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# Extending home ownership



HM TREASURY



Office of the  
Deputy Prime Minister

Creating sustainable communities

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## Foreword by the Deputy Prime Minister and Chancellor of the Exchequer

Getting housing policy right is of fundamental importance both to the lives of everyone in our country and also to the stability and sustainability of our economy and society as a whole.

Over the next Parliament the challenge for this Government is to build on the economic stability that we have already delivered, to greatly extend the opportunities available to people to meet their aspirations and have a decent home at a price they can afford.

As a result of the economic stability that we have put in place, more and more people have had the confidence to become homeowners, leading to 1 million new homeowners since 1997.

To extend that number to 2 million in the next 5 years, ensuring that more people can benefit from the advantages of homeownership, we will take action on a number of fronts:

**We will increase the number of homes available over time, making housing more affordable as recommended by Kate Barker's review of housing supply, through a comprehensive programme of investment and planning reform.**

**We will step up the delivery of new housing out on the ground by speeding up planning decisions, releasing more public sector land for development and challenging the construction industry to drive down costs.**

**We will widen the opportunity for people to own their own home through our reforms to stamp duty and through pioneering shared equity schemes, with private lenders and government acting hand in hand.**

**And we will ensure that the communities we create are sustainable, through delivering the vision set out in the Sustainable Communities Plan, and by transforming old housing estates across the country into mixed communities with home owners side by side with tenants.**

**We want to offer people opportunity and choice – to own their home, to meet their aspirations and to build up assets. The programme we set out here will enable us to make this happen.**



Rt Hon John Prescott MP  
Deputy Prime Minister



Rt Hon Gordon Brown MP  
Chancellor of the Exchequer

## Introduction

Since 1997 the long-term decisions the Government has taken – including giving independence to the Bank of England, new fiscal rules and a reduction in debt – have created a strong platform of economic stability. Stability provides a platform for building prosperity, allowing business, individuals and the Government to plan for the long term, and has delivered strong and stable macroeconomic conditions. The UK is now experiencing the longest period of sustained low inflation for the last thirty years, alongside low and stable interest rates. Employment has increased by over 2 million since 1997; with employment rising and unemployment falling in every region. This environment has supported the growth of 1 million new homeowners since 1997.

This has been accompanied by a turnaround in investment in housing, which by 2007-08 will have reached £7.2 billion, over double what it was in 1997-98, and action to improve affordability by taking forward the Sustainable Communities Plan and implementing the recommendations of the Barker Review of Housing Supply – which concluded that to improve affordability and increase access to housing the UK needed to build more houses over time. The Government will also increase the construction of new social rented homes by 10,000 p.a. by 2007-08 and will bring all existing social rented homes up to the decent homes standard.

In January this year the Deputy Prime Minister published his Five Year Plan, *Homes for All*, which set out how everyone – owner-occupiers, first time buyers, social tenants, key workers and people who rent privately – can be extended the opportunity of a decent home at a price they can afford. It set out how the Government is increasing the supply of housing in a responsible way, how it will offer thousands of tenants the chance to buy a stake in their own home and how it will create sustainable, mixed communities.

To extend the number of new homeowners by a further million in the next 5 years and ensure that more people can benefit from the advantages of homeownership, the Government is:

- Developing new **shared equity schemes** allowing more people to get a foot on the housing ladder;
- Identifying and **releasing more vacant public sector land** for housing;
- Running a **competition to build homes for £60,000** to help drive down construction costs;
- **Addressing the under-supply of housing** to ensure that housing becomes more affordable to all in the long-term by taking forward the Sustainable Communities Plan and implementing the recommendations of the Barker report.
- Providing resource and incentives for local authorities to speed up the **planning process**;
- Extending demonstration projects to **develop mixed tenure** communities across the country;
- **Doubling the starting threshold for stamp duty** land tax to £120,000 for residential property transactions.

More details on each of these policies is attached.

## Accessing home ownership

The Deputy Prime Minister in his 5 year plan for housing “Homes for All” set out the Government’s intention to assist at least 80,000 households into home ownership by 2010 as well as providing opportunity for up to 300,000 social housing tenants to buy a stake in their home. The Government has now confirmed that it hopes to increase this by a further 20-30,000 following negotiations with private lenders, making up to 110,000 in all.

