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Shared Equity Ownership

Analysis of Freddie Cohen's Policy Proposal by Roger Bisson

The proposal to assist Jersey families purchase homes using Shared Equity Ownership is likely to result in house price inflation in the crucial first-time-buyer property categories, as "cheap" States-backed money is made available to "qualified Islanders".

Whilst shared equity ownership is an attractive proposition to help people onto the property ladder, there are limited options for application of shared equity ownership in the private sector along the lines proposed by Senatorial candidate Freddie Cohen due to the relatively small size of the Island's property market.

In a technical sense, the "rent" payable for use of the Fund's equity stake in a property is broadly equivalent to an "interest-only" loan at favourable or capped rates where the principal can remain unpaid indefinitely.

The availability of capital from the States Dwelling Houses Loan Fund (DHLF) for use in the purchase of property where "rent" is paid for use of the Fund's stake in a property over an indefinite period could therefore lead to qualified Islander's bidding amounts in excess of market rates for desirable properties based on new formulae of affordability, thereby pricing Islander's that do not satisfy tests for access to the proposed "shared equity ownership scheme" out of key property markets.

The proposal for Shared Equity Ownership applied to the private housing sector could potentially lead to development of a 3-tier housing market, with "shared equity ownership approved" Islanders able to afford the best properties in the entry-level marketplace while residentially qualified Islanders unable to access the scheme occupy a second tier, and non-residentially qualified residents occupy the third tier.

Clearly, such a 3-tier housing market could create conditions that would drive inflation in the Island at a time when low inflation, and a relatively stable property market is key to the Island's survival as both an International Finance Centre, and as a tourist destination.

It is arguable whether Shared Equity Ownership would lead to good quality investments on behalf of the States, particularly in properties which do not own freehold or part freehold, but instead own a long term lease on private land. In this case, the States' equity stake would technically devalue over an extended period of time.

It is also not clear, from the proposal, how profits or losses would be apportioned between, say, a private sector lender and the "shared equity ownership scheme" in the event that a buyer failed to keep up with repayments on, say, the private loan forcing sale of the property.

Given that the States of Jersey already has a scheme, the States Loan Scheme, that enables first-time-buyers to access loan facilities where repayments are, broadly speaking, structured to suit the financial circumstances of the borrower it is not entirely clear what benefits a shared equity ownership scheme would deliver in real terms.

In conclusion, although Shared Equity Ownership may be an option for moving present States-owned housing stock from public to private ownership where owners become responsible for ongoing maintenance, the use of States' funds to help people participate in the Island's relatively small private property market could lead to more significant problems of affordability for future generations.

For this reason proposals for the introduction of Shared Equity Ownership should be treated with great care.

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