Shared Ownership Management of homes

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Welcome back!

- Any questions?
- What we are covering today:
- Practicalities of managing SO homes
- The new shared ownership model



The Practicalities of Management



Shared ownership management services

- Rent and service charges
- Repairs
- Alterations, additions and improvements
- Buying more shares (staircasing)
- Resales
- Lease extensions
- Further advances/Remortgages
- Subletting
- Dealing with rent arrears
- Repossessions
- New shared ownership model
- Managing agents
- Housing Ombudsman
- Tenant Satisfaction Measures

Key Resources

- Lease agreements - **Always check the lease!**
- Homes England Capital Funding Guide (CFG) Link

Shared ownership lease – fundamental clauses

- Homes England Model Leases – house and flat
- Alienation (power to dispose of lease) – subletting, surrendering, assigning
- Staircasing
- Rent Review
- Mortgagee Protection Clause

Rent and Service Charges

- Annual rent review – RPI plus 0.5 per cent **BUT from 12th Oct 2023 any new SO lease granted must enable 'specified rent' to be increased once a year by max of CPI plus 1 per cent but landlords also have discretion to increase rents by less. Rents cannot be increased if CPI is minus 1% or lower**
- Service charges, estate charges, buildings insurance, management fees
- Ground rent – from 23rd May 2022, homes delivered through AHP 2021 – 26 and SOAHP 2016 - 21 must have nil/peppercorn ground rent. New leases not exchanged by 23rd May
- Details in advance – how much, what for, service charge/estate charge process, service standards - KIDs
- Sales Team's understanding
- Ongoing information about services
- Major/cyclical works – sinking funds
- Communication between Assets, Leasehold Management, Finance

Property Defects

- New homes benefit from a 12 month defects liability period with the developer
- Defects liability period starts from the day that the landlord takes handover of the property, not from date when customer moves in
- Developers will only deal with genuine defects i.e. workmanship, issues with quality of fittings etc
- How defects are dealt with is often a cause of customer dissatisfaction
- How will customers report defects and how will you ensure that the developer deals with them?

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Property Defects ...(cont'd)

- What is and isn't a defect? Shrinkage, condensation, waste blockages
- Near the end of the defects liability period – End of Defects inspection of home – RP/LA rep, Employers Agent, Developer rep
- Ensure outstanding defects identified and remedied by the developer before liability period ends
- NHBC (or similar) insurance cover for first ten years of build, where property not built to NHBC requirements – roof, flues, walls, stairs, ceilings, balconies, load-bearing parts of floors, external glazing panels, foundations

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Repairs



- Full repairing lease – houses & flats
- What is the rent for?
- Defects liability period
- What happens when things go wrong?
- Training – Sales, Leasehold Management, Contact Centre, Asset Management
- Systems
- **New shared ownership model – a new ten year period during which the shared owner receives support from their landlord to pay for essential repairs** – more of later.....

Alterations, Additions and Improvements

- What does the lease say?
- 2016-21 & 2021-26 model SO leases only allow non-structural alterations and additions to the interior of the home, with consent of the landlord
- Alterations, additions request form
- Planning permission, building regulations, plans
- Admin fees - two stage:
  - Initial fee for landlord to consider application
  - Further fee if surveyor needs to visit property
- Admin fees 'should be fair, proportionate

and within income means of SOs' CFG

- Surveyor to post inspect



Buying more shares (staircasing)

- Recent leases – 10% tranches, older leases 25% tranches **(new SO model – 5% tranches)**
- Restricted staircasing i.e. 75% OPSO, 80% Rural Exception Sites
- Procedures
- Administration fee
- Valuation and fee
- Consent for alterations, additions, improvements?
- Retrospective consent needed?
- Expectations of value of 'improvements'
- **New shared ownership model – additional shares in 1% instalments with no fees –** more of later…

Buying more shares (staircasing) ...(cont'd)

- Legal fees
- Rent reduced proportionately unless final staircasing
- Management fee, service charge still payable
- Buildings insurance payable unless purchase freehold



