

Right to Invest - Tenant Shared Ownership Policy

This policy outlines the Council's approach to and key principles of the Tenant Shared Ownership scheme.

Due to the gathering crisis in the affordability of outright home ownership in London, the Council views Right to Invest - Tenant Shared ownership as a way of creating a mixed and balanced community in the borough and to give the opportunity for residents to get a foothold on the property ladder to enable them to put down roots in the community.

The scheme has been designed to help residents who cannot afford to purchase their homes outright under the Right to buy scheme. Tenants are able to buy an initial share of between 25% and 50% of their property.

Under the Right to Invest - Tenant Shared Ownership scheme properties are sold, using a shared ownership lease with conditions that allow the Council to retain equity in the property and gives it control over re-sales and sub-letting so that the property may be retained as a long lasting affordable housing solution and also as an asset to the Council.

Rents for higher earning social tenants are to increase in April 2017 to rent levels nearer to market rents under a scheme popularly known as 'pay to stay'. The implementation of the 'pay to stay' policy will inevitably make higher earners consider their housing options and the Tenant Shared Ownership scheme may not only provide an alternative affordable option for 'pay to stay' tenants, it could meet their longer term aspirations to own a property.

General Principles:

- The Tenant Shared Ownership scheme is only available to secure tenants who qualify for the Right-to-buy.
- The purchaser buys a share of the property on a leasehold basis (usually for 125 years) which will usually be funded by mortgage and payment of rent on the remaining share owned by the Council.
- Once a tenant acquires a shared ownership lease under this scheme, they automatically relinquish their Right-to-buy.
- Under this scheme, the tenant will receive the proportionate discount they would have been entitled to under Right to Buy. i.e, if an applicant is eligible for a £100,000 Right to Buy discount but chooses to purchase a 50% share using TSO, then they are entitled to a £50,000 discount.
- A shared owner has the right to purchase further shares in the property. This is commonly known as 'staircasing'. A shared owner can opt to do this after a period of 12 months by purchasing shares of 10% up to a maximum of 70% ownership.
- Additional RTB discount would be released if and when the shared owner decides to purchase additional shares in the property.
- The rent payable on the Council owned share will be reduced according to the percentage of the additional shares purchased.
- The maximum share that may be acquired by the shared owner is 70%.
- The shared owner is able to sell on the lease with the potential to gain from any increase in value.
- If sold, the property must first be offered for sale back to the Council. The Council can elect to repurchase the property or may nominate a purchaser.

- Shared owners are not able to downward staircase their share in the property except in exceptional circumstances.
- The shared owner must reside at the property and is not permitted to sub-let the property.
- A maximum of 200 Shared ownership sales will be set for the first year of the scheme.

Application process

The scheme is only available to tenants who qualify for Right to Buy (RTB). The scheme would therefore be offered to them either separately or when they apply for RTB. They would have a choice as to which option to pursue.

If the tenant chooses to follow the Tenant Shared Ownership route they would then be subject to an affordability test, based upon the Homes and Communities/Greater London Authority formula. This is to ensure that applicants have the financial capacity to take on responsibility of home ownership. The HCA/GLA formula requires the net annual income to be at least 4.5 times the mortgage amount.

The monthly repayment must be less than 45% of the net monthly salary. If the tenant fails the test they would not be considered for the scheme.

If the tenant passes the affordability test they would then have to give up their RTB to proceed with this option. It is a legal requirement that the tenant must be informed that they would lose their RTB if they follow the Tenant Shared Ownership option and acquire a shared ownership lease.

At any point up to completion, the tenant may cancel their Tenant Shared Ownership application. However, they would then need to submit a new RTB application if they wish to revert to RTB.

The proposed scheme is a non-statutory and non-grant funded scheme and tenants would be sign posted to independent advice where appropriate.

The Tenant Shared Ownership scheme would allow a secure tenant who qualifies for the RTB scheme, the opportunity to opt for Tenant Shared Ownership and use a proportion (commensurate with the percentage share of the property they are purchasing) of their discount to buy a share in the property that they are renting instead of purchasing outright.

Conversion to shared ownership would release a share of the RTB discount in proportion to the share that is purchased. For example, if a RTB applicant is eligible for a discount under the RTB of £100,000 but chooses to buy a 50% share under the Tenant Shared Ownership Scheme they would receive a discount of £50,000 (£100,000 x 50%).

Additional discount would be released if and when the shared owner decides to purchase additional shares in the property.

In the first year, the number of accepted applications would be limited to 200.

Responsibilities of the shared owner

The full responsibilities of the shared owner are stipulated in the lease agreements, however the salient points are summarised below:

The Tenant Shared Ownership scheme is offered as a non-statutory scheme allowing the Council discretion to stipulate terms and conditions for eligibility and the terms of the shared ownership lease.

