



**Shared Ownership Staircasing Policy**

## Contents

1. Introduction	3
2. Equality and Diversity	4
3. Restriction on Staircasing	4
4. Valuation	5
5. Value and Home Improvements	6
6. Anti Money Laundering Checks	6
7. Timescales	6
8. Simultaneous Staircasing and Sale	7
9. Staircasing costs	7
10. Buying Shares of 1%	7
11. Funding Implications	8
12. Paying Rent	8
13. General Information	9

## 1 Introduction

Cheltenham Borough Council (CBC) are committed to increasing the supply of housing and investing to build resilient communities. A key priority is to increase the supply of affordable homes across the borough through a variety of tenures including homes for rent and shared ownership. This policy statement sets out our approach to dealing with staircasing (the process to purchase more shares in a property) requests from shared ownership customers and needs to be read in conjunction with the Shared Ownership Sales Policy.

The Department for Levelling Up, Housing and Communities (DLUHC) definition of Shared Ownership (sometimes known as 'part buy, part rent') enables people to buy a share of a property (usually between 25% and 75%) and pay a subsidised rent on the remaining share. Purchasing a share in a property requires a smaller deposit and mortgage, thereby making it a more accessible route into home ownership for lower income households. Shared ownership properties are always leasehold and include the ability to buy further shares in a property over time (a process known as 'staircasing') until eventually attaining full ownership of 100%. The shared owner takes full responsibility for repairs and maintenance of the property.

When additional shares are bought, shared owners will pay less rent. The amount of rent payable will be based on the remaining landlords overall share in the property.

Cheltenham Borough Homes (CBH) on behalf of CBC will deliver, administer and manage Shared Ownership homes to help those who aspire to be homeowners but who cannot afford to purchase on the open market.

The Policy will contribute to the delivery of Cheltenham Borough Council's Housing, Homelessness and Rough Sleeping Strategy, which seeks to achieve five key priorities:

- Increasing the provision of quality, sustainable and affordable housing.
- Making best use of existing housing, improving the quality of homes and reducing carbon emissions.
- Tackling homelessness and the causes of homelessness.
- Preventing rough sleeping; and when it occurs, ensuring that it is rare and non-recurring.
- Investing in our communities to help make them safer, stronger and healthier.

Shared owners may increase the percentage share of the equity (or tranche<sup>1</sup>) that they own at any time during the term of the Shared Ownership lease, subject to the restrictions set out in Section 3 below. This process is known as 'staircasing'.

This Policy outlines CBC/CBH's approach to staircasing whereby shared owners wish to purchase an extra share (or tranche or proportion) of their home over and above that previously acquired.

Downward or reverse Staircasing to reduce the shares owned is only permitted in exceptional circumstances.

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<sup>1</sup> The term 'tranche' is a technical term used by Homes England to reference proportion or percentage share of equity the shared owner owns. For example, the initial proportion, or tranche sale, a shared owner may acquire a property on will depend upon a variety of factors as outlined in this policy.

This policy is consistent with the Homes England guidance on Shared Ownership homes and Staircasing.

## **2 Equality and Diversity**

CBH and CBC will ensure all its policies and practices are non-discriminatory and will promote equal opportunity by preventing and eliminating discrimination on the grounds of race, disability, gender, sexual orientation, religion and belief and age. The policy will be accessible, responsive and sensitive to the diverse needs of individuals.

## **3 Restriction on Staircasing**

With the exception of Rural Exception Sites, Designated Protected Area and Older Persons Shared Ownership, all grant funded Shared Ownership leases must contain provisions allowing the leaseholder to buy further shares up to 100% home ownership.

Leases containing restrictive staircasing provisions (other than for the products mentioned above) will render a scheme ineligible for grant funding.

A shared owner may staircase at any time after purchasing the initial property share (if the lease allows). There is no compulsory requirement during the term of the lease to purchase additional shares.

A shared owner may staircase up to 100% ownership on any shared ownership property *unless* restricted by the terms of the lease. The freehold or the leasehold interest will be transferred to the owner once 100% of the shares have been purchased and the property is owned outright.

There are separate staircasing arrangements dependent on which Homes England affordable homes programme a Shared Ownership home was funded.

A shared ownership lease issued prior to Affordable Homes Programme (AHP) 2021 - 2026 permits staircasing to 100% in tranches (i.e. a proportion or percentage of equity) of a minimum of 10%. Shared owners can usually buy shares of 10% or more at any time. Some older leases only allow shared owners to buy shares of 25% or more. Some newer leases will allow purchasers to buy shares of 5% or more.

If the property was bought on or after 1 April 2021, shared owners may also be able to buy shares of 1% each year for the first 15 years. CBC via CBH as the landlord will be able to advise if this applies to you and the details will be included in the Key Information Document as detailed in section 9 of our Shared Ownership Sales Policy. It is not permitted within Homes England requirements for shares of 2%, 3% or 4% to be acquired, however minimum shares of 5% or more is permitted (in addition to any shares of 1% that can be acquired each year) provided there are no restrictions in the existing lease agreement.

