

Low Cost Home Ownership: affordability, risks and issues

Introduction

The Housing Corporation commissioned the Cambridge Centre for Housing and Planning Research (CCHPR) at the University of Cambridge to explore the impact of the credit crunch and housing market turbulence on Low Cost Home Ownership (LCHO).

The research explored what the impacts of the credit crunch and market changes have been on the supply of, the demand for, and the affordability of LCHO. How risk has changed for both purchasers of LCHO and for housing associations (HAs) as providers was also considered.

The full report is available from the HC and CCHPR websites.

Key findings

At the time of the research, many HAs expressed concern that they would struggle to sell or were already struggling to sell new build units. A number said that they were considering changing the tenure of the units, for example to social renting, rather than risk seeing the units stand empty. HAs were increasingly having to compete with other shared equity schemes being offered by private developers.

There were longer term concerns about supply as the major housebuilders slowed down development. Some planned developments were not expected to go ahead until the market improves. This will reduce the supply of LCHO units where they are part of S106 schemes. This has implications for LCHO and whether the

target number of units can be delivered. It also reduces the ability to cross-subsidise social rented units. For some HAs the flow of units from private developers to the LCHO sector was expected to increase as private developers offered HAs the units they could not sell. However, many of these are not in the right location or of the right standards, type and size.

Whereas in some areas HAs reported high levels of continued interest for the products, others had seen a fall in both enquiries and in sales. Many felt that the uncertainty in the housing market overall, with falling prices and more costly borrowing, was discouraging potential purchasers. To try to counteract this, many HAs have increased their marketing activity.

There were also differences noted in the types of properties that were most affected. Demand was still good for family houses in good locations, but much less so for flats and units in less favourable locations.

There had not at that time been any major shift in the types of households purchasing the properties. The broad target group were still accessing LCHO. However, it was only households with deposits and good credit histories who could access mortgage finance. A few HAs reported more enquiries from households on higher salaries than the average LCHO purchaser.

For existing owners, the cost of borrowing had increased alongside broader increases in the cost of living, in fuel and food prices in particular. Higher mortgage payments and other costs without increases in incomes were making household finances

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much tighter. Even so, there was as yet little evidence of demand for downwards staircasing, although HAs feared it would increase in the future.

The cost of borrowing for HAs has increased. There were concerns that some HAs were quite highly geared and therefore vulnerable to cost increases. This is particularly relevant when HAs come to re-finance at higher rates. There were suggestions that some HAs could face cash flow problems on account of the reduction in income from sales and from staircasing receipts. Some HAs would therefore need to re-visit their business/ financial plans.

Since the research was conducted in May and June 2008, the economy has worsened. The financial crisis has become all pervasive; confidence and demand has fallen across the market; developers have further reduced output; and there have been more general declines in the real economy and confidence. The government has responded with various initiatives that impact on LCHO.

Key problems for HAs

The vast majority of HAs are experiencing problems arising from:

- The lack of access to mortgages for people who want to buy;
- reduced valuations on HA new build properties, affecting both sales prices and the purchaser's capacity to borrow for LCHO;
- reductions in consumer confidence, impacting particularly on the proportion of interested customers that take their interest forward to purchase;

- lack of staircasing, leading to diminished receipts and reduced cash flow;
- having a sizeable portfolio still for sale as the HA enters the next financial year; and
- concern that HAs cannot adjust to market conditions quickly enough.

Managing risk

HAs are managing risk in a number of ways. These include:

- Engaging with lenders and valuers directly to ensure they understand the products and their benefits;
- carefully examining future pipelines to assess viability;
- scoring risk more carefully for particular schemes;
- changing tenure of the output where LCHO is weak;
- offering a range of other incentives on schemes;
- re-valuing properties in line with market changes;
- looking at the widest range of scenarios possible in business planning;
- concentrating on reducing the number of properties to be sold; and
- examining other non-social rented options.

Overall, the location and types of units available were highlighted as key issues. In the current market conditions, to achieve sales of LCHO, properties have to be the right products, in the right place, at realistic prices.