



To: Executive Councillor for Housing (and Deputy Leader): Councillor Catherine Smart
Report by: Alan Carter, Head of Strategic Housing
Relevant scrutiny committee: Community Services Scrutiny Committee 25/6/2013
Wards affected: All Wards

Equity Share Key Decision

1. Executive summary

Like Shared Ownership, Equity Share is another form of lease through which the equity in the property is part 'owned' by the Council and part 'owned' by the occupier. The Equity Share policy is proposed as an addition to the City Council's housing 'offer' at this time as it is a form of tenure that may be attractive to leaseholders of City Council flats that will be required to move under the Council's new build housing programme.

2. Recommendations

The Executive Councillor is recommended to approve the Equity Share Policy attached as Appendix 1.

3. Background

The Equity Share lease is proposed as an addition to the City Council's housing offer at this time as it is a form of tenure that may be attractive to leaseholders of City Council flats that will be required to move under the Council's new build housing programme. It is a form of tenure that is offered by a number of other Council's particularly when residents are affected by a regeneration project. Equity Share may be of interest to four or five of the nineteen leaseholders affected by the Council's new house building programme

As context, at April 2013 The Council provided the following Affordable Housing in Cambridge

- 7,235 rented homes
- 86 shared ownership homes

The Council also manages 1092 leasehold flats bought under the Right to Buy legislation. Like Shared Ownership, Equity Share is another form of lease through which the equity in the property is part 'owned' by the Council and part 'owned' by the occupier. The basic difference is that under Shared Ownership the occupier pays rent on the part that they do not own but under Equity Share they do not.

The principles that will apply to the offer of an Equity Share lease are as follows.

- a. Financially, the resident will be no better or no worse off after moving by taking up an Equity Share option. This is in line with the principle of 'equivalence' underpinning the legislation that governs compulsory purchase and is why Equity Share is proposed as an option for leaseholders required to move, rather than Shared Ownership.
- b. Under Equity Share residents will be offered an alternative property of a similar size by bedroom (not bedspace) to the one that they currently occupy. For example, a single person could be offered a move from a one bedroom, one bedroom flat to a one bedroom two person flat.
- c. If a resident requests to move to a larger property than the one they currently occupy then consideration will be given to this but on a Shared Ownership basis not under Equity Share. Consideration will be on a case-by-case basis. The Director already has delegated authority under the Council's constitution to approve the offer of a Shared Ownership lease. Factors that will be taken into account will be the reason for requesting a larger property; the financial impact on the Council; the income of the resident and their ability to afford the larger property (the prevailing guidance from the Home and Communities Agency will be used in this respect – for example, current guidance is that no more than 45% of net household income should be spent on mortgage and rent repayments and that the rent element should be no more than 2.75% of net income).
- d. The resident will be required to reinvest the value of their current property plus 10% less £4,700 in the alternative property under an Equity Share move. This will mean that they have parity with tenants in respect of the financial package under the Council's Home Loss Policy. Residents can choose to invest more of their own capital in an alternative Equity Share property up to 100% of the equity at which point the lease would revert to the form of their current occupation (ie a long lease with the Council retaining the freehold).

- e. The Equity Share lease on the alternative property will be offered for the same duration as the outstanding length of lease on the current property and will be valued on this basis. For example, if the current lease has 50 years to run the Equity Share lease will be offered for a 50 year duration and will be valued as such.
- f. Alternative properties to be offered under Equity Share will only be made available on any of the schemes in the Council's new build programme or on properties that become available in the Council's Shared Ownership scheme.
- g. The freehold of the property leased under Equity Share remains with the Council. If a resident chooses to move before the end of the lease, the Council will have the first option to buy back the lease.

An Equity Share lease has been drawn up by the Council's legal section.

4. Implications

(a) Financial Implications

There is likely to be an additional capital cost to the Council as any move facilitated under the Equity Share policy is likely to result in the resident moving to a property of a higher value. This capital cost will be recovered at the end of the lease or when the resident chooses to move in the future. Any capital cost will be considered as part of the project approval for the specific Council new build scheme.

The following is an example of the financial impact of an Equity Share move.

Assumptions;

Resident moves from one bedroom one person flat to one bedroom two person flat.

Value of current flat - £100,000

Value of new flat - £150,000

Home Loss Payment – £100,000 (current flat value) plus £10,000 (10% of current value) less £4,700 (compensation equivalent to tenant) = £115,300.

Capital outlay by Council on new flat (the Council's equity) - £150,000 (value of new flat) less £115,300 (the resident's equity) = £34,700.

In this example the resident has an 77% equity share in the new flat.

(b) **Staffing Implications**

There are no specific staff implications of this policy.

(c) **Equal Opportunities Implications**

Equality Impact Assessments are carried out in respect of each new build project recommended for approval by the Executive Councillor.

(d) **Environmental Implications**

There are no specific environmental implications of this policy.

(e) **Procurement**

There are no specific implications of this policy.

(f) **Consultation and communication**

Leaseholders required to move as a consequence of the Council's new build programme will be invited to meet housing staff to discuss their rehousing options. Equity Share would be one option that would be offered.