Note that these staircasing provisions include the ability for shared owners to 'staircase out' and ultimately own their home outright. CBH must check the lease to determine the stipulations relating to staircasing.

Shared owners will not be able to roll over or accumulate the gradual staircasing offer (within the initial 15 year period) to purchase in future years – it is limited to max of 1% each year.

These provisions apply equally to the resale of Shared Ownership homes funded through the AHP 2021 to 2026

#### **4 Valuation**

The cost of the new share or additional share will depend upon how much the property is worth at that time. The price paid for additional shares for all staircasing transaction other than the 1% per year option (the process for which is set out in section 10 below) will be based on the full open market value of the property. The valuation may only be completed by a suitably qualified independent RICS (Royal Institute of Chartered Surveyors) Valuer. The valuation will be valid for a 3 or 6-month period subject to current market prices and the Valuer will determine the length of time their valuation is valid for. When shared owners are looking to buy additional shares, this must be done within the timescale as to when the valuation is valid for otherwise the home will need to be revalued.

CBH will instruct the valuer at the shared owner's expense. However, the shared owner may instruct their own independent valuer provided they meet the qualifying criteria and the lease does not specify that CBH must instruct the valuer.

Estate Agency valuations will not be accepted, unless provided by a qualified RICS valuer.

Any RICS valuation must be based on the following assumptions:

- that the sale is for the freehold interest, or where CBH/CBC interest is leasehold, a 99-year lease or such lesser term of years as CBH/CBC holds;
- that the sale is an open market sale;
- that a shared ownership lease has not been granted;
- that the sale is to be with vacant possession.

The following additional conditions apply to staircasing valuations:

- Customers improvements and disrepair due to neglect are disregarded (please see section 5 below for further information).
- Any service charges or improvement contributions payable will not be less than the estimates contained in the landlord's offer (if such an offer was made).
- The landlord is selling a freehold interest with vacant possession (freehold property).
- The landlord is selling with vacant possession for the appropriate term, i.e. not less than 125 years (where applicable) or a term expiring 5 days before the term of the landlord's lease is to expire (leasehold property).

The shared ownership lease covers how valuation or selected valuer disputes can be resolved. If the shared owner disputes the value they can have a further valuation carried out at their own expense.

## **5 Valuation and Home Improvements**

If the shared owner has made home improvements which may affect the value of the property, the shared owner must seek and pay for an additional valuation. The valuation must show two amounts as follows:

1. The current market value – this is the home’s value including any increase because of improvements made to the property.
2. The unimproved value – this is the value of the home ignoring any improvements made to the property.

It is in the interest of a shared owner to seek permission from the landlord in advance of any home improvements. For example, if the shared owner sought and received permission in writing in advance of undertaking the home improvements the price of additional shares is based on the unimproved value. However, if the landlord’s permission was not sought the price of additional shares is based on the current market value, which is likely to be higher and therefore the costs incurred by the shared owner will be higher due to the price of each share. This is in line with the Government’s position and lease arrangements which stipulate consent to undertake works must be received in writing from the landlord prior to works being completed. Retrospective permission for improvements will not be granted.

## **6 Anti Money Laundering Checks**

Money laundering may be defined as the process whereby the origin of dishonest and or illegally obtained money is concealed so that it appears to come from a legitimate source.

Company and property transactions undertaken by Legal Services are “relevant” business under the legislation governing money laundering and proceeds of crime. CBH will do all it can to prevent, wherever possible, the organisation and its employees being exposed to money laundering and will comply with all legal and regulatory requirements – especially with regard to the reporting of actual or suspected activity.

The officer nominated to receive reports of suspicious money laundering activity is CBH Executive Director Finance and Resourcing who will discuss with CBC Executive Director for Finance, Assets and Regeneration.

In line with regulations, on behalf of CBC, CBH will undertake a number of verification checks and due diligence to ascertain the source of funds. These checks include obtaining satisfactory proof of identity from all parties associated with the purchase and evidence of the monetary source(s).

Records will be kept for at least 5 years and reports will be issued to the National Crime Agency where there is a concern of suspicious activity.

## **7 Timescales**

It is a condition of the Shared Ownership lease that the staircasing transaction must complete within 3 months of CBH receiving the valuation. CBH may exercise discretion to extend the 3 month period to 6 months where there has been a delay which is outside the leaseholder’s control e.g. if documents were lost in the post. Documentary evidence explaining the reasons for waiving the 3-month validity period must be kept.

An up-to-date valuation is required at the time of completion. A revaluation must be obtained if the staircasing process extends beyond the valid period of the original valuation.

CBH will instruct a regulated conveyancer to act on behalf of CBC/CBH on Shared Ownership properties. On behalf of CBC, CBH will instruct One Legal (or such other regulated conveyancer as may be nominated by CBC) to act on behalf of CBC in relation to HRA shared ownership sales.

Where the person looking to acquire a Shared Ownership property is a current CBC/CBH tenant, before completion the shared owner must have a clear rent and service charge account or their solicitor has confirmed to us that outstanding monies will be paid to CBC via CBH, with the staircasing funds.

