Positioning Paper

Peer Reviewed

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

authored by

Simon Pinnegar, Vivienne Milligan, Dana Quintal, Bill Randolph, Peter Williams and Judith Yates

for the

Australian Housing and Urban Research Institute

UNSW-UWS Research Centre
Sydney Research Centre

August 2008

AHURI Positioning Paper No. 106

ISSN: 1834-9250
ISBN: 1 921201 38 X

AHURi

Australian Housing
and Urban Research Institute

ACKNOWLEDGEMENTS

This material was produced with funding from the Australian Government and the Australian States and Territories. AHURI Ltd gratefully acknowledges the financial and other support it has received from the Australian, State and Territory governments, without which this work would not have been possible.

AHURI comprises a network of twelve universities clustered into seven Research Centres across Australia. Research Centre contributions, both financial and in-kind, have made the completion of this report possible.

The researchers would like to thank those public officials, private investors and lenders and other stakeholders who have contributed valuable information and ideas to the study. Thanks also to the customers of shared equity schemes who shared their experiences and views with us.

DISCLAIMER

AHURI Ltd is an independent, non-political body which has supported this project as part of its programme of research into housing and urban development, which it hopes will be of value to policy-makers, researchers, industry and communities. The opinions in this publication reflect the views of the authors and do not necessarily reflect those of AHURI Ltd, its Board or its funding organisations. No responsibility is accepted by AHURI Ltd or its Board or its funders for the accuracy or omission of any statement, opinion, advice or information in this publication.

AHURI POSITIONING PAPER SERIES

AHURI Positioning Papers is a refereed series presenting the preliminary findings of original research to a diverse readership of policy makers, researchers and practitioners.

PEER REVIEW STATEMENT

An objective assessment of all reports published in the AHURI Positioning Paper Series by carefully selected experts in the field ensures that material of the highest quality is published. The AHURI Positioning Paper Series employs a double-blind peer review of the full Positioning Paper – where anonymity is strictly observed between authors and referees.

CONTENTS

LIST OF TABLES .... **V**
LIST OF FIGURES .... **VI**
ABBREVIATIONS .... **VII**
EXECUTIVE SUMMARY **1**
1 INTRODUCTION **6**
1.1 Background 6
1.2 Research objectives 7
1.3 Structure of report 8
1.3.1 Positioning paper 8
1.3.2 Final report 9
2 DEFINING SHARED EQUITY AND DETERMINING POLICY INTEREST **10**
2.1 Introduction 10
2.2 What is shared equity? 10
2.2.1 Shared equity loans/mortgages 11
2.2.2 Shared ownership 12
2.2.3 Subsidy retention models 13
2.2.4 Subsidy forgiveness 14
2.3 Advantages and disadvantages of shared equity 14
2.3.1 Policy benefits and disadvantages 14
2.3.2 Lender/investor benefits and disadvantages 15
2.3.3 Consumer benefits and disadvantages 15
2.4 The research focus 15
2.4.1 Targeting initiatives to meet policy objectives 15
2.4.2 Working jointly to help deliver policy-focused initiatives 16
2.5 Innovative financing schemes not covered in this study 17
3 THE EVOLUTION OF SHARED EQUITY INITIATIVES IN AUSTRALIA **19**
3.1 Introduction 19
3.2 The legacy of low-start loans 20
3.3 Emerging policy interest in shared equity approaches 21
3.3.1 Current state and territory-led initiatives 22
3.3.2 Loan characteristics and targeting 23
3.3.3 Eligibility criteria 25
3.4 Private sector-led initiatives 26
3.4.1 The equity finance mortgage 27
3.4.2 Other proposed initiatives 28
3.5 Summary 29
4 INTERNATIONAL SHARED EQUITY INITIATIVES **31**
4.1 Introduction 31
4.2 United Kingdom 31
4.3 United States 34

4.4 The Netherlands 37
4.5 Summary 38
5 POLICY CONSIDERATIONS 40
5.1 Introduction 40
5.2 Impact: what is the scale of potential demand? 41
5.3 Targeting of shared equity initiatives 43
5.3.1 Eligibility criteria 44
5.3.2 Actual take-up of schemes 45
5.4 Externalities: housing markets and shared equity initiatives 47
5.4.1 Demand-side stimuli 47
5.4.2 Supply-side measures 48
5.4.3 Housing market impact on shared equity viability and attractiveness 49
5.5 Summary 51
6 INSTITUTIONAL AND INVESTOR CONSIDERATIONS 52
6.1 Lender perspectives on shared equity prospects in the Australian market 52
6.2 Product complexity, perceived risks and pricing loans 53
6.3 The lender/government interface 54
6.4 Investor considerations 55
6.5 Summary 56
7 CONSUMER ATTITUDES AND BEHAVIOUR 58
7.1 Existing research on customer attitudes towards shared equity 58
7.1.1 Awareness and initial appeal of shared equity concepts 58
7.1.2 Understanding the detail 59
7.1.3 The unknowns of shared equity and 'moving on' 60
7.2 Interviews with existing shared equity customers 61
7.2.1 Eligibility and applying for shared equity schemes 61
7.2.2 Living with shared equity 64
7.3 Summary 66
8 NEXT STEPS 68
8.1 Ongoing research focus 68
8.2 Design of focus groups 69
8.2.1 Feasible shared equity models for testing 69
8.2.2 Proposed sampling framework 71
8.3 Appraisal of potential and policy recommendations 72
8.4 Final considerations 73
REFERENCES 74
APPENDICES 82
Appendix 1: Research aims and questions guiding research scope 82
Appendix 2: Shared equity schemes, Australia 83
A2.1 Government-backed schemes (not all variant schemes covered) 83
A2.2 Private sector-led schemes 88

Appendix 3: Institutional investor perspectives 89
A3.1 Interviewees 89
A3.2 Issues covered by industry interviews 89
Appendix 4: Existing customer perspectives 90
A4.1 Existing customer profiles 90
A4.2 Existing consumer interview schedule 91

LIST OF TABLES

Table 3.1: Government shared equity loan products/schemes, Australia 23
Table 3.2: Eligibility criteria for selected shared equity initiatives 26
Table 4.1: Subsidy retention models (after Davis 2006, Jacobus, 2007) 36
Table 5.1: Ability to afford ownership based on 75/25 and 25/75 equity loan products, by tenure and existing/newly forming households in England 43
Table 5.2: Eligibility criteria, international comparisons 44
Table 8.1: Selection of members of focus groups 72

LIST OF FIGURES

Figure 2.1: Positioning shared equity approaches 11
Figure 3.1: Positioning Australian schemes in the shared equity continuum 22
Figure 8.1: Models for focus group discussions 70

ABBREVIATIONS

ACT	Australian Capital Territory
AHURI	Australian Housing and Urban Research Institute
ALP	Australian Labor Party
AMI	Area Median Income (US)
CAPIL	Capital Indexed Loan
CDC	Community Development Corporation
CLT	Community Land Trust
CORE	Continuous Recording
CSHA	Commonwealth State Housing Agreement
DCLG	Department of Communities and Local Government (UK)
DSJR	Department for Social Justice and Regeneration (Wales)
EFM	Equity Finance Mortgage
EOI	Expressions of Interest
EMRS	Enterprise Marketing and Research Services
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FANMAC	First Australian National Mortgage Acceptance Corporation
FHOG	First Home Owner's Grant
FTBI	First Time Buyers Initiative
HOLS	Home Opportunity Loans Scheme
HOME	Home Ownership Made Easy
HUD	Department of Housing and Urban Development (US)
IRL	Indexed Repayment Loan
LCHO	Low Cost Home Ownership
LGA	Local Government Area
LIHTC	Low Income Housing Tax Credits (US)
NMMC	National Mortgage Market Corporation
NSW	New South Wales
NT	Northern Territory
OMHB	Open Market Homebuy
OMHS	Open Market Homestake
SA	South Australia
SAM	Shared Appreciation Model/Shared Appreciation Mortgage
SEM	Shared Equity Mortgage
SHA	State Housing Authority

SHOS	Shared Home Ownership Scheme
UK	United Kingdom
US	United States
WA	Western Australia

EXECUTIVE SUMMARY

Background

Over the last decade we have witnessed a growing level of concern about the affordability of housing in Australia. In response to this concern, several states and territories have introduced shared equity initiatives, *inter alia*, to assist lower-income households into home purchase. However, few of the schemes are currently operating at what might be considered to be significant scale. Interest in expanding shared equity has been flagged in a six-point plan for addressing 'serious and entrenched housing affordability problems in Australia'. Under the plan, State and Territory Housing Ministers have called for a nationally coordinated shared equity scheme to be targeted to low- to moderate-income households who need assistance to purchase a home (State and Territory Housing Ministers, 2007).

The fragmented national policy response to declining access to home ownership to date has provided space for interest and innovation in shared equity financing and product development in the private sector. Shared equity presents an opportunity for financial institutions to develop new markets that could respond to declining affordability, as well as opening up a new type of mortgage structure. However, while interest has been driven by both government and market-led initiatives, the objectives of these sectors are likely to differ, as we discuss in this report.

The essential feature of shared equity models is that the consumer shares the capital cost of purchasing a home with an equity partner, thereby permitting households to buy into a home with lower income or equity than would be required otherwise. The approach is attractive potentially from several perspectives. Compared to conventional mortgage arrangements, shared equity can enhance affordability for home buyers by reducing both deposit requirements and ongoing housing costs. It may provide mortgage and investment industries with opportunities to expand into new markets. It may also provide equity investors with a more flexible opportunity to invest in residential real estate than through direct investment. Finally, it can provide government with the opportunity to lever in private finance either from individual households or capital markets to reduce the strain on already limited housing assistance programs.

However, these benefits have associated costs and risks. Schemes face relatively high transaction costs. Many of the initiatives require development of financial instruments with risk profiles that can be substantial if they are poorly understood or mismanaged. Risks for consumers primarily arise from unanticipated changes in house prices and interest rates. Risks for investors mainly arise from the uncertainties associated with the scale and timing of returns from the financing instruments employed. The viability and attractiveness of shared equity approaches will also depend upon favourable financial and housing market contexts.

Research objectives

This project focuses on the potential that shared equity has to provide a solution to affordability problems and the type and level of government assistance that will be needed to ensure specific objectives can be met. The challenging task of addressing the varied requirements, preferences and barriers faced by potential customers, lenders and investors – as much as meeting government policy aims – has been recognised from the outset of the study.

The key aims of the research are to:

- Increase understanding of the strengths and weaknesses of a range of shared equity models employed both in Australia and overseas;
- Identify consumer awareness/assessment of these products and consider these alongside of institutional and mortgage industry perspectives;
- Examine the constraints affecting the viability of shared equity models and the likely impacts of any widespread adoption on the wider housing system; and
- Identify the policy, regulatory and funding frameworks that will be needed to ensure their success.

Research focus

Although there is both public and private sector interest in shared equity, our research focuses on what we have termed policy-directed initiatives. This focus does not obviate the importance of having financing and market structures that will enable the successful development of all shared equity products. It also does not presume that policy-directed initiatives will be administered by government. (Alternatively, policy can provide subsidy and concessions and establish frameworks within which the financial and property markets can operate effectively.) However, it does indicate our interest in a targeted approach that is likely to be supported by public subsidy. Otherwise initiatives may act simply to stimulate demand, exacerbating affordability concerns.

Thus our core interest is in initiatives which:

- Facilitate access to home ownership for target groups that are defined by policy objectives;
- Are financially sustainable over the long term for the target groups for whom they are intended and promote mobility of those households by assisting in asset-building and wealth creation;
- Reflect consideration of a range of possible solutions based upon the distribution of risk and benefit to government, purchasers, finance providers and investors; and
- Reflect consideration of a range of possible solutions based upon different funding models and modes of stimulating new supply and preserving existing housing.

Our research findings so far point towards a tightly bounded set of parameters within which policy-directed shared equity models can operate efficiently and effectively. In terms of targeting, our approach follows the remit of government shared equity schemes currently in operation. Accordingly, we focus on those initiatives enabling low- to moderate-income households to gain a foothold on the property ladder.

This is probably the largest group of those for whom shared equity may be an option currently. It covers households in a variety of circumstances, including: younger first time buyers, previous owners who aspire to re-enter home ownership and those seeking to buy for the first time at a later life stage. Existing social housing tenants and eligible applicants who are unlikely to be allocated social housing are also included. A continuum of shared equity options are relevant to this target group potentially, from schemes that assist access (the predominant model to date in Australia) to those which seek to preserve ongoing affordability in the dwellings utilised.

This positioning paper presents an overview of our preliminary findings and identifies a number of key considerations for the next, largely empirical, stage of our research. The report draws on a comprehensive literature and policy review and interviews with

mortgage industry representatives, policy stakeholders and a selection of existing shared equity customers in Western Australia (WA), South Australia (SA) and the Northern Territory (NT). The report also outlines plans for a series of focus groups with potential customers across three states. These will explore key considerations, trade-offs and concerns with selected schemes in detail.

Preliminary findings

Findings from our interviews with lenders and existing customers have confirmed many of the perceived advantages and disadvantages associated with shared equity approaches that are noted in the literature. Our discussions also offer up-to-date contextual and behavioural insights that help to bring clarity to and frame areas of interest that are to be considered in the next stage of research.

Interviews with lenders and institutional stakeholders

→ Australia can be considered a market leader in shared equity product development and investment mechanisms that assume no direct subsidy.

→ Although they expressed cautious interest in shared equity, several lenders questioned its rationale. For some, shared equity products represent a complex response to well-understood 'market failures'. Traditionally, they have adjusted products and pricing to help those on the margins of home ownership within the market, rather than through 'quasi-arrangements' such as shared equity.

→ Identification of a targeted 'intermediate' market raises questions for lenders about whether it is a temporary market while prices are high, or a permanent market with temporary 'residents' who move through to the mainstream market.

→ Lenders reported concerns about risk to lender reputation and the costs involved in bringing products to market. Risks are seen to be heightened by uncertainty of loan behaviour and lack of track record with the products.

→ Lenders noted potential problems arising from any divergence between house price and income growth on a borrower's capacity to buy out the loan. This might constrain normal market mobility.

→ Several areas where greater government commitment would be required irrespective of particular policy goals or levels of subsidy were identified – for example, to facilitate scale, extend data and information sharing, and address taxation and regulatory matters.

→ There was some concern that policy involvement risked complicating product development. However, many lenders considered government participation appropriate, and necessary, as a means of 'cushioning' the added risks associated with home ownership for lower-income groups.

Interviews with existing customers

→ Satisfaction with schemes rolled out recently in WA and SA demonstrates the appeal of shared equity approaches to those struggling to get into the market. The longer-term experiences of NT customers provide a more tempered, but nonetheless positive, view of shared equity arrangements.

→ Schemes have allowed customers to purchase appropriate housing (within reason), suitable to their household needs. Many had to move out to areas where prices were more affordable, but generally being able to purchase through the open market (rather than being tied to specific supply) was valued.

→ Most interviewees felt that they would not have been able to purchase without assistance. However, it can be argued that some had met eligibility requirements

as a result of temporary circumstances, for example taking time out from the workplace. Nevertheless, these households faced barriers in terms of saving for a deposit, or would have faced unaffordable repayments in the open market. Such leakage is unlikely to be problematic where schemes aim to remove temporary barriers and promote opportunities to purchase.

- The complexity of shared equity arrangements is often identified as a barrier to consumer interest and scheme take-up. Our interviewees were able to explain how the concept of shared equity worked and what it meant for them. However, several felt less clear on the detail now than they thought initially.
- Current concerns related primarily to future uncertainty: understanding what happens when they come to sell or how they might meet obligations placed upon them by the scheme in time.
- Insights from longer-term customers touch upon the difficulties involved in appraising the relative attractiveness of shared equity arrangements as market conditions, household capacity and perceptions of the equity partner shift over time. What sounds fair at the time of entry into the market may appear less so when trends in the housing market fail to follow the assumptions upon which the relative appeal of shared equity arrangements depend.
- Ongoing perceptions are shaped more by future hurdles than benefits already acquired. Customers are more concerned about the part-share of the property they do not own than about the gains that they have made. This may raise issues of moral hazard and reputational risk for lenders and governments.

Identifying policy risk and benefits

Our initial findings reflect evolving interest in, and engagement with, shared equity approaches in Australia. There is a growing understanding of the potential role of shared equity and the opportunities it may provide, but also strong awareness of the challenges that are likely to be faced. Lenders retain a cautious interest despite product complexity and higher levels of associated risk. From a consumer perspective, although schemes have been on a relatively modest scale to date, thousands of lower-income Australians have been helped into home ownership through well-received state- and territory-led initiatives. Individual stories highlight the transformative effect on household wellbeing that these schemes can have, and help justify the role that they can play in tackling housing affordability problems.

Although concern is often expressed about policy exposure to market risk, governments have a longstanding pattern of intervention in the housing market to facilitate home ownership, utilising a wide range of direct and indirect mechanisms to do so. In this regard, policy interest in shared equity arguably is no more contentious than other forms of intervention. Nevertheless, the complexity of financing arrangements, the proposition to the consumer vis-à-vis other options, and need for tightly defined eligibility criteria, heightens the perception of the risks that are involved.

Mediating these risks can be seen as an integral component of government engagement. Policy interest and subsidy support can act to shoulder the added risk that such products may entail. Much of the attraction for all stakeholders depends on an assumption of longer-term property asset growth at least in line with general inflation, as well as a more or less benign economic and fiscal regime. Therein lie the major risks of shared equity as a mainstream housing option for households who are effectively priced out of the home purchase market otherwise. As the sub-prime mortgage crisis in the US has demonstrated recently, risks associated with securitised financial instruments can be substantial if they are poorly understood or mismanaged.

While this suggests the need for caution in policy involvement, it also highlights the pivotal role policy should play in providing more sustainable arrangements for those on the margins of home ownership – not being involved may well be more risky.

Following on from the findings presented in this report, our final report will provide an assessment of potential market demand for shared equity in Australia and offer our appraisal of the policy and regulatory levers that would be required to make shared equity a viable and attractive proposition. Together the two reports of the study will provide a critical perspective on whether further promotion of shared equity is viable and appropriate, given government priorities and prevailing market conditions.

1 INTRODUCTION

1.1 Background

This report is the first output of an AHURI-funded research project, which aims to provide a comprehensive appraisal of the appropriateness and potential for shared equity approaches to assist Australian lower-income households into affordable home ownership, with a focus on the role of government.

The past decade has witnessed a growing level of concern over the affordability of Australian housing. This concern has been manifest in escalating property values especially, but not exclusively, in the capital cities. A growing gap between house prices and household capacity to pay (as measured by household incomes) has been one of the biggest threats to the performance of the national economy over this time (Berry, 2006). While the average Australian home cost four times the average Australian household annual income in 1996, this had risen to seven times in 2006 (ALP, 2007). Moreover, this decline in affordability generally has been accompanied by increasingly limited housing options for lower-income working households.

Explanations of changing patterns of housing affordability include acknowledgement that different lifestyle preferences and family formation rates have altered typical housing careers (Beer et al., 2006), as well as highlighting the impact of cyclical fluctuations that are endemic to housing markets. However, there is now substantial evidence to suggest that declining affordability of home ownership for a large number of low- and moderate-income Australians is a structural, rather than a cyclical, problem (Yates and Milligan et al., 2007). It is not our intention to substantively re-rehearse this evidence in the context of this research. Similarly, there is a long research tradition (complemented by policy interest more recently) that articulates the potential social and economic benefits, but also the risks, of promoting access to home ownership. (For a discussion of benefits see Baum and Wulff, 2001, 2002; Bridge et al., 2003; Merlo and Macdonald, 2002. Risks are considered by Davis, 2006; Kemeny, 1981; Saunders, 1994 and Troy, 1996.) Again, we do not revisit these arguments in detail here[1].

Despite growing recognition of the impacts of declining housing affordability, national housing policy has remained in stasis over the past decade, with the exception of the introduction of First Home Owner Grants in July 2000. In the absence of federal interest, many state and territory housing agencies have initiated alternative approaches to assist lower-income Australian households into home ownership, including the use of shared equity models that are the focus of this research. Shared equity approaches also have attracted the attention of financial institutions seeking to develop new products and new markets. As a result, shared equity has emerged as a key response to the housing affordability crisis, with interest being driven from both state/territory governments and the private sector.

The essential feature of shared equity models is that the consumer shares the capital cost of purchasing a home with an equity partner, thereby permitting households to buy into a home with lower incomes or equity than would normally be required. The approach can be seen as an attractive proposition from a number of perspectives. Compared to a more conventional mortgage, it can enhance affordability for home buyers by lowering both deposit requirements and ongoing housing costs. It may

[1] The research takes as its starting point recognition that home ownership and aspirations towards home ownership are key characteristics of most housing systems in developed countries, rather than making judgements about the superiority or inferiority of other tenure classes.

provide mortgage and investment industries with opportunities to expand into new markets. It may also provide equity investors with a more flexible opportunity to invest in residential real estate than through direct investment. It can provide government with the opportunity to lever in private finance either from individual households or capital markets to reduce the strain on already limited housing assistance programs.

These benefits, however, have associated costs. There are high transaction costs involved and many of the initiatives require development of financial instruments with risk profiles that can be substantial, if they are poorly understood or mismanaged. Risks for consumers arise primarily from unanticipated changes in house prices and interest rates. Risks for investors arise primarily from the uncertainties associated with the returns from the financing instruments employed. Additionally, Whitehead and Yates (2007) point to the need for an appropriate regulatory and administrative framework for the successful development of shared equity products.

The viability and attractiveness of shared equity will also depend upon favourable financial and housing market contexts. Much of the attraction of shared equity for potential customers, lenders, investors and governments lies in an assumption of longer-term residential property asset growth at least in line with general inflation, as well as a more or less benign economic and fiscal regime. In the longer term, it also assumes an efficient and effective secondary market so that equity from a portfolio or bundle of dwellings with different risk profiles can be packaged and sold to investors (Whitehead and Yates, 2007). Therein can be found the major risks of shared equity as a mainstream housing option for households who are otherwise priced out of the home purchase market. As the sub-prime mortgage crisis in the United States has shown recently, risks associated with securitised financial instruments can be substantial, if these are misjudged or not managed effectively.

Policy commitment to the expansion, facilitation and regulation of shared equity markets and schemes will be required, whether approaches are government or private sector-led and subsidised or unsubsidised. However potential policy settings are complicated by several factors. These include: the need to recognise that different housing market contexts may respond to such initiatives in different ways and demand different approaches; the need to define and enforce appropriate targeting to avoid the high risk of leakage and displacement; and the need for consistency and scale in order to gain a critical mass for investment market interest and to offer a sound product for consumers.

1.2 Research objectives

This project has a number of interrelated objectives. From the outset, the challenging task of addressing the varied requirements, preferences and barriers faced by potential customers, lenders and investors – as much as simply meeting government policy aims – is recognised. There is little value in advocating products that perform admirably against certain criteria but are limited severely against others. Products which excel in terms of facilitating policy objectives and are popular with customers will not succeed if appropriate lender and investor requirements cannot be established, and vice versa. As such, the research incorporates perspectives from the wide range of stakeholders involved, and provides a framework which takes into account broader policy and market implications associated with the introduction of shared equity initiatives.

The research aims to:

1. Increase understanding of the strengths and weaknesses of a range of shared equity models employed both in Australia and overseas from the perspective of consumers;
2. Identify awareness and assessment of these products alongside institutional and mortgage industry perspectives;
3. Examine the constraints affecting the viability of shared equity models and the impact on the wider housing system of any widespread adoption; and
4. Identify the policy, regulatory and funding frameworks needed to ensure their success.

These broad themes give rise to a more detailed schedule of exploratory questions (see Appendix 1)[2].

1.3 Structure of report

1.3.1 Positioning paper

This positioning paper provides much of the background data needed to address the first three of the broad themes of the study and to enable us to give initial consideration to the fourth theme. It draws upon a comprehensive literature and policy review into shared equity approaches both nationally and internationally, and offers a preliminary overview of findings from interviews with mortgage industry representatives, policy stakeholders and a selection of existing shared equity customers in Western Australia, South Australia and the Northern Territory. Many of the preliminary results from the research undertaken to date are reported here. The most relevant of these will be drawn upon again in the final report for the project. The positioning paper also outlines the additional research that is to be undertaken to help inform the final report, including a series of focus groups to be conducted with potential customers across three states. The focus groups will explore in detail key considerations, trade-offs and concerns with selected schemes.

This report comprises eight chapters including this introduction. In chapter two, definitions of shared equity and its variants are discussed and clarified. Here we draw upon recent work by Whitehead and Yates (2005, 2007), Davis (2006) and Jacobus and Lubell (2007) to explore the core characteristics that underpin shared equity approaches, identify advantages and disadvantages, and position the rationale for policy interest. In particular, we are interested in how different policy foci act to shape specific characteristics and differences between approaches – for example, through the level of subsidy provided and through arrangements for how, and to what extent, that subsidy is to be recouped.

Chapter three provides a brief contextual overview of shared equity policy and scheme development in Australia. Our starting point is to examine the legacy of low start home loan schemes which emerged in a number of states in the mid-1980s and ran until their demise in the first half of the 1990s. The chapter goes on to consider current government- and market-led initiatives that have spearheaded Australia's re-engagement with shared equity approaches. This is followed by international insight of shared equity initiatives in chapter four, with a focus on the UK, US and Netherlands experience.

---

[2] Many of these exploratory questions cut across two or more of these broad themes, and a number can only be addressed after our fieldwork is completed. Therefore, our initial report presents mainly background material for each theme. Our final report will bring this information and the empirical research together to address all the themes systematically.

Shared equity is recognised as an inherently complex policy area in chapter five. Policy makers need to have a robust assessment of the potential demand for and scale of possible schemes. Eligibility criteria that will help to shape the targeting and take-up of limited public resources need to be determined and any government support and/or subsidy justified. Policy makers are also interested in assessing the potential externalities and adverse impacts that a new intervention may have on existing housing market conditions or other related policy areas.

In chapters six and seven, we go beyond a review of existing literature and the analysis thus far by presenting empirical findings from the first stage of the project. In chapter six, perspectives from financial institutions and lenders are considered, drawing from beneficial interviews with several leading stakeholders. Chapter seven highlights issues that need to be considered from the perspective of the customers or potential customers of shared equity schemes. How consumers understand and become aware of schemes, how they perceive their advantages and disadvantages, and how their views change over time are considered, using the findings from interviews with a sample of existing customers. The spatial and temporal variation that we found is particularly instructive, as it provides pointers to how the relative attractiveness and viability of schemes is sensitive to (different) housing market contexts.

In the final chapter (chapter eight), the objectives for the second stage of this research are clarified and our proposed methodological approach to that stage is set out.

1.3.2 Final report

The final report will bring together perspectives from our research with consumers, lenders, public officials and other stakeholders in the housing finance industry to inform our considerations of the potential application of shared equity approaches in Australia and identify desirable roles for federal and state/territory governments within that application. Our assessment and discussion of policy implications will focus on two key areas: the market conditions and regulatory and funding frameworks that will be necessary for shared equity to be viable, and the potential impacts that such products may have on other areas of government policy interest and activity. The final report will also consider in broad terms costs and benefits of government involvement in and promotion of shared equity schemes.

Together these two reports of the study will provide an up to date and critically developed perspective on whether further promotion of shared equity is appropriate and desirable to address housing affordability concerns, and whether it is viable given government priorities, current market conditions and what is known about the performance and costs and benefits of such schemes.

2 DEFINING SHARED EQUITY AND DETERMINING POLICY INTEREST

2.1 Introduction

In this chapter, we clarify how shared equity and its key variants are defined and applied in this research. Models which fall under the umbrella of 'shared equity' encompass a complex range of both government-backed and private sector-led approaches, as well as having different subsidy levels and policy goals. Advantages and disadvantages associated with different shared equity approaches are introduced (to be explained in more detail throughout the report) in order to establish the rationale for policy interest in supporting and fostering the development of such initiatives and products. Following this we clarify the focus of our interest in this research: government-backed (and typically) subsidised shared equity approaches targeted towards assisting low- to moderate-income households to access and sustain affordable home ownership. The potential of such models to contribute also to broader, more strategic responses to affordable housing provision and retention is flagged. The chapter concludes by discussing examples of 'innovative finance', for example rent-buy schemes, which may share some of the potential market but not necessarily the principles of shared equity models and so are not included further in our study.

