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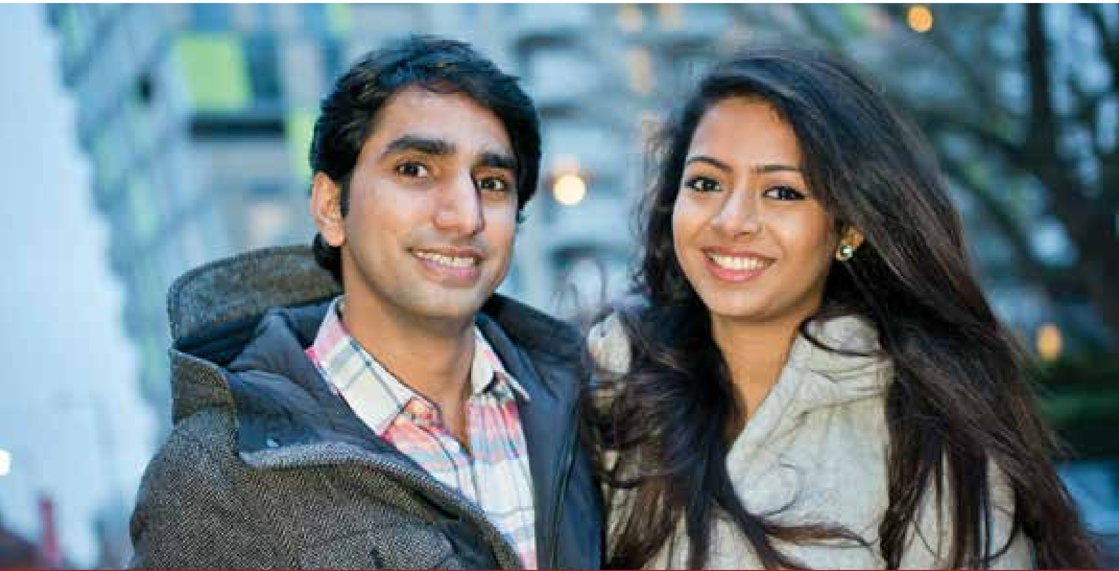


A GUIDE TO SHARED OWNERSHIP

This guide describes the typical process of buying a share in a property from a housing association. It does not refer specifically to the process of buying through Octavia Housing.

Shared ownership is a government-funded scheme to help first-time buyers. It allows you to buy between 25% and 75% of a home using a mortgage, and pay rent on the remaining share. You can choose to buy further shares in the property later, when you can afford it. You can eventually own 100% of the property.

Who is the scheme for?

The scheme is intended only to help people who could not buy a home any other way. This means that that you will not be eligible for a shared ownership home if your income is sufficient to obtain a mortgage to buy a suitable home outright.

Government guidelines state that if you are buying a one, two or three bedroom property in London, your annual household income must not be over £90,000.

Equally you must have enough income to be given a mortgage for the amount you are borrowing. It is standard procedure by all housing associations to carry out an independent assessment of the ability of any applicant to buy and sustain a purchase. If you don't meet the requirements, your application will be rejected.

Can any home be purchased on a shared ownership basis?

There are two kinds of shared ownership property.

- **Newly built home:** a property that has been built by a housing association specifically to sell on a shared ownership basis. This was previously called 'New Build HomeBuy' and is sometimes referred to as 'part buy, part rent'.
- **Refurbished property:** a property that has been converted or refurbished for shared ownership.

Properties also become available because an existing shared owner is selling it. This is called re-sale.

Legal background to shared ownership

For most people, buying a home is the biggest purchase and investment that they will make in their lives. A shared ownership home is no different. It has to be approached with the same degree of care and forethought as an outright purchase.

Shared ownership means that you buy a share in a long lease on a property. This requires mortgage repayments on the share you have bought plus rent for the share that is still owned by the housing association. Additionally, service charges will be levied for any maintenance of the building and grounds and for management of the development and the services provided.

The minimum share that you can buy initially is 25% although this can vary between developments. If you can afford a larger initial share, you can buy up to 75%.

The lease is the document that governs the relationship between the shared owner and the housing association. You must ensure that you completely understand all its regulations before proceeding with a purchase. Your solicitor will explain the legal issues fully to you. It is important that you ask them for clarification if you are unsure of any detail or aspect of the purchase.

