Mutual home ownership:

A new route for permanently affordable communities

A briefing paper

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This briefing paper sets out the basic contours of the Mutual Home Ownership Model as it has been developed at the Lilac co-operative cohousing project in Leeds - the first Mutual Home Ownership Society Ltd in the UK.

Mutual home ownership: the basics

A Mutual Home Ownership Society (MHOS) is a new affordability model. It is an equity based leaseholder approach to co-operatively owned housing. This model, first proposed by the New Economics Foundation and CDS Co-operatives, lays out the case for intermediate housing that guarantees affordability in perpetuity for its members. The model represents a significant departure in terms of mainstream tenure types currently available. While it does have its own limitations, it is an important part of the solution towards creating housing markets that can build in permanent affordability and strong community.

In an MHOS, affordability is defined through the proportion of income spent on housing set at no more than 35 percent of net household income. It creates an intermediate housing market where rents are above those of social housing but below market price. Professor Steve Wilcox from York University in a 2006 study found that 40 percent of households fall within the ‘broad intermediate housing market’ in the UK (see figure 1). This broadly holds true for other high income countries. The point is that the size of the housing market to meet this demand is inadequate. There’s a tenure supply-demand mismatch. The mutual housing market has huge potential to fill this gap, especially given that, as the Commission on Co-operative and Mutual Housing found in its 2009 report, it currently only represents 0.5 percent of housing in the UK.

An MHOS create a route to experiment with what economic equality means in practice. An MHOS is complex and a simplified schematic is presented in figure 2. The MHOS owns the homes and land rather than individual members. The MHOS is owned and managed by its members are the residents who live in the homes it provides. Each member has a lease which gives the right to occupy a specified house or flat owned by the MHOS. Membership of the MHOS will give members democratic control of their housing. The cost of building the homes owned by the MHOS is financed by a long-term mortgage loan. In the case of Lilac, this was from ethical bank Triodos. Under the terms of the lease, each member will make monthly payments to the MHOS which will pay the Society’s loans and debts, and cover a deduction for service costs.

The cost of buying the land and building the homes owned by the MHOS and financed by the mortgage is divided into equity shares with an initial value of £1. This equity is allocated to households and they are acquired (or paid for) through each member in that household being levied a monthly member charge equivalent to 35 percent of their net income.

Members pay a deposit equal to 10 percent of the equity shares they can afford to finance through their monthly payments. In this way, every member, regardless of their income, pays the same proportion, placing the principle of equality at the heart of the model. The number of shares allocated to each household depends on a combination of their income and the cost of their home. It's important to state that when 'the cost of a home' is referred to, it does not just equate to the build cost of the property, but also a proportion of the cost of the land and the communal facilities that all households access. The more members earn, the more equity shares they can afford to finance - and the more shares they can afford to be allocated. If the income of a member falls, rather than lose their home, they can sell equity shares if there is a willing buyer, draw on the Society's reserve fund, or convert to a standard rental tenancy. To ensure the sustainability of the project, in Lilac's version of an MHOS, the value of the equity shares allocated to household cannot differ more than (plus or minus) 10 percent of the cost of their home. Lilac devised a high earners policy to deal with the situation when a households' combined monthly charge (35 percent of its income) is greater than the amount required to pay the maintenance charge and finance their equity shares allocated to that property. This puts the excess partly towards paying off their debt quicker, and partly towards an Equity Fund, which can be used in a range of circumstances as agreed by members.

Once all of the equity shares have been paid for by a household, they simply pay a nominal 10 percent of their net income. If a member moves out and sells their shares before they have lived in the MHOS for three years they will only be able to sell them at their original value (or a lower one if their value has fallen). For members who leave after three years, they will receive 75 percent of the change in value of the equity shares, which is indexed to changes in average national incomes rather than local housing prices. This decoupling of the value of homes from local house prices is a significant innovation. It is an important step away from using houses as a speculative asset which grow in value beyond the reach of most households. Members can move between properties in the scheme as they become available and as their housing needs change, as long as all the equity shares can be financed by incoming members.

A note on limits

An MHOS is affordable within parameters. First, a minimum net income for all members in a household is needed to fund the shares allocated to each household. At Lilac for example, in 2013 these household minimums ranged from just under £15,000 for a one-bed flat to just under £49,000 for a four-bed house. Figure 3 shows the net incomes needed for different sized households to ensure enough income was coming in to service the debt. As an MHOS matures and financial reserves are built up, a greater range of incomes can be admitted, with less debt needed to be allocated to those on very low incomes. Second, it's not a model that provides housing for the wageless and lowest income groups in society. Members cannot claim welfare benefits and accrue equity. If a member loses their job, their equity is frozen and they are placed on a contractual tenancy.

So, minimum net incomes are needed for the MHOS model to work. Total incomes across the project have to meet an overall minimum in order for all the debt to be serviced. It's a fine balancing act to ensure that all income profiles can service the total debt. Across the project, the households whose incomes mean they take on shares of less than 100 percent of the cost of its home, need to be balanced by those who can take on more than 100 percent. The mutual model in this respect then is an equalizing device. With time, an MHOS can be affordable to those on much lower incomes, especially as project value continues to rise and debt continues to fall. As also seen in Figure 3, the minimum incomes and deposits needed vary within a range according to whether you take on shares equal to the value of 90 percent or 110 percent of the cost of the home, or somewhere in between.

