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Shared Ownership: The Absolute Truth

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Are you looking to buy a property and realising how difficult it is to find something that you want, in an area you like at a price you can afford? If so, then read on. This is a frustrating situation that more of us are finding ourselves in, particularly first time buyers. Shared ownership is one of the options that might work for you, but it isn't the only option and this booklet aims to help you understand what your options are.

1. You could rent somewhere, in an area you want to live, but in reality your monthly costs are probably going to be just as high as buying and there are likely to be other compromises you have to make.
2. You could look more widely and buy a home in a cheaper area. This might be the solution for you but it won't be suitable for everyone. Once you've taken into account your commute, where your friends are, child care commitments or simply the lifestyle you want, the compromise may be too great!
3. You could consider shared ownership as a realistic option with new homes being built all over London and the UK, but it sounds a bit confusing and you may have heard some mixed reviews so it is hard to know if this is the right option for you.



So, what is shared ownership?

First of all, shared ownership is quite simple. The problem is it isn't always explained clearly.

Shared ownership is when you buy a percentage of a property (from 25% to 75%) and you pay a rent on the percentage that you don't own. This rent is normally 2.75% of the value of the percentage you don't own.

Shared ownership isn't about sharing with people or buying with your friends!

You just own a percentage of the property, but you get to live there until you decide you want to move. Importantly, you have the rights and obligations of a home owner.

The Government has recently changed the criteria, making it easier for more people to access shared ownership. From 1st April 2016, to be eligible for a shared ownership property you just need to earn below £90,000 in London and £80,000 outside of London, and you do not have to be a first time buyer.

To buy 40% of a £350,000 home you need to have a household income of £48,000.

So, it really is simple, but there are some important details you need to be aware of:

1. Lots of shared ownership properties are new builds but it has been going for 30 years so there are also lots of 2nd hand shared ownership properties on the market too.
2. The freehold of the property will normally be owned by a Housing Association, they will be your 'landlord'. They will grant you a lease for the property for the percentage you have purchased.
3. You are a leaseholder and therefore are responsible for the property. You will have a lease that sets out what you have to do and what your landlord has to do but you do need to understand this.
4. While you only own a percentage of your home, you have the benefit of the whole property, so you pay 100% of the service charge for your property.

80,000
shared
ownership
homes have
been sold in
the last 10
years.



5. You are responsible for all the repairs inside your property but communal repairs will be carried out by the freeholder and charged to you through the service charge.
6. A responsible landlord will require you to pay into a 'sinking fund'. This is to cover things like replacing the roof and lifts and carrying out communal decorations later down the line.
7. You are responsible for paying your mortgage, rent and service charge. If you miss payments on any of them, you risk losing your home.
8. As well as your ongoing monthly costs, you need to be able to afford the cost of buying your home. You will have to put down a deposit (normally 10% of the share you are buying) and be able to cover all your buying costs e.g legal fees, stamp duty etc. This is normally £3,000-£4,000.

Approximately 400 shared owners get their home repossessed every year.

So, is it the right thing for me?

The answer is, it depends. Outright ownership, particularly in London, is completely out of reach for many people and shared ownership offers a route on to

the home ownership ladder. It can also give you the security and stability that the private rented sector doesn't provide and the ability to put down roots somewhere that you can call home, but it isn't perfect!

Ultimately, shared ownership can help you buy your first property, or it can help you to buy in a location you love but otherwise wouldn't be able to afford, but at the end of the day, you are buying a home and there is a lot of responsibility that comes with that. Whether shared ownership is right for you or not, buying a home is probably the biggest thing you are going to do in your life so you need to go into it with your eyes open! It is important that you read your lease and know what it means to be a leaseholder and shared owner. So ask your solicitor to explain your lease to you.

Over the last 30 years shared ownership has helped hundreds of thousands of people on to the property ladder. Like all housing options, it has its benefits as well as aspects which buyers need to be aware of. Good landlords should provide clear and transparent information to prospective purchasers so they can make informed choices and you might decide shared ownership is not for you.

Shared ownership probably isn't right for you if...