2.2 What is shared equity?

Providing a clear and undisputed definition of shared equity is a challenge, not least because the literature itself struggles to apply consistency to an innovative product arena evolving in varied market and policy contexts. At one level, this lack of agreed terminology points to the complexity of the products involved and the varied housing systems and policy frameworks within which they operate. At another, absence of agreed meanings may lead unhelpfully to a loose adoption of terms across approaches that are quite distinct in their goals, impact, funding and product characteristics[3]. Pragmatically, it suggests that labels are perhaps less important than understanding the principles which underlie shared equity relationships and how these come together to define product characteristics in various ways.

Shared equity as used in this research covers the range of products, schemes and initiatives which "enable the division of the value of a dwelling between more than one legal entity" (Whitehead and Yates, 2007, p. 16). This umbrella term is used to encompass government-backed- and private sector-led, subsidised and unsubsidised, schemes which are based on an arrangement whereby the purchaser (herein referred to as the *primary owner*) enters into an agreement with a partner to share the cost of purchasing a property. Distinguishing features between different products and schemes can be considered in terms of factors that shape these partnership arrangements, for example:

- how rights and responsibilities are divided between the primary owner and partner;

[3] Jacobus (personal communication) suggests it is unhelpful that private-sector-led shared equity and government-backed shared equity schemes use the same language since they are quite different vehicles from a policy point of view. Common terminology leads to an inference that the same mechanism is being used to solve what are two different problems – in the case of private-sector led products, the adjustable rate mortgage problem, and in the case of public-led schemes, the affordable home ownership problem.

- how value in a property is divided between the primary owner and partner. Partnership may take one of many forms, with different models shaped by how both risk and exposure to equity growth or loss are shared; and
- whether public subsidy is provided, the policy objectives tied to this subsidy, and expectations regarding subsidy preservation or recoupment.

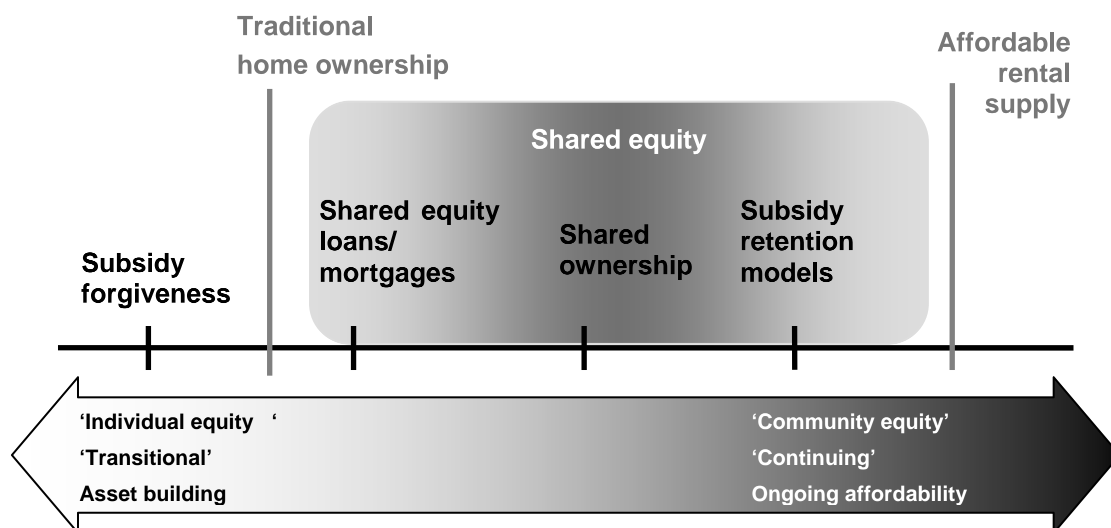
Different partnership arrangements ensure that shared equity approaches, and how the market views those approaches, take diverse forms. This can be conceived as a continuum of approaches geared towards facilitating access to home ownership that seeks to balance two arguably competing objectives (Jacobus and Lubell, 2007; Whitehead and Yates, 2005):

- Helping consumers gain a foothold on the property ladder and facilitating asset accumulation by the primary owner ('transitional' arrangements).
- Protecting affordable home ownership opportunities and preservation of supply ('continuing arrangements').

While the first objective aligns with current policy-directed, government-backed schemes in Australia, for this research we are interested in exploring the potential application of models which can contribute to both aims. Figure 2.1 adapts Jacobus and Lubell's continuum[4] to indicate where different shared equity arrangements can be positioned. As a means of teasing out broad approaches seen at different points along this continuum, three types are identified:

- shared equity loans/mortgages;
- shared ownership; and
- subsidy retention models.

Figure 2.1: Positioning shared equity approaches



(Adapted from Jacobus and Lubell, 2007)

2.2.1 Shared equity loans/mortgages

Shared equity loan arrangements are typically, but not always, in the form of mortgages. They comprise a first mortgage taken out by the primary owner on a proportion of the full cost of the property, and a second, subordinate loan, set against

[4] Which in turn draws upon the typologies developed by Davis, 2006.

the remaining portion of that cost. Sometimes the secondary 'loan' may take the form of a covenant deed (as is the case in Western Australia's government-backed *First Start* loan). Either way, this second element, held by the partner, represents an equity share in the property for the loan period, which may be recouped alongside a share in capital appreciation at the time of sale. Determination of return on the equity share is dependent on the nature of contract between the primary owner and partner. In some cases, any equity gain (or loss) is shared relative to the proportion of equity held at purchase. Thus if the partner held 25 per cent, they would be eligible for repayment of the original capital plus a quarter of any price uplift. Alternatively, the equity share may have an interest rate attached in lieu of interest on the second mortgage. Other approaches may involve a reduced interest charge in order to provide a minimal 'rental return' to the investor.

There is an expectation that consumers will buy further equity tranches and progress to full ownership over time. Until recently, the primary mortgage taken out has been for a large majority of the total property value (typically 70 per cent+), although a number of government-backed schemes have reduced this as a means of bringing affordable home ownership into the reach of a broader target group.

The provider of the primary mortgage has 'first call' on the property, which is important as clarity is required regarding rights to foreclose on the asset if repayment concerns arise. In effect, the second mortgage acts as a sizeable deposit on the property, mitigating risk for the provider of the primary loan. Equity loan approaches have been the predominant approach in Australia to date. They help facilitate access to ownership and typically promote individual asset gain. However, they provide less opportunity for protecting affordability over time than subsidy retention models, since any benefits of appreciation are extracted by the borrower and the lender. However, where the government or government agency acts as partner, policy design can ensure that gains made through their 'share' can be reinvested in housing assistance programs.

Much of the literature distinguishes 'shared equity' and 'shared appreciation' mortgages (SAMs), although in a sense all equity-based loans involve the principle of sharing appreciation at the time of sale. The latter term is often used to refer to unsubsidised private sector-led models where a disproportionate share of capital gains may flow to the partner. Early versions that emerged in the 1980s in the UK and the US led to moral hazard and reputational risk following rapid house price growth in the 1990s, which provided very large returns for equity investors compared to owners. Proponents of current private-sector models are at pains to distinguish themselves from the SAMs legacy (Caplin et al, 2007; Rismark, 2007), but arguably these models are not driven principally by affordability objectives. The distinction has value, however, in that the products tend to be seen as different, with different targets and risk profiles in an institutional and market context.

2.2.2 Shared ownership

The terms 'shared equity' and 'shared ownership' are sometimes used interchangeably (see Whitehead and Yates, 2007)[5]. A distinguishing characteristic claimed for shared ownership is that owners make repayments on the mortgage component, but pay rent on the remaining portion[6]. Drawing a distinction between

[5] While not necessarily the case in Australia, the terms are used to distinguish between different models in other countries, particularly in the UK.

[6] The amount of rent paid under such arrangements is comparable to payments made on interest-bearing equity loans (based on similar cash flow models) – that is it may represent a 2% to 4% charge on that portion.

these models helps to highlight the fact that the driving objectives and allocation of risk between parties are different. In many regards, shared ownership represents a particular policy response that combines the characteristics of shared equity mortgages (above) and subsidy retention models (below), and thus embodies a product-mix that sits approximately midway along the continuum.

According to Whitehead and Yates (2007), shared ownership represents an early approach to shared equity, which evolved from the public housing sector providing opportunities for existing tenants to own a part-share in their homes or developing new supply to be sold on a part-share basis to selected target groups. In the UK, where this model remains particularly important, the partner traditionally has been a housing association. More recently developers, such as Assettrust, have offered schemes outside the normal social housing sector, drawing on government subsidy.

A key differentiating characteristic of shared ownership vis-à-vis shared equity loan arrangements rests in the partner's ongoing interest in the property at the time of selling on. As with shared equity schemes, shared ownership traditionally has enabled primary owners to 'staircase'[7] their equity share in tranches to outright ownership when they wished to, at a price based on market values at that time. However, partners take a greater interest in the property at the time of sale, for example in agreeing on the sale value, in having first right of refusal on buying the primary owner's share, and in determining the conditions of on-sale to any identified target groups. In this regard, shared ownership models provide a means of retaining subsidy in the actual property if the primary owner has not acquired full ownership by the time of sale.

Therefore shared ownership enables primary owners to gain from market growth, as is the case with shared equity mortgage arrangements, but also provides a mechanism by which to retain subsidy and preserve affordability in that property. Assessments of the advantages of this model need to be balanced by the complex on-sale arrangements, especially where primary owners who have not achieved 100 per cent equity are faced with trying to sell their part-share in the open market.

2.2.3 Subsidy retention models

Shared equity and shared appreciation mortgages (and, to a lesser extent, shared ownership) offer approaches largely predicated on market growth as a means of facilitating asset building for individual households. Although a proportion of public subsidy can be recouped by the provider for reuse in subsidised programs under conducive market conditions, gains can be seen to accrue disproportionately to the primary owner at the expense of recouping a 'fairer share' of that initial subsidy to help preserve ongoing affordability or 'community equity'.

Models which seek to retain greater control over public subsidy reflect a longstanding component of affordable housing preservation and new supply in the US and Canada, and have attracted increased interest in the UK recently. While subsidy retention models are based in principles of equity sharing, they are predicated on the 'community's' share of the equity staying with the actual home, which acts to reduce the cost to the next buyer (Jacobus and Lubell, 2007).

Common models include deed restricted housing, community land trusts and limited equity co-operatives. In these models the partner takes a more substantive ongoing

[7] The term 'staircasing' is commonly used to describe the ability for purchasers to acquire further increments from the partner under shared equity arrangements. A minimum amount is typically stipulated (for example 5%), and the cost of that increment will be at prevailing market values. Staircasing suggests that households will 'step up' to full ownership through purchasing chunks of further equity over time.

role. Subsidy is retained through limiting the ability to sell properties on the 'open market', for example through applying pricing formulas. Such arrangements offer opportunities to target supply at households with lower incomes than would be required otherwise to support an equity loan. Contracts may specify standards of maintenance and occupancy, or include covenants which identify attributes of any prospective purchaser (for example, the right to select according to eligibility criteria) and the terms and conditions of equity transfer. With the share of equity gain often tied to pre-determined criteria and household income levels rather than actual market behaviour, arrangements at the time of sale can be considered complex. The rules and operating requirements also call for strong local organisation and appropriate regulatory structures to ensure compliance.

2.2.4 Subsidy forgiveness

Programs based on subsidy forgiveness (a fourth component of the typology identified by Jacobus (2007) in his continuum of strategies for preserving affordable home ownership) are not considered forms of shared equity and, therefore, are not the focus of this research. Nevertheless, it is important to note that this is the principal lever currently used in Australia to promote access to home ownership for first time buyers, for example through First Home Owner Grants and stamp duty concessions. This approach has also been used in past initiatives to stimulate low-cost home ownership, such as in schemes that offered land price discounts or mortgage interest rate subsidies.

2.3 Advantages and disadvantages of shared equity

All shared equity approaches reflect a reworking of the normal rights and responsibilities between primary owner and finance provider. Under most shared equity loan and shared ownership models, the primary owner retains the right to buy further increments (to 'staircase') or to determine the time when they move, and has the right to make improvements to the property. In return, they assume full responsibility for maintenance of the home and for all rates, insurance requirements and other costs associated with their occupancy (rather than a proportion based upon their equity share). The partner is typically considered to have a 'passive' role (at least until the time of sale) but inevitably retains a degree of interest over the property which would not be present under normal mortgage financing arrangements.

2.3.1 Policy benefits and disadvantages

We have already touched upon the advantages of engagement from a policy perspective. Shared equity approaches offer a potential means of addressing housing affordability constraints, especially for first time buyers priced out of the property market. This can help relieve the immediate strain on already limited assisted housing programs. It also promotes the wider ownership of property assets among a group of lower-income households that, in turn, may reduce reliance on welfare in later life, among other perceived benefits. More broadly, shared equity approaches may provide a framework to modernise government commitments to social and affordable housing provision and retention, offer a means of levering in more, and more appropriate, forms of affordable housing for a given quantity of public expenditure, and protect government subsidies and increase their efficiency over the longer term. The provision of subsidy provides a rationale for government to shape the targeting, scope and direction of schemes. Nevertheless, policy design is challenging, as discussed throughout this report.

2.3.2 *Lender/investor benefits and disadvantages*

Shared equity approaches provide opportunities for mortgage lenders to expand into new markets and to create a new investment product that gives access to residential property equity growth. For the equity investor, shared equity offers the opportunity to invest in residential property using a variety of methods that have varying risk and return profiles. Inevitably, there are also disadvantages. Notably, shared equity products are inherently more complicated than conventional mortgages, typically leading to higher transaction costs. Financing structures are more complex than 'normal' loan arrangements, borrowers are considered more 'risky', and there is greater uncertainty regarding term and redemption profiles. Additionally, equity sharing by definition means that the ability of households to build wealth through their property asset is constrained, which may lead to difficulties for investors (and residents) downstream.

2.3.3 *Consumer benefits and disadvantages*

Advantages for the primary owner include reduced cost of entering the market: typically the equity share held by the partner contributes the main component of any deposit. Secondly, ongoing mortgage costs are reduced. Even where the arrangement involves a rental or interest-bearing component, overall housing costs typically are less than would be required on mortgage repayments for the total value of the property. Thirdly, the benefits of home ownership are generally enjoyed, bar the owner occupant having full rights to any equity gain. Thus by reducing both entry and ongoing housing costs, shared equity can reduce the risk of households stretching budgets and having to dedicate too great a proportion of their income towards their housing costs.

Shared equity arrangements can provide an effective means of mitigating risk for more marginal owners by sharing this risk with institutions better able to bear it. Sharing equity with a partner also reduces exposure of a household's wealth within a single asset class, potentially shielding them from substantial levels of house price risk (for example, situations of negative equity) and enabling more diversified investment, for example into superannuation. Disadvantages principally centre on having to share capital gains and, in the case of unsubsidised products, higher loan costs over the long term.

2.4 The research focus

2.4.1 *Targeting initiatives to meet policy objectives*

Our main focus in this research is policy-oriented, government-backed schemes and initiatives rather than private sector products that are less explicitly tied to affordability goals. Government interest and involvement underpin the operation of shared equity approaches in a variety of ways: in providing supportive policy and regulatory frameworks, in building assurance and confidence in the sector, and through the provision of subsidy. As a means of mediating increased risk to lenders, investors and consumers, and promoting commitment in an emergent market sector, it can be argued that policy interest is central to achieving viability and to ensuring that products can be sufficiently attractive to all interested parties.

Although policy approaches can help to create a conducive environment for the market itself to deliver products which support policy goals, funding underpins the extent of this influence. Support through subsidised initiatives in effect 'buys' government a say in the use of that subsidy to achieve its policy objectives. Our focus is on initiatives which:

- Facilitate access to home ownership for target groups as defined by policy aims and objectives;
- Are financially sustainable over the long term for the target groups for whom they are intended and promote mobility of those households by assisting in asset-building and wealth creation;
- Reflect consideration of a range of possible solutions based upon different funding models and modes of stimulating new supply or preserving existing affordable housing; and
- Offer a range of possible solutions based upon the distribution of risk and benefit to government, purchasers, finance providers and investors.

Within these parameters, more specific target groups where policy interest might be directed can be considered. Reflecting current practice both in Australia and internationally, our original research plan identified a variety of potential target groups:

- First-time buyers having difficulty accessing home ownership but who had prospects of sustaining ownership over time. This group could include existing and prospective social housing tenants;
- Stretched existing home owners struggling to meet mortgage obligations, for whom a reduction in ongoing monthly payments in return for shared equity arrangements would be beneficial;
- Older home owners for whom equity release could enable them to sustain home ownership and 'age in place', for example by releasing funds for essential repairs or care at home. Policy interest in this regard differs from market-led products where terms may be punitive or the released funds used principally for consumption purposes; and
- For renters and existing owners in neighbourhoods undergoing regeneration and renewal. In this context, shared equity products can be used to enable existing residents to remain in regenerated neighbourhoods by trading 100 per cent property ownership for shared equity arrangements.

Existing Australian initiatives predominantly focus upon the first of these four groups, although some also provide mechanisms to assist home owners in the second and third groups who are at risk of losing their homes due to life-changing circumstances, such as divorce. These groups (with emphasis on the first) are the primary interest of our research. Our interest also extends to considering the potential of models along the shared equity continuum to be geared towards providing stability for occupants and preserving affordability, rather than necessarily supporting movement to full ownership. The fourth group is the target of an innovative application of shared equity overseas but is perhaps less relevant in the immediate Australian policy context. Nevertheless, this application should remain as a watching brief and be considered further if urban renewal moves up the housing policy agenda.

2.4.2 Working jointly to help deliver policy-focused initiatives

Although there has been a re-emergence of private sector-led, unsubsidised schemes in recent years, the market has not embraced shared equity on any scale of its own volition. Where products have been developed, typically they are not tied explicitly to the provision of affordable housing, or targeted towards particular groups, and there is a risk that such initiatives simply fuel demand in the short term rather than address structural concerns. Caution directed towards such schemes should not equate to dismissing the pivotal role that the private sector will need to play if shared equity is to expand and extend its potential application.

Developing better financial frameworks that will enable shared equity products to behave and generate the return lenders and investors require and expect is the key to building scale in the market. In the UK, partnerships with lenders and developers have been seen increasingly as central to delivering initiatives. Partnerships enable lender, investor and institutional considerations and expertise to inform directly the development of viable products and the efficient use of public subsidy (HM Treasury/DCLG, 2006). Similarly in the US, a patchwork landscape of policy levers, often in the form of tax breaks and investor incentives, has necessitated cooperation and engagement between government and the funding community. In these contexts, policy establishes the frameworks, underpinned by a level of subsidy commitment, within which the market and developers can lead.

In the Australian context, government-backed schemes have not developed entirely without lender and institutional engagement. However, it can be argued that this interface has been more constrained. In part, this may reflect the more self-contained nature of government agencies, such as Homestart and Keystart, that have dual roles as subsidy administrators and mortgage providers in their jurisdictions. Although this model has provided a robust and reliable basis through which innovative products can be delivered on a selective basis, it may have limited wider engagement and involvement of the finance and lending community in developing the potential of private-sector viable/policy-directed shared equity approaches. Indeed, to date it has been the private-sector – operating in the absence of a wider, national policy steer and not dependent on public subsidy – that has led, for example, with innovation in building viable mechanisms for securitisation and operating a secondary market in equity loans that will be of interest to investors.

Establishing joint working relationships between governments and the private sector will be important to future developments in government-backed and private sector schemes alike. Therefore, we argue that it is not a simple case of distinguishing between 'government' and 'market' schemes.

2.5 Innovative financing schemes not covered in this study

Although we have shown that shared equity approaches encompass a range of possible products and forms of relationship between primary owner and partner, there is a need to distinguish between shared equity products and other non-conventional, home financing options already available or being considered for the market. This is a difficult distinction to draw, particularly given our interest in customer perspectives. Although clear differences can be highlighted between, for example, shared equity models and rent–buy agreements (see below), without clear policy framing such products may well be bundled together in the marketplace and by prospective customers.

One non-traditional market-led approach that has gained a significant foothold in Australia has been the use of equity release or reverse mortgages. Technically, these can be considered shared equity instruments, enabling 'asset-rich, cash-poor' owners to realise some of their capital gains while remaining in their homes. In some instances, they may take the form of a new or secondary mortgage. However, where households – and particularly retirees – are not in a position to make ongoing payments against that loan, or do not wish to do so, loan arrangements can be entered into whereby the provider receives their return from a disproportionate share of equity at the time of sale. The impacts of reverse mortgages, and in particular their implications for retirement decisions, are the focus of forthcoming research to be undertaken by the AHURI Sydney Research Centre and so will not be considered in detail in this study.

Schemes which potentially target a similar market to shared equity models but are not considered under the shared equity umbrella in this study include:

- Co-ownership or 'tenants in common' models, where new loans enable friends to purchase together, or family assistance to be provided to children to get onto the housing ladder. Such schemes do not respond necessarily to a particular policy objective, nor do they change fundamentally the balance of risk and benefit between borrower and lender; and
- Rent-to-buy schemes for private renters, examples of which in the Australian context are Easy Houses, Option2Buy, We Buy Homes, Rent to Buy Your House and Rent to Own Home. The structures of these programs broadly are similar. They allow the purchase of a specific property offered for rent–buy, or self-selection of a dwelling on the open market, for which a lease purchase agreement is then signed[8].

While such products offer potential access to ownership and a means of being able to move to a desired property or neighbourhood without having to save a deposit, they represent a high level of risk. Customers are tied into agreements that may turn out to be highly unfavourable at the time of 'exchange' and less affordable than their previous arrangement. In some schemes, defaulting on payments will risk loss of homes and all contributions made towards the deposit to date. Although such products suggest a form of equity sharing, rights are typically held solely with one party. Rather than providing a sustainable, affordable solution, there is concern that such products place those with affordability constraints in less than affordable circumstances.

[8] A lease purchase allows the consumer to rent and occupy the property while having a contract to purchase the property for a set amount at a predetermined time in the future. The term of the lease purchase agreement can vary from 12 months to seven years, depending on the company. Generally, the rent paid on the property is higher than market rents as it includes 'rental credits'.

3 THE EVOLUTION OF SHARED EQUITY INITIATIVES IN AUSTRALIA

3.1 Introduction

Australian governments have a long history of involvement in promoting home ownership. Policies supporting home ownership were emerging at the beginning of the 20th century and direct government lending for home purchase was initiated by both national and state governments in the early decades of that century, predating by many years the first national housing agreement, the Commonwealth State Housing Agreement (CSHA), which was introduced in 1945[9] (Dalton, 1999). From 1955, the CSHA became the key vehicle for extending home ownership to lower-income households. Initially this expansion occurred mainly through the construction of housing by state housing authorities for sale to tenants at concessional prices and borrowing rates[10]. After the sale of public housing on a concessional basis had ceased in the 1980s, a range of new initiatives for home purchase began to emerge under the CSHA.

While the source of funds for state home lending schemes in the 1980s was initially budget based, a rapid shift to harnessing private finance occurred. This was driven by a mix of demand and supply side factors including growing demand for home purchase assistance, constraints on government lending imposed by Loan Council borrowing limits and the scarcity of budget funding, and changes in mortgage financing opportunities, such as the development of secondary mortgage markets (Yates and Flood, 1989). Later, these new directions were given added impetus by several factors, including: the deregulation of home lending which created greater uncertainty of interest rates and therefore put marginal borrowers at greater risk; rising inflation and a consequential deterioration in housing affordability; and a shift in emphasis under the 1989 CSHA to the provision of rental housing, but with endorsement for financing home ownership schemes 'off budget' (Milligan and Persson, 1989; Milligan, 2003).

This chapter provides an overview of the development and current provision of shared equity products in Australia. In so doing, it starts by placing recent developments in the context of what was, for some states at least, the last round of schemes supporting low-income home ownership. The fallout for consumers, investors and governments from subsidised home purchase schemes continues to influence engagement, and the geography of that engagement, in such initiatives. This legacy underpins consideration as to whether the interest in shared equity approaches emerging now can be structured to achieve public policy objectives in ways that entail less political and financial risk than past assistance schemes that had similar objectives.

Following this discussion, we outline recently instigated and emerging schemes led by state and territory governments. These schemes share significant similarities. However, they also reflect distinct local objectives and market characteristics. Next we discuss private sector-led products, where Australia can be considered a market-leader, in particular Rismark-Adelaide Bank's Equity Finance Mortgage (EFM) launched in 2007. Although our research is focusing on policy-directed (and mostly

[9] In the 1940s, government loans – a combination of Commonwealth initiated war service loans and state bank loans – represented 20 per cent of all outstanding home loans in Australia (Dalton, 1999).

[10] An indication of the scale of this program is given by the fact that around 720,000 dwellings were build on sold to tenants by state housing authorities between 1945 and 1981 in Australia (Milligan, 2003, p. 83).

subsidised) initiatives, this does not of course preclude assessment of issues faced by and, more importantly, innovation demonstrated by these private-sector led schemes. A review of shared equity approaches and issues arising internationally follows in chapter 4.

3.2 The legacy of low-start loans

In the mid-1980s and early 1990s, most states ran home purchase schemes, providing 'low-start' loans where repayments were "indexed to inflation, tied to income or set to increase at a predetermined rate" (Commonwealth of Australia, 1991, pp. 17–18). These public policy instruments were designed to "increase the borrowing capacity of low-income earners to a greater extent than has been possible through the private sector, partly because of the use of subsidies…[and] the greater willingness to accept the risk embodied in the public sector instruments" (Commonwealth of Australia, 1991, p. 19).

Although shared ownership arrangements were also available in the portfolio of products offered by states at that time[11], it is the legacy of the low-start loan initiatives that underpins the varied and cautious re-engagement with 'innovative' home financing arrangements more recently. South Australia, Western Australia and the Northern Territory have continued to offer 'assisted' government loans and have been the most proactive in the development of shared equity initiatives. However, those states where the fallout from low-start loans was felt most – NSW, Victoria and Queensland – have been more reticent.

A number of factors contributed to the collapse of these programs. Timing was crucial, with schemes gearing up just as personal economic circumstances of borrowers and, more broadly, conditions in the Australian economy were beginning to worsen. The recession of 1991-92 "meant many borrowers lost their employment, yet their fixed interest rates remained high as the overall level of home loan rates fell" (Wearing, 1995, p. 212). Although a safety net was put in place where repayments rose about 30 per cent of income, borrowers were faced with the prospect of attempting to meet escalating repayments on loans at a time of a slowdown in wages growth (NSW Legislative Committee, 1994, p. 132).

The structure of the loans themselves exacerbated the difficulties experienced by households. In the context of NSW *HomeFund*, but relevant to other schemes, Freeman (1991) notes that the repayment structure was only really suitable for applicants who expected their income to increase over time, such as recent professional graduates. Under the reduced repayment regime, unpaid interest was amortised onto the mortgage principal, adding to the cost – and the term - of the loan. Furthermore, negative amortisation in the first stages of a low start loan meant that borrowers accumulated debt and negative equity was a significant risk. While the opportunity for penalty-free refinancing out of the loan and into more mainstream products existed, the 'lack of equity [acted as] an effective bar to refinancing' (NSW Legislative Committee, 1994, p. 125). Some had no choice but to sell their houses at a time of falling house prices.

Similar reflections were provided by Knowles regarding Victoria's *Home Opportunity Loans Scheme*, pointing to the need for both continued growth in property values and in the individual borrower's financial position for the scheme to operate as intended (Knowles, 1992). Accordingly, these loans were not well-suited to those with relatively

[11] For example, in *HomeFund State Partnership scheme* in NSW, the *Shared Home Ownership* in Victoria and *HOME Shared scheme* in Queensland, as well as schemes in Western Australia and South Australia (Yates and Flood, 1989).

static, or declining, low incomes as the loan repayments tended to increase at a faster rate than their incomes.

Although the Australian economy has since recovered and posted strong growth, with a relatively benign low interest rate environment in parallel, several factors leading to the failure of these earlier schemes remain highly pertinent. Key among these factors are: the capacity of schemes to respond to deteriorating economic circumstances (whether arising through labour market weakening, interest rate hikes, house price falls or a composite of these) and a changing fiscal climate heralded by the credit crunch which has seen the rapid retreat of banks from exposure to high risk loans. This points to two critical issues for the robust design of schemes. Scheme parameters need to be sufficiently responsive to market fluctuation and, at the same time, to factor in the relatively constrained capacity of marginal home owners to respond to those fluctuations, particularly in economic downturns which maybe affecting them directly in other ways (e.g. access to employment).