### Homebuy

In June the Government will complete consultation on its document ‘Homebuy – expanding the opportunity to own’<sup>1</sup> which was published in April and sets out three Homebuy “offers” for people seeking to enter homeownership – depending on whether the homes to be purchased are existing market housing, existing social housing, or new-build housing.

Details of the three different offers are set out in the attached table. However, a key element is that the householder can initially purchase an equity stake which could be as little as 50%, and then in most cases staircase up to 100% ownership as their circumstances improve. When the householder chooses to sell the home, they receive a share of the sales proceeds proportionate to the size of their own stake. The Government is consulting on whether or not there should be an annual charge on some or on all of the share of the home it funds.

The Deputy prime Minister will be publishing further details in a supporting document to the consultation paper shortly. It will provide illustrations of the different options and how they would affect individuals, as well as how the receipts can be used to help reduce homelessness.

### Joint equity loans with mortgage lenders

The Government has been in discussion with the Council of Mortgage Lenders, HBOS, Nationwide and other lenders, together representing some 40% of the total mortgage market, looking at ways in which we can work with private lenders to increase the number of people we help into home ownership - through joint public/private funding of equity loans, using a model similar to that of the ‘open market’ Homebuy scheme. In the model, the borrower would:

- Borrow a conventional mortgage to pay for a proportion of a property’s value, e.g. 75%;
- The mortgage provider would also provide an equity loan of 12.5% of the property’s value; and,
- Government (probably through a Registered Social Landlord) would provide an equity loan for the remaining 12.5%

When a property is sold at the prevailing market rate and prices have risen, the outstanding value of the standard mortgage is repaid and both equity loans are repaid in line with their original proportions, e.g. 12.5 and 12.5%.

If a property is sold at below the original purchase price, the full outstanding value of standard mortgage is paid back. This is followed by the full outstanding value of the mortgage provider’s equity loan. A proportion

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<sup>1</sup> See [http://www.odpm.gov.uk/stellent/groups/odpm\\_housing/documents/downloadable/odpm\\_house\\_037326.pdf](http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/downloadable/odpm_house_037326.pdf)

of the Government's equity loan is paid back only if there is a surplus after these first and second charges are met. Sharing the equity stake with lenders will allow Government to assist more households in relation to the same level of funding.

Negotiations have been promising and Government and lenders hope it may be possible for the first joint-equity products to be delivered from April 2006. This could enable Government to extend assistance to 20,000 additional households, and perhaps as many as 30,000 if we can extend this approach to 'new-build' Homebuy as well. This would enable Government to directly assist up to 110,000 households into homeownership over the next five years.

## Factsheet on Homebuy Schemes

	Social Homebuy	New Build Homebuy	Open Market Homebuy
<b>What is on offer?</b>	A share of the equity in a tenant's existing social home.	A share of the equity in a new home built with public subsidy, or on public sector land.	A share of the equity in a home bought on the open market.
<b>Who is eligible?</b>	Social tenants of landlords that chose to offer the scheme.	Key workers, existing social tenants and those on the housing register, and other first time buyers.	Key workers, existing social tenants and those on the housing register and other first time buyers.
<b>What does the buyer pay initially?</b>	The buyer pays for as much as they can afford through savings and/or a mortgage. Their share must be at least 50% of the home's discounted value. The remaining share is held by their former landlord.	The buyer pays for as much as they can afford through savings and/or a mortgage. The expectation is that in most cases this would be at least 50% of the home's market value. The remaining share is held by the developer.	The buyer pays for as much as they can afford through savings and/or a mortgage. Their share should be at least 75% of the purchase price. The remaining share is held by the provider of the loan for this element of the purchase.
<b>What are the ongoing charges?</b>	Government is consulting on whether or not buyer would have to pay an annual charge (similar to social rent) on some or all of the equity share held by the former landlord.	Government is consulting on whether or not the buyer should pay rent on part or all of the equity share held by the developer, and whether any rent charged should be from the outset, or only after five years.	Government is consulting on whether or not the buyer should pay rent on part or all of the equity share held by the developer, and whether any rent charged should be from the outset, or only after five years.
<b>What conditions are there?</b>	Applicants must demonstrate they can afford ongoing costs. Buyers must repay a proportion of the discount if they resell within five years. Provider has rights to buy back or to nominate the next buyer, and can require contributions to a sinking fund to cover planned maintenance and repairs costs.	Applicants must demonstrate they can afford ongoing costs. Key workers leaving eligible employment must repay equity loan within two years. Provider has rights to buy back or to nominate the next buyer, and can require contributions to a sinking fund to cover planned maintenance and repairs costs.	Applicants must demonstrate they can afford ongoing costs. Key workers leaving eligible employment must repay equity loan within two years.
<b>How would the sales proceeds be used?</b>	Providers will be able to keep proceeds for reinvestment in housing.	Receipts will be recycled into further affordable housing provision.	Receipts will be recycled into further affordable housing provision.

