

HSCHT'S SHARED EQUITY RURAL HOUSING BURDEN CONDITIONS

Information Note (updated December 2007))

As of 2nd March, 2007, The Highlands Small Communities Housing Trust (HSCHT) decided to introduce new, shared equity, pre-emption right conditions (known as a "Rural Housing Burden") on the Titles of the house plots it sells.

The Trust's Board took the decision because they felt that the new shared equity method is fairer, more straightforward and easily understood by all interested parties than the previous "depreciated replacement cost" method. Though both methods are designed to ensure that houses built on HSCHT plots remain much more affordable to subsequent purchasers than they would be if sold at full, open market value, the Trust believes that the shared equity method offers more reliable guarantees that the full affordability discount offered by the Trust will, in practise, be retained.

The basis of the way the shared equity method works is like this example:

- The Trust buys and services a plot for, say, £20k
- The plot's full open market value (as assessed by the District Valuer) is, say, £60k
- Therefore, the Trust's discount is £40k (£60k less £20k)
- The plot purchaser buys the plot from the Trust at £20k
- The house she/he then builds on the plot costs, say, £100k
- The total development cost value is £160k (£20k for the plot purchase, £100k for the build costs and £40k for the discount on the plot price)
- The Trust's share of the equity involved in this example* is, therefore, 25% (40/160ths), the plot/house owners share is 75%
- The Rural Housing Burden conditions in the Title to the plot – and the house built on it – will ensure that, whenever the property is sold, the seller will be able to get back not more than 75% of the open market value of the property (as assessed by the D.V.) because the Trust will retain its 25% share of the equity.

- So, if the house (which had an original development cost value of £160K) were to be sold, say, 10 years later – at the D.V.'s then open market valuation of, say, £300k, the seller would be able to get a return of 75% of that value (i.e. £225k) and the Trust would be entitled to retain the remaining 25% (£75k) of the value.
- The Trust will have the legal right, therefore, to buy back the house at £225k and sell it again to another local household who, like the previous household, will have been otherwise unable to afford to buy or build a home for themselves locally.
- The Trust also has the right not to exercise its pre-emption right but, please note, that the Rural Housing Burden conditions stay in the Title forever – which means that, even if the Trust chooses not to exercise its pre-emption right, any purchaser would have to accept that the house on offer will never be worth more than its discounted value because the Trust will always retain the right to buy it back, at any subsequent sale, at the stated equity share price (in the example above, 75% of the open market value, as assessed by the D.V.).
- **Please note that the above example is for illustrative purposes only and that the Trust reserves the right to set the percentage share of the equity it retains at such a level as, it believes, takes proper account of the relevant market values (of both the plot and the completed house) as well as the basic plot purchase and approvable development costs that will be incurred by the plot purchaser.*

In other words, the Trust's share of the equity may vary, although it is expected that it will normally be set in advance at 25%, 30% or 35%, depending on the Trust's assessment of the particular values and costs pertaining.

For further information and advice please contact the Trust's Development Manager, Di Alexander (tel: 01463 233548) or Solicitor, Andrew Murchison (tel: 01463 709992).