3.3 Emerging policy interest in shared equity approaches

The 1990s were characterised by the provision of less direct public assistance for home purchase than in several preceding decades in Australia. Not only did the lending programs in the largest states close but also, in 1993, the Commonwealth Government ended its First Home Owner's Scheme, variants of which had been operating since the 1960s. By the end of the 1990s in the context of prolonged economic growth and low interest rates, Australia, like many developed economies, was experiencing dramatic escalation in house prices. Evidence of falling access to home ownership, particularly among younger households, and a growing group of middle-income households with historically high levels of housing debt contributed to housing affordability becoming a more significant political issue. This prompted the national government to enhance a cash assistance program for first home buyers[12] in the lead-up to the 2001 federal election and to commission a national inquiry into first home buyers by the Productivity Commission (Productivity Commission, 2004).

At the state and territory government level, renewed attention has also been given to home ownership, although the extent of engagement varies considerably across the jurisdictions. All jurisdictions offer first-time buyers concessions on property taxes. These concessions have been enhanced in recent years as prices, and consequently property taxes, have risen. The smaller states, which have typically had lower-cost housing markets (until recently) and were not affected directly by the failed innovations in government-backed home lending in the 1990s, have maintained a variety of home purchase assistance schemes, the largest of which can be found in South Australia and Western Australia (see AIHW, 2007, 2008).

There has also been a re-emergence of interest in the potential for shared equity schemes to assist households struggling to access home ownership as a result of high house prices and entry costs. Most jurisdictions have extended stamp duty concessions to first time buyers using shared equity mortgages to purchase their first property. Additionally, as part of a six-point plan for addressing 'serious and entrenched housing affordability problems in Australia', state and territory housing ministers have called for a nationally coordinated shared equity scheme targeted at low- to moderate-income households needing assistance to access home purchase (State and Territory Housing Ministers, 2007).

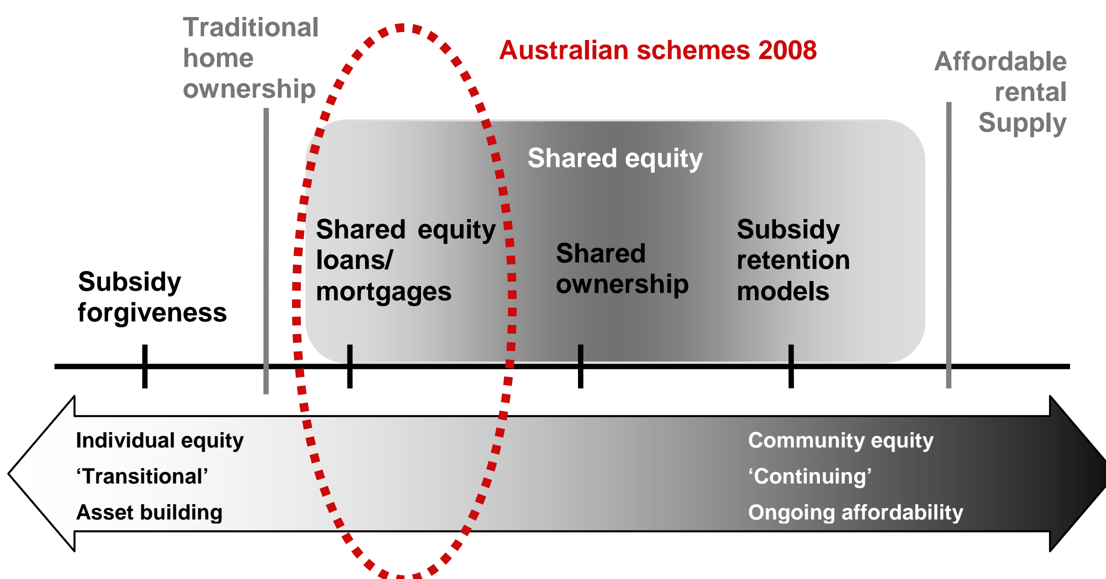
---

[12] A First Home Owners Grant (FHOG) was introduced in July 2000, in the context of reform of the Australian tax system, specifically to offset the impact of the new Goods and Services Tax on the cost of entering the housing market. The value of FHOG was doubled in March 2001 for 15 months for first time buyers of new housing to stimulate the building construction industry (Productivity Commission, 2004).

3.3.1 Current state and territory-led initiatives

Current shared equity schemes can be described as relatively modest in scale[13]. The Northern Territory's *HomeNorth* has the longest track record, with approximately 1000 existing shared equity customers (McAdam, 2007). Western Australia's *First Start* will provide up to 3000 loans between 2007 and 2010 (Department of Housing and Works, 2007a). Up to 500 *Breakthrough* loans annually are to be made available by South Australia's *HomeStart* after March 2008. Further to the first two ballots held in 2007, 10 dwellings have been made available for purchase under Victoria's *Ownhome* scheme (Donovan, 2007). Both Queensland's Pathways and Tasmania's proposed scheme are likely to be on a small scale in their early years of operation.

Figure 3.1: Positioning Australian schemes in the shared equity continuum



The principal schemes fall firmly within 'shared equity loans/mortgage types described in the shared equity continuum introduced in the previous chapter and shown in Figure 3.1. They are geared towards providing a step onto the property ladder and retaining home ownership rather than subsidy retention models. Although there are some supply side aspects (for instance, products tied to existing social housing stock), schemes lean heavily towards demand-side responses. The initiatives have broad principles and characteristics in common but also variations which reflect factors such as the historical trajectory of government engagement as a social housing provider or financier of home loans, the particular housing market context of the state/territory (relative house prices, relative average incomes) and how this is reflected in strategic policy.

[13] But nonetheless in policy innovation and development terms, significant.

Table 3.1: Government shared equity loan products/schemes, Australia

State	*Provider*	*Shared equity products*	*Website*
Western Australia	Keystart Home Loans	→ Good Start → First Start → Access → Restart → Aboriginal Home Ownership	www.keystart.com.au
South Australia	HomeStart	→ Breakthrough → Equity Start	www.homestart.com.au
Northern Territory	Territory Housing	→ HomeNorth Xtra	www.territoryhousing.com.au/home_ownership
Victoria	VicUrban/ Burbank Homes	→ OwnHome	www.burbank.com.au/ownhome/about.php
Queensland	Queensland Department of Housing	→ Pathways	www.housing.qld.gov.au/loans/home/loans/shared/index.htm
Tasmania	Proposed shared equity scheme Expressions of Interest (EOI) were called in 2007 from organisations interested in the provision of first mortgage finance to support the operation of a shared equity scheme for low to moderate income earners wishing to purchase a home from Housing Tasmania www.treasury.tas.gov.au/domino/tenders.nsf/all-v/B0B9030E32351F29CA257317001063FD		
ACT	The ACT Affordable Housing Action Plan 2007 signals a role for shared equity encapsulating supporting sale of public housing dwellings to eligible tenants, and mechanisms to support eligible lower-income and first time buyers.		
NSW	No current schemes		

3.3.2 Loan characteristics and targeting

Keystart in Western Australia arguably offers the most comprehensive range of loans. It has developed a portfolio of products that are each marketed to defined target groups. By contrast, other providers market their product for a range of circumstances and groups. For example, South Australia's Breakthrough loan is marketed to assist first-time buyers and also as a refinancing option for those at risk of losing their homes. Similarly, the restructuring of HomeNorth schemes in the Northern Territory in 2004 has brought programs geared towards existing public housing tenants and those for other first-time purchasers together under the Xtra umbrella.

The schemes identified in Table 3.1 can be categorised into three core types, aligned to different target groups, rather than being indicative of distinct product characteristics, as set out below.

→ First-time buyers. Low- to moderate-income working households who could sustain mortgage payments on an equity share of the total value of the property, and where deposit requirements can be minimised without exposure to the risk that would be encountered in the open market:

- First Start (Western Australia)

- Breakthrough (South Australia)
- HomeNorth Xtra (Northern Territory)
- Ownhome (Victoria).

→ Those currently living in public housing, or on public housing lists, who could purchase with some assistance but could not afford to purchase full ownership of the property with a ‘conventional’ mortgage product:

- Good Start (Western Australia)
- Equity Start (South Australia)
- Pathways (Queensland)
- HomeNorth Xtra (Northern Territory).

→ Targeted groups where the potential benefits of shared equity apply but where arrangements are specifically geared towards meeting the particular needs of those identified groups, for example:

  → assistance for people with disabilities for whom the stability of home ownership is seen as a key policy and community benefit:

    - Access (Western Australia);

  → those requiring support and a safety-net where they are at risk of the loss of a mortgaged home, such as may arise through divorce or loss of partner:

    - Restart (Western Australia)
    - Breakthrough (South Australia); and

  → supporting access to ownership for Indigenous Australians

    - Aboriginal Home Ownership (Western Australia).

Although we noted previously that the involvement of the non-profit sector in provision has been very limited in Australia to date, there is a growing interest in the potential application of shared equity models to assist people with disability to obtain long-term, secure housing. In the early 1990s a private shareholder owned company, Singleton Equity Housing Ltd, which was established by the Victorian government to provide a new affordable and appropriate housing option for people with an intellectual disability, experimented with a model featured a mix of resident equity funding, public equity funding and private debt (Milligan et al., 2004). However, growth of the Singleton model was limited because of viability problems and a lack of government support. Now the non-profit Disability Housing Trust (DHT) in Victoria is understood to be exploring innovative financing mechanisms to assist it to develop new accommodation for its target groups. In NSW, the departments of Housing and Ageing, Disability and Home Care jointly commissioned research into the use of shared equity models. That research identified a number of potential options, one of which requires strong community housing sector engagement (Alt Beatty and Elizabeth Rowe Consulting, 2006).

Schemes can also be differentiated by equity sharing arrangements and the types of property covered, as described below.

Equity sharing arrangements

→ In the case of WA’s First Start and NT’s *HomeNorth Xtra*, the government does not charge rent or interest on the proportion of the property for which it holds equity. At resale it recoups capital plus a proportional share of any equity gain.

Thus if a 20 per cent share is held, the government takes 20 per cent of any house price gain.

- In the case of SA's *Breakthrough loan*, Homestart Finance also foregoes monthly interest or rent, but takes a 'disproportionate' share of any equity gain – for example on 20 per cent, the amount recouped by Homestart is 28 per cent.
- The schemes also take their share of negative equity. If property values fall, and the value of the property is less than the purchase price, schemes typically share in the loss. For example, if the primary owner holds an 80 per cent share of a property and the partner 20 per cent, and a home originally bought for $200,000 resold for $160,000, each party would see their share decline equally (the primary owner's share would now be worth $128,000; the partner's $32,000).
- There are some differences in the definition of the partner's stake: this may be as a secondary 'mortgage', or a 'trust deed', as used in *First Start* and other shared equity products in WA. Arguably the deed mechanism signals a greater retention of ongoing interest and ties in with Keystart having first right of refusal at resale. Nevertheless in all cases, the partner stake can be considered 'silent' until point of sale, with full home ownership rights and responsibilities enjoyed by the primary owner.

Conditions related to eligible property

- In WA, SA and NT both former public rental housing and property in the open market can be purchased. Initiatives typically prevent purchase by auction, but WA's First Start and NT's *HomeNorth Xtra* enable purchase of existing property on the open market or purchase of land/developer packages. Victoria's *Ownhome* is tied to new supply and is restricted (currently) to a small number of release areas in Metropolitan Melbourne.
- Queensland's Pathways and the proposed Tasmanian scheme are tied to current or former public rental housing, or (in the case of Tasmania) tied to new supply by Housing Tasmania. Victoria's *Ownhome* is also tied to specific supply rather than operating in the open market.

All products enable and promote 'staircasing' whereby additional shares can be purchased at the prevailing market value of that share. This is usually restricted to minimum increments of 5 per cent, either through a cash payment or a renegotiation of the equity loan. Few schemes provide incentives to move towards full ownership, although WA's *First Start* applies stamp duty concessions on the share being purchased from the department, if bought within 10 years of initial purchase. All schemes allow owners to make renovations and improvements to their homes, and alterations that increase the property's value are taken into consideration when the property is sold or further shares are purchased.

3.3.3 Eligibility criteria

All operating schemes are subject to targeting using the eligibility criteria set out in Table 3.2. These criteria are based primarily on three parameters: maximum household income, maximum property value and maximum proportion of equity share that can be held by another partner. Minimum deposit provision and residency conditions also apply. In order to provide assistance to larger households, a number of the schemes vary income maxima according to household size. State- and territory-led initiatives also place emphasis on ensuring that the terms of the mortgage do not place the household in housing stress: typically the maximum amount offered is restricted so that loan repayments on the mortgage do not exceed 30 per cent of household income.

Table 3.2: Eligibility criteria for selected shared equity initiatives[14]

	Minimum deposit	*Equity 'grant' (maximum)*	*Maximum household income p.a.*	*Maximum property value*
Western Australia: Keystart Home Loans – First Start	$2000 or 2%	40%	Sliding scale up to $80,000	$375,000
Northern Territory: HomeNorth Xtra Shared Equity Loan	2%	30%	Up to $71,000 plus asset limit	Regional variation, maximum of $310,000 in Darwin
South Australia: HomeStart Breakthrough	$1000	35%		$380,000
Victoria: VicUrban/Ownhome		25%	Up to $60,000	Tied to particular product
Tasmania: Home Ownership Assistance Program		25%	Up to $67,500 plus asset limit	Up to $245,000

In a number of schemes, the equity amount to be taken out as a mortgage by the primary owner may also be determined as part of income assessment. For example, Queensland's Pathways scheme allows for a minimum purchaser equity share of 60 per cent, however if applicants are assessed as being able to afford repayments on, say, a 75 per cent share, they will be required to purchase this larger share. To determine this, the Department of Housing utilises an "agreed continued income" figure: a "before-tax income that [the purchaser] and the department agree is most likely to continue throughout the term of your loan" (Queensland Department of Housing, 2008). Eligibility assessments will also take into consideration credit histories (and for ex-social housing tenants their rental records), and may seek evidence of savings capacity by applicants.

As these new schemes are rolled out and progressively developed, they will provide an invaluable test bed for considering the viability of such approaches and their potential impact – both intended outcomes and those harder to envisage impacts which may have positive or adverse implications for housing markets and housing policy aims.

3.4 Private sector-led initiatives

Alongside the emergent policy-directed initiatives described above, much of the recent investigation of the potential viability for shared equity schemes has been driven by the private sector (Whitehead and Yates, 2007). Indeed, Australia can be considered a market leader in this regard, where arguably a lack of a national policy response to date providing the space for some innovation in shared equity financing and product development within the private sector Shared equity presents an opportunity for financial institutions to develop new markets that could address the issue of declining affordability, as well as opening up a new type of mortgage structure.

The Caplin-Joye proposal (Caplin et al., 2003; Productivity Commission, 2003, 2004) was an early marker of shared equity product development. Indeed, it has been through ongoing development of that proposal that Chris Joye and Rismark have been able recently to bring the first non-subsidised shared equity product to the

[14] Details from relevant government/loan agency websites.

market. The *Equity Finance Mortgage (EFM)* was launched through Rismark-Adelaide Bank in March 2007 and remains the only major scheme that is active to date. A more specific product, *Aussie Equity ESP*, provides a mixed loan/equity sharing arrangement to assist buyers with entry costs (deposit and transaction fees) that are to be settled after five years. Other developments – for example from *Greenway* and *Affiance/Firstfolio/Residex* – have been in the pipeline for a number of years but have not yet reached the market.

3.4.1 The equity finance mortgage

The *Rismark-Adelaide Bank Equity Finance Mortgage (EFM)* is firmly based in concepts outlined in the Productivity Commission's report on first home ownership, where the potential of shared equity to enable a household to buy a house in partnership with a silent partner was discussed (Productivity Commission, 2004). While sharing many similar advantages and disadvantages with policy-directed initiatives, the model is distinctive in the nature of its equity sharing arrangements and, most importantly in the context of this research, its intended target. The Productivity Commission noted that, given the need to ensure good returns, investors would favour lending at particular price points in well-performing suburbs. And although the EFM product that has emerged identifies first-time purchasers as an important target market, our assessment is that that the product is geared more to the 'step-up' market. Nevertheless, while not targeted like government-led schemes, the scheme does offer a means whereby consumers can chose to reduce housing costs and monthly payments, enabling them either to live in less stretched circumstances or to diversify their investment portfolio, depending on their financial circumstances.

Although Joye and Rismark have taken extensive steps to identify and protect the intellectual property rights associated with EFM, the fundamental principles of the product are similar to shared ownership and shared equity schemes with a much longer historical trajectory. For example, EFM shares the use of a silent second loan, on which 'no interest' is paid in lieu of a share in equity gains at the time of sale, with many earlier UK and current Australian schemes. Similarly, the primary owner holds the rights and responsibilities of full home ownership. EFM claims distinctiveness from earlier shared appreciation mortgage (SAM) models, in that SAMs only share in appreciation rather than being exposed to depreciation. One commentator has also positioned the product as different to state- and territory-led schemes because those can "result in the government taking an ownership interest in your home" (Frino, 2007, p. 7).

A key distinction, reflecting the absence of subsidy, is the equity share taken by Rismark at resale. Rather than their share being commensurate with their initial equity, as typically seen in most (but not all) government-led schemes, Rismark takes a 40 per cent share of any equity gain based on an initial 20 per cent share (and 30 per cent on an initial 15 per cent share, and 20 per cent on an initial 10 per cent share). If the property is sold at the same price as originally purchased, the secondary loan is indeed 'interest free'. If the property is sold at a loss of value, Rismark shoulders a proportion of the loss. Although EFM avoids a number of complexities tied to administering and regulating the eligibility criteria of government-led schemes, processes involved in getting agreement to improvements and the resultant valuation of these are likely to introduce their own complications.

While the Adelaide Bank-Rismark EFM demonstrates some innovation in its 'consumer-facing' product, it is the development of the institutional and investor facing aspects that are of particular interest, because they are relevant to the viability of both larger scale government-led and private schemes. In order to meet capital holding requirements, Rismark has been in the process of raising $1 billion for a "revolutionary

suite of advanced residential real estate investment funds" in support of its EFM product[15]. They promote this fund as "a major development in the asset management world [that can] provide Australian institutions with high growth, low volatility and well-diversified exposures to the residential real estate asset-class" (Rismark, 2007)[16]

Money invested in the Rismark Active Property Trust (RAPT) will provide the basis upon which units can be securitised – bundled up and bought and sold by investors, with returns linked to the future capital value of the residential properties against which loans have been taken out. The core to success of such funds will be robust house price indices, which can underpin projections of those future values. These secondary markets mean that investors are not tied to individual dwellings or individual households, but are investing in a share of future returns from a portfolio of dwellings spread across a range of housing markets. In order to provide liquidity – i.e. enable investors to get money back before money starts flowing into RAPT from sales – an option is to list the Trust so that units can be traded much as shares are.

The EFM generated a considerable amount of press coverage during 2007, assisted by significant advertising (see Figure 3.2). Initial media reaction was mixed (Collins, 2007; McMullen, 2007; Schneiders and Moncrief, 2007; Wade, 2007). The product has won a number of industry awards for innovation, although, to date, the strength of actual product take-up is not clear. In a recent article for New Zealand website interest.co.nz, Adelaide Bank's Chief General Manager for wholesale mortgages noted that "we always expected it would be a slow take up … it's a product that's going to take a little while for consumers to get used to it". In the same article, Chris Joye acknowledges the recent credit crunch, emerging from mortgage-backed markets, makes the task of finding investors for complex debt and equity instruments harder: "with the current sub-prime crisis, convincing investors to fund exotic mortgages is next to impossible" (Hickey, 2008)

Aussie Equity ESP

Aussie Equity ESP acts as a mixed loan and equity sharing arrangement to assist buyers with deposit and settlement costs. It is split 50 per cent loan and 50 per cent equity input. The arrangement is 'called in' five years into the home loan. No interest is paid on the equity component of the ESP funding until that time, with Aussie Equity taking 40 per cent of any equity gain (relative to the proportion that this loan accounts for in relation to the total property value) at that point. During this time the purchaser has full ownership rights and responsibilities, and either saves to pay off Aussie Equity or refinance the property (there are incentives for early repayment). Although the model provides a means to address costs acting as a barrier to home ownership, the financing structure appears complex. The ESP funding (part by loan, part by equity share) is determined once the primary ('conventional') component of the mortgage is established, and this funding covers all the other costs including stamp duty, lender's mortgage insurance (LMI) and legal fees. Interest rates on the loan are determined on an individual basis, depending upon income, credit histories etc.

3.4.2 Other proposed initiatives

The arrival of the Rismark-Adelaide Bank EFM product in 2007 marked a significant milestone, with other products mooted for a number of years remaining in a protracted 'development phase' to date. The *Greenway Equity Mortgage (GEM)* is intended as a shared equity product operating as an interest-free loan for up to half of the value of

[15] It is assumed that this capitalisation has been successful, or reached necessary milestones, given that the scheme has launched.

[16] From www.rismark.com.au.

the home. The GEM Equity Loan is positioned as a “new generation home loan where repayment is linked to property growth” (Greenway, 2007a). It is anticipated that the GEM will be available in metropolitan areas of Sydney, Melbourne and Brisbane, with a maximum equity loan amount of 50 per cent. The product is primarily geared towards asset-rich retired households, those seeking to benefit from changes in superannuation rules, those wishing to upgrade to a bigger home and those seeking to buy a home in effect without monthly repayments.

The product’s unique selling point is very much tied to enabling financial freedom for those who have already built up equity, rather than being targeted at those seeking to get on the housing ladder. Examples provided in a media report indicate that Greenway’s share of capital gain increases as the size of the initial loan increases. A 20 per cent loan would be available for a Greenway share of capital gain of 30 per cent; for a 50 per cent loan, Greenway’s share would be as much as 75 or 80 per cent (Whitehead and Yates, 2007). In terms of downside risk – i.e. that house prices do not increase – the owner is required to “simply repay the amount accessed” (Greenway, 2007b), suggesting that no negative equity guarantee is built into the mortgage, with Greenway’s initial share protected even if they do not actually gain from the transaction (Whitehead and Yates, 2007).

The other product expected on the market, *Affiance/Firstfolio*, has been repackaged and is being taken forward by Residex. Details of the product are unclear at this stage, although we can speculate that the equity sharing model and anticipated returns are likely to be predicated on Residex’s House Price Trading Indices. This is likely to position the product towards higher-value properties in well-performing metropolitan markets.

3.5 Summary

This chapter has provided an overview of current government- and private sector-led shared equity initiatives in Australia. This current landscape is instructive. Firstly, schemes have developed in almost every state and territory, although it appears that those jurisdictions that suffered least from the failure of previous low-income home ownership schemes have gone furthest with their current shared equity initiatives. Recognising and acknowledging these legacies – not only for policymakers but also consumers, investors and lenders – is crucial to understanding potential contemporary barriers to developing acceptance and market scale. The lead shown in WA and SA, in particular, has been facilitated by the longstanding, continued operation of government financing agencies, Keystart and Homestart respectively. Similar structures are absent in the three most populous states, where recent engagement with the potential of shared equity has been weakest.

Secondly, as products have emerged at the state and territory level, there is some variation in detail. However, in product design and policy objectives tied to those initiatives, the similarities are very strong. Jurisdictions tend to offer a selection of schemes targeted towards existing social housing tenants, first-time buyers and/or other specified groups. They are structured to facilitate access and a step up on the property ladder rather than seeking to develop an ‘alternative’ tenure in the long term. They are also generous in subsidy, with purchasers typically not having to pay interest on the equity loan. The benefits of this relative consistency have not flowed through to the lender or investment markets, because the modest nature of government-led schemes overall does not yet offer scale and viability.

Thirdly, the fragmented nature of responses arguably has provided a space for innovation in the private sector. However, in the absence of policy direction or subsidy in this regard, the private sector has understandably not focused product development

on assisting lower-income home ownership. Thus, government and lender discourse and objectives seem to have progressed in parallel with little joint work occurring to date.

4 INTERNATIONAL SHARED EQUITY INITIATIVES

4.1 Introduction

Although this study can benefit from early insight provided through emerging Australian schemes, it is also valuable to consider the approaches taken and lessons learned in other countries where shared equity schemes have been established for some time. The richness and complexity of international experience with these products helps confirm and further our understanding of the challenges involved in facilitating access to home ownership in the context of contemporary high cost housing markets. In this chapter, a brief overview of shared equity initiatives in three countries – the UK, the US and the Netherlands – is provided.

Experience with shared equity schemes in each country will reflect different housing market and housing policy regimes. Thus, taken together, the three countries offer valuable insight into the various ways in which shared equity arrangements evolve and operate. For example, both the UK and the Netherlands have a large (although retracting) social housing tenure and longstanding housing association sectors. Historically tenure 'neutral' policies in these countries have seen shared ownership and, more recently, shared equity arrangements used to provide a mix of alternative or intermediate tenure arrangements, as well as facilitating access to the property ladder and the conventional housing market.

The development of shared equity mechanisms in the US has been driven primarily by policy goals centred upon improving access to home ownership. However, the funding environment and leadership from the 'third sector' and some city authorities has contributed to the prevalence of subsidy retention or affordable preservation models. Thus shared equity mechanisms have helped to create a variety of alternative tenure structures, which first and foremost protect affordability rather than maximising individual asset gain.

Distinctions between policy-initiated and private sector-led products are less apparent in these countries. In both the UK and the US, initiatives have typically evolved with either a 'direct' policy steer, through determination of objectives, subsidy and necessary frameworks for delivery, or indirectly, such as through tax and planning concessions. Therefore, they have required cooperation between government, lenders and other agencies around often quite complex arrangements, rather than product development in the government and private sectors occurring in a more siloed fashion.

4.2 United Kingdom

In the UK, shared equity initiatives have evolved from a long trajectory of 'shared ownership' schemes since the 1980s (and indeed support for low-income home ownership since the 1960s). Early examples were considered 'Do It Yourself Shared Ownership' (DIYSO). These allowed applicants to purchase a home on the open market but with the assistance of a partner – a housing association, which acquired a proportion (typically 25 per cent) of the property. In addition to making repayments on the mortgage held by the purchaser, (discounted) rent was paid to the association. Total housing costs were lower than meeting payments on a home loan for the total price. There have also been longstanding variant schemes to assist public housing tenants to purchase a part share in their homes.

In the late 1990s, interest in shared equity schemes expanded as they became seen as a primary vehicle for assisting defined public sector 'key workers', who were being increasingly priced out of rising housing markets, to access ownership. Products

including *Homebuy* (first introduced in 1999) signified a number of important policy shifts that are pertinent to this research. Firstly, there was recognition of shared equity as a viable tool for assisting 'eligible' lower- to middle-income groups into home ownership, as a means of retaining employees in high-demand markets. Secondly, the complexities of reconciling eligibility with potential demand and the relative attractiveness of other housing finance options have become more apparent. Thirdly, how risks and benefits are shared between parties, and how return on the partner's equity share is facilitated, continue to be challenging issues. Finally, although their role has evolved, Housing Associations continue to perform the primary role of partner and also have important roles in customer information and product education.

Recent policy direction has retained emphasis on the role of low-income home ownership for household asset-building and for promoting greater social equity (Bramley, 2004; Smith et al., 2005; Housing Corporation, 2006; HM Treasury/DCLG, 2006). This concerted policy interest may have added, perversely, to the complexities involved in pitching schemes to consumers and building scale. Changes and refinement are inevitable in response to an evolving policy agenda, and in light of feedback as to whether the products have been sufficient to address the barriers faced or reasons that schemes may remain unattractive to intended customers. However, these changes risk undermining the continuity required by lenders and investors, if they are to engage in schemes which would be considered 'niche' and innovative.