As the owner of the property, you are also the leaseholder with full responsibility for the repairs and upkeep of the home in which you have purchased a share. Housing associations do not undertake any repairs in shared homes. In extreme situations, if they do have to carry out any repairs which are the responsibility of the homeowner, the costs will be passed on.

How to find a shared ownership property

Many housing associations advertise their properties in newspapers and through websites. If you want to live in London, a good place to start looking is on the www.firststepslondon.org website. First Steps is the London-wide HomeBuy agent appointed by the government. It is a condition of buying a shared ownership home that you are registered with them.

In addition, some London local authorities have their own systems and you should contact the relevant local authorities to find out how you can register for properties in their area. Most local authorities give priority to those who already live within the local authority boundary.

Priority will either be decided by the local authority directly or, in some cases by the housing association who will use their own specific criteria.

When you are accepted as the purchaser

If you decide that you want to apply for a home on a particular scheme and are accepted as the purchaser, a member of staff from the housing association or their agents will take you through the details. They will explain shared ownership and the features of the particular home you are interested in before you commit yourself.

If you wish to proceed with the purchase of a property, you will be asked to complete an application form and attend an interview with an independent financial advisor. This meeting is to check your financial details including your income and other commitments, as well as to explain to you the shared ownership scheme and your responsibilities. The housing association will need to see evidence of your income, outgoings and proof of identity (such as your passport).

This is in order to confirm that:

- You can afford the financial commitment involved.
- You could not afford to purchase a similar property outright.

If this proves to be satisfactory and you still wish to proceed, you will need to arrange a mortgage to purchase your share of the property unless you have sufficient savings to buy a share. At this stage you will also be asked to pay a reservation fee to secure the property. This will only be refunded to you if there is a reason beyond your control that you cannot proceed with the purchase for example if the housing association approves your finances but you cannot obtain a mortgage.

What am I buying as a shared owner?

It is important to remember that even though you are paying rent as a shared owner, you are an owner-occupier. You therefore have the full responsibility for repairs and maintenance of the home you have bought. This means that even if you own 25%, you are responsible for 100% of the property costs.

You will have to arrange and pay all the costs of repairing and looking after the property internally as well as paying for services such as gas, electricity and water.

Most newly built properties have an agreement with the building contractor to cover 'defects' during the first two years after completion (i.e. not the date that the property is sold). After that you will be responsible for any internal repairs and maintenance. For example:

- Your home, 25 Sunny Court is completed by the contractor on 10 August 2013
- You buy the property on 18 October 2013
- Your boiler ceases to work on 10 May 2014 – this will be covered by the contractor as long as it is not caused by damage by you or any resident/ visitor to your home
- Your boiler ceases to work again on 25 September 2015 – this is your responsibility as it is over two years since the property was completed by the contractor.

It is recommended that you take out service contracts for important items such as boilers.

About leases - What is a lease?

When you purchase a shared ownership home from a housing association, you are granted a lease. This is the legal agreement between you and the housing association. It sets out your rights and responsibilities relating to your occupation of a flat or house and those of the housing association.

The lease will normally be for a period of 99 or 125 years and entitles you, the shared owner, to live in the property as an owner-occupier and to purchase further shares in it.

If your property is a house and you 'staircase' to own 100% of it, the freehold will usually pass to you. If your property is a flat and you purchase all the shares in it, you will remain as a leaseholder but will not pay any rent to the housing association. You will however continue to pay service charges in the same way as a shared owner.

Many housing associations use the standard Home and Communities Agency lease (**visit www.hca.gov.uk**) so no amendments can be made to the clauses and covenants contained in the lease.

Common terms used in a lease

The shared ownership lease will contain the following:

- A description of the property including its boundaries and guide to which parts are your responsibility and which are those of the housing association.
- The amount of rent that you must pay when the lease starts and the method that the housing association will use to review these amounts.
- Buildings insurance arrangements.
- The method by which you can purchase additional shares in the property.
- The method under which you can sell the property in the future.
- Your detailed responsibilities under the lease and the housing association's detailed responsibilities under the lease (see below).