Resales

- Nomination period – 6 or 8 weeks in lease **(4 weeks in new model lease)**
- Do you provide a Resales Service or allow shared owners to go straight to the open market?
- S106 provisions – local connection?
- KIDS
- Valuation and fees
- Administration fees – in lease?
- Legal fees

Resales ...(cont'd)

- Eligibility and affordability/sustainability check through IFA for incoming shared owner, as first tranche sale
- Expectations on value of 'improvements' – If shared owner has made improvements to their home, selling 100% of their home may be the best option as they will receive the full value of their improvements

Improvements – share sale v 100% of home being sold

- Mr and Mrs B want to sell their home. They own 50% but wish to sell the whole 100%. It is valued at £130,000 with a separate valuation given at £10,000, which was for a conservatory

- The home is placed on the market at £140,000 and a buyer is found. Remaining 50% to be repaid to RP is £65,000 excluding the improvement value (50% of £130,000)

- Mr and Mrs B receive £75,000

- If Mr and Mrs B only sold their 50% share, the maximum they could sell for is £70,000 (50% of £140,000)

Resales ...(cont'd)

- Premiums
- EPC (Energy Performance Certificate) epcregister.com
- Procedures and customer guidance
- 'Back to back' sales – staircasing to full ownership and simultaneous sale



Lease Extensions

- Currently shared owners have no statutory right to extend their lease
- If a house, where shared owner can staircase to 100 per cent and own the freehold, this is preferable to extending the lease
- Once there are fewer than around 80 years left on the lease it becomes difficult to remortgage or sell a property
- Policy on 'informal' lease extensions to mirror statutory right? Additional 90 years on term remaining?

Lease Extensions ...(cont'd)

- Shared owner responsible for paying:
  - Valuation fee
  - Landlord's admin fee
  - The Premium
  - Own solicitor's fees
  - Landlord's legal fees
  - If landlord is not the freeholder, a freeholders legal and admin fees

- **Announced that current shared owners will be given a statutory right to extend their lease to a new standard 990 years, where landlord is also the freeholder – Leasehold Reform – may become law in 2024?**

Further Advances

- Will only approve extra borrowing for:
    - Buying extra shares
    - Repairs and alterations/improvements agreed by landlord and allowed in lease
    - To allow one joint SO to buy out interest of the other joint SO
- In accordance with Mortgagee Protection Clause (MPC)
- Lender may charge SO for valuation
- Landlord admin fee?

Further Advances ...(cont'd)

Information needed from SO:

- Details of why increasing lending i.e. estimates for works etc.
- Offer from lender confirming how much want to borrow
- Current value of home from lender
- Current outstanding mortgage from lender

Remortgage

- Landlord needs to approve any change in mortgage in accordance with MPC
- Landlord needs to see:
    - Copy of mortgage offer from proposed new lender
    - Confirmation of current value of home from new lender
    - Redemption statement from current lender
    - Confirmation of why SO is changing lender
- Check not borrowing more than required to pay off original mortgage, interest rate acceptable
- Redemption fees or penalties? Mortgage arrangement fee?
- Landlord admin fee?

Subletting

- Not permitted under older shared ownership leases **BUT in 2021-26 lease no longer prohibited and now subject to landlord's consent – subletting must comply with HE guidance**
- Landlords may adopt a policy where they will permit for a **limited time**, in certain circumstances i.e. shared owner has to work away, care for a relative a distance away
- Tenant must be eligible for shared ownership
- Written policy and procedures needed
- Assured Shorthold Tenancy must be approved
- Licence to sublet
- Monitor and follow up with shared owner

Any Questions? Break



Dealing with rent arrears

- Affordability
- Dealing with arrears
    - Direct debit as part of sales process
    - Policy and procedures – early intervention, short and staged process, personal contact
    - Payment plans
    - Pre-Action Protocol – record all arrears actions/contact

- Shared Ownership – Joint Guidance for England – HCA/NHF/Council of Mortgage Lenders – Oct 2016 (update due????)

