, 10% traditional	£3,125	£1,250	£25,000
Equity share retained by landlord	75%	90%	0%
Value of share retained by landlord	£187,500	£225,000	£0
Max monthly rent	£468.75 [(£187,500 × 3%)/12]	£562.50 [(£225,000 × 3%)/12]	£0
Minimum staircasing amount	£18,750 (£187,500 × 10%)	£2,250 (£225,000 × 1%)	£0
Monthly mortgage payment (3.19% traditional 3.95% StB) ¹⁵	£193.50	£77.58	£591.75
Monthly interest payment	£118.50	£47.42	£498.25
Total monthly cost	£780.75	£687.50	£1,090
Total down payment	£3,125	£1,250	£25,000

¹⁵ Mortgage calculator: <https://www.moneysavingexpert.com/mortgages/mortgage-rate-calculator/>.

Conclusion

The goal of the StB program is to help FTHBs enter into homeownership who could not afford a home through traditional homeownership. Overall, the StB program represented less than 1% of all households in 2018/19, but represented 34% of new affordable housing supply. This was a significant increase from 4,080 shared ownership units in 2015/16. Since the inception of the StB program, it has helped over 157,000 households enter into homeownership. Future research will provide further analysis on the creation, impacts, benefits, and challenges of the StB program.



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Appendix

A. Eligibility criteria

Eligibility criteria for leaseholder

The leaseholder must meet the following conditions:

- Have an annual household income below £80,000 (if outside London) or £90,000 (if in London).
- Not own another home. If they do, they must be in the process of selling it.
- Not be able to afford a home that is in adequate condition or large enough to house their family on the open market.
- Demonstrate a good credit history without bad debts. (Same requirements as a regular mortgage.)
- Purchase a minimum 10% share of the home.
- Pay a down payment of 5% to 10% of their equity share, and obtain a mortgage to pay for the remainder.

Issues/Barriers	Some households who need housing may still not be able to meet all the criteria.
Benefits/Solutions	Households who do not meet the criteria may be eligible for social housing programs.

Eligibility criteria for landlord

Landlords who receive grants and are members of the StB program must abide by the rules set by the Homes and Communities Agency.¹⁶ The majority of housing authorities who provide StB units are non-profit, but there are also publically traded companies like Savills UK that build StB units.

Issues/Barriers	Limit on maximum rent charged to tenant. Transparency. All landlords who received grants in excess of £3 million must provide quarterly details of all expenditures in excess of £500.
Benefits/Solutions	Grants are available to subsidize the cost of development. Average grant per unit was £32,808 in 2018/2019. (This excluded London.)

¹⁶ Homes and Communities Agency, *Grant Agreement (Private RP Consortium)*, February 2017. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/595758/Grant_Agreement__PRP_Consortium__SOAHP_16-21.pdf

B. Affordability: Initial house cost and mortgage

Down payment

Mortgage broker Trussle surveyed young adults aged 18–34 in 2018. Half of those surveyed were living with their parents in order to save for a down payment. Young adults in London were worse off, as 74% of young adults surveyed there were living with their parents to save for a down payment.¹⁷

Issues/Barriers	According to the YouGov report in 2017, only 10% of people believed that England's housing market was affordable for first-time buyers. ¹⁸
Benefits/Solutions	It is easier for the first-time buyer to enter the market. Since the leaseholder does not have to purchase 100% of the unit, their down payment of 5% to 10% of their share is significantly lower than if they purchased a home traditionally.

Mortgage availability

Financial institutions in England announced that they had a limited appetite for StB mortgages. Due to the size and complexity of the program, it was not a top priority for financial institutions. The barriers financial institutions face are outlined below.