## Public sector land

The Government has now put in place a comprehensive suite of measures and incentives that should see a significant increase in surplus public sector land being brought forward for development.

In particular, English Partnerships (EP) has created and maintains a register of surplus public sector land currently detailing over 700 sites of just under 3,600 hectares from 35 Government bodies, including MOD, Highways Agency, DEFRA and Health.

Departments, agencies and sponsored bodies, also being required to record details of their land and property holdings on e-PIMS (electronic Property Information Mapping System) run by the Office of Government Commerce (OGC). And the Lyons Review is requiring departments and other bodies to regularly review the size and appropriateness of their assets including freehold land and property portfolios, in order to identify assets that are no longer required.

EP has recently acquired a portfolio of 96 NHS sites that will contribute towards the provision of 15,000 new affordable homes for first time buyers nationally by 2010. And following the acquisition of the former RAF Staff College in Bracknell (44 hectares) from Defence Estates in February 2004 EP is now negotiating the acquisition of a further major MOD sites and has agreed a framework agreement with Defence Estates that should enable them to work together on the development of other surplus MOD property.

## Reducing construction costs

As part of improving opportunities for First Time Buyers, the Deputy Prime Minister launched a competition on 1 April 2005 challenging the housebuilding industry to come forward with proposals for constructing homes for £60,000 on public sector land. The first batch of sites to be announced was in Leeds, Milton Keynes, Aylesbury Vale, and Northampton.

The Government is today revealing the second batch of seven public sector sites in London and the South East to be used for the competition to build around 1,000 homes, and the Deputy Prime Minister will shortly be announcing those organisations selected to go through to the second stage. In July a judging panel will announce the 5-15 best entries who will be invited to work up schemes to be taken forward. Winners will be announced in Autumn 2005 with building expected to start on site early in 2006. The first occupants are expected to be in their new homes later in 2006.

## Housing supply and Barker

Kate Barker's independent review of housing supply, published last year, set out clearly how the UK's weak and unresponsive supply of housing restricts fair access to housing and housing wealth. Increasing housing supply is essential to meet the aspirations of today's young to get a foot on the housing ladder, at the same time as helping working families to move from region to region and trade up or down to accommodate their changing housing needs.

In its initial response at Budget 2004 the Government welcomed Kate Barker's review and accepted her headline conclusion that to improve affordability and increase access to housing, the UK needs to build more houses over time. The Government committed to respond to the review's recommendations in full by the end of 2005.

The Government has already made significant progress:

- The 2004 Spending Review announced a 50 per cent increase in new social house building by 2007-08 compared with 2004-05 – an additional 10,000 homes a year.
- It also established a new Community Infrastructure Fund (CIF) of £200 million to finance transport projects that would bring forward new housing development in key areas of growth. Following detailed appraisal, the Government will announce CIF funding allocations in the autumn.

The Government is making further progress on implementation today:

- It is announcing today the merger of Regional Housing Boards and Regional Planning Bodies to encourage regions to take a more strategic overview of their housing and investment needs, and will shortly announce further details about how it will strengthen the independent evidence and analysis available to regional planning bodies to plan for new housing.

The Government will continue to make progress by the end of the year:

- It will consult in the summer on changes to planning policy guidance on housing (PPG3). These reforms will improve transparency and co-ordination in strategic decision-making about the level and location of growth, strengthen the evidence base for planning, increase the supply of land that is suitable and available for development and improve the use of 'plan, monitor, manage' to ensure planning responds in a timely manner as housing market circumstances change.
- It will respond to all other recommendations by the end of the year, and will consider the progress made by the house building industry to improve service quality and customer satisfaction ratings and to increase investment in skills and innovation.