Additionally, as figure 4 shows drawing on the case of Lilac, the net income needed to live in an MHOS can be lowered if savings are used to acquire more equity. The affordability of the project, then, rests on a certain amount of additional capital from members upfront. These contributions from members to acquire equity upfront has the effect of reducing the overall debt burden of the MHOS and avoids more costly commercial interest repayments.

There are still limits, then, that need working through including the lack of sources for accessing development finance, the need for households to meet minimum income thresholds and small deposits, the exposure to risk that comes from the small size of this sector, and dependency on grant funding as well as from additional capital from members.

Overall benefits

Nevertheless, there are a number of reasons that this model remains affordable: monthly member charges are geared to a constant 35 percent of net household income to help long term household planning; members secure a 'foothold' on the housing ladder at lower household incomes and with lower entry deposits; members can buy more shares as their income rises; transaction costs on buying into and leaving are reduced because homes are not bought and sold; and the linkage in the change in the value of equity shares to average earnings rather than local house prices helps reduce risk, dampen increases in value, and avoid speculation. This also makes it affordable from one generation of residents to the next.

In sum, the MHOS is a radical departure from conventional routes to home ownership. It promotes resident self-management, decommodifies housing and creates more stable neighbourhoods. The MHOS model both promotes access to less wealthy groups and discourages wealthier groups who are seeking speculative returns from housing. This is a significant difference to owner-occupied forms of eco and cohousing. An MHOS can make a significant contribution to community cohesion and housing affordability crisis in UK city contexts. This is especially the case if land and assets can be transferred to a Community Land Trust which in turn uses an MHOS to provide affordable community-led housing. Given the significant potential, further pilot projects should be supported so that a greater evidence base of the potential of this model can be established.

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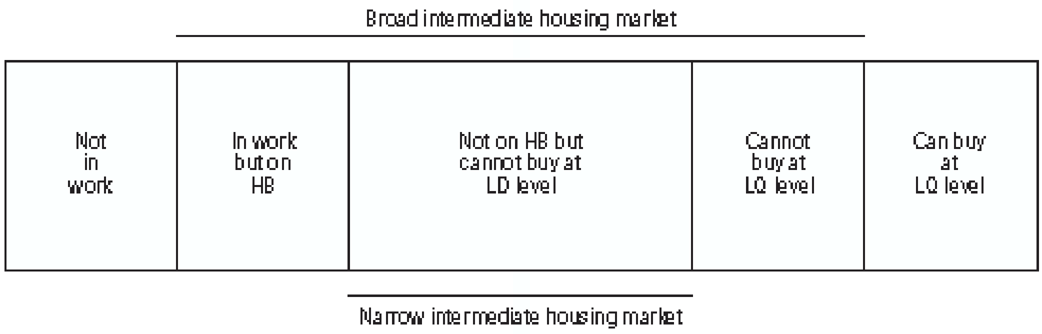
Figure 1: The intermediate housing market.

Source: Steve Wilcox.



Notes: HB – housing benefit; LD – lowest decile; LQ – lower quartile.

Figure 2: A simplified version of the Mutual Home Ownership Society model.

Source: Lilac.