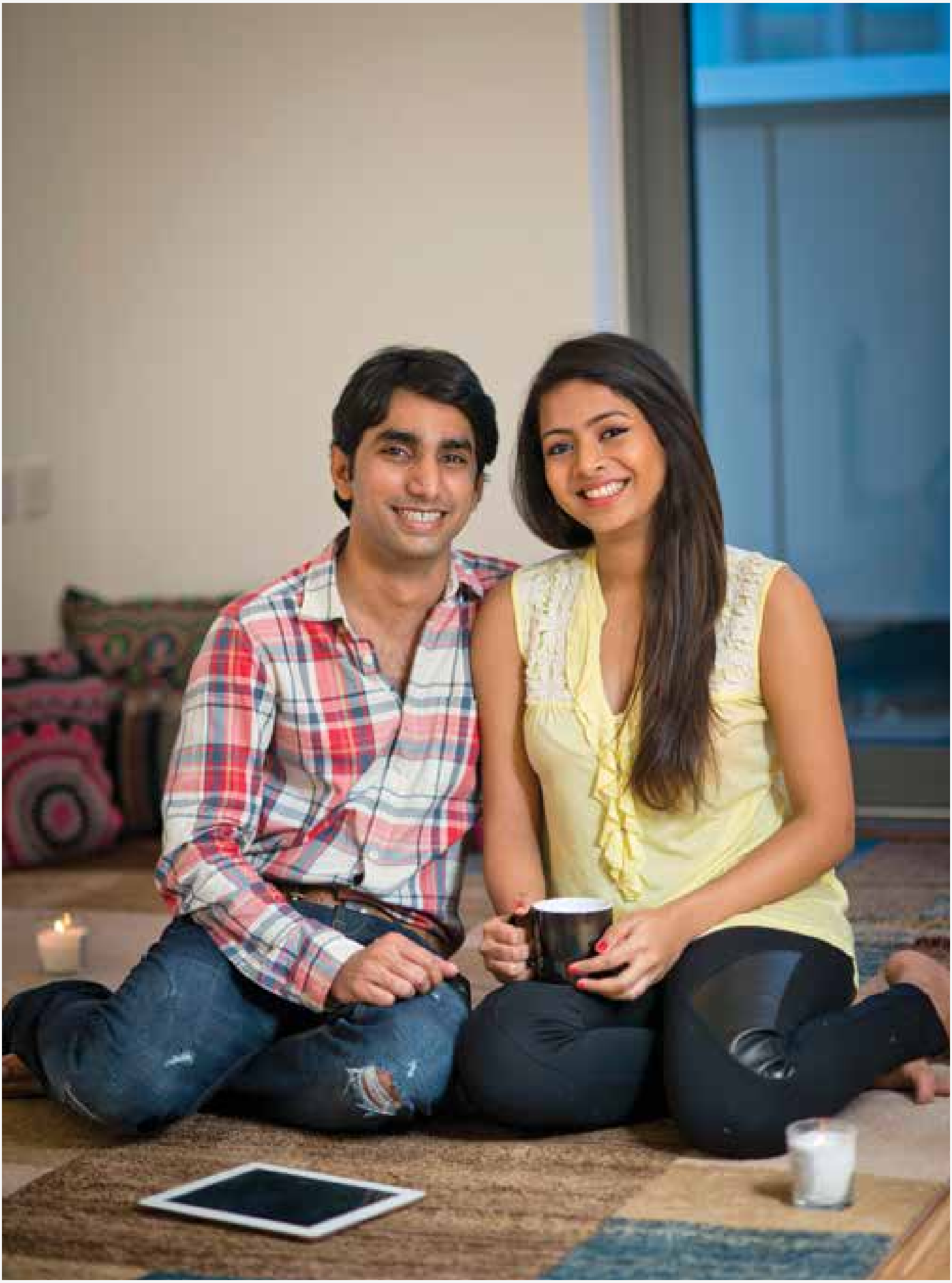
Rights and responsibilities under the lease

Although most housing associations will be using a standard form of shared ownership lease recommended by the Homes and Communities Agency, there will be differences amongst housing associations and amongst different shared ownership schemes. It is therefore essential that you and your solicitor or licensed conveyancer read the lease offered to you very carefully.

Clauses relating to the following responsibilities are typically included in shared ownership leases.

