Fixed Equity Explained

Wandsworth Council would like to give more information to leaseholders in the first phases of redevelopment to show how our shared equity scheme will work. This is part of our commitment to resident leaseholders to ensure they are able to remain on the estate in a shared equity property.

A shared equity property is where the ownership of the equity is shared between the Council and the leaseholder and where the Council will not charge the leaseholder for that equity.

To reduce uncertainty for residents and to help people make an informed choice on whether or not to accept a shared equity property, the general terms of the offer need to be clearly set out.

Any offer from the Council for a shared equity property will contain the following elements:

- An option to agree to buy a shared equity home in the scheme in exchange for selling the Council their existing property.
- The percentage equity to be held by the resident. While this option will be binding, the resident can change their mind at any time up to six months before completion of their new property at which point they would be obliged to sell their property to the Council at the market value at that time.
- An agreement of the location and size of the new home identified from the plans.
- The choice of whether to add the homeloss compensation (10% of market value) to increase the resident's equity share or take it as a payment.

Operation of the agreement

The agreement would be offered to all residents in the proposed first phase of the development. This would be:

1. Residents in Pennethorne House and Lavender Road (proposed to be housed in the off-sites)
2. Residents in Scholey, Kiloh, Jackson, Baker and Arthur Newton Houses (proposed to be housed in phase 1).
3. First phase residents in Alton.

If the resident wishes to proceed then the Council will value their property and produce a value for their proposed properties (both estimated at the time the resident applies). The Council will pay the cost of residents seeking independent valuation advice.

The market value of the existing property divided by the estimated value of the new home (if it were there now) will give the ratio of equity owned by residents within the new homes. This is shown with illustrative figures in the table below:

		Equity share
Market value of new unit	£ 450,000	
Market value of existing unit	£ 250,000	55.6%
Homeloss Payment	£ 25,000	
Total	£ 275,000	61.1%

In this scenario if the resident just applies the value of their property the shared equity percentage is 55.6% but it increases to 61.1% if they apply the homeloss payment. These are illustrative figures at this stage in order to demonstrate the operation of the mechanism. Values will be worked out following submission of the main planning applications in the summer of 2018.

Generally the value of the existing home would be the minimum stake that residents would be expected to invest in the new home. Exceptional circumstances where this level of investment cannot be invested will be considered on an individual basis. There is no maximum level of investment by the resident owner and they can purchase the whole property if they wish to.

Owners can decide whether or not to invest their homeloss payment in the new home or retain part or all of it.

Having signed the shared equity option agreement owners can at any point, prior to six months before completion of the new unit, decide not to purchase the new unit and ask the council to buy them out. If this is the case then the existing property will be re-valued at that point prior to sale to the Council.

At six months prior to the property being available to move into the sale will complete.