Accessing sustainable home ownership

The potential for shared equity arrangements in Australia

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Flow of discussion today

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- A look at the growth in shared equity arrangements in Australia drawing upon recently completed AHURI research
- Interest in shared equity from both the public and private sector, but it has been the state/territory based, government backed agencies that have led innovation – even pre-GFC
- The financial crisis, and in particular the subprime fallout places a spotlight on policy interest in assisting lower income home ownership
- Are complex arrangements such as shared equity, targeted at ‘marginal borrowers’, the sort of thing that has caused problems?
- Or is government involvement in sustainable lending models central in shaping and delivering the housing policy reform agenda?

Recent AHURI research

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Innovative financing for home ownership: the potential for shared equity initiatives in Australia

- Assessment of potential for shared equity arrangements to assist households faced with affordability constraints to access and sustain homeownership.
- A multi-pronged research approach: understanding policy, lender and consumer perspectives.
- Consideration of housing market, funding, regulatory frameworks required.


Final Report

Peer Reviewed

Innovative financing for homeownership: the potential for shared equity initiatives in Australia

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Introducing shared equity

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- Range of schemes/initiatives that 'enable the division of the value of a dwelling between more than one legal entity'.
  - → Typically a first mortgage taken out by the primary owner and a secondary mortgage or covenant set against the remaining portion.
- Potential benefits for all parties involved:
  - → For customers, lowers entry and ongoing costs of ownership/access to affordable finance.
  - → For lenders, presents opportunities to expand product/market reach.
  - → For government, stretches available subsidy, promotes leverage, supports broader housing policy/affordability objectives.
- Can be led by government, non-profit sector, or private lenders.