Your rights and responsibilities:

- to pay the rent
- to repair and maintain all aspects of the interior of the property and the fixtures and fittings and to meet the full costs of this
- to keep the structure and exterior of the property in a good state of repair (these repairs will be carried out by the housing association and charged between relevant properties)
- not to alter the exterior of the property or add to the property
- not to alter or add to the interior of the property without the housing association's permission
- to permit the housing association's representative to have access after reasonable notice and in the case of emergencies
- not to assign (resell) the lease to another party or to sublet without the consent of the landlord, and to allow the housing association to nominate the new purchaser.



Your landlord's rights and responsibilities:

- to allow the shared owner peaceful enjoyment of the property
- to keep the building insured against loss or fire
- to maintain the shared areas and grounds and keep them clean and well lit
- to maintain the exterior of the property and undertake any required repairs.

The costs of buying your own home – one off costs

There are significant costs involved in buying a home other than those of the mortgage. It vital to estimate what these are likely to be before proceeding too far with the purchase discussions. The list below will help you to do this.

The housing association and the mortgage lender will expect you to have some savings to meet these costs and we have provided information below so you know what to expect. As a very rough guide you will need a minimum of £5,000 to meet these costs plus whatever you feel you need to spend on furniture, curtains, floor coverings, etc. Depending on your mortgage offer, you will also be required to pay a deposit on the property. The amount or percentage can vary significantly between lenders and will depend on your financial circumstances. Your financial adviser will be able to assist you in working out your finances.

The reservation fee

Most housing associations will expect you to pay a reservation fee once you decide to purchase a property. This will be deducted from the final purchase price so it isn't an additional cost.

If you cannot proceed with the purchase, the fee may be refunded depending on how far you have got through the process and the reasons for withdrawal. However, you should not pay the deposit unless you can afford to lose this money. The exact amount that you will have to pay will vary amongst housing associations, but is likely to be between £250 and £500.

Legal fees

You will need a solicitor or licensed conveyancer to act for you during the purchase. The housing association might provide a list of firms that have experience of handling shared ownership sales. You should make sure that you understand how the solicitor charges their fees before you ask them to do any work for you. The legal costs that you will eventually be asked to pay will include:

- solicitor or licensed conveyancer's fees (plus VAT) for the hours they spend undertaking correspondence on your behalf. Some firms will provide a flat rate fee quotation for this in advance.
- search fees paid to the local authority for information about any planning applications and other matters that may affect the property. You should be told the cost of this in advance.
- land registry fees to register your own and the independent landlord's interest as joint owners.
- Stamp Duty Land Tax (SDLT) payable to the Government if the property is valued above the applicable level at the time of your purchase. The rules for this have varied over time so you should seek guidance from your solicitor/conveyancer on the best way to deal with this.

Survey fees

Your mortgage lender will carry out a valuation to check that they agree with the value of the property. This is not a full technical survey. You have to pay for the valuation which is likely to be at least £300. If the valuer decides that the property is worth less than the selling price, you will need to discuss this with the housing association. The housing association may decide not to sell at a different value.

You can get a more detailed survey called the home buyers survey and valuation, which will cost at least £400 depending on the size of the property and its location. This type of survey is carried out in accordance with standards laid down by the Royal Institute of Chartered Surveyors and Incorporated Society of Valuers and Auctioneers. If the property you are buying is not newly built (i.e. has been lived in by someone else), it is important to have this type of survey.

It is worth getting a full structural survey if you have particular concerns about the property, but this will cost even more. It will reveal any potential future problems, particularly in relation to older properties. Your mortgage company will advise how much each type of survey will cost.

If the survey raises issues of concern, for example about the drains or electrics, you, the housing association, or the mortgage lender may want to employ specialists to provide further analysis. This will incur additional costs and cause possible delays.

Mortgage booking/reservation fee

Most mortgages come with a fee that is payable to the lender. The amount and conditions relating to this fee will vary. Some lenders charge a fee for all mortgages, others for special deals such as having a fixed-rate or a tracker-rate.

Some mortgages now have fees that need to be paid in advance of the purchase. These are non-refundable even if you do not complete the purchase. You should ask your financial adviser or lender about this.

Deposit to housing association

When you exchange contracts on the property that you are purchasing you will generally have to pay a deposit. You will pay this to your solicitor and, like the reservation fee, it is not an additional cost as it will come off the final purchase price or your solicitor's fees.