A shared owner has the responsibilities of a leaseholder and in addition to rent, must pay service charges and a management charge if they live in a property that receives landlord provided services e.g caretaking. Some houses on estates may receive services, for example grounds maintenance and Estate Police service.

The shared ownership leases for both houses and flats will contain covenants to prohibit sub-letting in whole.

The scheme has a share ceiling, the maximum share that a shared owner may acquire in a property is 70%. Following purchase of an initial share the leaseholder may then acquire additional shares in the property by a process known as "staircasing". The amount of rent payable to the landlord decreases as the shared owner's share increases.

Initial share purchase would be based on a minimum starting share of between 25% and 50%. The shared owner would be able to staircase by purchasing additional shares with a minimum step up of 10% up to a maximum of 70%. The Council will always retain a 30% share of the property.

Additional shares would be purchased based on current market valuation but excluding improvements that the shared owner has carried out to the property or any deterioration in the property arising from the leaseholder's failure to maintain. Giving full benefit of improvement value should encourage the shared owner to make improvements and so help to increase their sense of ownership. Valuation would be undertaken by a RICS qualified valuer, as agreed between the shared owner and the Council or if agreement cannot be reached by referral to the District Valuer.

Each party is responsible for paying its own costs relating to the initial purchase. The costs of staircasing including the reasonable costs incurred by the Council would be born by the shared owner.

When a tenant buys a lease under the Tenant Shared Ownership scheme, their responsibilities and relationship to the Council as their landlord would change. The former tenant would have become a long leaseholder with the right to occupy the property for the length of the lease providing that they adhere to its terms and conditions.

During the lease term the shared owner would be responsible for the internal upkeep of the property. The shared owner is responsible for repairs and replacement of all internal fittings and fixtures.

If the leased property is a house the Council would no longer be responsible for the exterior or structure. The responsibility for all repairs and maintenance would sit with the shared owner.

If the leased property is a flat the Council, as landlord, would remain responsible for the exterior and structure of the property and the upkeep and maintenance of common parts. The leaseholder would be expected to contribute a full share of service costs such as cleaning. However, major works charges would be payable in proportion to the percentage share owned to reflect the landlords interest in the property.

Rent Setting and Arrears

A shared owner is required to pay rent on the share owned by the Council.

The initial rent will be based on a proportion of the rent charged the day prior to purchase.

The rent charged would be set in proportion to the equity held, so that as the leaseholder's share in the property increases, their rent decreases.

Rent increases would be set in line with inflation by applying an annual increase of RPI + ½%.

Rent arrears will be managed using the current income collection policy and processes. If a shared owner owes more than two months rent, LBBB have the right to inform the leaseholder's mortgagee of the position but will only seek to recover rent arrears from the lender as a form of last resort. The shared owner will be notified in writing before this action is taken.

Re-sales

The lease requires the shared owner to offer the Council the first option to re-purchase the property or nominate a buyer (right of first refusal). This provision in the lease enables the Council the opportunity to influence the future allocation of the property.

The Council would maintain a list of suitable nominees for Tenant Shared Ownership re-sales. It is expected that in the majority of cases the Council would nominate a potential purchaser and thereafter it would be for the purchaser and existing shared owner to proceed to completion of the transaction. Should there be no interested nominee the Council may decide to allow the re-sale on the open market. Alternatively, the Council may decide that it is in its interest to re-purchase the property. The property would remain subject to the maximum share and lease conditions including the requirement for the owner to obtain permission before sub-letting or assignment.

When a Tenant Shared Ownership property lease becomes available for resale it is proposed that, subject to the HCA/GLA affordability test and income cap, that the cascade already adopted for applicants to Affordable Reside tenancies '*to achieve mixed income communities living in affordable and sustainable housing*' is applied. Therefore, the selection of buyer would be made according to the following cascade:

- Council and housing association tenants living in the Borough and in employment.
- Housing waiting list applicants living in the Borough and in employment.
- Residents of the Borough in employment.
- People in employment in the Borough but who are not currently resident.
- People in employment from outside the Borough.

The decision as to whether the Council buys back a shared ownership home, nominates a purchaser or allows resale on the open market would take into account the merits of each case, bearing in mind the cost of each of the options and the funding available.

Applicants Records and Data

Information on applicants and their households held within our records are subject to the Data Protection Act 1998. Information will be held in a secure and confidential way and only for as long as it is necessary for the purpose it is intended for. The data can only be disclosed to relevant third parties provided it is for the purposes of assessing eligibility of applicants, audit purposes and the prevention of fraud and crime.

Equalities considerations

An equalities impact assessment has been carried out for this policy and is attached in appendix x

The assessment confirmed that no groups are negatively impacted by the introduction of the Tenant Shared Ownership scheme.

Review

This Policy will be reviewed after the first year.

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