Positioning shared equity

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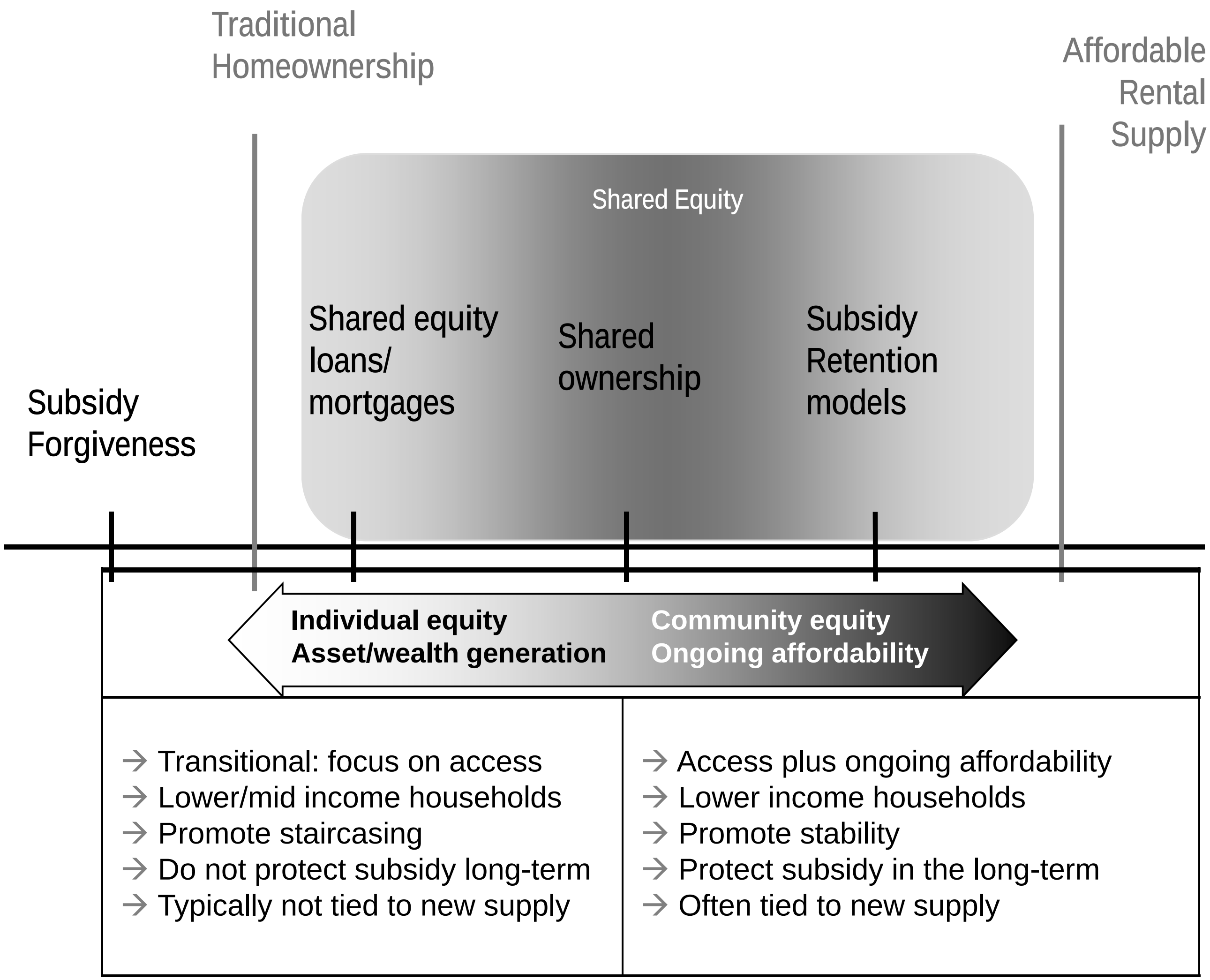
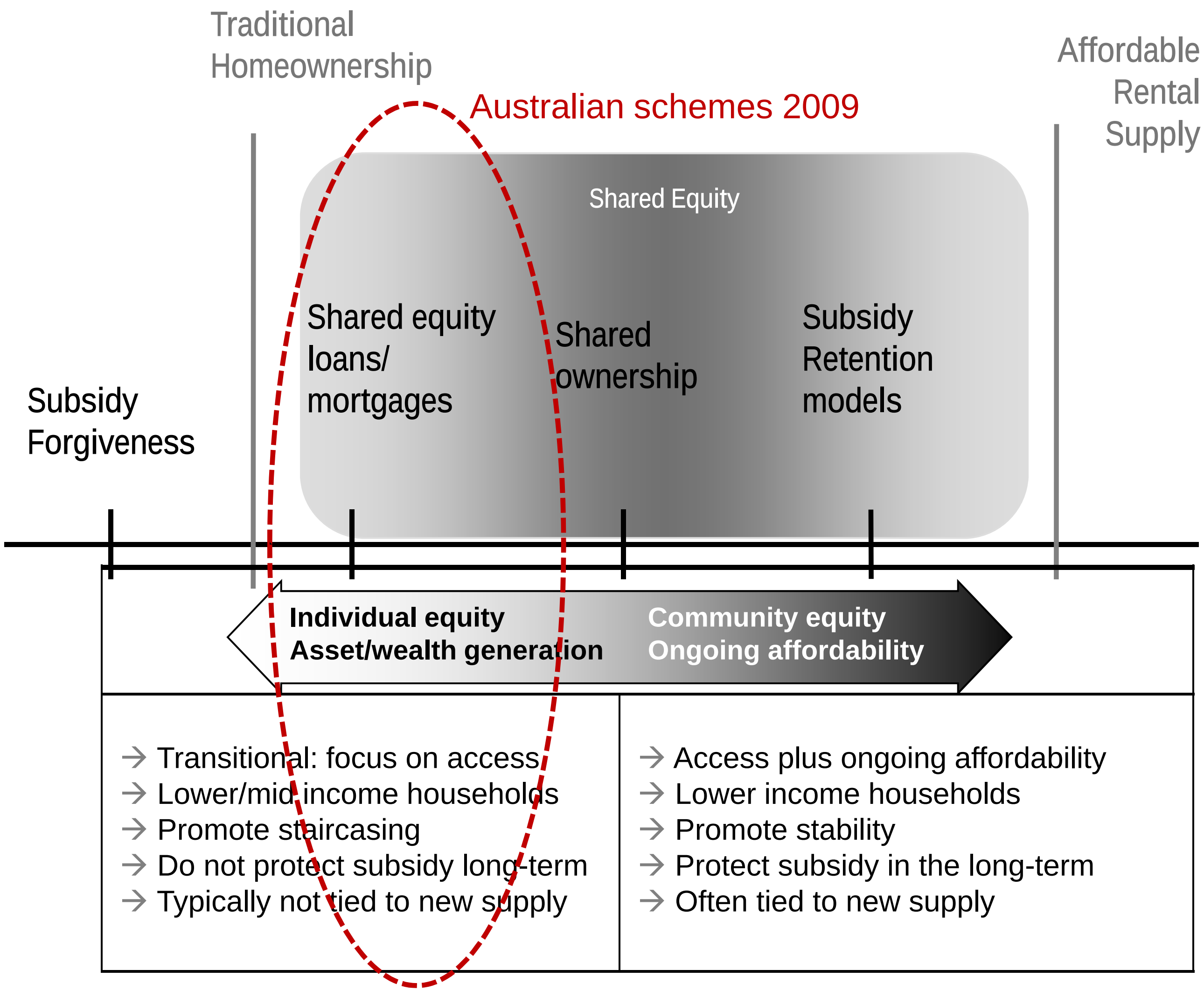