Issues/Barriers	<p>Mortgage lenders may perceive StB as complex and potentially high-risk. In 2016, the Council of Mortgage Lenders outlined the factors below that limited appetite for StB tenure. To account for these factors, lenders charged higher interest rates for StB mortgages than for traditional mortgages.</p> <ul style="list-style-type: none"> • Competing priorities (lenders may opt to finance other mortgages instead, due to their greater size and ease of underwriting). • Complications of liaising with housing associations in the event of a default. • Late payments (96% of shared owners are up to date with payments, compared to 98% of FTHBs with a traditional mortgage¹⁹).
Benefits/Solutions	<ul style="list-style-type: none"> • The StB website and Homes and Communities Agency have step-by-step guides for lenders and leaseholders. • Lenders can develop a strategy with landlords to resolve the leaseholder's missed payments. • Research conducted by UK Finance in 2016 concluded that mortgage arrears and repossessions among shared owners were comparable to other first-time buyers. • There is a waitlist to purchase shared ownership units. <p>The UK government drafted a proposal²⁰ to introduce a standard shared ownership model for mortgage providers to encourage them to provide more competitive mortgage finance rates.</p>

¹⁷ Derin Clark, *Struggle to save for house deposits force half of young adults to live with parents*, June 21, 2019. <https://moneyfacts.co.uk/news/mortgages/struggle-to-save-for-house-deposits-forces-half-of-young-adults-to-live-with-parents/>

¹⁸ Aster Group, *Another Way: How Shared Ownership Can Improve The UK Housing Market*, September 2017, page 9. [https://s3-eu-west-1.amazonaws.com/aster.co.uk/IMAGES/Corporate/Our reports/Another-way-Aster-Group-shared-ownership-report.pdf](https://s3-eu-west-1.amazonaws.com/aster.co.uk/IMAGES/Corporate/Our%20reports/Another-way-Aster-Group-shared-ownership-report.pdf)

¹⁹ Council of Mortgage Lenders. *Shared ownership: Ugly sister or Cinderella*, page 32. <https://www.cchpr.landecon.cam.ac.uk/Research/Start-Year/2016/Shared-Ownership-Ugly-sister-or-Cinderella/Report>

²⁰ Ministry of Housing, Communities and Local Government, *Changes to shared ownership to help more people get on the property ladder*, August 28, 2019. <https://www.gov.uk/government/news/changes-to-shared-ownership-to-help-more-people-get-on-the-property-ladder>

Mortgage interest & payments (includes principal)

The leaseholder must get a mortgage on their share of the home. If an leaseholder does not own a large amount of their unit, the majority of their monthly payment goes toward rent and interest.

Issues/Barriers	If the leaseholder does not staircase and owns the minimum share of 10%, the majority of their monthly payment goes toward covering rent and interest. It takes longer to build equity in the property.
Benefits/Solutions	Leaseholders are able to select how much of the home they are willing to purchase. This allows the leaseholder to purchase a share of the home that is affordable to them. If their economic conditions change, they are able to take advantage of the improved and less complex staircasing rules.

C. Initial and ongoing costs

Initial costs

The largest initial cost for any home in England outside of a down payment is the Stamp Duty Land Tax.

Issues/Barriers	Leaseholder pays the Stamp Duty Land Tax.
Benefits/Solutions	The leaseholder has the ability to defer the Stamp Duty Land Tax until they own 80% of the unit.

Renovations

Leaseholders are able to perform any internal renovations on their unit. Leaseholders who are purchasing an older unit in need of updating, but do not have the funds to finance a large equity share, may struggle to staircase after the renovations are completed if their unit's value increases.

Issues/Barriers	Leaseholder pays, but does not benefit if they have a low equity share.
Benefits/Solutions	To help retain equity, the leaseholder can staircase and potentially take advantage of grants for renovations.

Maintenance

The new StB program is introducing a new 10-year period in which the costs of any maintenance or repairs will be covered by the landlord rather than by the leaseholder.

Issues/Barriers	The leaseholder is responsible for all interior repairs and maintenance of their unit.
Benefits/Solutions	Under the new StB rules, the landlord is responsible for repairs and maintenance for the first 10 years.

Maximum annual rent

The maximum annual rent helps leaseholders estimate their annual housing costs and determine their level of affordability.

Issues/Barriers	Leaseholder pays rent to a housing authority on the remainder of the home, a cost not exceeding 3% of the remainder of the home's capital value.
Benefits/Solutions	The leaseholder can staircase and reduce their rental costs.

D. Share of equity

Property value

The StB units are always leasehold, as the agreement is between the leaseholder²¹ and the landlord.²² The average initial equity share purchased in 2018/19 by leaseholders was 42%. Leaseholders have the ability to staircase if they choose to, but increasing house prices make this more difficult.

