

The Private Sector &
The Intermediate Residential
Property Market

'Co-investment' in Housing



Executive Summary

This report introduces the principles and practice of the private sector's potential role in the intermediate residential property market through "Co-investment", whereby owner occupiers and investors jointly own residential property. Under Co-investment a resident owner-occupier ("the Co-owner") and an investment fund ("the Co-investor") jointly own a dwelling. The share of the property owned by each party can vary from 5% to 75%, depending on mutual agreement.

Co-investment is a new approach to housing and the intermediate market as it is focused on the mainstream housing market rather than the social or "affordable" end for whom Housing Associations and similar organisations provide.

Co-investment provides a variety of benefits to both households and investors across many parts of the housing market. This report has identified a series of problems, constraints and inefficiencies in the UK's housing market. These boil down to three fundamental ones:

1. **Households are tied to either renting or owning**, unless they can gain access to subsidised housing, which most cannot. Subsidised housing in any case is tied to particular housing needs, which differ from the requirements and expectations of many.
2. **Households are financially constrained**. Many cannot have the homes they want or the financial security they need, because they either cannot command a large enough down payment or cannot attractively release home equity.
3. **Investors have limited residential opportunities**. The current array of investment options in housing is often unattractive for investors, especially large ones. New models are needed, of which this is but one.

Co-investment opens up a new arena for mutual assistance and benefits between households and investors. This then helps to overcome these three major problems.

The mutual benefits arise because Co-investment:

- Provides new sources of liquidity
- Aligns the interests of homeowners and investors to enable them to gain through transacting with each other

- Enables risks to be pooled in new, innovative ways
- Places repair and maintenance responsibility with consumers where it can most easily and cheaply be dealt with, improving net returns to investors to attract their capital
- Lowers risks and the threat of default by smoothing out household budgetary burdens
- Enables households more closely to optimise wealth, income and consumption over time
- Facilitates investor asset diversification strategies
- Provides investors with opportunities to invest in housing market capital appreciation without excessive lock-in.

The Co-investment model consequently has housing market, financial, investment, and housing policy benefits.

The opportunities created are especially important at present, because of:

1. **Reductions in public expenditure** which will press down on housing opportunities, including reduced housing benefit and lower subsidies for social housing and housebuilding.
2. **New mortgage regulation** is squeezing out more potential homeowners from traditional mortgage finance routes.
3. **The housing market is recovering weakly** and needs new purchase opportunities and finance.
4. **The economy is growing only slowly** and there is a risk of renewed decline, partly dragged down by the problems of the housing market.

The analysis provided in this report highlights the opportunities. The problem, of course, remains getting from a situation where Co-investment does not exist to one where it is a significant player, bringing with it substantial benefits and no excess baggage of hidden problems that have bedevilled housing and mortgage markets in recent years.

However, a wider understanding and acceptance of the feasibility and sensibleness of the approach would speed up its adoption and use in housing markets. The purpose of this report is to provide information and analysis to further that objective.