Positioning shared equity



State/territory schemes

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Product	**Scale**
Western Australia: *Keystart* **GoodStart** and **FirstStart** shared equity loans	Goodstart: 1600 families assisted since 1997 **FirstStart: launched Feb 2007. Restructured late 2008. Almost 3000 loans settled before being suspended in 2009.**
South Australia: *HomeStart* **Breakthrough** shared appreciation mortgage	Launched 2007. 2008-2009 345 loans in 2008/2009, 500th in April 2009
Northern Territory: *Territory Housing/TIO* **HOMESTART NT**equity loan	from Jul 04 to Sept 07 (As HomeNorth Xtra) approximately 1000 loans settled
Victoria: *VicUrban/ Burbank Homes* **OwnHome** shared equity Ballot Homes	Launched in 2007, small scale at present
Tasmania : *Housing Tasmania* **HomeShare** shared ownership	Commenced 2008. Scheme covers open market/new building/tenant ‘buy-out’
Queensland: *Department of Housing* **Pathways** shared equity Loan	Commenced Jan 2008. Small numbers expected
ACT *ACT Government/Community Housing Canberra* 2007 Affordable Housing Plan – shared equity offered to eligible tenants through CHC	

State/territory schemes Cont...

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	Max equity partner	Max household income	Max property value
(prior to suspension) Western Australia: **First Start (Keystart)**	25%	Sliding scale up to $70,000	$355,000 in metro areas
Northern Territory: **HOMESTART NT**	30%	Up to $105,000 plus asset limit	Regional variation, max. of $420,000 in Darwin
South Australia: **Breakthrough (HomeStart)**	35%	Not set	Not set
Tasmania: **Homeshare**	25%	Up to $95,316 plus asset limit	Determined by 25% held by Housing Tasmania being no more than $50,000
Victoria: **Ownhome**	25%	Up to $66,000	Tied to product
Queensland: **Pathways**	40%	No income/property value limits: restricted to tenants purchasing home they're renting	

Research conducted

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- Discussions with lenders, policy makers, institutional stakeholders
- Interviews with existing customers in states/territories with existing schemes/recently launched schemes
- Focus groups with potential customers in states with limited/no shared equity initiatives in place. Two different schemes explored