The precise amount of the deposit will vary for different housing associations. It will generally either be a percentage of the purchase price (say 5%) or a fixed amount which could be as little as £500, but may be considerably more. The housing association will tell you the exact amount. If a deposit is required it will have to be paid at the time of exchange of contracts which will be between one and four weeks before completion of the purchase or even on the completion day itself.

Deposit to obtain a mortgage

As well as providing a deposit to the housing association, you will normally have to put more money towards the purchase as a condition of the mortgage. Your mortgage company will state what amount you need to put down as a direct deposit. It is important that you take into account the other costs of moving before stating what figure you can put down. This will need to be provided to your solicitor/conveyancer in advance of completion.

Removal costs

Paying a removal firm can be quite expensive. If you are moving from a smaller home you can save money by hiring a small van and moving things yourself.

Furniture and fittings

Don’t forget that you will need to set aside money to furnish your home if you don’t already have these items. Many new homes have floor coverings and kitchen appliances included in the purchase price. Check what is included before you commit to a purchase.

The costs of buying your own home – long term costs

Rent

As a home owner, you pay rent on the share of the property we own. So, if you have bought 25%, you will pay rent on 75% of the property’s value. You will be informed of the monthly rent that you need to pay in advance.

Your lease will explain how the rent is set and state how future increases will be calculated. Different housing associations use different approaches. Some may link it to movements in the Retail Price Index (RPI), others may have a fixed percentage increase each year. You should make sure that you understand how your rent may increase from year to year before you complete the purchase.

Payment of rent is a condition of your lease. If you do not pay the amount due, you will have to pay late payment fees or interest charges. If you continually fail to pay the rent, then the housing association may decide to apply for possession or forfeiture. This is a very serious step and will result in you losing your home including any equity/deposit that you put into the property.

Service charges

Service charges cover your share of the cost of maintaining the building you live in and the services that are provided. For example it may cover gardening and lighting in common areas, maintenance of the building, lift servicing and buildings insurance. Most shared owners living in blocks of flats have to pay service charges because this is the only manageable way to share the costs of looking after the building. As a home owner, the amount that you pay does not depend on the proportion of equity you own. Charges are calculated in several ways, for example, the size of the flat in square metres, the number of bedrooms or the number of occupiers it was designed for. The housing association will tell you how it calculates its charges.

Service charges are normally paid every month at the same time as the rent. As it is hard to be sure of what will be spent in the year ahead, you will pay an estimated cost and will be advised of any over-spend or under-spend once the costs have been calculated.

In certain developments the housing association may employ a management company to provide these services. In this case, the housing association will collect the charges from you and will pay the management company directly. Additionally, the housing association is likely to add a fee to cover their costs.

Mortgage repayments

Mortgage payments are usually made on a monthly basis by direct debit arranged by the lender. Failure to make mortgage repayments could mean that you lose your home if the lender takes repossession action.

The mortgage interest rate moves up and down depending on the lender and the type of mortgage. If you do not have a fixed rate mortgage (where the rate remains the same for a period of time), it is useful to estimate what your monthly payments would be if the rate increased. You can do this by using a mortgage cost calculator that can be found on many lenders' websites. Your financial adviser/mortgage lender should assist you in finding the product most suitable for you.

Buildings and contents insurance

Insurance of the building is usually arranged by the housing association (or the owner of the building if the housing association is not the freeholder). The cost of the insurance is included in your service charge, although you may be asked to pay for it separately. You should ask to see details of the building insurance when you proceed with the purchase. If you are buying a share in a freehold house, you will be responsible for the buildings insurance yourself. Your lender will advise when this is required, cover is usually needed on exchange of contracts

You are responsible for arranging your own insurance to cover the contents of your home against such risks as burglary, fire, leaks or other damage.

Electricity, gas and water charges

You will be responsible for the costs of all these supplies from the date that your purchase completes. The suppliers will usually be able to arrange for the costs to be spread over the year. You should make contact with the suppliers as soon as you move in.

Council tax

Like all homeowners, shared owners have to pay council tax to the local authority. Again arrangements can be made to spread the costs over the year. You should make contact with the council as soon as you move in.