A Shared Equity Taskforce was announced in 2006 to assess the case for government intervention in the housing market and to assist intermediate households into home ownership using shared equity products. A core component of this activity has been the instigation of a Shared Equity Housing Finance Initiative (managed by the UK Housing Corporation), including a competition – involving mortgage lenders, developers, institutional investors and housing associations – held to generate innovative and viable financial products that can deliver affordable home ownership (CB Richard Ellis and Housing Corporation, 2007). Twelve proposals were received: two of those were invited to develop their proposals further. The results were announced in March 2008: two new equity loans are being introduced under the *Open Market HomeBuy (OMHB)* umbrella (superseding a number of changes made to the scheme in the preceding year). It is important to note that these products relate to England only; both Scotland and Wales have their own shared equity initiatives in place (*Homestake* and *HomeBuy* respectively).

The competition approach ensured that lender engagement was central to product development from the outset. The new products address two core barriers identified with the existing portfolio: the need for a smaller equity share to be purchased helping make the products accessible to lower-income groups, and; flexibility enabling buyers to shop around for the best home loan deals rather than being tied to a limited range of providers.

Both new products are targeted at social tenants, first-time buyers and key workers, and enable purchase in the open market (rather than being restricted to new supply):

→ *MyChoiceHomeBuy*. This represents an equity loan of between 15 and 50 per cent of the purchase price and is to be provided in partnership with a consortium of eight Housing Associations. The product can be used in conjunction with any conventional home loan. Interest is charged on the MyChoiceHomeBuy loan up to 1.75 per cent in the first year and increasing annually by the Retail Price Index plus 1 per cent.

→ *Ownhome*. This involves an equity loan of between 20 and 40 per cent and is provided in partnership with the Housing Association 'Places for People and Co-operative Financial Services'. It needs to be used in conjunction with a conventional mortgage from the Co-operative Bank, although after the mortgage deal has come to an end the borrower can remortgage with an alternative provider. There are no interest charges on the Ownhome loan for the first five years. There is a charge of 1.75 per cent per year in years six to ten and from year eleven onwards 3.75 per cent per year is charged.

Funding of both schemes is shared between the UK Government and partner (*MyChoiceHomeBuy* – 50 per cent by the housing association consortium CHASE, 50 per cent government; *Ownhome* – 58 per cent Places for People and 42 per cent government). The key difference introduced through these schemes has been to increase the partner share up to 50 per cent. In the example provided this would enable a household with an income of £32,000 ($71,000) to afford a house of £200,000 ($444,500), with repayments/interest charges of £760 ($1,690) each month compared with £1,350 ($3,000) using a conventional loan[17].

Several other schemes remain available. *NewBuild HomeBuy* and *Social HomeBuy* are essentially one and the same scheme, but with the latter targeted at existing social housing tenants. Applicants take out a home loan on a 25 to 75 per cent share of the property and are required to put down as much deposit they can afford. The remaining share is rented from a housing association. Like the other schemes, buyers have the opportunity to 'staircase up' their share over time. Unlike the other schemes, *NewBuildHomeBuy/SocialHomeBuy* are restricted to new build development.

More funding flexibility has led also to the development of other models where the private sector is taking a greater role. The English Partnerships-led *First Time Buyers Initiative (FTBI)*, introduced in 2006, is a targeted funding stream enabling subsidy to flow to developers rather than housing associations so that they can provide affordable housing on designated sites (English Partnerships, 2007a; Hills and Lomax, 2007). Other models are being developed to tap into and coordinate affordable housing allocations provided through the planning system, thereby reducing direct subsidy costs. Developers either work in conjunction with existing local housing associations (Assettrust), or the developer takes on the association role (Firstbase). Assettrust is fairly similar to traditional shared ownership arrangements and allows a very low entry point in terms of the minimum equity share to be purchased by the buyer (12.5 per cent). Rent is paid on the proportion not owned and staircasing is enabled.

Firstbase's approach is different. Firstbase is an initiative between Stanhope plc and Lend Lease, and is one of three development partners (in the first instance) selected to work in partnership with the Housing Corporation and English Partnerships to deliver new affordable homes under the *London Wide Initiative*. This pilot scheme will deliver up to 4,500 homes over the next five years, of which around 1,500 will be affordable homes for key workers (English Partnerships, 2007b). The home loan model proposed, *Homehold*, differs from other schemes in that no rent or fees are payable on the partner's equity share. Initial entry costs are significantly discounted to reflect Firstbase retention of the land. Firstbase retains responsibility for the long-term management of developments, ensuring properties remain affordable. The owner and partner share in any gains at the time of resale. As such, the model shares a number of similarities with 'subsidy retention' models prevalent in the US (see below).

---

[17] This example is based on a repayment mortgage with a standard interest rate of 6.5 per cent (prevalent in the UK at that time).

An important distinction between initiatives such as Firstbase and Assettrust and private sector-led schemes emerging in Australia is that the former have been structured within an affordable housing policy framework. They represent alternative means of delivering shared equity schemes tied to policy objectives, rather than a mechanism that operates wholly without subsidy or eligibility criteria. Such developments are providing a useful response in areas of high housing demand – and indeed depend in part upon being able to extract cross subsidy available in such areas through planning gain.

Innovative financing arrangements to assist existing home owners in areas of England experiencing urban regeneration activity have also been explored. For example, a number of local authorities and regional housing boards are working in conjunction with affordable housing finance providers[18] to provide 'cash-poor but equity-rich' home owners living in regeneration areas a means of repairing and improving their properties (Joseph Rowntree Foundation, 2006). Such schemes share similar characteristics with equity release products targeted towards seniors; however, released funds are predicated towards renewal and products are subsidised. In areas undergoing significant restructuring, for example tied to Housing Market Renewal (HMR) pathfinder activity, further innovation in the application of shared equity has emerged through the development of 'relocation equity loans'[19] to assist existing households in the area to afford a substantially upgraded or new home in the neighbourhood (Joseph Rowntree Foundation, 2006; Mercian, 2007).

4.3 United States

US housing policy over the past 10 to 15 years – certainly until the sub-prime crisis – has been underpinned by a desire to address barriers faced in accessing home ownership. During the Clinton administration, commitment to addressing declining home ownership rates and increasing accessibility for lower-income groups, in particular Black and Hispanic Americans, became more clearly defined (Clinton, 1995). There was significant government support in this push through the mandates of Fannie Mae and Freddie Mac[20], and it was the wider impact of increased flexibility and deregulation in the finance and mortgage markets that provided the core response to access constraints. The current credit crunch and increase in foreclosures over the past 18 to 24 months amongst those with sub-prime mortgage arrangements has heightened awareness of the risks of encouraging expansion of home ownership amongst lower-income groups.

Although easy credit facilitated a market-led response, it is important to recognise a parallel increase in the use of public subsidy shared equity approaches as a means of addressing affordability constraints, albeit on a relatively modest scale. Two prevailing features are pertinent here. The first relates to the fragmented nature of mechanisms facilitating affordable housing provision and assistance in the US, with localised (city or subregional) initiatives developing out of a patchwork of federal, state and local-

---

[18] Initiatives include Mercian/ART Homes ltd operating in the West Midlands, and the HomeImprove project run by Rochdale and Oldham Borough Councils in partnership with the West Pennine Housing Association (ODPM/JRF, 2004; Mercian, 2007).

[19] This loan, typically £20-35,000, operates as a non-interest bearing legal charge on the property with repayment based on the proportion of equity when that property is sold (JRF, 2006).

[20] Fannie Mae and Freddie Mac are shareholder owned companies mandated by US Congress to provide funding to the housing market. They guarantee or own roughly half of the $12 trillion US mortgage market (as at June 2008) yet they do not lend directly to homebuyers. Rather, they buy mortgage debt from banks and sell it on to investors. Their role is seen as vital in increasing liquidity in the market by keeping up the supply of money and keeping down its cost. Recent turmoil caused by the credit crunch has increased the spotlight on their role and remit.

level tax incentives, funding streams, planning policies and opportunities. The second feature relates very much to the first and involves the gradual emergence of innovative models as groups have become more effectively mobilised and developed effective organisational structures to bring these resources together. For example, Community Development Corporations (CDCs) and Community Land Trusts (CLTs) have been around for decades, providing the platform necessary to bring various streams of funding together to enable place-based activity.

Policy-oriented initiatives have centred on the use of shared equity mechanisms as a means of facilitating the supply and preservation of affordable housing, rather than as a means of providing a helping hand into full home ownership. They can be seen therefore as predominantly 'subsidy retention' models, and can be classified under three broad approaches: deed restriction, community land trusts and cooperatives (Davis, 2006; Jacobus and Lubell, 2007). Characteristics and criteria shaping each of these approaches are provided in Table 4.1. There is some debate as to whether all models can be considered clear-cut 'equity sharing' arrangements, in particular those where there is only a limited relationship between market appreciation and owner stake in those gains at the time of sale. Equally, principles of full rights and responsibilities being enjoyed by the occupant may be less clear-cut, and the basis of the shared arrangement may not be explicitly defined in terms of equity. Nevertheless, in their broad sense, each of the three models promotes access to affordable ownership (even if pathways to outright ownership are restricted) and offer the potential for occupants to benefit from some degree of gain if they were to move on.[21]

[21] With the exception of zero-equity cooperative models.

Table 4.1: Subsidy retention models (after Davis 2006, Jacobus, 2007)

Deed restricted homes	*Community land trusts*	*Cooperatives*
→ Encompass a range of types and tenures of housing, including detached houses, attached duplexes, row houses, townhouses, and apartments → Continuously affordable – sold and resold for prices that remain within the financial reach of the targeted group → Affordability maintained through a restrictive covenant appended to a property's deed or mortgage → Owners have exclusive used of their property, but they are prevented from using it for anything other than their primary residence → Resale is constrained to someone from a specified pool of income-eligible buyers for a specified, formula-determined price → Use and resale restrictions may be attached to the home owner's mortgage, covering the amount of a low-interest or no-interest loan provided by a public agency to enable a low-income household to purchase the home.	→ Housing created through a community land trust (CLT) bestows very similar rights of ownership to Deed-restricted housing (occupancy must be for primary residence, resale is restricted) → One party holds the deed to parcel of land; another holds the deed to the residential dwelling located upon that land → Ground lease ensures affordability over time – controls last as long as the lease, which binds all subsequent owners of the housing located on a CLT's land. It typically runs for 99 years, is renewable and inheritable, and gives home owners and their heirs an exclusive right to occupy the land on which their homes are located → Ground lease also regulates maintenance and mortgaging → When the owner wants to sell, either the CLT repurchases the property itself and resells it to an eligible purchaser → Responsibility for monitoring and enforcing all of these restrictions on the use and resale of owner-occupied housing rests with the CLT	→ Market-rate cooperatives: the transfer value of corporate shares, purchased and resold by individual home owners, is determined by a market appraisal → Limited equity cooperatives: home owner's are allowed a modest growth in equity between initial purchase and eventual resale of their corporate shares → Zero equity cooperative: no growth in the value of home owner's shares. → Cooperative housing is operated and governed by state-chartered corporations whose shareholders are drawn exclusively from those who occupy the housing → The corporation owns the deed, holds the mortgage, and pays all municipal taxes and fees on the real estate → Home owners in the co-op do not hold title to their individual homes, but rather own shares in the corporation that owns their home → Owners are voters of that corporation, with ultimate control over its assets, its operations, and its enforcement or any restrictions on the use of individual apartments and the resale of shares

The Community Land Trust (CLT) has emerged as a successful model. Estimates indicate that there are around 100 trusts operating across the US. Typically they are on a relatively small scale, and geographically tied to a particular city or indeed more local jurisdiction. As an example, the *Northern California Land Trust (NCLT)* is a community-based not-for-profit organisation comprising 84 units of housing on 16 sites in 2002. It was founded by community activists in the early 1970s, and acted as a volunteer organisation until the 1990s at which time the group reorganised as a

professional team focusing on housing and community development. Income limits for eligible owners are set according to a percentage of area median incomes (AMI) and account for local market conditions (they vary between Oakland and Berkeley, for example) and size of household. The Trust retains the rights to the land and ensures that the home is resold at similar, below-market rates to the next purchaser, preserving affordability for the community (Lloyd, 2002, Northern California Land Trust, 2008)

A crucial component of the CLT model is the capacity to acquire land at a heavily discounted rate. This may be facilitated by philanthropic donation, acquisition of difficult sites avoided by developers, and through utilising local authorities' planning policies. For example, in cities where affordability constraints are high and a broader range of housing mix desired, planning policy often makes use of inclusionary zoning measures to ensure that a percentage of affordable housing is provided. Many CLTs have developed effective structures to work alongside planners and 'for-profit' developers to meet these requirements. Acting as an intermediate or 'protected' rather than open market product, CLTs effectively remove dwellings from the speculative market, thereby preserving ongoing affordability. When purchasers sell, the sale price is capped at what they paid for it plus a predetermined amount based upon appreciation. A number of methods are used to calculate a 'fair return' to the purchaser, such as appraisal-based or index-based resale formulae (Jacobus and Lubell, 2007).[22]

Subsidy retention models such as CLT provide good opportunities for assisting lower-income groups to enjoy the benefits of home ownership, but little opportunity for substantive asset growth at the household level to assist families to move on into full market home ownership. Shared equity models that are geared more towards provision of a helping hand onto the property ladder, as predominate in the UK and Australia, are less advanced in the US although a number of cities have introduced shared equity initiatives within their own jurisdictions, for example the City of San Diego (CCDC, 2007a,b; City of San Diego, 2006, 2007).[23]

4.4 The Netherlands

The Netherlands pathway towards shared equity has a number of similarities with both the US and the UK, particularly the latter. Shared aspects include the emergence of models from the tenure-neutral policies of the 1970s and goals which reflect home ownership promotion but also recognise the substantial social housing sector (Elsinga, 2005). Again reflective of trajectories in the UK – tied to changing policy drivers – Elsinga notes a shift from the 1970s, where 'intermediate' ownership models in the Netherlands were aligned to social housing options, to the 1990s by which time conventional owner occupation was seen as the more logical reference point. Despite having a number of schemes over this period, the number of units owned under shared equity or shared ownership arrangements is small, as in other countries.

Elsinga (2005) identifies three 'alternative tenure' models, which fall within the shared equity continuum used in this research. *Koophuur* offers a shared ownership model

[22] Such mechanisms are also used to determine return in deed-restricted or limited-equity sharing arrangements. Chapter five considers their impact in terms of targeting and housing market response.

[23] There has also been a recent revival in private sector interest in arrangements geared towards facilitating access to the market. For example, Caplin et al (2007) outline proposals for a Shared Equity Mortgage (SEM) that seeks to avoid the difficulties experienced with previous private-sector Shared Appreciation Mortgages (SAM) in the US. However, the terminology may be misleading. The product does not provide equity in the property itself but instead offers a loan with a contingent interest, whereby the amount of interest owed is calculated according to what happens to house prices.

where purchasers own part of the dwelling and pay rent to a housing association on the other. This is often referred to as 'interior-only' ownership. Although owners have full rights in this regard, when it comes to resale, the amount received reflects the original price plus a predetermined amount to take into account inflation and any improvements made. As such, it shares more characteristics of the subsidy retention models in the US rather than shared ownership models in the UK. The benefits of Koophuur relate to lower entry and ongoing home ownership costs, but arrangements – certainly in terms of asset accumulation – can be seen as restrictive.

By contrast, a second model, *KoopGoedkoop*, is more comparable to traditional home purchase on the open market. The costs of entering the market are discounted through separation of the purchase of the 'bricks and mortar' and the cost of the land on which the property sits (which is initially rented from a housing association). The ground rent is subsidised incrementally over the first ten years. Given that purchasers under this model are entitled to tax relief on both mortgage interest payments and the ground rent, KoopGoedkoop is seen to offer 'fiscal optimisation' in relation to prevailing tax conditions.

The third model, Community Linked Ownership (*Maatschappelijk Gebonden Eigendom, MGE*) evolved from the disposal of properties in need of renovation and upgrading in the 1970s and 1980s. In return, capital gains above the original purchase price at the time of resale are shared equally between the owner and the housing association. There are a number of conditions imposed in MGE arrangements: the housing association retains first right of refusal at resale and owners are obligated to ensure that both their property and common areas are not neglected.

'Buying Smarter' (*Slimmer Kopen*), operating in the city of Eindhoven, appears to provide a mixed model comprising both Koophuur and MGE characteristics. Dwellings (limited to those owned by the housing association[24]) are sold at a discounted market price, which can be up to 50 per cent, depending on the neighbourhood. In exchange for the price reduction the housing association has a first right to buy with the agreement that the original discount and a share of the capital gain (or loss) will be paid to the association. The ratio between the price reduction and housing association's share in the value increase is determined according to the Fair Value model utilised by the government.

4.5 Summary

Internationally, a number of drivers have shaped engagement with shared equity arrangements, reflecting characteristics of their respective housing systems, policy trajectories and current government objectives. Interest has evolved from an initial focus on development of alternative or intermediate tenures, to mechanisms geared more explicitly to providing a 'leg up' and working in parallel with the conventional ownership market. In the US, funding structures have helped to align shared equity mechanisms with the provision and retention of affordable housing: the predominant focus is on enabling households to benefit from the occupancy advantages of home ownership without necessarily gaining wealth benefits. By comparison Australian shared equity schemes are at the facilitating entry end of the continuum, assisting individual asset accumulation rather than being used as a means of retaining subsidy and preserving ongoing affordability.

A number of issues arising from schemes in other countries will be drawn upon in the remaining chapters of this report. However, two important observations can be made

[24] Housing associations are numerous and large in the Netherlands, owning about 2.4 million dwellings or 35 per cent of all dwellings (Milligan, 2003).

here. The first is that overseas experience lends support to the intent of this research to consider the potential for shared equity initiatives in Australia, not only as currently conceived, but also to explore the viability of approaches that fall along other parts of the shared equity continuum. For example, are there opportunities for, and consumer interest in, subsidy retention models, such as CLTs, as an affordable housing supply and preservation model in high-demand markets?

The second is acknowledgment of the practical difficulties and complexities that continue to shape policy engagement with shared equity approaches in countries with a long track record. For example, after over 15 years of policy engagement in the UK, viable products that meet the needs and expectations of governments, institutional lenders and consumers remain elusive. Further promotion of collaboration between government and market players is seen as part of the answer to this (as illustrated in the recent Shared Equity Taskforce competition). We will consider whether such engagement is more effective in cost/benefit terms for governments, lenders, investors and consumers in the final report.

5 POLICY CONSIDERATIONS

5.1 Introduction

As discussed, shared equity models can be seen as a logical policy response to sustained high house prices and lack of affordability in Australian housing markets (Yates, 2007; Yates et al., 2007). Such initiatives can be targeted towards particular income groups and can be justified as a strategic response to barriers faced by households who could sustain ownership – or at least part ownership – with a limited amount of assistance. Promoting access to ownership also complements other explicit and implicit policy goals, such as facilitating asset-building and reducing demand for social housing and rent assistance.

Although shared equity is attractive in policy terms, it is also complex. Policy makers will identify the potential benefits of a given approach, but also rightly consider potential disadvantages, negative externalities and risks involved in their implementation. Consideration also needs to be given to the implications of pursuing shared equity for other government policies (including income support, superannuation, tax, housing assistance, first home owner grants). Government expenditure tied to such schemes competes for public funds against myriad other demands and requirements. Potential policy settings are complicated further by the recognition that local housing markets may respond in different ways and, consequently, require more nuanced approaches. At the same time, scale is required to generate investment market interest, and consistency will help to avoid confusion and complexity for consumers.

Articulating the role of shared equity within broader housing policy agendas in cost/benefit terms is challenging. Shared equity mechanisms are likely to be more cost effective than provision of rented social housing (as demonstrated in the UK context by Bramley and Morgan, 2007), but potentially less cost effective than rent-subsidy mechanisms. Determining their effectiveness requires consideration of whether the needs of particular groups struggling to access ownership outweigh the needs of struggling social or private renters and, if so, giving consideration to the merits of shared equity compared to other methods of achieving similar outcomes. Judgements need to take into account non-financial as well as financial benefits of home ownership vis-à-vis other tenures and wider housing market considerations, if shared equity is not to be seen simply as a 'middle class', or at least 'aspirant class' subsidy. Furthermore, as initial capital subsidies will be offset in the future through (inflated) capital receipts when equity tranches are paid off as participants staircase their share, government cost-benefit calculations will depend on the time frame over which they are assessed. In their early evaluation of shared ownership and shared equity schemes in England, Bramley et al. (2002) suggested that these programs were effectively 'self-financing'. Making that case successfully requires Treasuries to take a longer-term perspective.

Issues about how any potential subsidy should be directed, who should benefit, and to what extent are central to considerations of shared equity as an appropriate policy tool. These considerations will underpin the discussion of cost/benefits and policy recommendations to be made in the final report. In this chapter, discussion is focused on policy considerations that impact on the potential characteristics, scale and viability of schemes rather than an assessment of shared equity approaches more generally. Three areas are considered:

→ Impact: What is the scale of potential demand for shared equity, and what role might such initiatives play in addressing affordable housing 'needs'?

- → Targeting: What eligibility criteria for shared equity will be appropriate?
- → Externalities: What impact will shared equity have on housing markets and broader housing affordability concerns?

5.2 Impact: what is the scale of potential demand?

Assessment of the feasibility and viability of shared equity mechanisms requires an understanding of the potential size of the market or demand for such a product. Government also needs to have a clear understanding of the possible take-up of schemes, the level of subsidy needed, any administrative and regulatory frameworks required, and awareness of exposure more generally given the complexity of this policy area. Where initiatives are considered an integral element of wider affordable housing policy, an understanding of the potential contribution shared equity schemes might play in meeting overall affordable housing needs will be important to justify resources. There are several ways in which potential demand can be assessed and identification of the prospective pool of users/participants will depend on the definitions used and policy parameters chosen. The potential market reach will also be shaped by the intended purpose and flexibility of access associated with the product.

Although the large majority of Australians would prefer to be home owners (Baum and Wulff, 2002), it is unlikely this aspiration can be met for a significant minority, irrespective of the particular characteristics of any shared equity scheme. This situation calls for a specific determination of the potential scope of the market for such schemes. In the context of initiatives seeking to provide a 'leg up' on to the housing ladder, policy interest has typically been focused on first home buyers on the 'cusp of affordability' (Williams and Bennett, 2004) and, in the UK and the US respectively, on 'key workers' or 'workforce households', who face being priced out of the high-demand markets where they work. There has also been a longstanding desire to promote mobility within the social rented sector that has added to the impetus to develop schemes, since movement of a household from this tenure to ownership can offer a 'double win' – freeing up resources for affordable housing and addressing aspirations for ownership.

Several approaches have been used to identify the scope and reach of the demand for products assisting access to ownership. The first, asking a potential target group whether they would be interested in purchasing a home under shared equity arrangements, provides a straightforward but simplistic snapshot. In Australia, Genworth Financial publishes an annual report on mortgage trends, which asks questions about alternative' products including shared equity. Recent reports indicate growing interest and potential willingness to consider such products – 30 per cent in 2006, increasing to 43 per cent in 2007. However, interest was more pronounced in moderate- to higher-income groups, rather than amongst the groups targeted by government schemes (Genworth Financial, 2006, 2007).

According to a survey conducted for Housing Tasmania, 65 per cent of respondents in the target group (those renting or living with friends and with income less than $1100 per week) felt that a proposed scheme would make it possible for them to own their own home, once it had been explained to them (EMRS, 2005). A more detailed assessment undertaken by Robert Charles Lesser and Company (RCLCO) (2007) provides useful context in that it focuses primarily upon interest in shared equity arrangements geared towards preserving affordability (deed-restricted models, community land trusts etc) rather than maximising opportunities for individual asset growth. The survey was targeted at existing renters with household incomes between 60 and 150 per cent of average median incomes (AMI) in three large US metropolitan

areas. Once the concept was explained, over 70 per cent of those surveyed expressed some interest in purchasing a home under a shared equity scenario, compared with only 3.5 per cent prior to explanation.

Clarke (2006) points out that demand is difficult to ascertain from surveys drawing upon expressed preferences. A high preference for ownership and the gulf between those aspiring to and those who can afford to buy, should not translate into assumptions that aspirant purchasers will seek shared ownership or shared equity arrangements. Given their position as an 'intermediate' market, the relative appeal of these products will be influenced strongly by trends in and relative appeal of other tenures.

A more robust approach is to consider the potential size of the market by defining the aims and objectives of a given initiative, and estimating market size by matching these parameters to socio-economic, demographic and house price data. There are some fairly well-established models for making such calculations, based on current unmet demand and estimation of future flows coming into the marketplace. For example, Wilcox (2006) scopes the extent of an intermediate housing market in England amongst younger working households. A narrow measure captures the proportion of those households that can afford to pay a social rent without recourse to benefit but cannot purchase at lowest decile prices for 2- and 3-bedroom dwellings. A broader measure considers the proportion that cannot purchase at lower quartile house prices for 2- and 3-bedroom dwellings[25].

To inform the Shared Equity Taskforce in England, DCLG (2006) produced estimates of the potential scale of the low-cost home ownership market (primarily related to shared equity/ownership potential) drawing upon recent CORE data, the Survey of English Housing and recent research undertaken by the Council for Mortgage Lenders (Bramley, 2004; Smith et al, 2005; Tatch, 2006)[26]. Table 5.1 illustrates the scale of current and newly forming renting households in England who would be able potentially to purchase under different levels of equity sharing arrangements. In the DCLG exercise, access to a 25 per cent equity loan meant that an additional 7 per cent of current private renters and 3 per cent of social renters could afford ownership. Even with the availability of a 75 per cent loan, around 73 per cent of social housing tenants and 47 per cent of those in the private rented sector would remain shut out of the market. The potential for shared equity arrangements to assist newly forming renter households is more constrained.

[25] This broader measure has informed our research interest in those households unable to purchase at lower quartile house prices (see chapter eight).

[26] A number of assumptions about basic household income and lower quartile house price data are used, but these do not factor in debt levels, availability of deposit and potential assistance from family and friends (Rowlinson and McKay, 2005; Tatch, 2006), propensity to purchase (Holmans, 2005) or size of households.

Table 5.1: Ability to afford ownership based on 75/25 and 25/75 equity loan products, by tenure and existing/newly forming households in England

	Current households		*Newly forming households*	
	Private (%)	*Public (%)*	*Private (%)*	*Public (%)*
Afford without assistance	22	6	11	3
Afford with 25% equity loan	29	9	19	4
(extra potential demand stimulated)	(+7)	(+3)	(+8)	(+1)
Afford with 75% equity loan	53	27	38	18
(extra potential demand stimulated moving from 25% to 75%)	(+24)	(+18)	(+30)	(+14)
Still not able to afford with 75% equity loan	47	73	62	82

Source: Adapted from DCLG, 2006

Although many of the percentages in Table 5.1 seem small, they translate into a potential market that is substantially larger than the take-up of schemes at the time. Using a similar methodology, Bramley (2004) suggests that around 25,000 households per annum would be enabled to afford ownership with a 75/25 equity loan (about three times the number of households assisted through government schemes at that time); this figure would rise to over 60,000 using a 50-50 equity loan model. To place these numbers in context, Bramley is careful to distinguish between potential determined by affordability and potential determined by actual demand, the latter being subject to consumer preferences and behaviour. This would suggest rather more conservative figures.

It is important to note that the likelihood of scheme uptake will also be influenced by the wider housing market and policy context. For example, established and new shared equity initiatives have had some success in the UK, though take-up of the new extended Open Market Homebuy product (jointly funded by lender and government equity stakes) has been relatively limited, as CORE trend data and evaluation activity illustrate (Core Sales, 2007). Similarly, Bramley and Morgan (2007) note that take-up of OMHS has been predominantly from younger private renters with low take-up from existing social renters. Although particular factors may help to explain these outcomes in the UK (such as the more favourable conditions of ‘Right to Buy’ for those qualifying for discount, the relatively low rents in the social housing sector and assured tenure), it does raise the issue of the extent to which products can be developed that will be attractive to those households that are both eligible for and capable of servicing such loans.

5.3 Targeting of shared equity initiatives

Determining clear parameters for eligibility is important: they help to provide greater clarity about government objectives and the role of shared equity mechanisms in delivering these, and help to guide the allocation of limited resources to meet those objectives. Policy on shared equity cannot be tied to those who are in ‘most need’: a certain level of financial capacity on the part of any subsidy recipient is also required. The challenge in terms of targeting becomes one of assessing whether those groups to be helped require assistance given their current circumstances but might be able to

participate unaided in the market in time, or whether market changes make intervention necessary in the short term and the longer term[27].