Dealing with rent arrears ...(cont'd)

- Service charges – summary of tenants' rights and obligations
- Money Claim On-Line (MCOL)
- Contact with mortgage lender
- Must give mortgage lender at least 28 days written notice of intention to commence possession proceedings under Housing Act 1988
- No mortgage lender – NOSP grounds 8,10, 11
- Permitted to charge interest on debt under lease

Deceased Shared Owners

- Payments become responsibility of executor of the estate until probate is settled
- Executor should be treated as if they are shared owner
- Copy of death certificate required together with copy of grant of probate/grant of letters of administration to confirm who is authorised to act as executor
- Executor responsible for making regular rent and service charge payments but where property will be sold may accept letter of undertaking from solicitor stating full arrears will be paid from sale proceeds

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Repossessions

- Richardson v Midland Heart
    - Not a long lease
    - Section 1 Housing Act 1988
    - Assured tenancy
    - Fixed term – 125 year assured tenancy
    - ‘Right to have a share in equity if it’s value rises’

- Draft Renters Reform Bill – May 2023

‘Tenancies with a fixed term of more than 7 years can no longer be assured tenancies. This will put to an end to the potential issue of mandatory possession claims for rent arrears in SO leases and long leases where a ground rent is payable which exceeds the low rent threshold’

Trowers & Hamlins

Repossessions ...(cont'd)

- By landlord or by lender
- Mortgagee Protection Clause
- Mortgagee Protection Claim – loss capped at max of:
  - Interest on loan for 18 months from enforcement date
  - The loan
  - Amounts advanced by mortgagee to pay rent/service charge
  - Costs and fees incurred by mortgagee (capped at 3% of market value)

Dealing with rent arrears ...(cont'd)

- Alternative options:
    - Sell share and clear arrears on completion
    - Buy back from lender and sell on
    - Downward staircasing
    - Buy back from shared owner and convert to tenancy

New Shared Ownership Model



New shared ownership model

- Announced as part of Affordable Homes Programme – 2021 to 2026. Must be used on sales grant funded under this programme and also for S106 homes, although check with your Development team on which properties come under which model.....
- Affordability assessment **must** be carried out by a mortgage/financial adviser who is regulated, suitably qualified and experienced to a suitable level to undertake these assessments – new sales and resales - **NEW!**

Key Differences in the Model Shared Ownership Leases

Features of Lease	Standard Shared Ownership Model	New Shared Ownership Model (2021-26)
Minimum initial share	25 per cent	10 per cent
Lease Length	Minimum of 99 years but typically 125 years	990 years (if the head lease allows)
Initial Repair Period	No	Yes – for the first 10 years essential repairs to the structure of the Building are the responsibility of the RP to be claimed via Building Warranty. Also £500 pa per property for shared owner to claim for certain essential repairs. Unspent monies roll into next year
Buying more shares – minimum purchase	10 per cent (older leases – 25 per cent shares)	5 per cent
1% additional share purchase	No	Yes – for 15 years from commencement of lease – no fees. On resale, the 15 years starts again
Landlord's nomination period	8 weeks	4 weeks
Annual Rent Review	RPI plus 0.5%	New leases granted from 12th Oct 23 - CPI plus 1%. Leases granted prior to 12th Oct 23 – RPI plus 0.5%

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New model – Initial Repair Period

- During the initial 10 year repairs period, the landlord is responsible for the cost of essential repairs to the outside of the building and essential structural repairs to walls, floors, ceiling and stairs. Likely to be covered by Building Warranty.
- Reserve funds – when calculating cannot factor in any external and structural repair work within first 10 years
- In the initial period, SO can claim costs up to £500 a year from landlord for help with essential repairs or replacement (if faulty) of installations in the home for supply of water, gas, electricity (including basins, sinks, baths, toilets), pipes and drainage
- Buildings insurance excesses covered by RP out of £500 allowance

New model – Repairs allowance ...(cont'd)

- Landlord must provide annual repairs statement to SO
- Two options re notification of repairs statement balance:
  - Annually at same time your notify SOs of annual rent increase
  - Annually on anniversary of lease