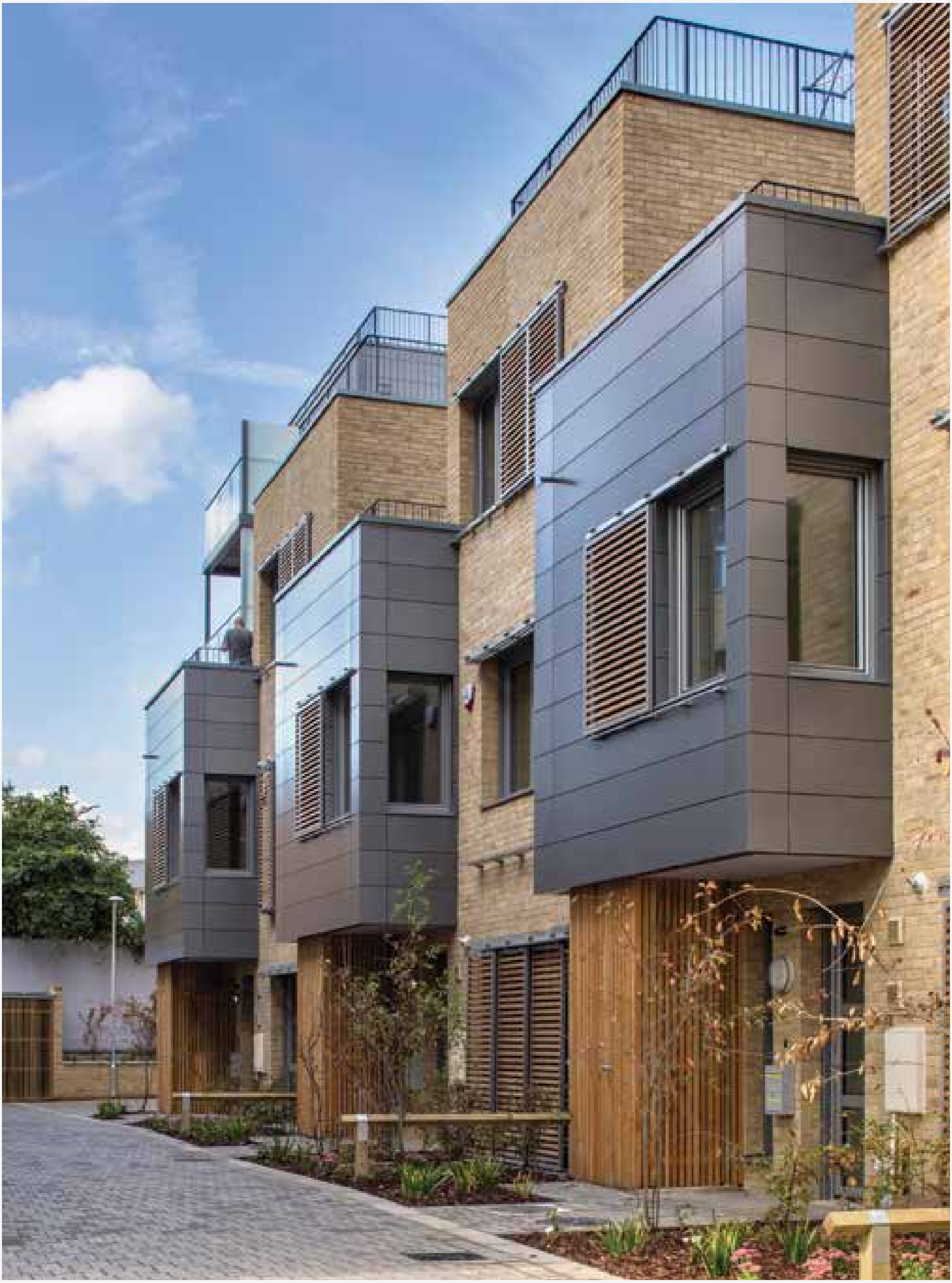
Repairs and maintenance

As a homeowner you are responsible for repairs and maintenance to your house or flat. Unexpected repairs can be very costly, such as when a pipe bursts. You will need to be able to meet these costs from your income or savings as they happen.

For the first two years after construction (not the date of purchase), the property is covered by a 'defects liability period'. Your property handbook will include more guidance on this. The defects period covers faulty equipment and installation but does not cover damage caused by occupants or problems caused by misuse or poor maintenance. The housing association may be able to provide a leaflet with further information on this. Appliances are covered by the manufacturers' guarantees which will need to be activated when you move into the property.