5.3.1 Eligibility criteria

Those Australian states and territories which have established, or are in the process of setting up, shared equity initiatives have adopted broadly consistent eligibility criteria to achieve a targeted approach. As discussed in chapter 3, these are based essentially on three parameters: maximum household income, maximum property value and maximum proportion of equity share that can be held by another partner. The parameters can be adjusted in response to market conditions and availability of subsidy/funding. Typically, minimum deposit levels, the value of any non-property assets, and residency conditions are also taken into consideration. Although criteria may vary across different market and policy contexts, it is interesting to note that products across Australia and internationally share some broad similarities (see Table 5.2).

Table 5.2: Eligibility criteria, international comparisons

	Maximum equity 'grant'	***Maximum household income per annum***	***Maximum property value***
Western Australia: First Start	40%	$80,000	$375,000
Northern Territory: HomeNorth Xtra	30%	$71,000	Regional variation, $310,000 in Darwin
California: City of San Diego shared equity program (City of San Diego, 2007)	25%	US $74,100 ($79,500) 80% AMI, 8-person household	US $454,100
England: First Time Buyer Initiative (English Partnerships, 2007a)	50%	Up to £60,000 ($138,000) Priority worker criteria	Tied to particular product
Scotland: Open Market Homestake	40%	Up to £25,100 ($60,240)	Not specified

Although Australian and UK shared equity initiatives' income criteria broadly correspond to median household incomes, there has been a degree of upward stretching in order to enable suitable property to be purchased. This has certainly been the case in the UK, where households with incomes up to £60,000 ($138,000) may be eligible for *Homebuy*, although 'key worker' criteria remain. After just one year of operation, criteria for WA's *First Start* have also been revised upwards (significantly in the case of maximum income – from $70,000 to $80,000). US shared equity initiatives often structure maximum income criteria to be based on a percentage of local Area Median Income (AMI). These figures are calculated by the Department of Housing and Urban Development (HUD) and updated annually. Schemes seeking to assist households into the conventional market are typically geared towards those on

[27] Declining housing affordability has been identified as a core driver delaying or restricting entry of young households into home ownership (Baxter and McDonald, 2005; Beer 1999; Beer et al., 2006; Burke and Ralston, 2003; Wood and Stoakes 2006; Yates, 2002a). From this perspective, the policy rationale for intervention seems well grounded. Nevertheless, concerns remain that shared equity schemes, despite being 'targeted', may assist those who have similar profiles to those that they do not assist, with differentiation being to a certain extent defined by varying life stage attitudes, behaviours and expectations.

80 to 120 per cent AMI. More prevalent 'subsidy retention' initiatives, usually involving a smaller equity share purchase, can be made available to households with 60 to 80 per cent AMI.

A consistent component of eligibility assessment across Australian and international schemes is the role taken by the government departments, agencies (such as Homestart and Keystart in Australia) or intermediary bodies in processing applications, and ensuring compliance. In the UK, where funding is provided centrally, most schemes are administered through agents such as regulated Housing Associations, although eligibility determination may also derive from LGA requirements, Regional Housing Boards or some discretion given to developer partners. Such intermediaries are charged with ensuring effective targeting of funding, but also play an important role in promoting sustainable home ownership by ensuring household budgets are not stretched[28]. They also perform an education function, assisting potential purchasers to understand the advantages and disadvantages of products. In the US, applicants are required to attend a homebuyer education class given by a HUD-accredited agency.

5.3.2 Actual take-up of schemes

To assess the extent to which approaches to eligibility lead to the outcomes intended (and in turn minimise leakage), the profiles of customers who are successful in applying for and taking-up the product can be considered. Australian shared equity schemes are very much in their infancy, and these short timeframes mean that data and information collected as part of an initiative's implementation and evaluation will be limited. Nevertheless, some broad customer characteristics for *First Start* and *HomeNorth* shared equity customers can be identified, as follows.

- *First Start*: Of applicants to mid-2007, approximately 80 per cent of product approvals and pre-approvals have been given to family households (with children), and around 20 per cent to couples and singles. Activity has been primarily focused in Perth, with a metropolitan/regional split of roughly 85/15, broadly consistent with WA's population distribution.
- *HomeNorth/HomeNorth Xtra*: Customer profiles indicate a strong emphasis on single-person households (over 60 per cent) and, in particular, single female-headed households. Couple households account for little more than 20 per cent of the total. The average age of clients on take-up of the scheme is in the early to mid-thirties, with average household income approximately $43,000. Profiles differ according to percentage of equity share taken up, although these variations are not significant, except within the minimum customer equity-share band (70–74 per cent), where average incomes are lower[29].

It is important to note that these profiles reflect different policy drivers but also capture data over different timeframes. Crucially they need to be placed in the context of particular housing market conditions over time. Many *HomeNorth* customers have been clients for a number of years and bought their properties prior to the recent

[28] Under shared ownership arrangements where housing costs comprise both mortgage repayment and rent components, application of eligibility criteria and affordability tests lead to a tendency for housing cost-to-income ratios to hone in on set 'affordability levels' – for example 30 per cent or 33 per cent. This ratio is likely to be higher than for other first time buyers. Furthermore, lower income households are likely to be only able to buy a small share of the total cost against maximum lending criteria, but be faced with a large rent on the portion they do not own (Clarke, 2006).

[29] These summary characteristics are derived from WA Department of Housing and Works information and Stamfords Advisors and Consultants for Department of Local Government, Housing and Sport HomeNorth Review Final Report, February 2007.

house price boom. By contrast, the first WA *First Start* customers have purchased in 2007 following the dramatic increase in prices in 2005/06 in that state.

Assessment of the impacts of targeting in the UK is useful because of the longer history of government support and the availability of several evaluations. The CORE dataset in England, which has collated Low Cost Housing Ownership[30] (LCHO) data for almost 20 years, provides valuable insight into the socio-economic and demographic characteristics of LCHO purchasers. The most recent report highlights the following key data: average household incomes of those taking part in shared equity schemes are in the £27,000 to £34,000 range ($60,000 to $75,000), over 60 per cent of clients are aged between 25 and 39 years and the predominant household types are lone-adult and two-adult households. Most shared equity purchasers were previously in private rented accommodation or still living at home. They were mainly first-time buyers and acquired equity shares predominantly in the 45 to 54 per cent range. Deposit levels are typically low, and the mean cost of property purchased for shared ownership (£175,000 or $385,000) and *Open Market HomeBuy* (£155,000 or $340,000) reflects entry values in the higher value markets of London and the southeast where take up of the scheme is concentrated (Core Sales 29, 2007).

The initial evaluation of *Open Market Homestake* in Scotland also provides profile data for applicants from the pilot stage of the program (Bramley and Morgan, 2007). Eighty per cent of purchasers using the scheme were under 34 years and 79 per cent were single-person households. The average income of households taking part in the pilot scheme was £17,110 ($41,000) and average property values of £106,239 ($255,000) (Bramley and Morgan, 2007). Bramley and Morgan suggest that the eligibility criteria and structure of *Homestake* point to its particular strength in assisting small households with a single earner on modest incomes to buy in a high-demand market.

A review of low-cost home ownership policies in Wales analysed 250 unit record files of Homebuy purchasers since 1995 (DSJR, 2006). While income-price multiples rose slightly over the period, there was a profound shift in the type of household making use of the scheme over a decade. In 1995, 50 per cent of the sample was either single people or single parents; by 2005 the proportion of these household types had fallen to 20 per cent. As noted by the review: "[b]ecause the *Homebuy* scheme has offered the same product at the top of the housing market cycle as well as at the bottom, the type of households who can afford to purchase with *Homebuy* at the top of the market are very different to those who can afford to purchase with *Homebuy* at the bottom" (DSJR, 2006, p. 85). There has been a corresponding sharp increase in dual-income households. While much of the change reflects societal shifts generally and, arguably, those in need of assistance will be different given changed market conditions, the reviewers note that the program "has adjusted to the change in incomes by shifting up the income scale, and by supporting dual earner households, rather than by assisting lower paid households borrowing at the higher multiples of earnings that are available in the current mortgage market" (DSJR, 2006, p. 86).

Overall, evaluation of UK schemes has provided a generally positive story in terms of assisting households who would have been unable to enter home ownership without some form of assistance. The large majority of those accessing schemes had previously been living at home or renting privately. Although only a small proportion had been in the social rented sector, Clarke (2006) suggests that around one-quarter

[30] Low Cost Home Ownership incorporates those purchasing homes, or purchasing part equity in homes through Right to Buy/Right to Acquire, shared ownership, Starter Home Initiative (Key Worker Living), Social HomeBuy, Open Market Homebuy.

of households taking up these schemes would otherwise have gone into social housing. Similarly, the assessed 'deadweight' of schemes – i.e. those who would have been able to purchase using a conventional home loan – is relatively low (Hills and Lomax, 2007). Targeting success becomes grey in the area of choice of property size and location. Many households have been found to buy a 'spare bedroom' (Bramley, 2004) or buy in their local area instead of having to move to a cheaper cost location (Clarke, 2006).

5.4 Externalities: housing markets and shared equity initiatives

Interest in the scope and viability of shared equity from a housing policy perspective is tied inherently to housing affordability concerns. Therefore, the structure and operation of housing markets and supply-side and demand-side dynamics are central to assessments of the potential of a given initiative. In this section, we examine the interrelationship between housing markets and shared equity initiatives. This interest can be considered in two ways. Firstly, what are the impacts of shared equity initiatives in terms of supply/demand characteristics and broader affordability trends in the market? Secondly, how does market context and the point in the market cycle impact on the viability and relative attractiveness of shared equity schemes?

5.4.1 Demand-side stimuli

A common concern with shared equity schemes is that they might exacerbate current affordability problems in local housing markets. Unrestrained and untargeted shared equity products potentially unleash significant market liquidity on the demand side, pushing up purchasing capacity and fuelling house price inflation, particularly where supply is unresponsive. Berry raises the concern that they "may simply serve to improve the options of those already well-entrenched and catered for in housing and investment markets" (2003, p. 426). Van Wyngen argues that "increasing the funds available for the purchase of existing homes would force prices up, placing home ownership further out of reach to low-income households" (2002, p. 27 quoted in Berry, 2003, p. 426).

There is also concern that even policy-directed, government-led schemes may be detrimental to affordability levels more generally. For instance, this could occur where their presence in the market provides benefit for eligible purchasers participating in the scheme but leads to deteriorating access for those who just miss out. Where schemes are focused on assisting a particular demographic, or on enabling property purchase within a relatively narrow range of price points or in specific geographical markets, the potential for particular submarkets to be distorted will be greater.

The potential for adverse impacts on local housing market is flagged as a principal concern in a recent report by the Committee of Public Accounts into LCHO assistance in England, with a number of recommendations arising. The report noted that:

> Good knowledge of local housing markets is important as there is a risk that if misdirected, low cost home ownership assistance can make homes even more unaffordable by increasing demand in property hot-spots, or in sectors of the market where demand is already high, so pushing up house prices … While the numbers of first time buyers helped in the Midlands are too small to have an inflationary impact, low cost home ownership purchases represent 7 per cent of all purchases by first time buyers in London (House of Commons Committee of Public Accounts, 2007, p. 11).

However, the Shared Equity Task Force report is more bullish, suggesting that "while there will be an impact from this assistance on overall house price inflation (to the

potential detriment of those households not being assisted) the actual effect will be small given the overall size of the housing market and the many other factors that impact on it … The impact of these schemes should also be seen in the context of the policies that might otherwise have had to be employed to deliver the same outcomes, and which might have a wider impact on house and general prices" (HM Treasury/DCLG, 2006, p. 31).

Similarly, the evaluation of Wales' Homebuy argues that the scheme is "in fact, quite marginal in relation to the size of the market for home ownership and this suggests that there can be very little impact from the Homebuy program in adding to inflationary pressures in the housing market" (DSJR, 2006, p. 3). Bramley and Morgan's (2007) assessment of the impact that Scotland's Open Market *Homestake* pilot may be having on house prices in the area estimated that the impact of the scheme on house prices in the operating region is likely to be 1.5% +/- 0.6%, although this may be greater in the submarkets where purchases are concentrated. Scenario testing suggests that upward pressure would occur if the scheme was extended further, resulting in some element of displacement of other households from house purchase.

A further potential concern with market impact, noted in the context both of *Homestake* in Scotland and Wales *Homebuy*, was whether the structure of the grant facilitated 'excess' purchase and thereby pushed segments of the market to a particular price-point. While this may have encouraged some leakage (in terms of purchasers being able to purchase a property beyond what might be sufficient to match their need), the *Homestake* interim evaluation noted that purchases within Edinburgh – the most heated part of the Lothian region market – were essentially one- or two-bedroom tenements in the relatively more affordable suburbs of the city (Bramley and Morgan, 2007). In the case of Wales *Homebuy*, the Welsh Assembly Government commented that the scheme "appears to to have allowed some purchasers to acquire property larger than dictated by their immediate needs, or in more favourable locations than they would otherwise have been able to afford" (DSJR, 2007, p.1).

5.4.2 Supply-side measures

An important response to concerns about inflation and affordability risk through stimulation of demand is recognition that corresponding supply-side measures may be required for shared equity schemes. These can mitigate such pressures by adding to the stock of available affordable housing. To date, Australian initiatives have been primarily a demand-side response: they allow purchasers to buy in the open market and have few measures to preserve ongoing affordability. Schemes such as WA's *Good Start* and Queensland's *Pathways* can be considered 'neutral' in that they relate to existing social housing stock[31]. Victoria's *Ownhome* is tied to new supply, although the numbers involved to date are very small and are allocated units within planned provision, rather than being the driver for new provision *per se*. A particularly interesting development has emerged recently in Western Australia based upon the early success of *First Start*. Although it is possible that prices might have been pushed up towards maximum eligibility values (currently $375,000), there is also evidence that developers are responding to this price point, advertising new properties just below allowed values and explicitly tying them into the opportunities provided by *First Start*. Arguably, this points towards the market responding – through supply of an 'affordable' product – to a demand-side measure.

[31] Although they represent an addition to the owner occupied market and a reduction in social rented sector stock at the aggregate level.

In the US, co-operatives and Community Land Trusts (CLTs) have provided a focus on preserving affordable provision. Covenant measures can be used to ensure that a land trust or cooperative has the first right of refusal at resale, to determine allocation of properties at resale and to determine the 'market price' and apportionment of an agreed percentage share of any gain, through use of a pre-determined formula[32]. This helps restrict over-inflation in this market sector.

In the UK, supply-side strategies have been incorporated into models that either retain affordability or maximise individual equity. To a degree this reflects a legacy of housing association development of shared ownership schemes and affordable housing contributions enabled through planning gain. More recently, the UK Government has sought to maximise value from its land holdings to enable 'subsidised' development of new build on these sites, for example English Partnerships' First Time Buyers Initiative (FTBI) and through developer-Housing Corporation partnerships (allowing non-housing association developers access to social housing grants).

While such supply-side measures are important, the connection of supply to shared equity product at the site of specific dwellings creates a defined market, the constraints of which are somewhat counter to the flexibilities enjoyed and valued by buyers in the open market. Where such arrangements produce long-term, secure housing options, the issue of on-sale and relationship with the wider market may be less relevant. However, where households plan to step up and enter the open market, the interplay between these two markets will be important. Therefore, there are risks that, when initiatives operate within a specific submarket, the relative attractiveness of the housing so financed will decline at times when price pressures in the open market subside.

5.4.3 Housing market impact on shared equity viability and attractiveness

As well as having potential impacts on housing markets, the viability and attractiveness of shared equity initiatives are shaped in turn by housing market contexts. There are two important issues to consider in this regard: forecasted growth in house prices, and the appropriate point at which shared equity schemes should be initiated in housing market cycles.

Price growth (or decline) is relevant to both individual equity and subsidy retention models, but inevitably more so where shared appreciation arrangements underpin the relationship between primary owner and partner. From the consumer's perspective, equity growth clearly is beneficial. However, while strong price inflation may appear attractive to both parties sharing those equity gains, purchaser benefits will be countered by general increases in the market, if they seek to move up the property ladder. Indeed, where the owner seeks to 'staircase' their equity stake without selling, rapid price increases will make paying off those tranches all the harder[33]. Alternatively, while static prices or declines are not ideal, shared equity arrangements

---

[32] Jacobus and Lubell (2007) outline a number of models:

- → An index-based resale formula. This ties the resale price to changes in local median income/CPI. This ensures affordability for households with comparable purchase power to the original buyers;
- → An appraisal-based resale formula. This is tied to market value however the share is typically modest in order to balance individual equity gain with ongoing affordability; and
- → Affordable housing cost. This takes no direct account of market price, but considers the target group intended and stipulates affordability to determine the maximum resale price.

[33] In the late 1980s in the UK with a number of early shared equity products available, the rapid rise in house prices led to substantial returns to investors but left the borrowers unable to move up the ladder into full ownership (HM Treasury/DCLG, 2006).

can be seen as beneficial to consumers facing such circumstances. Where returns on the equity loan are deferred and to be taken as a proportion of equity gains, the purchaser benefits in effect from an interest free loan if prices do not increase. Similarly in the case of price falls, the partner usually takes a hit relative to their equity share.

For lenders and investors, such loans inevitably work better in well-performing markets than in flat or declining markets. This is particularly so for non-subsidised products that perform most effectively in relatively high value, high demand markets where consumers may seek to buy out the equity share held by the institution over a short period of time[34]. As Bibby (2007) notes, mortgage equity funds for these non-subsidised products are expected to be managed actively to focus on locations that are expected to outperform broader city house price medians (and house price derivatives have the potential to protect investors and others when markets are less buoyant).

For government, steady market growth is also advantageous since the partner benefits from their proportional share of any gains. These funds can be recycled into ongoing support for assisted entry into affordable housing, if and when an original purchaser moves on or achieves full ownership. Inevitably over time, where house prices continue to grow at a faster rate than household incomes, the level of 'subsidy' required in terms of public equity share will grow (as illustrated by Jacobus, 2007). However, a community-based shared appreciation model can provide the basis for self-sustaining provision of affordable housing for the target group, when appropriately structured.

The second consideration relates to timing of interventions and the cyclical nature of housing market activity. As Bramley (2004) notes, in the early stages of an upswing, affordability levels tend to be relatively good, reducing the need and demand for shared equity. By the time the market is overheated, affordability declines and demand for such products increases, the risk of limited or negative return to lenders increases significantly given that the likely forward direction of the market is downwards.

It is interesting to consider the reaction to New Zealand's proposals for a shared equity schemes – due to be launched mid-2008 – given the current market context[35]. Although affordability constraints are at all time highs (particularly in the Auckland metropolitan area) and some of the reaction to the proposals has been positive, concern has focused upon the timing of such a scheme and the risks involved with entering into such arrangements at the height of the market cycle. Concerns have been voiced that it is the wrong time to be encouraging home ownership amongst groups perceived as being a higher risk, with commentators questioning whether government underwriting of such schemes is in effect investing tax dollars in an overheated, overvalued market[36].

---

[34] As discussed in chapter six, the unpredictable value of the investor's equity share is a key risk factor facing the development of this market.

[35] New Zealand's shared equity policy has had a slow gestation: clear intent was first mooted in the 2006 Budget, and the 2007 Budget announced provision of NZD $1.4 million for a pilot in that year. Details of the scheme have yet to be published although it is likely to share many similarities with the principal Australian initiatives.

[36] Announcements of shared equity proposals sparked considerable debate on NZ websites including interest.co.nz, www.interest.co.nz/ratesblog/index.php/2008/02/12/clark-eyes-shared-equity-scheme, NZ herald www.nzherald.co.nz/feature/story.cfm?c_id=1501154&objectid=10492012 and kiwiblog, www.kiwiblog.co.nz/2008/02/14 (All accessed March 2008)

5.5 Summary

This chapter has identified several key policy considerations in terms of the potential scale, scope and impact of shared equity initiatives. Evidence from both Australia and overseas indicates that 'taking shared equity to scale' (Lubell, 2007) will be a substantive challenge. Although it is likely that schemes currently in operation are unlikely to meet the full demand for those products, the constraints reflected in their parameters point towards a potentially, but not substantially, larger market. Inevitably, shared equity arrangements require households to be able to service a part-mortgage arrangement, and therefore a certain level of income (typically towards median levels) is required. On the other hand, government needs to ensure subsidy is targeted to those most in need (but who are still capable of servicing a part-mortgage) by setting maximum qualifying income and purchase values. Loosening up those eligibility criteria risks leakage and 'deadweight', weakening the benefits of the policy, and also might generate inflationary impacts. Conversely, making products available to those on low incomes requires retention of a greater equity share by the partner. The latter approach moves products more towards subsidy retention and long-term 'alternative' tenure provision, rather than a step onto the property ladder.

This raises a simple, but fundamental, need: clarity of policy objectives will be essential. At this stage in this research, options have been left open to acknowledge that supporting access to ownership underpins current Australian approaches, but also not to preclude consideration of 'subsidy retention' models (as yet poorly developed here) that may provide a useful component of wider housing affordability strategies.

6 INSTITUTIONAL AND INVESTOR CONSIDERATIONS

While policy makers can identify a need, provide a rationale for, and develop an optimum product or series of products to meet the objectives of policy intervention, translating such plans into operation will be highly dependent upon the responsiveness of lenders, investors and regulators. In determining the appropriateness of subsidy provision, the issue as to what extent the market can be encouraged to facilitate these goals is of course a core consideration. While the findings of this research argue that the private sector is unlikely to develop targeted products without some form of subsidy, debate remains as to how government and lenders can work together to provide a mutually beneficial way forward whereby those subsidies may be minimised.

As Caplin et al. (1997) note, more innovative mortgages that bridge the gap between debt and equity may provide profound affordability enhancements for borrowers. Similarly, understanding the institutional needs and requirements of private lenders is vital to underpin policy-directed activity. Where these considerations are incorporated directly into policy and product development, they can reduce the costs to government substantially and thereby stretch the number of households that can be helped with the same amount of public subsidy.

In this chapter, we focus on institutional and investor considerations and the issues involved in making shared equity 'work' for finance providers. This brings together previous literature and reports in this context and insight provided by seventeen interviews conducted with various institutional investors and other key informants as part of this research. Those interviewed included mortgage lenders with an interest in shared equity and those that had schemes in development or under consideration, and a number of public officials and other stakeholders in the housing finance industry. A full list of interviewees and further details of this research component are provided at Appendix 3. At this early stage of research the questions directed to interviewees aimed to elicit the mortgage industry's own perspectives and understanding of the different models and their potential role; consider the impacts such products might have in terms of access to home ownership and on the wider housing market and identify whether, and how, government and lenders need to work together to underpin shared equity loans and their policy and regulatory implications.

6.1 Lender perspectives on shared equity prospects in the Australian market

Many lenders acknowledged the potential of shared equity schemes, although it was noted that there were difficulties both in their relative attractiveness to the borrower and particularly in the structures that need to be in place behind such loans. Several are actively researching equity loans and took the view this market had to come into being. Continuing global mortgage market disruption was felt to be likely to slow development of such loans rather than prevent it completely. Certainly a number have been in product development stage for some time; others have suggested they will not launch.

Many lenders questioned the rationale for promoting shared equity arrangements in our discussions. For some, they represent a complex response to well-understood 'market failures' for those at the margins of home ownership, or from a lender's perspective, government policy failures to keep house prices and wages in alignment (i.e. the failure is perceived to be in the demand/supply balance). The fact that there

are few equity loans readily available for those on the margins reflects risk aversion and prudent behaviour by lenders and regulators. An intermediate market to which shared equity arrangements could be targeted is not a familiar concept. Lenders recognise a spectrum of market situations, but it is within the market that they have adjusted products and pricing to help those on the margins of home ownership, rather than through 'quasi-arrangements'. This is evident in terms of product evolution seen in recent years: more flexible products; a wider spectrum of products to reflect different credit histories; interest-only, reduced deposit requirements; and family contributions are all ways in which the market has adjusted to 'the squeeze'.

Creating an intermediate market raises questions as to whether this a temporary market while prices are high, or a permanent market but with temporary 'residents' as they move through to the mainstream market. A number of lenders were concerned about the potential inflationary impacts of shared equity schemes. This took them towards the view that such schemes were misplaced and that it was better to focus on more conventional products and the ways in which these could be adapted to help first-time buyers, for example, interest-only and low-start mortgages.

6.2 Product complexity, perceived risks and pricing loans

Providing any loan involves risk for the lender, as there is always a chance that difficulties will arise during the term of repayment. Part of the interest that borrowers pay on loans covers this risk, and lenders incur less risk when collateral is provided to secure the loan (Aalbers, 2005). Shared equity loans can be seen as potentially more risky in a number of regards as follows.

- → Target groups for government-backed schemes, given minimal deposits requirements and lower qualifying incomes, may be perceived as more risky than those eligible for conventional home loans. Even if the equity loan was self-financing (i.e. unsubsidised), product appeal vis-à-vis other loan options is likely to be limited to those with credit or income constraints in the short term, who again would be considered more risky (Bramley, 2004). This constrains the size of potential market and pushes up the premium.
- → At the formative stages of product operation, lenders inevitably have limited understanding of product performance, which would assist them to 'structure and distribute house price risk so that it generates the return financial institutions expect' (HM Treasury/DCLG, 2006). It is difficult to forecast the likely balance between risk and return, and to predict how and to what extent shared equity consumer behaviour may differ from consumers of mainstream market products. Bramley (2004) suggests that assumptions based on house price growth cannot substitute fully for a normal interest rate, and that the volatility tied to the housing market points to equity-based loans being a riskier form of lending which the industry would price accordingly.
- → Equity loans are for an unknown period with an unknown return. The period is dictated by the length of time the borrower remains in the property before selling and redeeming the loan (unless the borrower can make lump sum payments periodically).
- → Given the immaturity of the shared equity sector, what happens at the time of purchasers wishing to sell (and probably) trade up remains a large unknown component of the market. In our discussions, lenders were concerned about the possibly widening gap between wages and prices and thus any borrower's capacity to buy out the equity loan. Downstream, it gets more difficult in the sense that normal market mobility might be constrained because the borrower has less

of the uplift available to them to help them move elsewhere, especially in a strongly rising market.

6.3 The lender/government interface

Lenders identified an important role for government in helping mitigate these perceived additional risks and in facilitating the financial regulatory structures needed to respond to the specificities raised by shared equity products. There are issues around taxation of the uplifted value (how and when), the accounting treatment of the potential uplift, the regulatory capital treatment in terms of Basel 2[37] and the selling treatment in terms of how lenders and brokers advise and sell a product, the cost of which will not be known for some years. Greater clarity in these areas is essential to market development and should be progressed. Lenders regard these as vital building blocks where government could assist market development significantly.

Beyond enabling more conducive institutional arrangements, there was also a general view amongst lenders that schemes for marginal buyers had to be supported by government. Reasons given for this included the following:

- Government involvement provides reassurance against both financial and reputation risk, given the position of buyers on the margins of accessing home ownership. Possible concerns could arise in a variety of ways, not least on redemption where, depending upon the structure of the product, the borrowers may feel they have to pay back excessive amounts, leading to accusations of foul play by lenders. Backing by government helps to reduce that risk and would also give borrowers more confidence in the product.
- Lenders would not want to hold significant equity risk on their books, given the more vulnerable position of the borrowers in terms of the credit risks they face. In the absence of a major investor market, government is the natural holder of that risk. Subject to the appetite of governments to hold risk, this means the market can expand (as governments are able to recycle receipts) without facing an investor constraint.
- Government equity loans are seen as sensible and helpful and indeed are quite attractive from a lender perspective. If the lender's mortgage is the first charge and then is backed by a government equity loan (which takes first loss along with any borrower deposit) this makes the private loan very secure. This should mean it would be possible to secure very competitive first mortgage pricing. Though the borrowers may be marginal, in lender terms government is providing them with a large deposit.

Although many lenders in our discussions gave reasons why government involvement was desirable, concerns were also expressed that policy 'interference' could make product construction and delivery more difficult in other ways, not least around the target borrower market. For government-backed schemes to have long-term potential and the capacity to become profitable 'joint' ventures, lenders would want government to recognise at the outset questions around commerciality and the ways that programs might be structured. In this context, some lenders recalled previous state-backed programs and the ways they failed, as outlined in chapter 3.

