Appendix 2 - Example of comparative value shared ownership (Not a real life scenario)

Mrs Castle (not a real person), owns a two bedroom flat in Claydon. She is a pensioner on a fixed income who receives state and private pensions. She has modest savings of £10,000. The market value of her property is £120,000 and she has no outstanding mortgage. She needs to stay in the locality because of her support network in terms of friends and long term medical treatment at Guys Hospital. From Homesearch she identifies a flat on the Rockingham Estate she wants to live in. The market value of that flat is £240,000. Following assessment it is determined she can use the full market value of her Heygate flat to acquire an equitable share in the Rockingham flat. It has also been assessed that she can afford the ongoing costs of home ownership in the property if she were to purchase a share of 50%.

Mrs Castle decides to purchase 50% of the Rockingham flat. She pays the full revenue annual service charge for buildings insurance, communal heating and hot water and ground rent but all other services would be apportioned to the owned share. This works out to be £480 per annum. The Council will be carrying out capital works within the next five years to her the Rockingham flat (installation of a new roof and double glazing) at a cost of £10,000. She is liable to pay towards 50% of that, namely £5,000. She would also be liable for paying a rent at 3% per annum of the unowned share, which calculates to be £3,600 per annum. The council tax banding for this property is band D (£1,180.94 per annum) but because Mrs Castle will be the sole occupier of the property she receives a 25% discount (£885.71 per annum). Her estimated gas and electricity charge in this property for the year is £409.40*.

The estimated monthly home ownership costs that Mrs Castle pays is therefore £531.26 (inclusive of capital works costs divided monthly over five years).

After three years she decides to sell to move in with her daughter. The Rockingham flat is sold for £300,000. Mrs Castle receives 50% of the proceeds namely £150,000 and the Council receives £150,000.

The advantages to the council are illustrated using this example:

The council pays Mrs Castle £120,000 to buy back her Heygate home. She also receives a home loss compensation payment of £12,000. The total buying back cost is therefore £132,000. However, because the buy back was voluntary (i.e. not by CPO), the council claws back 35% of the market value (£42,000) from the Government. In disposing of the Rockingham property to Mrs Castle, the council also gains 25% of the capital value of the share (£30,000). The net cost to the council in this example is therefore £60,000 – less than half the total buying back cost if Mrs Castle were not re-housed in this manner.

In addition, while Mrs Castle is a shared ownership leaseholder, she pays a total of £340 per month to the HRA or £78.46 per week. This is a very similar amount that would be contributed by a tenancy rent on a one-bedroom property based on Homesearch figures for the 8th November 2007. However, on selling the property, the Council also gains a further £30,000, which would not be realised if the property were tenanted.