## **8 Simultaneous Staircasing and Sale**

On resale the lease typically permits staircasing 3 months after assignment. In practice, where the lease is assigned, CBH will permit staircasing within this period.

In line with best practice guidance, on behalf of CBC, CBH will actively promote staircasing and will not restrict simultaneous staircasing and sale unless the property is less than 12 months old.

The property may be sold for more than its open market value when simultaneously staircasing and selling and CBC/CBH will receive the relevant % share of the sale price which may be over and above the market value. The customer will benefit from the value of any improvements where prior consent to the improvements has been obtained.

If the property is sold for less than the market value, CBC and CBH will continue to require the designated % share of the market value of the property and will not accept less than the share to which it is entitled through the terms of the lease.

## **9 Staircasing Costs**

The lease sets out that a shared owner is responsible for:

- The initial valuation
- The revaluation if the staircasing does not complete within the required 3 month period and the initial valuation has expired
- Their own legal costs.

The landlord will be responsible for its own legal costs.

## **10 Buying Shares of 1% (for homes bought on or after 1<sup>st</sup> April 2021 delivered through the Homes England Affordable Homes Programme (AHP) 2021 to 2026**

If the property was bought on or after 1<sup>st</sup> April 2021, shared owners may be able to buy shares of 1% each year. As outlined above the Key Information Document issued to all shared owners will include the specific details.

If eligible, shared owners can buy a 1% share each year for the first 15 years after they initially acquired the property. Shares of 2%, 3% or 4% are not permitted as outlined in the Capital Funding Guide (CFG) from Homes England. The price of a 1%

share will be based on the original price of the home as valued by an RICS surveyor and CBH will use this as the baseline valuation. Each year, the landlord is to use the latest available House Price Index (HPI) data for the appropriate Local Authority area (Cheltenham) and property type to adjust the valuation upwards or downwards and produce an up-to-date valuation for shared owners who wish to purchase an additional 1% of their home via gradual staircasing.

CBH must provide shared owners with an updated valuation (for the purposes of 1% gradual staircasing only) at least once per year, and at any other point the shared owner requests to purchase an additional 1%. CBH must demonstrate how the estimated valuation has been calculated.

HPI valuations will be valid for a maximum of 3 months. This is in line with the current valuations process.

There will be no right to appeal an estimated valuation. If the shared owner is not satisfied, they can opt to use a RICS valuation which will be at the cost of the shared owner.

Where a RICS valuation is used, or at any point a shared owner staircases in larger amounts (5% or more with a RICS valuation) this new valuation will become the base valuation, adjusted upwards or downwards using local HPI data for the remaining years. CBH/CBC will be prohibited from charging a fee for producing an HPI estimated valuation. The model is designed for those shared owners looking to buy additional shares using cash (rather than remortgaging further). The purpose of enabling 1% staircasing is to promote shared owners to gradually increase the share of the property they own by the most affordable means. Accordingly, CBH/CBC will be prohibited from charging any other administrative fees on the gradual staircasing model.

The Mortgagee's charge (i.e. the security the mortgage company will put on your property in return for the loan) shall be secured over the additional 1% purchased and the buyer will be required to notify the Mortgagee (i.e. mortgage company in the event of completion of gradual staircasing).

CBH should issue a Memorandum of Staircasing for each share purchased to the shared owner and keep a copy for their records.

Shared owners will remain responsible for legal fees.

CBH/CBC will be expected to offer a full 15-year term of 1% gradual staircasing on the resale of Shared Ownership homes funded by the Affordable Homes Programme (AHP) 2021 to 2026. Shared owners are not permitted to roll over unused options to buy 1% shares to future years.

## **11 Funding Implications**

CBH finance team will review any relevant Grant Agreements relating to the property and establish whether a grant repayment is required in the event of staircasing or where shared owners staircase out to own 100% of their property.

## **12 Paying Rent**

Rent on the unsold equity will be reviewed following each equity tranche (i.e. a proportion or percentage of equity) purchased to take into account the acquired percentage. The amount of rent the shared owner will pay is based on the landlord's



share. If the shared owner opts to buy more shares ('staircase') then they will pay less rent.

As outlined in the Shared Ownership Sales Policy, rents will be calculated at 2.75% of the value of the unsold share and will be subject to annual indexation, as detailed within Homes England's Capital Funding Guide.

#### Example

A shared owner owns a 40% initial equity share and pays £800 a month in rent on the 60% the landlord owns. They then opt to buy another 30% share or staircase up by a further 30%, taking the overall proportion of the home they own to 70% with the landlord owning the remaining 30%.

Because the landlord owns half as much as they did before, the rent is also half as much as it was - £400 instead of £800.

The rent payable is subject to a review usually once per year. The landlord will review rents at the times set out in the lease. The rent may go up when it is reviewed. It will not go down.

How much the rent can increase by is dependent upon the date the lease was signed. Information regarding the annual rent increases will be determined by the lease agreement.

### **13. General Information**

Shared owners will remain responsible for informing Land Registry of changes to the ownership structure following a staircasing transaction. This process is usually conducted by the owner's lawyer.