‘Repairs’ that shared owners can’t claim for

- Repairs to ovens, washing machines, dishwashers etc,
- Routine servicing & maintenance arrangements ie, boiler servicing, electrical testing
- DIY repairs or repairs made by non-professionals
- Damage caused by deliberate/avoidable actions resulting in breach of lease, including not ensuring routine servicing etc,

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Repairs allowance

- If do not claim full repairs allowance in one year, max of one year's allowance will roll over to the following year:

Year	Repairs Allowance	Allowance claimed for repairs	Roll over to next year
1	£500	£0	£500
2	£1000 (£500 + £500)	£750	£250
3	£750 (£500 + £250)	£0	£500

Repairs allowance ...(cont'd)

- Landlord responsible for deciding whether repairs essential
- Landlord can inspect, SO to upload photos? Use of portals and apps by RPs?
- Landlord to refund within 21 days of SO paying for work – can be refunded to rent account or direct to SO
- If landlord denies claim, must advise why in writing within 7 days of receiving info supporting claim
- Shared owner can dispute and go through complaints process

Repairs allowance ...(cont'd)

- Repairs must be carried out by Trustmark approved tradesperson or professionals approved by landlord
- Landlord must update SO on balance of repairs allowance at the beginning of each year and following an approved claim
- Remaining repairs allowance transfers to new SO on resale

New model - Staircasing

- The fifteen years starts again on each assignment (each Resale).
- Price of 1% share based on original market value adjusted in line with House Price Index (HPI). Or a RICS valuation instead. Valid for three months.
- Providers to send shared owners a HPI valuation at least once a year. Date of valuation is date of rent review. Additional value percentage notice can form part of the Notice of Rent Increase.
- Example of calculation in Appendix 2 of Schedule 7 in the lease
- Rent reduces with each 1% (same as traditional staircasing).
- RP to make offer of financial advice to SO as, for instance, shared owner might be better to pay off some of mortgage than staircase

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New Right to Shared Ownership

- Social rent and Affordable Rent tenants living in new rented homes delivered by the Affordable Homes Programme 2021-26
- Access to the new SO model
- Homes in designated protected areas and rural exemption sides are exempt, specialist homes for older, disabled and vulnerable people are exempt
- Tenant has to have lived in the current property for 12 months
- Has to have been a tenant of social/affordable housing for at least 3 years (needs not to have been with same landlord, or continuous)

New Right to Shared Ownership ...(cont'd)

- Not in rent arrears, not subject to legal proceedings i.e. NOSP served
- Not subject to court order for possession
- Providers must publicise scheme to tenants
- If purchase property after the initial 10 years – no repairs allowance

Possible issues

- Creating two-tier/three-tier shared ownership offer – new model more popular with purchasers? Impact on resales? New model lease now has rent review variants too – RPI plus 0.5% or CPI plus 1%
- Managing both models – in some cases may have both models on same scheme?
- Increased admin and record keeping
- Disputes over repairs payments, although how often will there be a claim, especially in the early years?
- Valuations – House Price Index (HPI) v RICS
- Clear communications with customers will be key
- Who will be responsible for what in your business?

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Things to consider

- Mapping processes and updating systems
- Policy on repairs allowance – what is ‘structural’? Landlord and Tenant Act 1985. Homes England wants consistency across sector
- Use of portals and apps
- Review of admin fees – KIDS - are fees reasonable?

Managing Agents



Freeholder or Head Leaseholder?

- S106, Mixed tenure schemes
- Managing Agents – Typical issues:
  - Lack of clarity on responsibilities of each party i.e. service contracts, insurance
  - Different financial years
  - Shared owners misunderstand roles and responsibilities
  - Lack of control of service delivery – poor customer satisfaction
  - Duplication of management fee
  - Where individual leases granted and RP head leaseholder – has to handle invoices for each unit, no direct control over setting service charges

Managing Agents – getting it right

- Early involvement with developer and managing agent so that long term sustainable management arrangements can be set up
- Build a relationship with the managing agent and the property manager for your development
- Ensure leasehold management team is involved as well as development and sales teams – especially re lease development, delivery of services, roles and responsibilities
- Understand the management agreement
- Influence services, where possible to keep charges 'affordable' for shared owners

Managing Agents – getting it right ...(cont'd)