After this 'defects liability period' has expired, you will be responsible for all internal repairs and maintenance as shown in your lease. Your responsibilities will include (this list is not exhaustive):

- boiler and heating system repairs, maintenance and servicing
- repairs to appliances
- leaks from pipes
- repairs to sockets and switches
- repairs to kitchen units, doors and windows.



Major works and cyclical maintenance

The freeholder will be responsible for maintaining and repairing the structure of your building. This may be the housing association but could also be another organisation if the housing association is a leaseholder.

Cyclical maintenance works take place every few years to redecorate and maintain the common parts and the external structure. This could include painting all corridors and repairing window frames. Planned works are large-scale substantial building projects such as structural repairs, for example to roofs and concrete or replacing faulty windows, doors, guttering and drainpipes or heating systems. As a shared owner you are responsible for contributing to these costs as specified in your lease.

If your share of the costs of works is £250 or more, your landlord has to follow a specific consultation process known as section 20. This involves a procedure where you are informed of the works and asked to comment on them and offered the opportunity to nominate a contractor to tender. Then a notice of estimates is provided after tendering, where comments can be made. After that the landlord will give you notice of the appointment of a contractor. Any costs will include any external consultants employed to manage the works and a fee levied by the housing association/landlord to cover the costs of managing and administering the project.

Sometimes a reserve fund is setup to contribute to planned works. The contribution to the fund is collected in the monthly service charge and will be used by the housing association to cover or contribute to planned works. If large-scale planned works are needed, the fund allocated to a flat may not be enough and the shared owner may need to pay the balance.

You will be invoiced for the work and will be expected to settle the account in full. The option to pay in instalments is often offered.

Buying more shares (staircasing)

The process of buying further shares in the property is called staircasing. This can be done at any time after you purchase your initial share (subject to an assessment of affordability). The exact terms for staircasing can be found in your lease (for existing shared owners, you will need to check the terms of your lease as there may be additional conditions).

You can buy at least 10% additional equity each time. Buying a greater share in your property will reduce your rent. The service charge you pay will not be affected as this is calculated per property, not by the share owned.

The detailed procedure for staircasing will be set out in your lease. In summary, it requires the housing association to get the property valued by an independent qualified chartered surveyor. The cost of the additional share to be purchased depends on that market valuation. Remember that property values can increase and decrease so it is unlikely that the cost of subsequent shares will be the same as the initial share you purchased.

In addition to the cost of the additional share you will have to pay the valuation fee and any solicitor's fees. Following the valuation you will be given three months to arrange any additional mortgage that you may need and complete the purchase.

In some rural areas, and for some shared ownership schemes specifically for elderly people or those developed without public funding support, there may be restrictions on the further shares that you can purchase. This will be explained to you before you decide to go ahead with an initial purchase and will be covered in the lease.

Once you own 100% of your property, you will not pay rent but will continue to pay service charges. If your property is a house, the freehold will be transferred to you if possible (as some houses are still on leasehold land). If you have purchased 100% of a flat, you will remain a leaseholder.

Managing your money as a homeowner

As a home owner, your fixed monthly payments include mortgage, rent, service charges, insurance, gas, electricity, water, telephone and council tax. If you have other regular financial commitments such as child care or loans or are thinking of adding further regular payments, budgeting can help ensure that you can manage your money.

Selling your home later on - How to sell

To sell your property, you will need to have an Energy Performance Certificate. If your home was built relatively recently this may have been provided at the time of purchase. If not, you will need to pay for one.

There are two ways in which most shared owners will be able to sell on to someone else. The legal term is 'assignment of the lease'.

You can purchase the remaining shares in the property through staircasing (as described above) and then sell it outright on the open market. Or you can sell only your part share in the property. In this case, your lease will generally require you to allow the housing association the opportunity to nominate a new purchaser. If the housing association is unable to find a purchaser for you within a period defined in the lease then you will be able to sell on the open market. You can sell the share or 100% of the property on the open market. If you sell 100% the proceeds will be split between you and the housing association based on the share that you own. You will also have to pay the estate agent's fees.

Don't forget that you will have to inform your mortgage lender of your intention to sell and you will be required to repay the mortgage from the sale proceeds.

