

SHARED OWNERSHIP HOMES



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SOLICITORS

Your questions answered

By Phil Robinson

Q

I would like to buy my first house, and a friend has recommended buying under a “shared ownership” scheme. What is this and how does it work?

A

Buying a property under a shared ownership scheme is a popular way for first time buyers to get on the property ladder and there are a numerous social landlords, councils and private companies offering a variety of different properties under this structure.

The organisation selling the property will allow the buyer to purchase a percentage share in the equitable ownership of the property and they will retain the remaining share. For example: 60% 40%. The purchaser will pay 60% of the value of the property to the seller and then be granted a long lease for their 60% share. This will grant them exclusive occupation of the property, and they will be able to enjoy the property subject to them paying a rent on the remaining 40%.

The buyer can normally use a mortgage to buy their 60% share and there are a series of high street lenders who offer mortgages for shared ownership purchases. The buyer will then be required to pay both a monthly mortgage payment, and an amount of rent for the share which the selling organisation has retained.

In this manner a buyer will be able to purchase a property and treat it as their own, without the restrictions placed on tenants under short term rental agreements. You will normally have full scope to keep pets, decorate to your taste and enjoy the property on a long-term basis, without fear of eviction.

When the purchaser wishes to sell the property in the future, they may be required to offer it for sale back to the original seller for the new open market value or alternatively be able to sell their interest in the property on the open market. In either scenario they would be entitled to receive the open market value for the 60% share that they own.

Q

I understand that during the course of my ownership, I will be able to “staircase” my shared ownership lease. What does this mean?

A

When you own a percentage share in a shared ownership property, the lease will normally grant the owner the right to “staircase” the percentage ownership and increase their equitable share in the property over time.

Following the terms set out in the lease, you will periodically be able to buy additional percentage shares until you acquire 100% of the equitable interest in the property (or 80% under some affordable housing schemes). This is normally achieved by buying further shares of no less than 10% each time, although some leases do automatically allow you to gradually increase the share annually in 1-2% increments.

Each time that you buy a greater share, the amount of rent that you are required to pay will be reduced accordingly, until you have acquired enough that you no longer need to pay rent.

When you have purchased 100% you will own the property outright and if the property is a house, you will be entitled to acquire the freehold of the property and extinguish the shared ownership lease. This will then allow you to sell the freehold property outright without any further relationship with the shared ownership organisation.



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