Issues/Barriers	<ul style="list-style-type: none"> a. A high initial house price limits the leaseholder's equity share. Increasingly higher prices also make it harder for them to increase their shares (by staircasing). b. The leaseholder pays rent and mortgage interest, neither of which is part of their equity.
Benefits/Solutions	<ul style="list-style-type: none"> a. The new changes to staircasing allow leaseholders to purchase 1% of the home at a time. Doing so reduces the amount of rent that the leaseholder would pay. b. If lenders offer the same interest rate for traditional and shared ownership housing.

²¹ Leaseholder is a household who purchases a share of a unit from the housing authority or private developer.

²² Landlord is the housing authority or private developer who owns the building and sells a portion of a unit to a household. The majority of co-owners are housing authorities.

Resale value

When they sell their unit, leaseholders receive payment for only their equity in the unit that they purchased. The landlord receives the remainder. Leaseholders have the opportunity to staircase to increase their equity share if they feel that housing prices will increase.

<p>Issues/Barriers</p>	<ul style="list-style-type: none"> a. The landlord benefits from a “pre-emption” clause, which gives them the exclusive right to market the property to potential buyers before it is placed on the open market. They have a nomination (outlined in the terms of the lease) to sell at their desired price. A study conducted by the Universities of Bristol, York, and Kent identified that leaseholders were dissatisfied with resale services and fees (marketing, administration, valuation fees, etc.²³). b. The majority of leaseholders own less than 100% of their unit (the average leaseholder share was 41% in 2017/18²⁴) and they must get a valuation of their home before they can sell it on the open market. The landlord will have a nomination period to sell the unit through the Shared Ownership waitlist; if there is not a suitable buyer, the leaseholder can sell the home through an estate agent. If the leaseholder owns 100% of the unit, they are not required to get a valuation of their home. c. If a leaseholder does not own 100% of the unit and sells for less than the valuation amount, the leaseholder is responsible for covering the shortfall.
<p>Benefits/Solutions</p>	<ul style="list-style-type: none"> a. The leaseholder can sell their unit through an estate agent if the landlord is unable to find a buyer within the nomination period. Before that, they <i>may</i> benefit from a high price set by the landlord. b. The leaseholder can increase their share of the property through staircasing. c. Landlords not only receive rental income on an ongoing basis, they also receive payment for their equity share in the property when it is sold.

²³ Exploring experiences of shared ownership housing: reconciling owning and renting, Dave Cowan (University of Bristol), Alison Wallace (University of York), and Helen Carr (University of Kent), July 2015, page 18. <https://www.york.ac.uk/media/chp/documents/2015/sharedOwnershipCHPL.pdf>

²⁴ Shared Ownership: The case for investment, Avison Young, page 14. <https://www.avisonyoung.co.uk/documents/38901/994551/shared-ownership-the-case-for-investment.pdf/108c3ff7-2907-478c-b5c0-ee8a857e7be9>

Summary of Pros and Cons of StB

Pros	Cons
StB allows leaseholders to get on the property ladder in an affordable way.	Not all lenders finance StB units.
More long-term stability compared to the private rental market.	Units are sold on a leasehold basis unless 100% of the unit is purchased.
Lower down payment (1.25% minimum down payment under new StB, compared to 15% minimum down payment in traditional homeownership).	Selling a unit not owned 100% by the leaseholder is more complex than selling a freehold unit, since the landlord has the right of first refusal.
Lower monthly payments. (The combination of mortgage and rent is lower than market rents in the majority of England.)	Permission may be required from the landlord in order to make structural alterations to the unit.
The option for leaseholders to staircase to increase their equity share.	StB is complex to most FTHBs. ²⁵
Repairs for the first 10 years are the responsibility of the landlord.	A leaseholder must pay rent on the share of the unit that they have not purchased.

²⁵ Aster Group, *Another Way: How Shared Ownership Can Improve The UK Housing Market*, September 2017, page 7.
[https://s3-eu-west-1.amazonaws.com/aster.co.uk/IMAGES/Corporate/Our reports/Another-way-Aster-Group-shared-ownership-report.pdf](https://s3-eu-west-1.amazonaws.com/aster.co.uk/IMAGES/Corporate/Our%20reports/Another-way-Aster-Group-shared-ownership-report.pdf)

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