Selling as a shared owner

Most housing associations will be able to nominate a purchaser from their shared ownership waiting lists or those of the local authority. They may make a charge for this to cover their costs. The level of charge will be defined in your lease.

The purchase price will be set by an independent valuer. You will receive your share of the purchase price based on this valuation. Any improvements that you have made to the property at your expense will be valued separately and you will receive the financial benefit of this.

Selling on the open market

If you own 100% of the property, either as a leasehold or freehold interest, and there are no other sales restrictions in the lease, you can sell the property on the open market.

If selling this way, you will have to pay any estate agent or advertising fees.

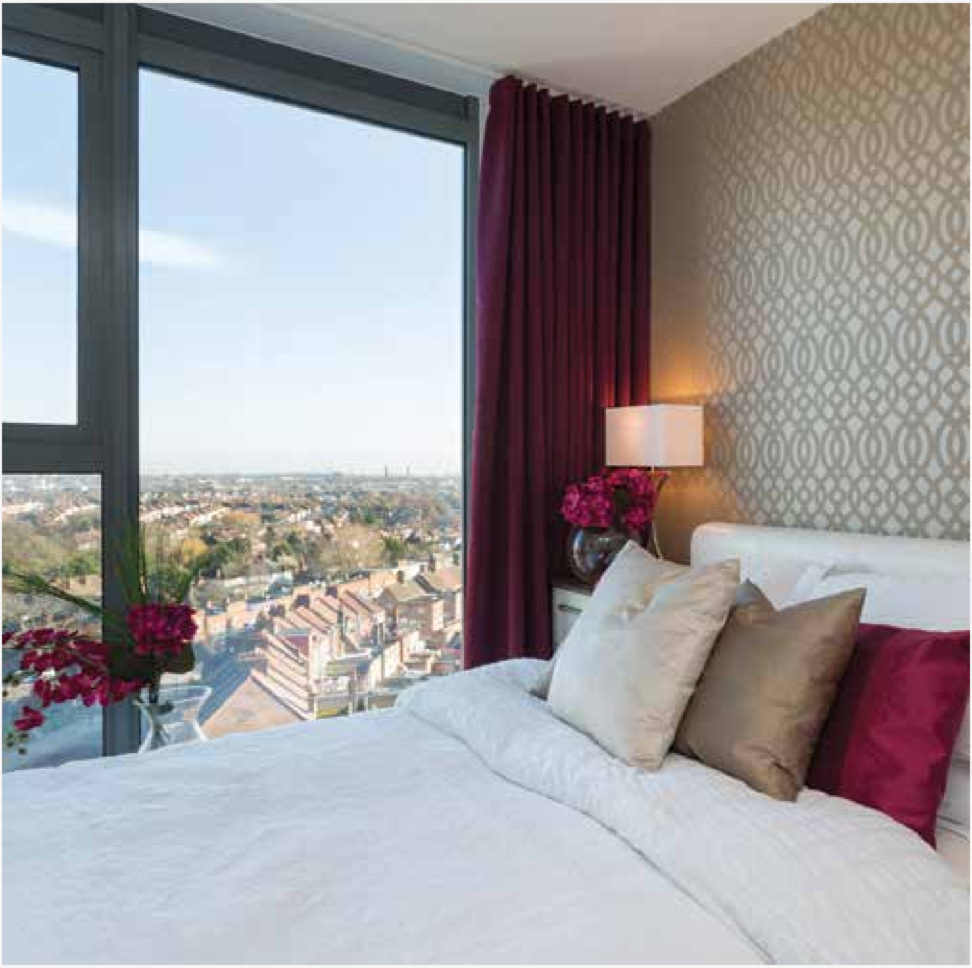
Subletting

Housing associations do generally not allow subletting on shared ownership properties unless there are exceptional circumstances. If you sublet without permission, you will be in breach of the lease and could be subject to legal action.

This leaflet is provided for information only. You should get independent legal and financial advice before considering buying a property. Octavia Housing accepts no liability for any errors or omissions in this document.

Information collated July 2014

We hope that you have found this guide useful. Please let us have any comments on sharedownership@octaviahousing.org.uk.



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OCTAVIA

Supporting mixed communities since 1865

Octavia
Emily House
202-208 Kensal Road
London W10 5BN

T 020 8354 5500
F 020 8354 4280
E info@octavia.org.uk
www.octavia.org.uk

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