

Innovative financing for homeownership

The potential for shared equity initiatives in Australia

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Structure of presentation



Introduction to AHURI research currently underway focusing on the potential of shared equity in Australia

- What is shared equity?
- Policy considerations
- Current schemes/initiatives
- Initial findings: interviews with lenders and customers
- Issues emerging and next stages of research

1. Introducing the research

- UNSW (Bill Randolph, Simon Pinnegar, Dana Quintal), USyd (Viv Milligan, Judy Yates) and Peter Williams in UK
- Started June 2007, completing June 2008
- Core focus: understanding the potential for shared equity to assist lower/mid- income households to access and sustain homeownership
- A multi-pronged approach: understanding policy, lender and consumer perspectives
- Understanding potential in terms of housing market, and consideration of funding, regulatory frameworks required

Introducing shared equity

- Range of schemes/initiatives that ‘enable the division of the value of a dwelling between more than one legal entity’
 - Sharing the cost of purchase with an equity partner
 - Typically a first mortgage taken out by the primary owner and a secondary mortgage/covenant/etc set against the remaining portion

- Potential benefits for all parties involved:
 - For customers: lowers entry and ongoing costs of ownership, benefits of being a homeowner
 - For lenders: presents opportunities to expand product/market reach
 - For investors: potential to tap into new forms of residential investment
 - For government: facilitates policy goals, stretches available subsidy, potential for private sector leverage, reflects broader strategic approach

Introducing shared equity

→ A quick, relatively straightforward example

→ Purchase price \$250,000

→ Primary owner takes an 80% equity share - \$200,000 – and pays mortgage on this amount

→ 20% held by partner, valued at \$50,000 – pays/foregoes interest on this amount

→ 4 years later, house valued at \$425,000

→ Equity gain of \$175,000


→ If sold, and equity shared on a pro rata basis, gain divided \$140,000 to primary owner, \$35,000 to partner

→ With house valued at \$425,000, the amount required by the primary owner to 'buy out' partner now \$85,000

Introducing shared equity

- Complex array of products, schemes, initiatives
- Can be subsidised, unsubsidised; led by government, non-profit sector, market
 - Our primary interest in policy-led initiatives does not mean that market/lenders are not a central consideration
- Distinguishing features determined by nature of arrangements between the ‘primary owner’ and ‘partner’
 - How rights and responsibilities are divided, how risk is shared
 - How value in the property is determined and divided
 - If subsidy provided, expectations placed on recoupment

Spectrum of initiatives

	
<ul style="list-style-type: none"> → Transitional: focus on access → Lower/mid income households → Promote staircasing → Do not protect subsidy long-term → Typically not tied to new supply 	<ul style="list-style-type: none"> → Access plus ongoing affordability → Lower income households → Promote stability → Protect subsidy in the long-term → Often tied to new supply
<p>Example models/schemes</p> <ul style="list-style-type: none"> → WA FirstStart (Aus) → SA Breakthrough (Aus) → Scottish Homestake (UK) 	<p>Example models/schemes:</p> <ul style="list-style-type: none"> → ‘Subsidy retention’ models e.g. Community Land Trusts (US) → Firstbase (UK) → Slimmer Kopen (Netherlands)

2. Policy considerations

→ Impact and targeting:

- What is the scale of potential demand for shared equity initiatives?
- Scope for such initiatives in addressing affordable housing 'needs'?

→ Externalities:

- What impact will shared equity have on housing markets and broader affordability concerns?
- Likewise, what impact do housing markets have on viability/ attractiveness of shared equity?

→ Cost/benefit

- Significant degree of risk, both political and financial risk
- What are the benefits/objectives met relative to other housing spend,

3. State/territory schemes

Product	Scale
Western Australia: <i>Keystart</i> GoodStart and FirstStart shared equity loans	FirstStart launched Feb 2007. To provide up to 3000 loans over 3 years
Northern Territory: <i>Territory Housing</i> HomeNorth/Homenorth Xtra equity loan	Homenorth Xtra: from Jul 04 to Sept 07, approx 1000 homes purchased
South Australia: <i>HomeStart</i> Breakthrough shared appreciation mortgage	Launched 2007. Up to 500 households per year will be assisted
Victoria: <i>VicUrban/ Burbank Homes</i> OwnHome Shared Equity Ballot Homes	Launched in 2007, small scale at present
Queensland: <i>Department of Housing</i> Pathways Shared Equity Loan	Commenced Jan 2008. Small numbers expected
Tasmania (2007 proposals/EOI): <i>Housing Tasmania</i> Home Ownership Assistance Program Scheme for lower income earners wishing to purchase a home from Housing Tasmania.	
ACT (2007 proposals/EOI) <i>Housing ACT</i> Shared equity schemes for eligible tenants being considered; Community Housing Canberra (CHC) consider introducing a shared equity product as they expand their activities	

Eligibility criteria



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	Max equity 'grant'	Max household income	Max property value
Western Australia: FirstStart	40%	Sliding scale up to \$70,000	\$365,000
Northern Territory: Homenorth Xtra	30%	Up to \$71,000 plus asset limit	Regional variation, max. of \$310,000 in Darwin
South Australia: Breakthrough	35% (eg. 30%)	(eg. \$51,000)	(eg. \$260,000)
Victoria: Ownhome	25%	Up to \$60,000	Tied to product
Queensland: Pathways	40%	No income/property value limits: restricted to tenants purchasing home they're renting	
Tasmania: Home Ownership Assistance Program	25%	Up to \$67,500 plus asset limit	\$245,000