Establishing policy and regulatory parameters early on would assist development in terms of target market, and funding sustainability, and in establishing the framework in which the private sector might get more involved over time as the product and the market proves itself. Multiple product structures across Australia make it harder for

[37] Basel 2 refers to an agreement in 2004 to develop an international standard for provisions to be made by banks for the financial and operational risks that they face.

lenders to engage, because of the additional set-up and running costs in each jurisdiction and the fact that each market remains small. In this regard, lenders and investors will be looking for scale. The smaller the market, the less cost efficient it is and the less attractive it is in terms of time spent on development of information technology, legal work, product development, advertising etc. Put simply, if it is too small it is unlikely to get much priority, except perhaps under a corporate social responsibility badge[38]. Lenders' views of whether this should be a national market or a state market varied: some seem content with the latter while others advocated the former.

A second important consideration in policy development from a lender's perspective is that a loan-based scheme (that is, allowing purchasers to buy a property on the open market) is different to a property-based scheme (where access to equity arrangements are tied to particular properties in particular locations). The need to keep a property in the scheme is negated under a loan-based scheme. The issue for government is the recycling of the capital receipt received on the sale of the home – i.e. how it captures the uplifted value and how it uses it. There is potential to develop a secondary market with government selling down mature equity loan books. This would release substantial funds for reinvestment, although it must be recognised the loans may have to be sold for less than a calculated face value (given that the new owner would assume house price risk going forward).

6.4 Investor considerations

Investment in the residential sector through private home ownership represents the key asset class of most individual households. In the Australian context, it is also a key investment vehicle for many 'mum and dad' investors. Nevertheless, the property market (and particularly the residential sector) is often considered poorly developed in comparison to other markets. Therefore, finding ways of facilitating innovation and resolving potential barriers to private sector involvement will be significant components of having a viable approach to the development of shared equity housing products. This can be seen as relevant whether government-backed or private-sector led initiatives are considered.

The challenge here is to develop equity trading mechanisms that will enable a secondary market to emerge. In effect, a system for futures trading in housing is required (HM Treasury/DCLG, 2006), underpinned by a reasoned confidence in the long-term growth potential of the residential sector as a whole, mediated by the recognition of cyclical and unpredictable activity in such markets. 'Bundling up' assets, securitising[39] those assets and establishing a market potentially addresses the longstanding weakness of relative illiquidity in this sector. Our discussions with lenders also identified that the creation of a house price derivative, through which an investor could offset the risk of a downturn in prices, would be an additional powerful aide in this regard.

In a recent report for Mercer Investment Consulting, Bibby (2007) suggests that investors could be attracted to equity mortgage portfolios because they can gain a cost effective exposure to the residential property market and can obtain a "leveraged

---

[38] It is suggested that a small market would be one with less than perhaps $100 to $200 million in loans per annum, expressed in terms of the overall value of the homes (i.e., if $300,000 was the typical purchase price, this would equate to 500 equity loans and mortgages).

[39] 'Securitision' refers to the conversion of assets (usually forms of debt) into securities, which can be traded more freely and cheaply than the underlying assets and generate better returns than if the assets were used as collateral for a loan. One example is the mortgage-backed security, which pools illiquid individual mortgages into a single tradable asset.(SG CIB, 2008)

return on the asset class without the typical leakage costs of stamp duty, asset maintenance or management". Through such mechanisms, investors gain cost-effective exposure to real estate investment with a diversified portfolio of individual properties (thereby spreading risk) while benefiting from the active management of the portfolio on the part of the provider by location, property type and borrower demographics. Importantly, such products potentially also provide large fund holders access to a substantive asset-class which has been highly fragmented and inefficient to date. As discussed in section 3.4, Rismark has been in the process of raising investment funds in support of its EFM product. The Rismark Active Property Trust (RAPT) will enable investors to buy and sell units, with returns linked to the future capital value of the residential properties against which loans have been taken out.

Caplin et al. (2007) note that investor appeal to date in shared appreciation models has been limited due to uncertain rates of return and low liquidity as a result of return only becoming available at point of sale. Addressing these concerns, they propose an equity pricing mechanism that makes the cost of capital to the borrower over and above price appreciation – i.e. the return to the investor – independent of the holding period. The amount due at termination corresponds to a share in the value of the home that increases the longer the loan has been outstanding. This is designed to speed up the transition to ownership and thereby to provide the investor with greater certainty in the timing of return flows.

Although innovations such as this can identified, financial interest in specific shared equity options remains relatively limited[40]. The potential damage of the US sub-prime crisis to financial institution and investor appetite for market innovation, whether robust or not, is clearly an important consideration for the foreseeable future. With the collapse set in train by low-start loans coming to term and the slowed economy of recent years, the risks of a poorly scrutinised and regulated approach are startlingly apparent. The negative fallout from product innovation in sub-prime lending and the securitisation and circulation of debt are likely to provide major challenges to future institutional and investor propensity for other products, which by their nature represent higher risk than mainstream products, at least in the short term. The risk is that shared equity products are clumped together with negative equity and reverse mortgage loans and classed as 'fringe lending' products.

6.5 Summary

Our discussions with lenders explored issues facing, and the potential perceived for, both government-backed schemes with lender equity loans and a fully functioning private sector-led market with lender/investor equity loans and mortgages. Generally, our findings reinforce the view that private sector-led shared equity products are likely to see some expansion in the Australian market but this will be a trickle rather than a rush, perhaps achieving at best around a 10 per cent share of the mortgage market. Any growth will be hugely dependent on investor appetite and this could be expected to come forward slowly in the current climate. Lenders also appear keen to back the existing government-backed market, albeit with different views about how best to do this. They indicate that government could do more to help open up and expand this market through better data on existing experience, providing more clarity on target groups and revealing their funding appetite overall.

Dialogue about and development of schemes between lenders and government has, arguably, been less concerted in Australia than in other countries. In part, this can be

[40] There is, however, a well-established use of mechanisms (such as Low Income Housing Tax Credits (LIHTC) in the US for securing and combining funds in mixed equity arrangements to help fund new affordable housing and underpin preservation of existing low cost stock.

viewed as a response to the ‘protected’ market position of government-backed agencies, such as Homestart and Keystart, which have developed viable and popular schemes in the states in which they operate. While this has obviated the need for wider participation to a certain extent, issues remain about how scale is built up from these jurisdiction-based schemes, either by extending them nationally or via opening up schemes so that shared equity lenders can benefit from the perceived choice and flexibility enjoyed by those in the ‘conventional’ home loan market.

7 CONSUMER ATTITUDES AND BEHAVIOUR

As discussed in chapter 5, determining the potential demand for shared equity products is a difficult task. Inevitably, product characteristics and eligibility criteria will shape a target market. However actual take-up on the part of consumers will be dictated by expressed preferences and assessment of the relative costs and benefits of options available to them. A key challenge will be unfamiliarity with shared equity as a concept – as loan structures are more complicated than conventional home loans. Although opportunities for lower entry and ongoing housing costs will be recognised, willingness to offset future capital gains to enable this depend in large part on how consumers "formulate their expectations of future changes in prices, incomes, interest rates" (Bramley, 2004, p. 23). To date, Australian residents have had limited exposure to shared equity schemes (especially in those jurisdictions where government-backed schemes are yet to develop). Moreover, other innovative finance products, such as reverse mortgages and rent–buy models, may have more profile, which could be confusing to some consumers.

In this chapter, we consider a number of areas that are central to developing understanding of potential consumer behaviour and interest. Firstly, existing research is drawn upon to explore questions regarding: general awareness; understanding of product operation and preferences in product design and flexibility; and perspectives on how shared equity works over time and what happens at the time of 'moving on'. We then report on insight from a series of interviews with existing customers of policy-directed schemes in Australia that were undertaken as part of this research.

Although these interviews do not (and were not intended to) achieve a statistically valid sample, the results help to identify key issues underpinning customers' initial and subsequent engagement with schemes and, thereby, provide a basis for structuring our further research (see chapter 8). As the interviewees comprise both recent customers and purchasers who have owned their property for some time, the interviews also provide the opportunity to consider how consumer views and perspectives may evolve over time. Gaining these views is vital not only to identify characteristics related to the successful take-up of schemes but also to provide pointers about how perspectives adjust as customers 'live' with shared equity arrangements, through changes in the housing market and the wider economy, and in their personal household circumstances.

7.1 Existing research on customer attitudes towards shared equity

7.1.1 Awareness and initial appeal of shared equity concepts

It may be expected that awareness of shared equity as a concept, and awareness of the advantages and disadvantages associated with specific products, will be greater in countries where a range of low-cost home ownership initiatives have evolved. In the UK, shared ownership and early forms of shared equity have existed for many years. Because they have typically been originated through central government and the Housing Corporation has administered them, the reach of such schemes has been national. When tied to supply-side mechanisms (see chapter 3), commercial marketing of the concept has also taken place, adding to public exposure. Bramley and Morgan (2007) found that applicants had become aware of Scotland's *Open Market Homestake* largely through word of mouth (almost 25 per cent of respondents), financial advisers, the press, housing associations and the local council. Welsh *Homebuy* has proved popular, with lists oversubscribed without the need for extensive marketing activity (DSJR, 2007).

The smaller scale presence of similar products in Australia means that shared equity schemes have relatively less markers to provide context and a point of reference. Indeed, research undertaken on behalf of a number of states has demonstrated limited awareness of shared equity in home ownership as a concept. A 2005 survey of 400 Tasmanian households found that only 11 per cent were aware initially of shared equity (EMRS, 2005). However, once explained to respondents, 46 per cent considered that a shared equity scheme would make home ownership a possibility for them, given their current financial situation. Similarly, focus groups with 34 renters in Melbourne found that the majority of participants were, in theory, interested in the schemes presented. Potential appeal is further demonstrated in the strong response to ballot schemes and invitations, for example for Landcom's Forest Glade scheme in 2002 (Landcom, 2003), and the successful launch of *First Start* in WA.

7.1.2 Understanding the detail

The shared equity concept and aspects of specific schemes come under greater scrutiny where consumers seek follow-up information. A decline in numbers of potentially interested purchasers is inevitable following an initial request for more details to complete an application and, further to this, entering into a shared equity arrangement. To a considerable extent, the rate of fall-off will demonstrate that enquirers are not eligible for the scheme, or that even partial ownership remains unaffordable for them. A low rate of conversion from initial interest to actual take-up is of concern where, on balance, the scheme is perceived as presenting more disadvantages than advantages for those households who might be considered principal target groups. An interim evaluation of England's *Open Market HomeBuy* (by Sharp Research Services (2007)) identified a number of issues perceived by potential consumers to influence consumer behaviour towards such products. The evaluation showed that, while the advantages were understood, these were balanced by:

- Perception that equity loans are not cheaper in the long run, especially if not subsidised;
- Perception that the products are complex;
- Concerns about the smaller future margin of 'free' equity;
- Concerns about not benefiting so much from capital appreciation where this is expected; and
- Concerns about possible limitations on the ability to move on at a later date or change products.

In part, many of these concerns can be mediated through further information and clarification – a role that is played in Australia by organisations such as Homestart SA and Keystart WA and in the UK by local 'agents' administering particular schemes. However, questions of complexity and uncertainty have emerged as key sticking points for a number of prospective purchasers. In the OMHB interim evaluation, the complex structure of the loan (where a 25 per cent equity loan is offered to households, comprising 12.5 per cent from a housing association and 12.5 per cent from the lender) was seen as problematic. Secondly, the relative unattractiveness of available mortgage products (with a limited number of providers participating) was noted. An issue raised with eligibility for some products was that savings had to be put towards the deposit – bar an amount allowed for maintenance and improvements. Further constraints arose from OMHB targeting key workers because the equity loan

would need to be repaid, if employment status changed to a non-recognised profession.[41]

While most potential customers acknowledge the need for qualifying conditions to allow products to be targeted appropriately, they do raise issues about consumer choice. This is particularly the case where shared equity schemes have been tied to specific products and new provision. Thus UK experience indicates that shared equity schemes tend to be more successful where the participants are allowed to buy a dwelling on the open market (HM Treasury/DCLG, 2006; Bramley and Morgan, 2007). The Shared Equity Taskforce comments that consumers prefer to have the "flexibility to choose a home on the open market, rather than have their choice constrained to a subset of new-build properties" (HM Treasury/DCLG, 2006, p. 32). For example, many supply-tied Key Worker Homes remained unsold many months after completion, and in certain cases criteria have had to be loosened to stimulate further demand[42]. VicUrban's *Ownhome* initiative, launched earlier this year, is tied to particular products at sites within VicUrban's development portfolio. Following a ballot and offers made to applicants, an important reason given for some of those offers not being taken up was location, rather than issues about the shared equity product *per se*.

7.1.3 The unknowns of shared equity and 'moving on'

Potential issues about future uncertainty with shared equity arrangements are difficult to report on, because of the limited number of customers who have entered into such arrangements and moved on. Concern has been expressed that the need to share a proportion of equity at the time of sale will cause difficulties for some, even where this concept is understood and acknowledged at the time of entering into the original agreement. Most evidence on this issue at present points to earlier shared appreciation schemes, where the gains made by the equity partner appear to be highly disproportionate (HM Treasury/DCLG, 2006). However, there is the risk that what appears fair at the time of taking out the loan, when the benefits to be gained in accessing ownership are the overwhelming consideration, will appear less so over time. Other uncertainties may relate to lack of clarity regarding obligations where the value of the property falls, and how interest levels vary in schemes with an interest-bearing component.

To date, limited research has been undertaken into consumer attitudes towards moving to full ownership, whether through staircasing their share in the existing property, or selling on the property and seeking access to the open market. Staircasing is favoured by both government and lenders, both as a means of moving forward return on investment and as a means of avoiding adverse impacts tied to shared appreciation models (Caplin et al., 2007). Recent experience in the UK, drawing upon preliminary data from the National Housing Federation Home Ownership Advisory Panel, suggests that the trend has been to purchase outright rather than move towards outright ownership in smaller steps – reflecting a desire to avoid the cost of multiple transactions (HM Treasury/DCLG, 2006).

Alison Wallace is currently undertaking research for the Joseph Rowntree Foundation into the capacity of shared equity/shared ownership households to move on from, or within, the intermediate market in order to understand opportunities and constraints,

---

[41] In response to some of these concerns, the UK Government launched a repackaged OMHB in July 2007. The financial components of the scheme were simplified with government underwriting 17.5 per cent of the value of the property and buyers able to take out any loan available on the market for the remainder. This has been further refined in light of the Shared Equity Finance Initiative with a simplification of the composition of the equity loan component in new products.

[42] Although to date, this has not been the experience of English Partnerships more recent First Time Buyers Initiative.

and to determine whether these processes and outcomes vary across housing markets. Initial findings identify a number of household, housing market, and shared equity partner 'facilitators and barriers' to moving on. Difficulties in buying the partner out and closing the equity gap are noted, as are challenges of selling and purchasing within the intermediate market (Wallace, 2008).

7.2 Interviews with existing shared equity customers

Interviews were carried out with a total of 18 existing shared equity customers from Western Australia, the Northern Territory and South Australia. Requests for interviews were sent out to a small sample of customers in each state/territory by the relevant government agency. Members of the research team conducted interviews by telephone. Typically they ran for between 20 and 30 minutes. Appendix 3 provides a list of questions discussed and a brief overview of the profile of respondents. Across these jurisdictions, the household composition and the type and value of property purchased varied, reflecting in part different eligibility criteria and policy objectives.

Pen portraits of a selection of our respondents across the three jurisdictions animate the remainder of this chapter.[43]

7.2.1 Eligibility and applying for shared equity schemes

Bob, WA

Bob lives in a three bedroom house with his wife and children. He was referred to Keystart by his bank. He found that Keystart were very helpful in assisting him satisfy the eligibility criteria and in completing his application. He was told that he was able to afford to buy a dwelling up to a value of around $300,000 under the Good Start scheme. Using the deposit he had saved, Bob found a house to buy for $255,000 and purchased a 60 per cent share. They moved into the house in 2007. He believes the real benefit of the scheme is the fact that 'I will pay this amount of money for renting a house…if I pay for rent it is dead money, but for house it is my money – I am in my house'. While he is 'very happy' to have the government as a partner, he intends to buy additional shares as soon as he is able to.

Our respondents became aware of the schemes through various means, including television, radio and newspaper advertisements, internet research, or via banks and lenders. A number had some prior understanding or partial understanding of shared equity as a concept, for example having been exposed to such initiatives in other countries or a family member having heard of the concept. Several had been encouraged and directed towards applying by their family and friends ('its time to be getting out and setting up on your own'; 'its time you settled down and bought a place').

We asked all respondents to explain shared equity, as if they were explaining it in simple terms to their neighbour. Almost without exception, a clear and accurate explanation was provided, focused on sharing ownership of property with government and assistance being provided to get on the housing ladder. The ability to explain the concept of equity sharing was also strong, although some were less clear on specific details. Most felt that they had a good understanding of the principles and how their particular products worked at the time of take-up. Generally, it was felt that information provision and explanation given during the application process was helpful and that agencies were able to respond to questions that applicants had. Some felt that, although they were able to understand how the equity sharing component of the loan worked, other people without support, or those of a non-English-speaking background, would have difficulty.

[43] Names and any potentially identifying details have been changed/omitted.

> I do think that other people might have found the whole process a lot more difficult. I do remember it was hard enough for me with the support and the English ability that I had…it was hard enough for me to understand and I didn't fully. (HomeNorth Customer)

> I think I was lucky with my brother-in-law helping me understand it all. (First Start Customer)

Many had been trying to purchase and/or had given up on the prospect of purchase prior to hearing about the scheme. The majority of interviewees believed that they would not have been eligible for a conventional home loan obtained through a bank or government lender. Even where low-deposit or 100 per cent loan schemes were investigated, our interviewees were unable to meet the resulting monthly payments or would be stretched unreasonably to do so.

> There would be no way that we could afford it by ourselves, the housing market is just way out of our reach, so having that input by the government obviously lowered our mortgage payment which made it more feasible to do it. (First Start Customer)

> Unless for First Start, we'd still be renting, and probably paying a huge amount. (First Start Customer)

Kate, WA

Prior to moving to their own home, Kate and her husband were renting a property located in the same neighbourhood. Kate was 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. Despite the pressures of renting, they preferred to rent as it allowed them to remain living close to schools, as well as their established family and community networks.

When she heard about First Start on the radio, she 'leapt on it straight away because [affording to buy] was such a current issue for us'. The application process was seen as straightforward, however the eligibility criteria were restrictive: 'They set a limit of earnings and we fell within that category but it was pretty tight...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 actually they were people still stuck in the middle'.

Kate was able to afford a three-bedroom villa requiring renovation. She doesn't feel as if the government 'owns' part of her house, because 'for all intents and purposes we have our own home so it makes absolutely no difference with what's happening on the paper work'. Kate plans to increase her equity share, recognising that the longer they wait to purchase additional shares, the more they will have to pay as house prices increase. Overall, she feels that 'there are no disadvantages'.

While shared equity schemes opened up the opportunity to buy, many respondents acknowledged that their choice was limited in terms of the properties that they could purchase with the amount they were eligible to borrow. For some this meant buying in an area that was less than ideal, buying a house that needed repairs, or settling on a smaller property in a more desirable area.

> There wasn't much choice, there wasn't much around, this is the cheapest end of town. (HomeNorth Customer)

> Because of the amount of the mortgage, we couldn't look at any suburbs that we would have liked to buy a place in. It was kind of a forced choice. (First Start Customer)

> …What we could get for that price [in area where they were previously renting] was just ridiculous, units that were the same size that we had and houses that

> were really crappy that needed lots and lots of work so we actually started looking about 30–40 minutes from there … and what we could get for our value up here was far better. (First Start Customer)

> It made sense for us to buy something smaller and stay in a better location. (First Start Customer)

Others were more pragmatic about house-hunting and were not so concerned about the fact that the loan amount limited their choice.

> [I] didn't look at anything I didn't feel I could afford. I had a good idea of what the limit was. (HomeNorth Customer)

> Before we did anything we were virtually deciding on where we were going to live by whereabouts it was, how cheap the houses were and whether they were going to go up in price. (First Start Customer)

A number of *First Start* customers commented that some early marketing had identified Perth suburbs where they could afford to buy under the scheme. This had led to some initial misunderstanding that the scheme was restricted to those particular areas.

Despite nearly all respondents feeling certain that they would not have been able to purchase without the assistance of shared-equity schemes, our assessment of their circumstances indicates that in some cases it is likely that the loans have allowed a number to 'bring forward' purchase, or assisted households who may have been able to afford an ordinary loan at some later time. In a sense, there was a 'window of opportunity' to meet eligibility criteria that had opened up as a result of their circumstances at that point in time. A number of interviewees had applied for loans as a one-income household – for example, a number had recently had children and were not working or were working a limited number of hours. If both applicants were earning a full-time income they would not have met the eligibility criteria. Others were able to buy a larger property, which better suited their needs, using the scheme. This raises questions regarding leakage, and the ability of such schemes to retain their focus.

> Possibly I feel like I'm an anomaly, if I'd have been working full time I wouldn't have qualified for it. (HomeNorth Customer)

> I certainly couldn't afford to buy a house; I only would have been able to buy a funny little unit really. (HomeNorth Customer)

Although these findings relate to the experiences of first-time buyers (the primary focus of shared equity schemes), our interview with Margaret (below) picked up another important target: enabling someone to remain in a property following life/income-changing circumstances such as marriage breakdown. Use of shared equity facilitated in all current schemes or variant products tied to those schemes.

Margaret, SA

Margaret is in her 50s. She has been living in her current home for a number of years, but has only had the Homestart Breakthrough loan for four months. Due to changed family circumstances, she became the sole owner and with a reduced household income, the mortgage became something of a struggle. She heard about the Breakthrough loan through the Homestart website.

Homestart owns a relatively small equity share in the home. For Margaret, the loan is '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 'silent partner', acknowledging that the requirement to share the property's appreciation 'is how they 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'

A number of interviewees commented on the perceived impacts of the scheme on the housing market. Many applying for WA First Start had found themselves looking towards the ceiling in house price eligibility, which may have had some inflationary impact – certainly if it enabled purchase at the lower end in more popular suburbs. A Northern Territory interviewee reported that when the scheme was announced with a maximum property value of $140,000:

> It had a funny effect; there were a lot of dodgy houses on the market for $140,000 or $138,000. And when they raised it to $180,000, all the houses went up to $180,000. It did create a bit of an artificial price hike in some houses (HomeNorth Customer).

7.2.2 Living with shared equity

Keith, NT

Keith is retired and lives with his wife. He was renting his three-bedroom ex-Territory Housing dwelling prior to buying it through Good Start. Territory Housing approached Keith with an offer for him to buy his house or to pay a commercial rate of rent as his income was above the minimum.

He says his 'personal choice is that I'd never want to own a house', but that it was 'more economic to buy the house [because] by that time house prices had gone stupid, if we moved out it means that we'd have had to find a house to buy anyway, and because we were in a house we were established and our HomeNorth loan would be slightly more than the rent we had been paying'.

Overall, Keith feels that 'it's very positive, we're never going to fully pay the house off and we're getting the house at the equivalent of…rent however we do have to pay power, we have to pay water and rates which we didn't have to pay before'. He also reflects that, if they knew property prices were going to increase, 'we could have started to buy them out when the house was really cheap, we didn't realise how expensive houses were eventually going to go'.

Keith doesn't believe they will be able to afford to increase their equity share beyond their existing amount but he doesn't mind having the government as his 'partner' – 'it's just a fact of life, innit? It doesn't make any difference one way or the other'. Overall, he believes it is a good scheme 'for getting people into houses': 'we've got a house, it's a nice house, we're living where we want to live and we're living at a reasonable rate'.

As noted previously, customers in schemes operating under different market conditions have provided particularly useful insight. The 'freshness' of experiences of WA First Start customers contrasts with a 'lived with' perspective of some WA Good Start customers and many of our Northern Territory respondents, most of whom had been customers for two to three years at least. While there was not a distinct difference in views overall, it was apparent that there was a strong degree of satisfaction expressed by those customers who had been assisted recently to

purchase their home, and a more considered view from those who had lived under shared equity arrangements for a period. Many very recent purchasers were delighted – accompanied by a strong sense of gratitude – about being able to buy property and acknowledged the non-financial benefits of ownership, such as stability and security as well as feelings of pride.

> Now we don't have that fear of getting evicted from our rental property and have to move schools and have to move rentals and to get out from under the real estate agents as well from renting, we had terrible real estate agents that we renting through and it's really nice not to have that over our heads and the whole pride factor of having your own house, it's really nice, we're painting and all that kind of stuff, it's really nice to have that pride. (First Start Customer)

> You're paying the same amount as you're paying for your rent. At least after a while you've got something, you've a backup for buying a new place or going to a new place. (First Start Customer)

Respondents who have 'lived' with shared equity generally took a more objective view of both the advantages and disadvantages. In part, this reflects changing household and market circumstances, which may have seen their needs change and property values significantly escalate. It also reflects a more detailed understanding of the actual implications tied to shared equity products: there are indications that crucial aspects of product detail had not been fully understood in retrospect or that they had been misunderstood at the time of application.

> I thought I [understood] but the bit I got wrong is that I thought I'd be paying them back at 30 per cent of the original loan, which is wrong. (HomeNorth Customer)

> 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. Because we had no idea that prices of houses here would rise so rapidly either. So had we known that we would have thought more seriously about whether we would have gone ahead. (Good Start Customer)

Samantha, NT

Samantha lives in a three-bedroom house with her partner and children. She found out about the HomeNorth scheme through a colleague who had made use of it themselves. The scheme was attractive as it enabled her to buy a house with lower mortgage repayments. Despite this, because of the amount of money she was eligible to borrow she 'didn't feel that I had much choice…this isn't where I would have chosen to buy a house. It's not close to schools…there's no parks for kids to play in'.

She has not increased her share to date. Whilst appreciative of the HomeNorth scheme, had she realised that if property prices increased, the value of the government's equity share would also increase, she would have tried to hold a greater share from the beginning. Samantha said that while 'you always want more than what you've got', she believes that HomeNorth's 'principles aren't quite correct…[because] it doesn't place me in any better position to get me out of the situation that I'm in', as she now 'owe[s] a whole lot more [in order to buy out the government's share] than I did when I bought the house'.

Even amongst interviewees who were cognisant of the implications of sharing the equity, how this has transpired some years into the arrangement has caused concern. Interestingly, this relates to the experience of strong house price increases in recent years. Although customers have benefited on paper from such rises through their equity share, their capacity to buy further shares has become apparent also. Thus despite acknowledging the benefits of their respective scheme enabling them to enter

the housing market, some interviewees felt that they were stuck now and unable to 'move up' due to increased property prices.

> 30 per cent of the value my house now is much much higher, so what's happened is that my house has about doubled in value, so instead of owning $35,000, they own $70,000 and if I want to refinance the house I now owe double what I owed eight years ago. So it's certainly become hard to refinance, it's not in my financial interest to refinance in order to repay it but… (HomeNorth Customer)

This matter, which appears to become more transparent over time, raises several issues. The strong market conditions that may lead to significant equity gain for shared equity customers can be perceived as detrimental.

Several of our respondents were confused and uncertain about whether they would be forced to step up or find themselves having to sell up, and refinance in order to do so. There may be risks in this regard for housing authorities or agencies in terms of the perceived fairness of such schemes, even where equity gains are shared on a proportional basis. Nevertheless, while some customers feel that they find themselves 'over a barrel', most are pragmatic (you 'can't begrudge the government taking their bite') and recognise the advantages they have gained:

> Lucky we like living here, but there is a feeling of being really stuck… If I sold the house we'd have about $100,000 to put towards something else. But to buy the same house it would cost $280,000. 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. (HomeNorth Customer)

> I feel like this is my house, I don't feel that I'm sharing it with the government so to speak. I just think it was a really good thing that has come out that helps people get into the market and the chance to own your own home in time as you buy them out. (First Start Customer)

> Absolutely fine…we were quite happy…it's like having a business agreement instead of an agreement with family or friends. (First Start Customer)

> That's fine because they don't get involved in anything, we can do whatever we want to it. (First Start Customer)

Although it was apparent that several respondents would welcome greater clarity about forward requirements and expectations tied to the loan, their primary concerns relate to the shared equity model rather than the specific role played government. Indeed, the security provided by entering into partnership with government was welcome, and the large majority of respondents saw only advantages, not disadvantages, in partnering with housing authorities or agencies instead of private partners.