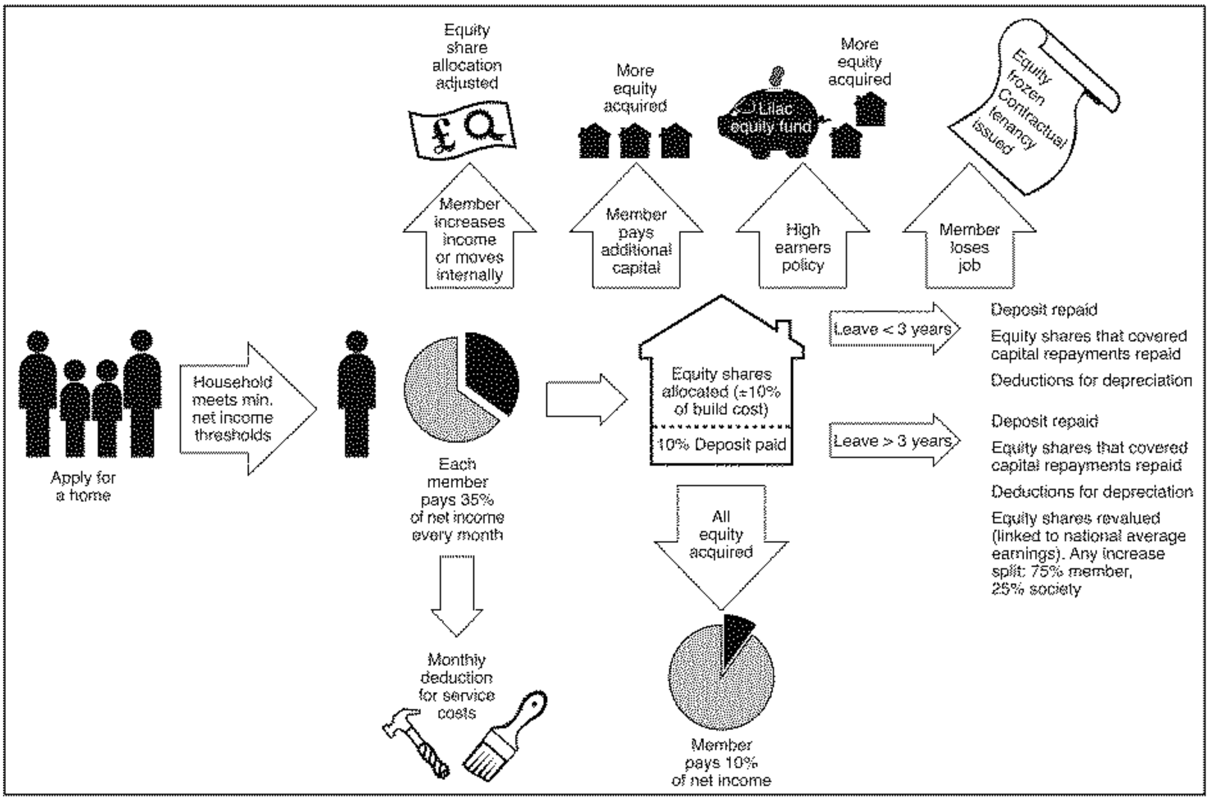


Figure 3: Minimum net incomes and deposits needed to live in Lilac (2013 figures).

Source: Lilac.

	Net household income required	
	From	To
1bed	£14,843	£20,315
2bed	£22,816	£29,870
3bed	£33,142	£41,365
4bed	£39,388	£48,497

	Deposit required	
	From	To
1bed	£6,314	£8,873
2bed	£9,722	£13,020
3bed	£14,233	£18,078
4bed	£16,925	£21,184

Figure 4: Impact of the initial payment on minimum net household incomes required to live in Lilac.

Source: Lilac.

Initial Payment	Minimum Net Income (everyone pays 35% net income to the project)			
	1bed	2bed	3bed	4bed
£10,000	£13,856	£21,746		
£12,000	£13,435	£21,325		
£14,000	£13,014	£20,904		
£16,000	£12,593	£20,483	£30,928	
£18,000	£12,172	£20,062	£30,507	£36,739
£20,000	£11,751	£19,641	£30,086	£36,318
£25,000	£10,699	£18,589	£29,033	£35,266
£30,000	£9,646	£17,536	£27,981	£34,214
£35,000	£8,594	£16,484	£26,929	£33,161
£40,000	£7,541	£15,431	£25,876	£32,109
£45,000	£6,489	£14,379	£24,824	£31,056
£50,000	£5,436	£13,327	£23,771	£30,004
£55,000	£4,384	£12,274	£22,719	£28,951
£60,000	£3,332	£11,222	£21,666	£27,899
£65,000	£2,279	£10,169	£20,614	£26,847
£70,000	£1,227	£9,117	£19,562	£25,794
£75,000	£174	£8,065	£18,509	£24,742
£80,000		£7,012	£17,457	£23,689
£85,000		£5,960	£16,404	£22,637
£90,000		£4,907	£15,352	£21,585
£95,000		£3,855	£14,299	£20,532
£100,000		£2,802	£13,247	£19,480
£105,000		£1,750	£12,195	£18,427
£110,000		£698	£11,142	£17,375
£115,000		-£355	£10,090	£16,322
£120,000			£9,037	£15,270
£125,000			£7,985	£14,218
£130,000			£6,933	£13,165
£135,000			£5,880	£12,113
£140,000			£4,828	£11,060
£145,000			£3,775	£10,008
£150,000			£2,723	£8,955
£155,000			£1,670	£7,903
£160,000			£618	£6,851
£165,000				£5,798
£170,000				£4,746
£175,000				£3,693
£180,000				£2,641
£185,000				£1,589
£190,000				£536
£195,000				-£516

About the author

Paul Chatterton is a writer, researcher and campaigner. He is currently Reader in 'Cities and Social Change' in the School of Geography at the University of Leeds where he co-founded the 'Cities and Social Justice' Research Cluster and MA in 'Activism and Social Change'. He is currently Director of the University's Sustainable Cities Group. He has written extensively on urban change and renewal, civic experimentation and movements for social and ecological justice. He is co-founder of the public charity 'Antipode' dedicated to research and scholarship in radical geography and an associate editor of the journal 'City'. Paul is also co-founder, first secretary and resident of the pioneering and award winning Leeds based low impact housing co-operative Lilac (www.lilac.coop). All his work can be found at www.paulchatterton.com.

His new book published on the Lilac project in 2015 with Routledge titled 'Low Impact Living A Field Guide to Ecological, Affordable Community Building' is available at http://www.routledge.com/books/details/9780415661614/ (20% off with code DC361)

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