Research conducted

Housing circumstances	▪ Currently renting/living at home ▪ Many private, but also public renters
Household income	▪ $40,000-$55,000 ('lower') ▪ $55,000 -$80,000 ('moderate')
Location	Sydney, Melbourne and Brisbane: ▪ inner/middle gentrifying suburbs (Petersham, Coburg, Carindale) ▪ middle/outer areas (Liverpool, Sunshine, Springfield).
Age group	Mainly first-time buyers (25 to 39 years), plus those in older age groups yet to purchase or seeking to re-enter the market.

Reasserting government engagement

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- Risky policy – engage or avoid?
- Global Financial Crisis helps point to legitimate role for Government engagement in supporting lower income homeownership.
- A move away from assuming the markets themselves, and flexibilities enabled through innovation, can provide the conditions for promoting ‘homeownership downwards’.
- State/territory-based government backed agencies operate at one of the key transitions within the housing continuum.
  - → A focus on affordable, sustainable homeownership.
  - → Integral to wider affordable housing policies and new delivery frameworks.
- Lending to riskier groups does not need to translate into subprime.

Reasserting government engagement

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- Subsidy is involved (certainly in the establishment phase), access to funds at favourable rates, Treasury guarantees.
- Nevertheless over time, agencies build up sustainable lending portfolios, have space to innovate, including affordable housing funding arrangements, whilst still targeting those households perceived as greater risk by mainstream lenders.
- Strike a balance between helping deliver policy objectives and freedom to act as commercial concerns. Provides a sustainable return on equity.
- Flexibility in product design and targeting, and an ability to respond to changing market demands and conditions.

Shared equity
An appropriate strategy?

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- Shared equity is one of a number of responses in this renting-ownership transitional space.
- NOT a panacea for addressing housing affordability constraints.
- A complex solution that requires ongoing commitment.
- Works best for all parties where income growth is anticipated Questions arise regarding middle class welfare.
- Using traditional cost/benefit measures, justification of subsidy is also difficult. Needs to be evaluated in terms of strategic contribution to ‘whole of housing system’ policy approaches.
- Appropriate that it remains targeted and on a relatively small scale.

Shared equity
The right product?

- Research findings offer a general endorsement of shared equity initiatives currently in place in Australia.
- Although can be considered ‘clunky’, their design/operation is understood.
- Quest to be ‘normal’ homeowners:
  - → A stepping stone, a helping hand to full ownership.
  - → Government as partner rather than government program.
  - → Acting in the open market rather than tied to particular homes.
- However, often a gulf between aspirations and reality – refinancing the more likely strategy rather than stepping up.

Scale of policy engagement

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- Fragmented provision reflecting a difficult policy legacy
- A national scheme?
  - → Risk of undermining existing arrangements.
  - → Would struggle to replicate the advantages of state-based agencies.
- But need to provide long-term commitment and certainty, e.g. through information sharing, consistent taxation and regulatory frameworks.
- An umbrella 'guarantee' or support agreement under which different arrangements can be accommodated?
  - → Help share the risk, and mitigating institutional caution, in re-establishing agencies.
  - → Help provide scale, spreading exposure across different housing markets and enhancing cost effectiveness.

Moving forward

- Renewed commitment to supporting homeownership through the NAHA/NPA/COAG.
  - → Interest in facilitating social mobility, new delivery instruments, increasing indigenous homeownership
- GFC opens up space for a more balanced discussion and re-evaluation of benefits of engagement across the housing system.
  - → Reappraisal of optimistic assumptions regarding private sector ability to drive innovation
  - → Reappraisal of where efforts should be focused in terms of sharing risk, promoting a role as a stepping stone
- ‘Joined up thinking’ to use mechanisms such as shared equity and rent to buy to provide targeted assistance to people in this transitional space.
  - → First Home Savers Accounts, FHOG policy, NRAS

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