7.3 Summary

Although it is not derived from a large sample, insight from our initial interviews is invaluable to identify issues that may shape the take up and attractiveness of shared equity schemes in Australia. Clearly – and this can be identified among both very recent but also more established customers – schemes such as *First Start* and *HomeNorth* have proved popular. A number of benefits that are aligned to policy goals can be identified, including:

- → Ability to purchase property if unable to obtain ordinary loans;
- → Affordable repayments for moderate income earners; and
- → A sense of stability and pride in being able to purchase a home.

These aspects of current schemes can be considered a success. However, a number of issues that have arisen about wider application and viability need to be recognised.

Firstly, eligibility criteria for initiatives and the profile of consumers taking up schemes demonstrate a relatively narrow target market that reflects a desire to target low- and moderate-income households but also a need for household incomes to be able to support a share of the mortgage. Many of our *HomeNorth* customers had bought before the boom. Under relatively low prices, eligibility criteria enabled a large proportion of single-person households to benefit from the scheme. In WA, the design of *First Start* attracts families purchasing towards the maximum property price limit. Targeting and managing leakage is difficult for policy makers. Some consumers may have been able to buy in future without the shared equity loan; however, they were facing barriers such as an inability to save a deposit and the prospect of unaffordable repayments with a 100 per cent loan. This might not be seen as problematic where schemes are specifically intended to remove temporary barriers and move forward opportunities to purchase.

Secondly, while new customers are happy, those views become more pragmatic over time. Benefits are still acknowledged; however the potential downside of such schemes becomes more apparent. This is particularly so where market values accelerate far in advance of income growth. Outright owners will welcome equity gain always. However, home buyers under shared equity plans may find buying further shares in their property becomes increasingly difficult when property values increase.

Thirdly, customers are also faced by a degree of uncertainty going forward, with limited understanding of how they will move on, or indeed how they might meet obligations placed upon them in time by the scheme. While such considerations are less of a concern for households happy to live in their property for the foreseeable future, and those who (realistically) do not plan to increase their equity share, questions arise for those seeking to step up or access the mainstream market.

Such concerns point towards strengths but also limitations that are likely to dictate the potential scope and scale of shared equity schemes geared towards providing a step on the property ladder in Australia. To an extent, such parameters will be independent of the ambition of any desired policy intervention using shared equity approaches. Demand vis-à-vis other options, potential market conditions and the need to provide eligibility criteria point towards these products having distinct value in assisting particular groups, but not necessarily providing a large-scale vehicle for assisting entry into home ownership for lower-income Australians.

8 NEXT STEPS

8.1 Ongoing research focus

This report has addressed many aspects of the research objectives set out in chapter 1. It has drawn on existing literature in Australia and internationally, and interviews with investors, providers and other key stakeholders, to catalogue and compare the characteristics of both government-led and market-led shared equity models that are operating currently or are under active development. Using this material, complemented by interviews with a small sample of current consumers of government products, the research has begun to consider the viability and potential of the main shared equity models and started to identify the possible impacts of different schemes on access to home ownership for lower-income groups and on the housing market and housing affordability more broadly.

This initial analysis can be used now to inform the focus of our second stage primary research. Our key objective for this stage will be to move beyond understanding product types and stakeholder perspectives to explore in detail issues that will determine the potential scope and remit of such products in future. Key parameters shaping the scope of and potential for government-backed shared equity include: requirements to target any assistance effectively and fairly; the need to offer a sufficiently attractive product relative to other options to the households targeted; and the needs, expectations and requirements of lenders and equity partners.

We have clarified the target groups of primary interest in this research. Our focus has been shaped by the following considerations:

- Governments are interested in shared equity schemes to support their goals of facilitating access to, or helping to sustain, home ownership for income-constrained households. This suggests a focus on those on low- to moderate-income households with capacity to sustain some form of home ownership. This group can be further differentiated as those lower-income households seeking to buy their first home, those who are struggling to remain in their existing home, and those aspiring to return to owner occupation, having fallen out due to particular life circumstances.
- In policy terms, government support, subsidies, targeting and regulation should discourage 'over' consumption, minimise leakage of assistance through the exercise of choice over need and not induce further demand-side pressures in the housing market. There is a need for pragmatism regarding the extent to which 'choice' can be offered in highly differentiated housing markets. While it would be advantageous for shared equity schemes to offer residents the opportunity for home ownership in their local area under all market conditions, the cost effectiveness of shared equity options must also be considered. On the other hand, products should not be structured in such a way that they direct customers towards lower value markets overwhelmingly.
- Realistic income minima are also important for schemes to be sustainable for both the customer and the equity partner. Although seeking to assist lower-income households broadly, shared equity schemes are likely to be suited predominantly to working households able to sustain the ongoing costs of home ownership.

More niche applications of shared equity identified in our original research plan should continue to be flagged as of policy interest[44].

Noting the challenges of research in this rapidly emerging field, the second stage empirical research will focus on low- and moderate-income households unable to access the lower quartile housing market. This group is probably the largest group of those for whom shared equity may be an option in Australia currently. It covers households in a variety of circumstances including: younger first-time buyers, previous owners who aspire to re-enter home ownership and those seeking to buy for the first time at a later life stage. Existing social housing tenants and eligible applicants who are unlikely to be allocated social housing are also included in this group. We will also seek to explore the role of shared equity arrangements as a means of enabling home owners whose circumstances change to remain in their homes.

The decision to focus primarily on potential buyers has been made to ensure that our findings can provide a clear, systematic and robust view of the potential of shared equity to assist a large and well-recognised needs group. Depending on the outcomes of this project, further research could be designed specifically to consider applications to other groups identified.

8.2 Design of focus groups

The main primary research task for the second stage of this project is conducting ten focus groups in three Australian states: NSW, Victoria and Queensland. The focus group approach has been chosen to follow the consumer interviews already undertaken with a more detailed exploration of what are quite complex and unfamiliar concepts. Groups will be structured to give participants sufficient information in an accessible manner so that they can engage effectively in a discussion of the advantages, challenges and potential of possible schemes. Preparation for the groups will include the development of instructive material that explains how the models being tested will work.

8.2.1 Feasible shared equity models for testing

The unfamiliar and complex nature of shared equity models gives rise to a major challenge for this research: how best to elicit informed views from potential consumers. We cannot test and explore all models with potential application in the Australian context. Taking into account the dual policy goals of fostering home ownership and addressing affordability issues, the two broad models discussed throughout this report – representing ‘individual’ and ‘community’ equity perspectives respectively – are proposed.

The approaches in place in a number of Australian states/territories currently are geared primarily towards ‘individual’ equity gain. These approaches are based on maximising individual household equity and the potential of the household to step up to full ownership. In ‘ongoing affordability’ or ‘community equity’ models (typically tied to a particular supply of housing), the partner representing the community interest retains a greater proportion of equity gain, which can then be reinvested in affordable housing. While these models have received relatively little attention in Australia, a number of factors point towards the value of considering community equity type models here.

[44] As identified in chapter 2; these were to assist asset rich cash poor home owners meet maintenance and repair costs, and as a finance model enabling existing residents remain in a regenerated neighbourhood.

The first relates to the potential for such schemes to contribute to a strategic and comprehensive affordable housing strategy, such as outlined in Yates et al. (2007). The second is tied more to the realities of contemporary housing markets; particularly that individual shared equity models are only successful if various conducive factors align, and even then, only at particular stages of the market cycle. While such conditions can be identified in some markets – where the gap between rising incomes and rising prices can be bridged with limited subsidy for the short to medium term – in others the income price gap is arguably too great to make these forms of shared equity feasible for governments or consumers[45]. It is in these contexts, that models that aim to recapture necessarily higher levels of subsidy and preserve affordability for future generations may be more in keeping with the set of performance requirements that we have identified in this study.

While it is proposed that both individual and community equity models should be explored, each focus group will be asked to work with one or other of the models primarily (rather than to compare directly the merits of the two), to help deal with the complexities involved. It is intended to guide discussion of the issues and trade-offs that shape both kinds of models to facilitate an implicit comparison of their parameters, conditions and features in the focus groups. In keeping with this approach, findings about the two models will be taken from across the groups as a whole, rather than from each group. In order to avoid unnecessary complexity, existing 'tried and tested' models will be used rather than the research team developing hypothetical, hybrid or indicative schemes. The chosen models will be 'debadged' for use with the focus groups and walk-through examples of how such schemes work will be provided. One of the key strengths of using products that have been introduced successfully is the degree to which clear documentation has already been developed and road tested.

The specific models of each type to be used to frame focus group discussions are:

- WA First Start (government-backed shared equity)
  - http://www.keystart.com.au/key/SharedEqBrochure.pdf
- Rick Jacobus' subsidy retention model (affordable entry/affordable supply preservation)
  - http://www.rjacobus.com/resources/archives/home ownership/000625.html

Figure 8.1: Models for focus group discussions

First Start (Aus)	Jacobus subsidy retention (US)
Characteristics	***Characteristics***
→ Transitional: focus on access	→ Access plus ongoing affordability
→ Lower/mid-income households	→ Working lower-income households
→ Promote staircasing	→ Promote stability
→ Do not protect subsidy long term	→ Protect subsidy in the long term
→ Typically not tied to new supply	→ Typically tied to new supply
Other example models/schemes	***Other example models/schemes***
→ SA Breakthrough (Aus)	→ Firstbase (UK)
→ Scottish Homestake (UK)	→ Slimmer Kopen (Netherlands)

[45] This situation is evident in the most populous and high cost markets in the east (NSW, VIC, QLD and ACT). These are the jurisdictions where substantive shared equity initiatives are yet to appear – lending support to the need to consider other options.

The following issues will be explored in each of the focus groups:

- Trade-offs in entry and ongoing costs versus amount of equity accrued by the household;
- The relative importance of schemes preserving affordability versus schemes which maximise opportunities for equity gain;
- The relative attractiveness of shared equity vis-à-vis alternative innovative financing arrangements;
- Preferred distribution of equity shares between owner and partner;
- Preferred partners in equity arrangements;
- Targeting and views on 'appropriate' households benefiting from shared equity opportunities;
- Products tied to supply versus operation in the open market;
- Flexibility – upward and downward staircasing arrangements;
- The administration of schemes – government department, government financier or mortgage brokers;
- Consumer views on renovations – how improvements should be valued and accounted for in equity sharing arrangements
- Consumer views on what happens in 'moving on' at time of sale;
- Issue of constraint/no constraint on sale; and
- Consumer views on how to pay for the portion they do not own – rent, interest, straight equity share or disproportionate equity share at time of sale.

Given the development in the UK of models where equity loans involve an interest-bearing or deferred-interest component, this last issue will be explored carefully. Current Australian initiatives do not incorporate this element, with the WA and NT models essentially foregoing this subsidy and relying on subsidy recoupment through a share of capital gains at the time of sale. In SA, a 'higher' share is taken at the time of sale to reflect the costs of upfront subsidy. The evolution of products in the UK in recent years increasingly has seen the use of interest charges on the loan. This can be seen as serving a function to encourage owners to staircase; it also provides a more familiar redemption profile for mortgage lenders.

8.2.2 Proposed sampling framework

Members of each focus group will be selected on the basis of three criteria: household income, age group and location. More details are provided in Table 8.1. One of the groups, to be held in NSW, will be treated as a pilot. Groups and interviews will be recorded and transcribed to assist later analysis.

Table 8.1: Selection of members of focus groups

Sampling parameters	*Basis for selection*
Household income	Focus groups will be differentiated into two income bands. Two income bands have been selected to consolidate understanding of targeting and feasibility. The literature indicates that equity sharing arrangements based upon second mortgage arrangements and geared primarily towards asset growth of the individual households typically are more attractive/viable/appropriate for households with incomes towards median values. Community equity models, where a greater proportion of the property is held by the partner (a CLT, Housing Association etc), can reduce entry and ongoing costs. They are therefore potentially more viable for/of interest to lower-income households. Exact income criteria will be finalised according to local median incomes in each of the metropolitan areas, taking into account median lower quartile house prices in those markets. It is anticipated that the bands will comprise households with incomes between $40,000 and $55,000 or households with incomes between $55,000 and $80,000.
Location	Groups will be held in both lower and moderate value locations in the three capital cities. These will include: → inner/middle gentrifying suburbs – for example Marrickville in Sydney and Thornbury in Melbourne, rather than areas where higher prices have been established for some time → middle/outer areas which provide 'feeder' communities for starter homes often on the fringe – for example, Liverpool in Sydney. An affordability gap analysis, based on the 2006 Census, will be used to determine the final choice of areas from which to draw respondents and hold groups. Exploring issues across both geographies will be useful to tease out the importance of location (is housing unaffordable to these households elsewhere, or is housing in locations they would choose/need to live in?)
Age group	Members will be mainly first-time buyers in the 25 to 39 years age group. However, some representation from those in older age groups who are yet to purchase or are seeking to re-enter the market will also be actively encouraged.

8.3 Appraisal of potential and policy recommendations

A central purpose of this research is to move beyond broad consumer testing of the features of shared equity products amongst potential users to explore in greater detail the form, application and viability of such products in the marketplace in the context of Australian housing policy. Therefore, it is important to note that the outcome of the research will not be policy recommendations based solely on consumers' views of a preferred model or of the preferred characteristics of the models that are revealed through the consumer research.

While we consider it is essential that our focus groups consider viable approaches within the Australian policy and market contexts and that they have a tightly honed focus, insight gained from consumers will need to be interpreted alongside policy and lender considerations in the final analysis. In addition to convening the focus groups, this second stage research will involve consultation with the Policy and Research

Working Group of housing officials and additional discussions with key industry stakeholders, where these are feasible and desirable. The research team is also developing a local housing affordability model to assess potential demand based upon the gap between available household incomes and house prices within localised housing market areas. The model will enable the potential size of subsidy required (or level of share that would need to be retained by the partner) to be determined for potential buyers in different markets.

In our final report and overall conclusions we will be aiming to:

- Describe the market conditions necessary for shared equity to be viable and to identify the potential impacts such products in turn may have on the housing market;
- Determine whether those conditions support movement to scale, and the key requirements for governments, lenders, investors and consumers alike to realise this. This will acknowledge the relative success of government-backed schemes in some states and territories (but absence in others), but focus on greater potential for government-lender partnership.
- Clarify the nature and scope of any policy framework for shared equity – for example, the possible level of subsidy required and the regulatory requirements and accountability mechanisms that would be desirable to manage risk;
- Identify, in broad terms, costs and benefits to government involvement and promotion of shared equity schemes. This will need to take a long-term perspective, recognising that in time, and at scale, much of the initial subsidy provided may be recouped. It will also need to recognise the housing and non-wider housing and community benefits that may be facilitated;
- While these discussions are likely to primarily focus on the prevalent models of facilitating access to ownership, a realistic appraisal of the contribution that 'subsidy retention' shared equity models may provide in the context of a broader, strategic affordable housing policy for Australia.

8.4 Final considerations

There have been major developments in both the policy and housing contexts in Australia that are likely to influence the further directions of this study, since our research commenced. These include the election of a new national government in Australia and growing evidence of a downturn in global economic conditions triggered by the sub-prime mortgage lending crisis in the US. Referring to the former, we note that the new national Labor Government has made one commitment to a particular form of low-cost home ownership assistance at this stage – a matched savings scheme for first home buyers (see FaHCSIA 2008). However, it has identified housing affordability as a key national issue also and has proposed, inter alia, a national affordable housing agreement with the aim of integrating housing policies and programs across Australia. Such an agreement offers the potential to have a national policy and subsidy framework for the development of any desired shared equity schemes in future. This could be expected to be attractive to both state/territory governments and potential investors.

The second development, a more volatile and deteriorating global economic cycle triggered by housing market incidents, particularly in the US at this stage, can be expected to have a significant influence on the timing and direction of any future market and government shared equity products, as we have indicated in several places in this report.

REFERENCES

Aalbers, M. (2005) 'The quantified customer', or how financial institutions value risk , in P. Boelhouwer, J. Doling and M. Elsinga (Eds) Home ownership: Getting in, getting from, getting out'. Housing and Urban Policy Studies 29. Utrecht, DUP Science, pp. 33–58.

ACT Government (2007) Affordable Housing Action Plan: Fact Sheet – Shared Equity, www.actaffordablehousing.com.au, (Accessed 15/11/07).

Adelaide Bank (2007) Advertisement: An Open Letter to Homebuyers and Home owners from Adelaide Bank regarding Equity Finance Mortgages, *The Sydney Morning Herald*, date unknown.

Alt Beatty and Elizabeth Rowe Consulting (2006) Shared Equity Models for People with a Disability. Report for NSW Department of Housing.

Auditor-General's Office of New South Wales (2001) Auditor-General's Report to Parliament 2001 Volume Seven: Home Purchase Assistance Authority.

Aussie Equity (2008) Homepage, http://www.aussieequity.com.au/index.php/esp/equity_sharing (Accessed 18/8/08).

Australand and St George (2007) The Australand and St George Co-ownership Plan Brochure.

Australian Institute of Health and Welfare (2007) Home purchase assistance 2005–06: Commonwealth State Housing Agreement national data report, Housing Assistance Data Development Series Cat. No. 166, Canberra, AIHW

Australian Institute of Health and Welfare (2008). Home purchase assistance 2006-07: Commonwealth State Housing Agreement national data report. AIHW catalogue number (HOU 176). www.aihw.gov.au/publications/index.cfm/title/10572

Australian Labor Party (2007) New Directions in Housing: Addressing the decline in housing affordability for Australian families, Australian Labor Party. June 2007.

Baum, S. and Wulff, M. (2003) Housing aspirations of Australian households, AHURI Final Report No. 30.

Baxter, J and McDonald, P. (2005) Why is the rate of home ownership falling in Australia? AHURI Research and Policy Bulletin, AHURI, Melbourne, www.ahuri.edu.au

Beer, A. (1999) 'Fast Forward to the Future? A Vision of Home Ownership and Housing Wealth Next Century?', pp. 97–110 in J. Yates, and M. Wulff, Australia's Housing Choices, Brisbane, University of Queensland Press.

Beer, A., Faulkner, D. and Gabriel, M. (2006) 21st Century housing careers and Australia's housing future: Literature review, Research Paper 1, NRV3 AHURI: Melbourne.

Baum, S. and Wulff, M. (2001). Housing aspirations of Australian Households: Positioning paper, AHURI, Melbourne, www.ahuri.edu.au

Baum, S. and Wulff, M. (2002). Housing aspirations of Australian Households, Final Report , AHURI, Melbourne, www.ahuri.edu.au

Berry, M. (2003) 'Why is it Important to Boost the Supply of Affordable Housing in Australia – and How Can We Do it?', Urban Policy and Research, 21(4), pp. 413–435.

Berry, M. (2006). 'Housing affordability and the economy: A review of macroeconomic impacts and policy issues'. Report for National Research Venture 3 'Housing Affordability for Lower-income Australians'. AHURI, Melbourne: www.ahuri.edu.au/publications/download/NRV3_Research_Paper_4

Bibby, G. (2007) Equity mortgages – an alternative avenue for property investment, www.merceric.com.au/knowledgecenter/reportsummary.jhtml/dynamic/idContent/1254965, (Accessed 15/05/07).

Bramley, G. (2004) The potential market for equity loans in the UK, Council of Mortgage Lenders Research, December 2004.

Bramley, G. and Morgan, J. (2007) Initial evaluation of the Open Market Homestake Pilot, Communities Scotland, March 2007.

Bramley, G., Morgan, J., Cousins, L. and Dunmore, K. (2002) Evaluation of the Low Cost Home Ownership Programme, London, Office of the Deputy Prime Minister.

Bridge, C., Flatau, P., Whelan, S., Wood, G. and Yates, J. (2003) Housing assistance and non-shelter outcomes Final Report , Australian Housing and Urban Research Institute, www.ahuri.edu.au

Burke, T. and Ralston, L. (2003) Expenditure Patterns and Levels of Household Indebtedness of Public and Private Rental Households, 1975 to 1999, Melbourne, AHURI.

Caplin, A., Chen, S., Freeman, C., and Tracey, J. (1997) Housing Partnerships: A new approach to a market at the crossroads, MIT Press

Caplin, A., Joye, C., Butt, P., Glaeser, E. and Kuczynski, M. (2003) Volume 1: Innovative Approaches to Reducing the Costs of Home Ownership, A Report for the Prime Minister's Home Ownership Task Force, Menzies Research Centre.

Caplin, A., Carr, J. H., Pollock, F., Tong, Z .Y., Tan, K. M. and Thampy, T. (2007) 'Shared-Equity Mortgages, Housing Affordability, and Home ownership', Fannie Mae Foundation.

CB Richard Ellis and Housing Corporation (2007) Shared Equity Housing Finance, CBRE/Housing Corporation, London. Website reference http://www.cbre.co.uk/portal/page/portal/shared_equity_competition, (Accessed 17/10/07).

City Centre Development Corporation (2007a) 'Centre City Development Corporation's Downtown First-Time Homebuyer Program Guidelines', www.sdhc.net/FirstTime&MCC&SharedEquity/CCDCProgramGuidelines.pdf, (Accessed 10/08/07).

City Centre Development Corporation (2007b) '2007 Downtown Living Guide', www.ccdc.com/resources/resource_files/2007_Downtown_Living_Guide.pdf, (Accessed 10/08/07).

City of San Diego (2006) 'Affordable Housing Programs in San Diego', www.sandiego.gov/redevelopment-agency/pdf/nofaprograms.pdf, (Accessed 10/08/07).

City of San Diego (2007) 'City of Sand Diego Shared Appreciation Loan Program Guidelines', www.sdhc.net/FirstTime&MCC&SharedEquity/SharedAppreciationGuidelines.pdf, (Accessed 10/08/07).

Clarke, A (2006) 'Shared Ownership: Objectives and experiences of policy and households', Cambridge, Cambridge Centre for Housing and Planning Research. Paper presented at the ENHR Conference, Ljubljana Slovenia, 2–5 July 2006.

Clinton, W. (1995) Proclamation 6807 – National Home ownership Day, 1995 (Filed with the Office of the Federal Register: Washington)

Collins, M. (2007) First shared equity mortgage released, *Investor Daily Online*, 14 March 2007, www.investordaily.com.au/cps/rde/xchg/id/style/1435.htm, (Accessed 25/3/07).

Commonwealth of Australia (1991) 'Financing Australian housing: The issues', *The* National Housing Strategy Issues Paper 3, April 1991.

Communities Scotland (2005) Shared Equity Discussion paper report, March 2005.

Core Sales (2007) CORE Sales – April 2007 to October 2007, Issue 29.

Dalton, T. (1999) 'Making Housing Policy in Australia: Home Ownership and the Disengagement of the State', PhD thesis, Melbourne, RMIT University.

Davis, J. E. (2006) 'Shared Equity Home ownership: The Changing Landscape of Resale Restricted, Owner-occupied Housing', US National Housing Institute.

Department for Families and Communities South Australia (2007) 'Home Ownership Initiative', www.housing.sa.gov.au/affordable/Default.aspx?tabid=290, (Accessed 15 May 2007).

Department for Social Development in Northern Ireland (2007) Review into affordable housing: Final report, Spring 2007.

Department for Social Justice and Regeneration (DSJR) (2006) A Review of Low Cost Home Ownership Policies in Wales, Social Justice and Regeneration Research Report, SJR 03/06 RR, November 2006.

Department for Social Justice and Regeneration (DSJR) (2007) A review of the Homebuy scheme in Wales, March 2007.

Department for Communities and Local Government (DCLG) (2006) Who are Low Cost Home Ownership (LCHO) purchasers and what is the demand for LCHO. www.communities.gov.uk/publications/housing/whoarelow. (Accessed August 2007)

Department of Fair Trading (2006) Statement of Regulatory Intent and Compliance Policy 31 May 2006, www.fairtrading.nsw.gov.au/pdfs/corporate/creditstatementof regulatoryintent.pdf, (Accessed 10 May 2007).

Department of Health & Human Services Tasmania (2007) Request for Expression of Interest: HOAP Shared Equity Scheme, www.dhhs.tas.gov.au/agency/pro/hacc/documents/HACC_EOI_Information_Kit_07-08.doc (Accessed 10 November 2007).

Department of Housing and Works Western Australia (2007a) 2006-07 Annual Report.

Department of Housing and Works Western Australia (2007b) Beyond the letterbox, Edition 3, Spring 2007.

Department of Housing and Works Western Australia (2008) First Start Shared Equity Home Loan Scheme: An Affordable Housing Initiative, February 2008.

Department of Human Services Victoria (2006) Summary of Housing Assistance Programs 2005–06.

Department of Local Government, Housing and Sport Northern Territory (2007) Shared Equity Loan & Standard Variable Loan brochure.

Donovan, S. (2007) 'States experiment with new housing finance model', ABC National Radio, 14 February 2007.

Elsinga, M. (2005) 'Affordable and low-risk home ownership', in P. Boelhouwer, J. Doling and M. Elsinga (Eds) Home ownership: Getting in, getting from, getting out'. Housing and Urban Policy Studies 29. Utrecht, DUP Science, pp. 75–94.

English Partnerships (2007a) The First Time Buyers Initiative Buyers' Guide, www.englishpartnerships.co.uk/ftbi.htm, (Accessed 15 November 2007).

English Partnerships (2007b) 'New form of ownership set to create more affordable homes', press release 30/07/2007, www.englishpartnerships.co.uk/print.aspx?pointerid=E5CD (Accessed 24 October 2007).

Enterprise Marketing and Research Services for Department of Health & Human Services Tasmania and Housing Tasmania (2005) 'Review of Demand for Alternative Home Owner Products Beyond the Home Ownership Assistance Program Research Report', September 2005.

FaHCSIA (Department of Families, Housing, Community Services and Indigenous Affairs) (2008). Making Housing Affordable Again, www.facs.gov.au/internet/facsinternet.nsf/housing/affordable_housing.htm

Freeman, P. (1991) In your interest, The Sydney Morning Herald, 11 December 1991, p. 23.

Frino, A. (2007) Equity Finance Mortgages, Infochoice Money Facts May 2007, pp. 6–7.

Genworth Financial (2006) The Genworth Financial Mortgage Trends Report, September 2006.

Genworth Financial (2007) The Genworth Financial Mortgage Trends Report, June 2007.

Greenway (2007a) Generated email response to product enquiry from Info.greenway@greenway.com.au. Received 22/05/2007

Greenway (2007b) 'Greenway Equity Mortgage (GEM): A new generation home equity loan currently in development with no monthly repayments or compounding interest'. Flyer, 2007.

Hickey, B. (2008) 'Shared equity mortgages likely in a year'. Daily briefing interest.co.nz, 22 February 2008, www.interest.co.nz/ratesblog/index.php/2008/02/22/shared-equity-mortgages-likely-in-a-year/

Hills, S and Lomax, A. (2007) Whose house is it anyway? Housing associations and home ownership. London, Chartered Institute of Housing

HM Treasury and Department for Communities and Local Government (2006) Report of the Shared Equity Task Force, December 2006.

Holmans, A. (2005) Recent trends in numbers of first-time buyers: A review of recent evidence, CML Research.

HomeStart Finance (2007a) 'Breakthrough Loan: It's the Breakthrough that South Australia needed!, Sheltershortz, May 2007, South Australia.

HomeStart Finance (2007b) The HomeStart Breakthrough Loan, www.homestart.com.au/home-loans/breakthrough-loan.asp,(Accessed 15/05/07).

House of Commons Committee of Public Accounts (2007) 'A Foot on the Ladder: Low Cost Home Ownership Assistance', Nineteenth Report of Session 2006-07.

Housing Corporation (2006) 'A guide to buying a home on the open market using an equity loan' (London: Housing Corporation)

Jacobus, R. (2007) 'Shared Equity, Transformative Wealth', Center for Housing Policy Policy Brief.

Jacobus, R. and Lubell, J. (2007) 'Preservation of Affordable Home ownership: A Continuum of Strategies', Center for Housing Policy Policy Brief.

Joseph Rowntree Foundation (2006) Addressing housing affordability, clearance and relocation issues in the Housing Market Renewal Pathfinders, www.jrf.org.uk/knowledge/findings/housing/1931.asp (Accessed 15/1/08).

