

SHARED EQUITY RURAL HOUSING BURDEN CONDITIONS
Information Note (updated November 2010)

The Rural Housing Burden is a Title Condition which applies to all of the plots or homes that The Highlands Small Communities Housing Trust (HSCHT) sells. Basically, it comprises of two elements a) an equity share and b) a right of pre-emption. The equity share protects the discount given to the initial purchaser by suppressing the selling price in the event of a resale. The right of pre-emption means that HSCHT has the first right to buy back the property when offered for sale, with the aim of securing another local purchaser.

In setting the equity share HSCHT takes account of all relevant factors.

These include:

- Open Market value of the completed home (as assessed by an independent valuer appointed by HSCHT)
- Typical build costs based on the average in that particular community, including fees and servicing costs and taking account of the eligible floor space. (Please note that should the purchaser increase their build costs above this average this is ultimately their own choice, and the Trust's equity share will remain constant)
- Land value. (Need to protect any discount obtained from original landowner)
- The cost of buying the home in the event of the pre-emption being invoked

Here is a typical example* of how the equity share is calculated:

• Open Market Value of completed home once built	£185k
• Typical build costs and fees (3 bed home)	£100k
• Discounted plot purchased from HSCHT	£ 30k
• Total cost for purchaser (a)	£130k
• Difference between cost and Open Market value on completion	£ 55k
• Equity share set is (55/185) (b)	30%

(a) Grant assistance may be available, contact HSCHT staff for information.

(b) The equity share will be calculated in advance of any plot being advertised for sale.

Please note the following important points:

- 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 70% of the open market value of the property (as assessed by the Independent Valuer) because the Trust will retain its 30% share of the equity.
- So, if the house were to be sold, say, 10 years later – at the Independent Valuer's then open market valuation of, say, £300k, the seller would be able to get a return of 70% of that value (i.e. £210k) and the Trust would be entitled to retain the remaining 30% (£90k) of the value, which would equate to the discount for the next purchaser.
- The Trust will have the legal right, therefore, to buy back the house at £210k 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, 70% of the open market value, as assessed by the Independent Valuer.).
- ****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 between 25% and 40%, depending on the Trust's assessment of the particular values and costs pertaining.

For further information and advice please contact the Trust's Director, Ronnie MacRae (tel: 01463 233 548) or Solicitor, Andrew Murchison (tel: 01463 709 992)

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