- You don't want to buy a leasehold property.
- You think you will want to buy a bigger property in the next couple of years – this is because it is very unlikely that your will see an increase in the value of your percentage to enable you to 'upsized'.
- If you want to own your property 'outright'.
- You are worried about being able to keep on top of your mortgage and rent.
- You don't want to make a long term commitment.

But if I do buy shared ownership, what happens if I want to buy the rest of the property or move?

Buying the rest of your property is actually a fairly straightforward process known as **staircasing**. You can buy an additional percentage of your property at any point. Normally the minimum extra percentage you can purchase is 10% at a time. Most people try to buy them in larger chunks as

In 10 years
30,000 shared
owners have
bought their
property in full.



there are fees that you have to pay each time, so it can become quite expensive if you buy 10% at a time. When you have bought 100% you own the property in full and will no longer have to pay any rent to the Housing Association.

If you want to 'staircase', you will need to get an up to date valuation and you will buy the additional percentage at the current value (this could be higher or lower than when you first purchased your property). You will also have to cover all the legal fees as well as Stamp Duty. This can be confusing on shared ownership properties so make sure you ask your solicitor to calculate and explain what you need to pay and when.

If you don't want to 'staircase' but do want to move on, you have the option to resell the percentage you own. There will be a period where your Housing Association has the option to sell this to another shared owner, but if they don't find a buyer after a certain period (normally 12 weeks), you can sell it on the open market. If you sell it on the open market you will have to pay the sales agent fee on the full market value of the property which can be

expensive. Housing associations also charge a fee for resales but these are normally lower than if you sell on the open market.

But what about all the other products I keep hearing about like Starter Homes and Help to Buy?

Shared ownership is one well established path to owning a home. It has been around for 30 years and has helped lots of people to buy a home. However there are other new ways of helping people into home ownership and one of these may be better for you.

Starter Homes are a new government initiative which have received significant publicity. The main difference between a starter home and a shared ownership home is that with a starter home you get a discount on the market value of at least 20% and you own the whole property from day one. Sounds great? Well, it is a great product but you are only eligible if you are under 40 and are a first time buyer. In addition, the property you are buying must have a discounted maximum value of £450,000 in London and £250,000 outside of London. The other big difference with shared ownership is that you are likely to need a much higher deposit for a starter home.

The average savings you need to buy a shared ownership home is £15,000–£25,000.

Help to Buy is an equity loan scheme where, like Starter Homes, you will own 100% of the property from day one but you will get an equity loan of up to 20% outside of London or 40% within London. This means you only need to find a 5% deposit. The main criteria for the scheme is that the property must have a maximum value of £600,000. The equity loan is free for the first 5 years but you will start paying interest on it after. The interest charged will increase each year so it is best to pay it off within 5 years if you can and it is important that you calculate if you can afford this in the future.

Top tips when thinking about buying a shared ownership property

1. Think about your long term plan. If you want to own all of your property at some point in the future you can't just rely on price growth, you will probably need to increase your salary too.
2. Your rent and service charges are likely to increase with inflation too so you need to factor this in.
3. You are entering a lease for 99 or 125 years. This is a big commitment. Make sure you read the lease thoroughly so

Average monthly cost of a new shared ownership home is £890 and £1,233 in London.

you know what you are responsible for and what you are not. If in doubt, ask!

4. Think about what you really want. Is it location that is most important to you, or property size or something else? Discuss this with your sales consultant and they can help you find the right property for you.
5. Ask to see the service charge estimate and ask the sales consultant to talk you through it if you don't understand it.

So, now I have all the information, where can I find shared ownership properties?

Share to Buy lists all shared ownership properties for sale and is a great place to start, but Housing Associations also list their shared ownership properties on their websites too. Check out **www.g15london.org.uk** which lists the 15 largest Housing Associations in London and see what properties they have for sale.





www.g15london.org.uk

g15 is the group of London's largest housing associations which house one in ten Londoners and build one in four new homes.

We are charitable organisations with a social mission to provide as many good quality homes as possible that are affordable for ordinary Londoners. As independent social businesses, we plough all our profits back into building new homes, improving our existing housing stock, and delivering services to our residents and communities.

Collectively, we house around one in ten Londoners and manage around 410,000 homes. We build approximately 10,000 new homes every year.