- Be a strong advocate of your shared owners – pre-empt any issues/challenges i.e. challenge service charges. You have 'duty of care' to check service charge demands before passing onto shared owners, raise queries with managing agent

Housing Ombudsman

- **‘Spotlight on: Landlords’ engagement with private freeholders and managing agents’** Link
- Key Findings and Recommendations:
- MA sector presents significant challenges and risks to social landlords – landlords should proactively raise concerns with relevant parties and use collective influence to shape change
- Use collective influence on rogue/poor performing MAs/freeholders
- Ombudsman to work with relevant parties to promote greater protection for residents and higher standards of professionalism amongst MAs

Key findings and recommendations cont.

- Ombudsman to work closely with Property Ombudsman Scheme on sharing insights
- LAs to ensure social landlords are involved at early stage re decisions on S106 agreements
- Landlords should seek clear SLAs with MAs and clarify rights and responsibilities, which should be communicated to residents
- Landlords should review operational response to service/repair requests in buildings owned/managed by third parties

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Key findings and recommendations ...(cont'd)

- Landlords should pursue MAs for meaningful service charge account information
- Landlords should clearly outline their approach when it comes to escalating performance concerns with MAs. Landlords should also be clear at what point they would consider legal enforcement of contract/lease
- Generally, regular and transparent communication with residents

Housing Ombudsman

- September 2020, Housing Ombudsman published its report 'A new lease of life: Spotlight on leasehold, shared ownership and new build' Link - brought together its insight from handling complaints from leaseholders & shared owners.
- Report showed that complaint handling was an area of consistent concern with maladministration and partial maladministration by landlords found in nearly three quarters of cases.
- Key issues identified were difficulties getting through the complaint procedures of landlords, delays and periods of inaction.

New Tenant Satisfaction Measures

- Landlords with 1000 or more homes must survey tenants/shared owners every year. If fewer than 1000 homes, option to survey every year/every two years
- Landlords (RPs and LAs) must start collecting the data now and report to the Regulator for Social Housing (RSH) in summer 2024. Data will be published by RSH and must be published by landlords too.
- Make landlords' performance more visible to shared owners
- Help shared owners hold their landlord to account
- Data will tell RSH how well landlords are meeting relevant standards

New Satisfaction Measures for Shared Owners

Measured by Landlord	Measured by Shared Owner Perception Surveys
Fire safety checks	Overall satisfaction
Asbestos safety checks	Satisfaction that the home is safe
Water safety checks	Satisfaction that landlord listens to SO's views and acts upon them
Lift safety checks	Satisfaction that landlord keeps SOs informed about things that matter to them
Complaints relative to the size of the landlord	Agreement that landlord treats SOs fairly and with respect
Complaints responded to within Complaint Handling Code timescales	Satisfaction with landlord's approach to handling complaints
ASB cases relative to the size of the landlord	Satisfaction that landlord keeps communal areas clean and well maintained
	Satisfaction that landlord makes positive contribution to neighbourhoods
	Satisfaction with landlord's approach to handling ASB

Shared Ownership – Government Call for Evidence

Levelling Up, Housing and Communities Committee select committee enquiry into shared ownership:

- Does SO provides good VfM for potential buyers?
- How Gov can ensure affordability of programme in light of rising costs?
- What support can be offered to SOs? What more can be done to support FtBs and low income households onto the property ladder?
- Challenges with repair costs being covered by SOs?
- How viable is full ownership through the SO scheme
- Does SO reduce homeownership risks for individuals from lower income households?
- How does the variation in costs between HAs and other providers impact the SO scheme and the experience of SOs and potential buyers?
- How can data collection by the DLUHC be improved?
- Is Rent to Buy viable and does it offer better VfM?

Report finalised by the end of February 2024? Look out for.

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How to get it right

- Communication
- Joined up working between Development, Sales and Management
- Well informed staff
    - Training/understanding
    - Policies
    - Procedures and guidance
- Management
    - Services
    - Expectations
        - Customer
        - Organisation



Why we ‘do’ shared ownership…







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Closing Questions?

Thank you!

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