4. Discussions with lenders

- Australia can be seen as a market-leader in product development with minimal/no public subsidy
- Cautious interest, although many considered it a complex response to a well understood market 'failure'
- Concerns:
 - Financial and reputation risk
 - Market information, redemption profiles
 - Concerns regarding house price growth and ability for borrower to buy out the loan
- Different perspectives re: Government involvement
 - Interference vs. necessity – helping mediate risk
 - Require facilitating frameworks: financial, regulatory, taxation

Discussions with existing customers

- Literature points to series of barriers related to product complexity and inflexibility
- We found a strong satisfaction with recently rolled out schemes; a still positive if more pragmatic response from longer-term customers
- But some issues to consider:
 - Detailed implications of equity sharing arrangements unravel over time
 - Market growth and implications for the part of the home not owned
 - Future uncertainty and lack of clarity at what happens at resale

Kate
WA



Kate and family had become resigned to the fact that they would not be able to afford to buy as they could not secure an adequate home loan on their income. When she heard about FirstStart on the radio, she: *'leapt on it straight away because [affording to buy] was such a current issue for us'*

Meeting eligibility criteria was seen as a bit of a challenge: *'I think a lot of people were surprised – they couldn't afford a home and they'd phone up to see if they were eligible and they'd find that they earned too much. But if we were earning any less we couldn't afford to make the repayments. It was being offered to low income earners but there were people still stuck in the middle'*

They were able to buy a property in the suburb where they had been long term renters. Overall, she feels that 'there are no disadvantages'. *'For all intents and purposes we have our own home so it makes absolutely no difference with what's happening on the paper work'*

Margaret SA



Margaret is in her 50s and lives by herself in a 2 bedroom unit in SW Adelaide

She has been living in this property for 4 years, however has only had the Breakthrough loan for 4 months. Previously she owned the unit with her husband, but when her marriage broke down, she became the sole owner

When she read about the Breakthrough loan on the Homestart website she recognised it as: *'a lifesaver for people who have suddenly changed circumstances without a large income to refinance'*

Her main concern was to remain living in the same place and this type of loan was *'the only way to maintain the same standard of living as I was enjoying previously'*

She is pragmatic about having the government as a partner, acknowledging that the requirement to share the property's appreciation: *'is how [Homestart] make their money, because I'm not paying interest obviously, they just take the risk that property will always go up because if it goes down they will lose'*

Evolving perspectives

What we thought was that when you had a shared equity you paid off your part and then you could buy their part as well. But we thought that was at a set price. We didn't realise that the price [of the government's equity] rose with the value of the house ... we had no idea that prices of houses here would rise so rapidly either.

I'm not further ahead, I'd only be able to buy what I've got now. If their share hadn't gone up the way it did, I would be in front... I don't want to sound ungrateful but I do think if they were really trying to help people get out of the situation that they are in [they haven't done that], they've kept us in the situation that we're in.

Customer considerations

- Half empty rather than half full? – although equity share has grown and customers have benefited, for some, concern focuses on the part of the home not owned
- Unknowns looking forward:
 - Some are likely to be able to step up/use their equity growth to move on. For others, the gap/ability to do so seems harder than ever
 - Anticipating future market risks: shared equity works best in a well-performing steady market; a strong market causes its own problems
 - Issue of negative equity
- Question of risk for government, lenders:
 - Customers understand government involvement, largely welcomed
 - However, inadvertently trapping those that policy is seeking to assist?

5. Next stages of research

- 10 focus groups across 3 States with potential customers
 - sampled by **income** (45-55k, 55-70k), **location** (lower and moderate value areas) and **age group** (*primarily* younger first time buyers, but not excluding older age groups)
 - Use debadged initiatives to structure discussions
- Will explore
 - Consumer knowledge of shared equity
 - Trade offs: perceived advantages and disadvantages
 - Preferred partners in equity sharing arrangements
 - Administration: role of government, regulation?
 - Tied to supply or working within the open market?
 - Paying for the portion they do not 'own'
 - What happens in terms of 'moving on' at time of sale

Next stages of research

- Final stage brings together consumer, policy and lender considerations to:
 - Determine whether shared equity arrangements are likely to function as a short-term ‘bridge’, or create a long-term tenure class
 - Understand market conditions necessary for shared equity to be viable
 - Scope policy settings for shared equity – national or local?, the potential scale of subsidy required, regulatory requirements
 - Recognition that these settings need to work for lenders/investors and ensure that schemes are shaped accordingly
 - Exploratory cost/benefit – a need to compare outcomes for recipients of shared equity against alternatives (e.g. full ownership, renting)

Considerations moving forward

- **Difficult and complex policy:** initiatives extend back years, but no major expansion seen in shared equity market as yet
 - An effective niche solution, rather than large-scale vehicle?
- A **risky policy** environment, but arguably a reason **for** policy engagement rather than leaving it to the market
 - Sub-prime fallout/credit crunch illustrates difficulties tied to promoting homeownership for lower income groups
 - Provide stability, scale and a safety net – lowering risk to lenders, investors, customers?