(g) **Community Safety**

There are no specific community safety implications of this policy.

5. Background papers

None.

6. Appendices

Appendix 1 – Equity Share Policy

7. Inspection of papers

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Appendix 1

CAMBRIDGE CITY COUNCIL

EQUITY SHARE POLICY

1. Introduction

At April 2013 The Council provided the following Affordable Housing in Cambridge

- 7,235 rented homes
- 86 shared ownership homes

The Council also manages 1092 leasehold flats bought under the Right to Buy legislation. Equity Share is another form of lease through which the equity in the property is part 'owned' by the Council and part 'owned' by the occupier

The Equity Share lease is proposed as an addition to the City Council's housing offer at this time as it is form of tenure that may be attractive to leaseholders of City Council flats that will be required to move under the Council's new build housing programme.

2. The Council's Vision Statement and Strategic Objectives

This Policy fits with the Vision Statement

"A city which recognises and meets needs for housing of all kinds – close to jobs and neighbourhood facilities"

It also fits with the Strategic Objective HSO1 in the 2013.14 Housing Portfolio Plan

"Maximise the delivery of new sustainable housing in a range of sizes, types and tenures - at least maintaining current standards and driving energy efficient homes for residents."

3. Definitions

This section of the policy document defines and contrasts the difference between Shared Ownership and Equity Share.

Shared Ownership – This is where a leaseholder buys a percentage of equity in the property (a ‘share’) and pays rent on the share retained by the owner (usually a social landlord). Shares can start as low as 30%. Usually leaseholders can buy extra shares to ‘staircase’ to buy outright although often schemes limit the maximum share that can be purchased and the owner has the first option to buy the shares back from the leaseholder should they wish to sell.

Equity Share – This where a leaseholder buys a percentage of equity in the property but is not required to pay rent on the remainder. Here leaseholders often start with a say, 70% share, and there is limited in no ‘staircasing’. Again the owner has the first option to buy the share back from the leaseholder should they wish to sell.

4. Principles

Equity Share will be offered only as a re-housing option for leaseholders who are required to move under the Council’s new build programme.

The principles that will apply to the offer of an Equity Share lease are as follows.

- a. Financially, the resident will be no better or no worse off after moving by taking up an Equity Share option. This is in line with the principle of ‘equivalence’ underpinning the legislation that governs compulsory purchase.
- b. Under Equity Share residents will be offered an alternative property of a similar size by bedroom (not bedspace) to the one that they currently occupy. For example, a single person could be offered a move from a one bedroom, one bedroom flat to a one bedroom two person flat.
- c. If a resident requests to move to a larger property than the one they currently occupy then consideration will be given to this but on a Shared Ownership basis not under Equity Share. Consideration will be on a case-by-case basis. Factors that will be taken into account will be, the reason for requesting a larger property; the financial impact on the Council; the income of the resident and their ability to afford the larger property (the prevailing guidance from the Home and Communities Agency will be used in this respect – for example, current guidance is that no more than 45% of net household income

should be spent on mortgage and rent repayments and that the rent element should be no more than 2.75% of net income).

- d. The resident will be required to reinvest the value of their current property plus 10% less £4,700 in the alternative property under an Equity Share move. This will mean that they have parity with tenants in respect of the financial package under the Council's Home Loss Policy. Residents can choose to invest more of their own capital in an alternative Equity Share property up to 100% of the equity at which point the lease would revert to the form of their current occupation (ie a long lease with the Council retaining the freehold).
- e. The Equity Share lease on the alternative property will be offered for the same duration as the outstanding length of lease on the current property and will be valued on this basis. For example, if the current lease has 50 years to run the Equity Share lease will be offered for a 50 year duration and will be valued as such.
- f. Alternative properties to be offered under Equity Share will only be made available on any of the schemes in the Council's new build programme or on properties that become available in the Council's Shared Ownership scheme.
- g. The freehold of the property leased under Equity Share remains with the Council. If a resident chooses to move before the end of the lease, the Council will have the first option to buy back the lease.

5. Home Loss Policy

The following summarises extracts from the Council's Home Loss Policy as it applies to leaseholders who may want to consider a move under Equity Share.

The amount of Home Loss payment for leaseholders in law is calculated as 10% of the market value of the owner's interest in the property subject to the maximum amount which is currently £47,000. To be eligible the leaseholder must have occupied the premises for at least one year.

Disturbance Payments are also payable and are not fixed in law but they are required to be equal to the reasonable expenses of the resident who is moving.

The Council will pay for or arrange the following

- All removal costs to removal contractors or cost of a van if a resident moves themselves
- Disconnection and re-connection of cooker
- Lifting and re-fitting curtains and carpets in the new home or the cost of new curtains and carpets if the existing curtains and carpets cannot be re-fitted
- Cost of re-direction of mail and costs associated with moving telephones
- Any costs associated with cancelling a service that a resident has contracted to pay at their current address
- Reasonable legal and surveyor costs from the acquisition of alternative housing

Home Loss Payments and Disturbance Payments are not available for leaseholders who do not occupy the property that is the subject of the redevelopment as their primary place of residence.

The Policy does not apply to any sub-lessees.

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