## Planning

The Government is implementing far-reaching reforms to the planning system to make it quicker, more flexible and responsive and to meet the needs of the 21st Century economy. The key components of this are:

- The **2004 Planning and Compulsory Purchase Act** substantially reforms the planning system with an increased strategic capacity for the regions through Regional Spatial Strategies and new flexible local development frameworks at local level, which can respond more quickly to changing conditions.
- **Increased resources and incentives through the Planning Delivery Grant (PDG).** £170 million has been allocated in 2005-06 and a further £135 million and £120 million in 2006-07 and 2007-08 to speed up planning processes. £33 million from this grant was awarded for strong performance on major applications in 2005-06, more than double the £15 million in 2004-05.
- **Targets for planning authorities to speed up development control.** Planning applications are being processed faster now than at any time during the last decade. There has been a 12% improvement in performance on planning decisions since 2002. The Government will ensure all authorities process 60% of major applications within 13 weeks and 65% of minor and 80% of other applications within 8 weeks by March 2007. While some councils consistently achieve all these targets, some only process as few as 20% of major applications within the statutory 13 week period.
- Updated, more **concise and focused national planning guidance.** The Government recently published revised Planning Policy Statement 1 setting out the economic, environmental and social objectives of the planning system. Planning Policy Guidance on housing will be revised to make it more responsive to the housing market, requiring local authorities to prepare and release more land more quickly for new building. The Government will consult on changes by the summer.
- The Government's commitment to achieving 60% of new development on previously developed land, and using higher average densities of 30 dwellings per hectare will ensure that the land take and potentially adverse environmental impacts from new developments are minimised. This has resulted in 67% of new developments being on brownfield land in 2003, up from 56% in 1997, while the density of new dwellings rose from an average of 25 dwellings per hectare in 1997 to 33 dwellings per hectare in 2003.
- New initiatives to speed up planning in designated areas, through **urban design coding and local development orders.** 7 pilots are testing the use of design coding in different contexts within England to see how codes can provide greater certainty, speed and high quality development. With a local development order local authorities will be able to grant permission for the type of development specified in advance, with no need for a planning application.

## Mixed communities

Council estates of the 1960s and 1970s were sustainable, mixed communities providing homes for a broad cross section of people. Over recent decades, as owner occupation has increased, social housing stock has declined in quantity and quality and priority has been given to housing the most vulnerable. As a result, many social housing estates have become concentrations of severe poverty, multiple deprivation and social

exclusion. Whilst elsewhere the benefits of sustained increases in GDP and declining unemployment are being felt, these places today have become detached from the economic mainstream.

In these areas employment rates can be as low as 30 or 40 per cent compared to 75 per cent nationally, house prices are longer responsive to market forces, and health, education and crime outcomes for residents worsened by the 'area effects' of living in concentrated poverty.

Since 1997 the Government has invested over £1.4 billion through programmes such as the New Deal for Communities and National Strategy for Neighbourhood Renewal to reversing the cycle of decline in some of the country's poorest neighbourhoods. However, for some of those estates facing the most severe challenge, it may be the case that a more radical approach is required to regenerate the area, improve outcomes for residents and reconnect it to the wider economy.

In the US, strategies to break up concentrations of poverty in public-sector housing have been a central feature of housing policy. For example, the HOPE VI programme has since 1992 replaced severely distressed public housing estates, occupied exclusively by poor tenants and with poor quality housing and high levels of crime and disorder, with redesigned mixed-income housing attracting people with a range of incomes and backgrounds into both homeownership and rental units alongside social housing.

The UK mixed communities demonstration projects will follow similar principles, remodelling selected social housing estates through tenure diversification plus improved public services and local environments. Starting in Manchester, Leeds and Newham in east London, the mixed communities projects will tackle problematic concentrations of deprivation to create neighbourhoods of choice and connection in struggling social housing estates across the country.

## Stamp Duty help for home-buyers

In common with many countries, the UK levies stamp duty land tax on the buying and selling of houses. To reduce the number of first-time and low-income house buyers paying stamp duty and to improve the efficiency of the housing market, Budget 2005 doubled the starting threshold for residential property transactions to £120,000. As a result:

- an extra 300,000 home-buyers are exempt each year from stamp duty;
- the starting threshold is above £115,000, the median house price paid by first-time buyers; and
- those benefiting from the Budget change are saving up to £1200 on the cost of buying a house.

To increase home ownership in deprived areas, the threshold in the 2000 Enterprise Areas remains at the higher level of £150,000. In total, about 650,000 residential property transactions are exempt from stamp duty each year.

As a result of the Budget decision, over 45 per cent of all home-buyers, and over 50 per cent of first-time buyers, do not pay stamp duty.