Kemeny, J. (1981) The Myth of Home Ownership, London, Routledge Kegan Paul.

Keystart (2008) 'About Keystart', www.keystart.com.au/key/about-keystart.htm (Accessed 11 January 2007).

Knowles, R. (1992) Home Finance Schemes, Victorian Parliamentary Hansard, Parliament of Victoria, 6 May 1992, p. 735-754.

Landcom (2003) Forest Glade - a market based solution for affordable housing, www.landcom.com.au/smarthousingdemonstrationproject.aspx, (Accessed 12/4/07).

Lloyd, C. (2002) Land Trust Fever? Not Yet, but a lucky few have found shared-equity housing paradise in Oakland, www.sfgate.com/cgi-bin/article.cgi?file=/gate/archive/2002/09/24/carollloyd.DTL

Lubell, J. (2007) Developing A Policy Framework for Taking Shared Equity to Scale. Paper presented at NeighborWorks Training Institute Symposium, Portland December 2007, http://www.nw.org/Network/training/documents/SymposiumTab6-Policy.pdf (Accessed 16/05/08)

McAdam, E. (2007) HomeNorth Home Owners Break 1000 Milestone, Minister for Housing NT Media Release, 28 September 2007.

McMullen, A. (2007) Shared equity loans expensive way to buy, March 30 3007, www.news.com.au/business/story/0,23636,21474393,00.html (Accessed 20/4/07).

Mercian (2007) Merseyside home owners benefiting from better homes thanks to affordable home loans, Press Release, 4 April 2007.

Merlo, R. and McDonald, P (2002) Outcomes of home ownership aspirations and their determinants, Final Report , Australian Housing and Urban Research Institute, www.ahuri.edu.au

Milligan, V. (2003). How Different? Comparing housing policies and housing affordability consequences for low income households in Australia and the Netherlands. Netherlands Geographical Studies. 318. Utrecht: University of Utrecht.

Milligan, V. and Persson, D. (1989) Outcomes of the National Housing Policy Review. Urban Policy and Research, 7(4):183-186.

Milligan, V., Phibbs, P., Fagan, K. and Gurran, N. (2004) A Practical Framework for Expanding Affordable Housing Services in Australia: Learning from Experience, Final Report, Australian Housing and Urban Research Institute, Melbourne.

Milligan, V. and Phibbs, P. with Gurran, N. and Fagan, K. (2007) Approaches to Evaluation of Affordable Housing Initiatives Research Paper 7, NRV3 AHURI: Melbourne.

Mowbray, R. and Warren, N. (2007) Shared-equity home-ownership: welfare and consumer protection issues, Shelter Brief, 33.

Northern California Land Trust (NCLT) 'About Us' http://www.nclt.org/index.php?option=com_content&task=view&id=39&Itemid=45 (Accessed 14/4/2008)

Northern Ireland Co-ownership Housing Association Limited (date unknown) Co-Ownership Housing: The key to affording your new home, www.co-ownership.org/filestore/documents/Key%20Leaflet%20140307%20CES.pdf, (Accessed 01/07/07).

Northern Territory Government (2007a) Own your own home! HomeNorth Xtra brochure, Territory Housing.

Northern Territory Government (2007b) HomeNorth Home Owners Break 1000 Milestone. Press release, 26 September 2007.

National Mortgage Market Corporation (2007) website: www.nmmc.com.au/public (Accessed 14/4/07).

Northern California Land Trust website, http://www.aussieequity.com.au/index.php/esp/equity_sharing (Accessed 18/4/08).

Office of the Deputy Prime Minister and Joseph Rowntree Foundation (2004) 'Developments in Private Finance for Private Sector Housing Renewal', Briefing note, 1, March.

OwnHome (2007a) OwnHome Ballot Application, www.burbank.com.au/ownhome/about.php (Accessed 13/4/07).

Ownhome (2007b) Ownhome Ballot Application Terms and Conditions, www.burbank.com.au/ownhome/terms.php (Accessed 13/4/07).

Productivity Commission (2003) First Home Ownership Issues Paper, September 2003. Melbourne, Productivity Commission

Productivity Commission (2004) First Home Ownership, Report No. 28, Melbourne, Productivity Commission.

Queensland Department of Housing (2008) Pathways Shared Equity Loan: Question and Answer Booklet, Queensland Government, Brisbane

Rismark (2007) Introduction to EFM, www.rismark.com.au/members/index.html (Accessed 14/04/07)

Robert Charles Lesser and Company (RCLCO) (2007) Measuring the Market for Shared Equity Housing. 16 November 2007, presented at Taking Shared Equity to Scale Symposium Portland OR, December 2007.

Rowlinson, K. and McKay, S. (2005) Attitudes to housing assets and inheritance, CML Research.

San Diego Housing Commission (2007) Home buyer assistance programs, www.sdhc.org/hafirsttimebuyer1.shmtl, (Accessed 10/8/07).

Saunders, P. (1994) Welfare and Inequality, Sydney, Cambridge University Press.

Schneiders, B. and Moncrief, M. (2007). Warning on ‘Silly Loans’, The Age March 14, 2007.

Sharp Research Services (2007) interim evaluation of Open Market HomeBuy (OMHB)

Smith, J., Pannell, B., Holmans, A. and Thomas, A. (2005) Understanding first-time buyers, Council of Mortgage Lenders Research.

Societe Generale Corporate and Investment Banking (2008) Glossary ‘Securitisation’, http://www.equityderivatives.com/services/education/glossary.php?code=S (Accessed 14/04/08)

Stamfords Advisors and Consultants for Department of Local Government, Housing and Sport (2007) HomeNorth Review Final Report, February 2007.

State and Territory Housing Ministers (2007) A New National Housing Agreement, Communiqué, July.

Tatch, J (2006) Will the real first-time buyers please stand up?, CML, London.

Troy, P. (1996) The Perils of Urban Consolidation: A discussion of Australian housing and urban development policies, Sydney, The Federation Press.

VicUrban (2007) VicUrban Housing Affordability Initiative Launched, Media Release, 13 February 2007.

Wade, M. (2007) Equity trade-off for bigger home loans, The Sydney Morning Herald, 14 March 2007, p. 3.

Wallace, A. (2008) Buy Now-Pay Later? Achieving Mobility in the Intermediate Market. Paper presented at the Housing Studies Association Conference, York April 2008. http://www.york.ac.uk/inst/chp/hsa/spring08/presentations/wallace.ppt#256,Buy Now-Pay Later? Achieving Mobility in the Intermediate Market (Accessed 16/05/08)

Wearing, M. (1995). 'Social Policy', pp. 205-219 in M.J. Laffin and M.J. Painter (eds), Reform and reversal: Lessons from the Coalition Government in New South Wales 1988-1995, Macmillan Education, South Melbourne.

Western Australian Housing Authority (2007) 2006-07 Annual Report.

Whitehead C. and Yates, J. (2005) ‘Shared Equity Models in UK and Australia’, Paper presented at European Network Housing Researchers Conference, Reykjavik, Iceland, 30 June – 2 July 2005.

Whitehead, C. and Yates, J. (2007) Increasing Affordability Problems - A Role for Shared Equity Products? Experience in Australia and the UK, Housing Finance International, 21(5), pp. 16–20.

Wilcox, S. (2006) The geography of affordable and unaffordable housing and the ability of younger working households to become home owners, York, Joseph Rowntree Foundation.

Williams, P. and Bennett, J. (2004) Shared Futures: taking home ownership forward through shared equity, Housing Finance, Winter, CML, London.

Wood, G. and Stoakes, A. (2006) Long-run trends in Victorian Housing Affordability and First Transition into Home ownership Urban Policy and Research, 24(3), pp. 325–340.

Yates, J. (1989) 'Shared Ownership', Background Paper No. 6, National Housing Policy Review, Canberra, Department of Community Services and Health.

Yates, J. (2002a) A spatial analysis of trends in housing markets and changing patterns of household structure and income, Positioning Paper, Australian Housing and Urban Research Institute, www.ahuri.edu.au

Yates, J. (2002b) Housing implications of social, spatial and structural change, Final Report , Australian Housing and Urban Research Institute, www.ahuri.edu.au

Yates, J. (2007) Access to home ownership: past and present, Research Paper 10, National Research Venture 'Housing Affordability for Lower Income Australians' (NRV3), Melbourne, AHURI.

Yates, J. and Flood, J. (1989) 'Home Purchase Assistance: An Assessment of State Housing Authority Programs', Background Paper No. 5, National Housing Policy Review, Canberra, Department of Community Services and Health.

Yates J. and Milligan, V. with Berry, M. Burke, T., Phibbs, P., Pinnegar S. and Randolph, B. (2007) Housing Affordability: A 21st Century Problem, Final Report, National Research Venture 'Housing Affordability for Lower Income Australians' (NRV3), Melbourne, AHURI.

APPENDICES

Appendix 1: Research aims and questions guiding research scope

1. Increase understanding of the strengths and weaknesses of a range of shared equity models employed both in Australia and overseas from the perspective of consumers
   - → What sorts of models have been tried overseas and in Australia? Who are the potential 'target' groups for shared equity/ownership in Australia? Which types of household have been the consumers of shared equity products overseas and in Australia and what has been their reaction to these products?
   - → What is the size and characteristic of the potential shared equity market? Who should be eligible for subsidised products?
   - → What do potential consumers know about shared equity products in Australia? What do they think of various models as described to them? Do these views vary according to different target consumer groups?
   - → Is shared equity considered a viable alternative for those seeking to access home ownership but cannot through normal purchasing arrangements? What trade-offs would consumers make?
2. Identify awareness and assessment of these products alongside institutional and mortgage industry perspectives
   - → What is the perception and awareness in the industry of the emerging shared equity market in Australia? What is the industry's view on similar/related precedents; what are the perceived implications of those precedents?
   - → What 'market failures' are associated with these products? What are the risks?
   - → For shared equity to be a viable proposition, what sort of model(s) need to be developed?
3. Examine the constraints affecting the viability of shared equity models and the impact on the wider housing system of any widespread adoption
   - → What size does the market need to be in order to work? How does this relate to consumer attitudes and potential market demand?
   - → What are the perceived benefits and risks for a) individuals, b) the mortgage industry and c) the housing market (and hence wider economy)?
   - → What happens at resale? In negative equity situations? What safeguards are required to ensure that affordable housing is not simply lost at the first on-sale?
4. Identify the policy, regulatory and funding frameworks needed to ensure their success
   - → What are the wider policy implications of pursuing shared equity for government to consider?
   - → What examples of an 'intermediate' housing market have been developed without government intervention? What have been their advantages and disadvantages?
   - → What conditions/frameworks are required to access institutional investment funds?
   - → What regulatory issues are involved and what reforms or subsidies would be required to make shared equity schemes work?

Appendix 2: Shared equity schemes, Australia

A2.1 Government-backed schemes (not all variant schemes covered)

<table>
<tr><th colspan="2">Western Australia</th><th>www.keystart.com.au</th></tr>
<tr><td>Example</td><td>Keystart Home Loans – First Start Shared Equity Home Loan Scheme
Designed to help low to moderate-income first homebuyers into home ownership</td><td>Keystart Home Loans – Good Start Shared Equity Loan Scheme
Designed to help Homeswest tenants and rental applicants into home ownership</td></tr>
<tr><td>Conditions</td><td>→ WA Government owns an equity share of up to 40%
→ Maximum size of First Start Shared Equity loan is determined by the purchasers level of income and other loan commitments
→ Purchaser pays rates and maintenance
→ Maximum property value $375,000</td><td>→ Homeswest tenants can purchase 70–100% of the property they are currently renting
→ Persons on the Homeswest waiting list or those who are eligible to apply for listing can purchase 70% or more in an ex-rental Homeswest home in selected areas
→ Maximum property value $375,000</td></tr>
<tr><td>Reach of program/ policy</td><td>→ 3000 West Australian households to be assisted 2007-2010
→ Any property in Western Australia valued at a maximum of $375,000</td><td>Limited to existing Homewest homes</td></tr>
<tr><td>Partnership</td><td>Home owner and Keystart</td><td>Home owner and Keystart</td></tr>
<tr><td>Eligibility criteria/ Targeting</td><td>Applicants for the Scheme must:
→ Qualify for the First Home Owner Grant
→ Have an assessable income that is within the eligibility limits for the scheme
<table>
<tr><th>No. of adults</th><th>Dependents</th><th>Max. gross household income pa</th><th>Maximum department equity share</th></tr>
<tr><td>1</td><td>Nil</td><td>$50,000</td><td>30%</td></tr>
<tr><td>2</td><td>Nil</td><td>$60,000</td><td>30%</td></tr>
<tr><td>1</td><td>1 or more</td><td>$70,000</td><td>40%</td></tr>
<tr><td>2</td><td>1 or more</td><td>$80,000</td><td>40%</td></tr>
</table>
→ Be owner-occupiers
→ Be a permanent resident
→ Be over 18 years of age
→ Not have any debts owing to the Department
→ Not be currently bankrupt or discharged from bankruptcy within 2 years of the date of the application</td><td>Applicants for the Scheme must:
→ Be on the Homewest waiting list or be eligible for Homewest listing
→ Be over 18 years of age
→ Not have any debts owing to the Department
→ Have a satisfactory rental and credit history
→ Not own or part-own another property or land in Australia
→ Not be currently bankrupt or discharged from bankruptcy within 2 years of the date of the application
→ Not exceed income limits</td></tr>
<tr><td>Impact</td><td>(by Spring 2007)
→ 350 households (279 families, 30 couples and 38 singles), 900 people in total
→ Of the 350 households, 194 loans have been approved, 153 have been pre-approved</td><td>1,100 households (Keystart website, 2008)</td></tr>
<tr><td>Costs to consumer</td><td>→ 2% deposit or $2000 (whichever is greater) for houses valued at $250,000 or less (higher deposit required for houses > $250,000)
→ Home loan</td><td>→ Deposit of $2,000 or 2 per cent (whichever is higher) of the purchase price
→ Home loan</td></tr>
<tr><td>Costs to government</td><td>Funding for government equity share</td><td>Funding for government equity share</td></tr>
</table>

Victoria	www.burbankhomes.com.au
Example	Ownhome Ballot Homes
Conditions	→ Nominated house and land packages in VicUrban communities (Cairnlea, Tenterfield, The Boardwalk or Lynbrook) are offered at 75% of market price → Remaining 25% secured by way of a second mortgage provided to VicUrban – no repayments and no interest is paid on the second mortgage, however a credit fee applies upon future sale or transfer of the property → Applicants are selected by ballot → Purchaser must live in the home as owner occupier for at least the first 12 months of ownership → VicUrban holds a second mortgage over the Ownhome Ballot Home until the property is sold or disposed, or the purchaser buys out VicUrban → VicUrban retains the rights to 25% of the actual sale price on any future sale or disposal of the property and the market valuation → VicUrban's prior written consent is required before any material alterations are made to the property
Reach of program/policy	Nominated house and land packages in VicUrban communities (First and Second Ballot: Cairnlea, Tenterfield, The Boardwalk and Lynbrook)
Partnership	Home owner and VicUrban
Eligibility criteria/ Targeting	→ At least one applicant must be in paid employment → Must be eligible for First Home Owner Grant → Combined gross annual household income of between $54,000 and $60,000 → Combined household cash assets of < $10,000 → Over 18 years of age and an Australian Citizen or permanent resident
Costs to consumer	Home loan
Costs to government	Funding for government equity share

South Australia	www.homestart.com.au
Example	HomeStart Breakthrough Loan
Conditions	→ Homebuyers purchase a property of their own choosing by entering a shared equity agreement with HomeStart Finance → No regular repayments → Part of the property is purchased with a Breakthrough Loan and the remainder through a standard HomeStart home loan → Capital gain is shared with HomeStart → The percentage shared will depend on how much was borrowed through the Breakthrough Loan, and how much through the standard HomeStart home loan. For example, if a customer's Breakthrough Loan is 20 per cent of the total amount borrowed, the maximum share payable to HomeStart is 28 per cent. Where the Breakthrough loan is 35 per cent the maximum share payable to HomeStart is 49 per cent.
Reach of program/policy	New scheme, planned to assist 500 lower income households into home ownership each year
Partnership	Home owner and HomeStart Finance
Eligibility criteria/ Targeting	→ Have a regular income (this can include your Centrelink benefits) → Be over 18 years of age → Have a permanent residence status or citizenship in Australia → Be purchasing a home within South Australia and planning to reside in it
Impact	80 households to May 2007 (Homestart Finance, 2007a)
Costs to consumer	→ Mortgage on equity share → Share of capital gains upon sale of property
Costs to government	Subsidy for government equity share

Tasmania	www.dhhs.tas.gov.au/services/channels/abouthousing/view.php?id=3043	
Example	Proposed Home Ownership Assistance Program Shared Equity Scheme – Existing public housing dwellings	Proposed Home Ownership Assistance Program Shared Equity Scheme – House and land packages
Conditions	→ Up to 25% of house is owned by the Director of Housing as a tenant in common; owner-occupier finances 75% of the purchase price through a conventional mortgage → Purchaser pays all council rates and charges → Purchaser can repay equity at any time, but must be repaid within 15 years unless the Director of Housing determines that repayment at that time would cause undue hardship → When property is on-sold or equity is repaid, the property is valued by the Valuer General and this valuation will form the basis of calculating the respective shares or each partner → Any improvements to the property require approval from the Director → The added value of improvements will be assessed by the Valuer General	→ Land value represents the shared equity component held by the Director of Housing → The Director of Housing's interest is based upon the purchase price of the vacant land as a percentage of the total house and land cost, up to a maximum of 25%. Director's Share (DS) = Price/Value of vacant land (PVL) / (PVL + Total building cost as per construction contract). Should the DS exceed 25%, the purchaser must pay an amount to Director that will reduce the DS to 25%. → Purchaser pays all council rates and charges. → Purchaser can repay equity at any time, but must be repaid within 15 years unless the Director of Housing determines that repayment at that time would cause undue hardship → Any improvements to the property require approval from the Director → Added value of improvements will be assessed by the Valuer General
Reach of program/policy	Existing public housing dwellings	New house and land packages
Partnership	Home owner and Director of Housing	Home owner and Director of Housing
Eligibility criteria/Targeting	→ Income eligibility criteria are the same as for Housing Tasmania's Streets Ahead Initiative Program and vary with household structure → Maximum $40,000 in financial assets Applicants must be: → Australian citizens or permanent residents; → Natural persons at least 18 years of age → Able to pay legal and establishment fees → Intending to reside in the purchased property as their principal place of residence Applicants must not: → Be previous applicants and/or recipients of Streets Ahead or HOAP assistance → Own, or have interest in, any other real property → Have any existing debt to Housing Tasmania → Be an undischarged bankrupt or discharged from bankruptcy within three years prior to the date of the application	
Impact	60 home purchase opportunities in 2007/08 financial year	20 house and land packages in 2007/08 financial year
Costs to consumer	→ $3000 deposit or 5% of the purchase price, whichever is greater → Mortgage for remaining equity	→ $3000 deposit or 7% of the cost of house construction, whichever is greater → Mortgage for remaining equity → Additional funds may be required to reduce the Director's share of equity to 25% should the purchase price of the vacant land as a percentage of the total house and land cost exceed 25%
Costs to government	→ 25% equity share in house	→ 25% equity share in land value

Queensland	www.housing.qld.gov.au/loans/home/loans/shared/index.htm
Example	Pathways Shared Equity Loan Product
Conditions	→ Queensland Department of Housing tenants can purchase 60% or more of the property they are currently renting → Qld Government owns an equity share of up to 40% → Maximum size of Pathways Shared Equity Loan is determined by the purchasers level of income and other loan commitments they may have → Purchaser pays rates, insurance and maintenance
Reach of program/policy	Limited to existing Department of Housing homes that are available for purchase
Partnership	Home owner and Queensland Department of Housing
Eligibility Criteria/Targeting	Applicants for the Scheme must: → Be a Queensland Department of Housing tenant at the time of application → Be a permanent resident of Australia → Cannot own or part-own another property at the time of application → Cannot be in a position where the department considers they could buy 100% of their rental home with a standard mortgage loan → Should not have other significant debts that would prevent them from repaying the shared equity loan → Demonstrate that they are able to afford home purchase without hardship, taking into account their costs of living and the ongoing costs of home ownership → Be purchasing the property as their home and undertake to live in the home for the term of the shared equity agreement, and → Not have an outstanding debt with the Department of Housing
Impact	Numbers unknown but only likely to be small
Costs to consumer	→ Deposit of $2,000 → Home loan → Legal/conveyancing costs → Insurance
Costs to government	→ Funding for loan → Transfer of government equity share from social housing to loan portfolio

New South Wales			
Example schemes	Landcom Affordable Housing Demonstration Project – Forest Glade, Parklea (Landcom, 2003)	Proposed Landcom/Commonwealth Bank Shared Equity Scheme	Proposed Australand/St George Co-Ownership Plan (Australand and St George, 2007)
Conditions	→ A percentage of house prices were capped below market rates to allow middle income earners (determined by criteria) to purchase homes through a ballot process and contracts with restrictive covenants on the title → Restrictive covenants limit increases in resale prices to 9% p.a. for a period of 7 years as well as limiting on-selling to other buyers who met the moderate income housing criteria	Home buyer takes out a normal mortgage for 50% of the price of the dwelling, with the remainder being funded by investors, through a Residential Investment Fund	→ Purchaser and Equity Partner (relative or friend) each own 50% of the home on a separate title deed → Upon sale each owner is entitled to their share (50%) of capital gains → After 10 years the arrangement is renegotiated or the property is sold
Reach of program/policy	Limited to 13 dwellings in Landcom's Forest Glade development in Parklea, Sydney	Limited to 150 housing products to be supplied by Landcom	Limited to house and land packages in Greenfield estates in West Hoxton and Kellyville, Sydney
Partnership	Home owner and Landcom	Home owner and Commonwealth Bank	Home owner and Equity partner
Eligibility criteria/Targeting	Low- to middle-income purchasers	→ First time buyers → Owner-occupiers → Maximum combined household income of $71,000 (2005 Sydney moderate income household income bracket) → Maximum property value of $500,000	Purchaser must be an owner-occupier
Impact	13 dwellings – this represents approximately 6% of the 205 house and land packages available in the Forest Glade development	150 dwellings/house and land packages	Limited to Greenfield house and land packages in West Hoxton (317 dwellings) and 'Braemont Estate' in Kellyville Ridge, Sydney
Costs to consumer	Home loan	Commonwealth Bank Home loan	St George Bank Home loan
Costs to government	Second mortgage on Landcom's equity share	Unknown	None
Other	Demonstration project for Landcom's Moderate Income Housing Program.	Landcom's Moderate Income Housing Program. The implementation date of this program is unknown.	Landcom's Moderate Income Housing Program

A2.2 *Private sector-led schemes*

State/Territory wide	www.rismark.com.au
Example	Rismark International/Adelaide Bank Equity Finance Mortgage (EFM)
Conditions	→ Up to 20% of purchase price is funded by EFM → Purchaser provides minimum 5% deposit, remainder is funded by a conventional home loan → Purchaser retains 100% legal ownership → Upon sale of property the lender gets up to 40% of capital appreciation → Available only to owner-occupiers
Reach of program/policy	Metropolitan areas in Australia
Partnership	Home owner and private investor
Eligibility criteria/Targeting	Applicant must: → Be an individual or be borrowing jointly with one or more other natural persons → Own a freehold property, or seek to buy a freehold property, in a metropolitan area in mainland Australia → Not require the support of a guarantor → Secure the EFM with your owner occupied property which must be in an acceptable location and of an acceptable type
Impact	Launched in March 2007, take-up unknown
Costs to consumer	→ Mortgage on purchaser's equity share → Upon sale, lender receives 40% of the increase in capital appreciation
Costs to government	No 'direct' costs – regulatory, accounting considerations
Other	Christopher Joye (Managing Director of Rismark International) co-authored a report for the Menzies Research Centre prepared for the 2003 Prime Minister's Home Ownership Task Force

Appendix 3: Institutional investor perspectives

A3.1 Interviewees

Name	***Company***
Kieran Dell	Executive Director, Senior Australians Equity Release Association of Lenders (SEQUEL)
Neil Sinden	CEO, GMAC-RFC
Phil Naylor	CEO, Mortgage and Finance Association of Australia (MFAA)
Chris Joye	CEO, RISMARK International
Martin North	Managing Consulting Director and Executive General Manager, Fujitsu Consulting
John Edwards	CEO, RESIDEX
Neil Youren	Monash Capital Group/ AHS
Ross Blancato	General Manager, National Business Development, Australand
Peter Ververs	CEO, Property Council of Australia
Jenny Boddington	Head of New Business Ventures, PMI Mortgage Insurance Ltd
Bill McCabe	Chief Manager Specialised Mortgage Solutions, St George Bank
Samantha Clarke	Head of Marketing, Greenway
Alastair Peattie	Industry Head, Non Bank Financial Institutions, Commonwealth Bank of Australia
Jeremy Coombe	Senior Manager, Portfolio Funding, Financial Markets, Adelaide Bank
Rick Jacobus	Partner, Burlington Associates in Community Development, Oakland, California
Public	
Name	***Organisation***
Gary Storkey	CEO, Homestart Finance
Kerry O’Neil	VicUrban

A3.2 Issues covered by industry interviews

- Which types of household have been the consumers of shared equity products in Australia and what has been their reaction to these products?
- What are the benefits and risks for the mortgage industry?
- What is the level of awareness in the industry of the emerging shared equity market in Australia?
- What is the industry’s view on similar/related precedents; what are the perceived implications of those precedents?
- What market failures are associated with these products? What are the risks?
- For shared ownership/equity to be a viable proposition, what kinds of model(s) need to be developed?
- What examples of an ‘intermediate’ mortgage’ market have been developed without government intervention? What have been their advantages and disadvantages? What conditions/frameworks are required to access institutional (e.g. super) investment funds?
- What size does the market need to be in order to work? How does this relate to consumer attitudes and potential market demand?

Appendix 4: Existing customer perspectives

A4.1 Existing customer profiles

Western Australia

Across the three states, the household composition and the type and value of property purchased varied. In Western Australia all respondents were older than 30 years of age, with the exception of one interviewee who was in their mid-20s. The majority of interviewees were couple families with children living at home and were working either full or part time, with the exception of one respondent who was studying and another couple who were retired. Most respondents were born in Australia; a number of people were born overseas in countries such as the UK, Saudi Arabia and Iran.

The Western Australian interviewees predominantly comprised couple families who had purchased property in the suburbs of Perth. Most interviewees had been renting privately prior to buying and had purchased dwellings in areas relatively close where they had been living previously. Generally, couple families purchased single houses with three or more bedrooms in outer suburbs such as Parmelia, Armadale, Warnbro and Port Kennedy to the south of the CBD and Currambine and Girrawheen to the north. One couple had purchased a two bedroom townhouse in Nollamara, located to the north of the CBD in the inner suburbs of Perth and a single person had purchased a two bedroom unit in Bentley, 8 km to the south-east of the CBD.

At the time of the interviews, the maximum value limit for property purchased under the First Start loan scheme was $365,000. Subsequently most interviewees were eligible for and had purchased properties valued between $340,000 and $365,000, although one had bought for $290,000. The majority of these respondents had purchased in the last six months and had an equity share of around 60 per cent, although one interviewee held a 78 per cent share. Of the Good Start respondents, one had bought recently for $255,000 and held a 60 per cent share. The other Good Start customers had bought 8 or 9 years ago for $63,000 and $150,000, with equity shares of 57 per cent and 50 per cent respectively. None of the interviewees has increased their equity share, which is unsurprising given that the majority have purchased quite recently.

Northern Territory

Purchasers in the Northern Territory were more diverse than those from Western Australia, with a variety of singles, couples, and singles and couples with children interviewed. Interviewees were generally older than 40 years, with the exception of one interviewee who was in their 20s. The interviewees, including one retired person, were working either full or part time, with only one interviewee not working at all. All but one interviewee was born in Australia.

Northern Territorians interviewed had purchased properties in the suburbs of Palmerston, Darwin, and in towns to the south of Darwin such as Alice Springs, Katherine and Batchelor. All respondents had been renting privately prior to buying, with the exception of one retiree who had purchased his public housing dwelling from the NT Housing Commission. Every interviewee had purchased a single dwelling with between two and four bedrooms and all but one interviewee had bought around three or four years previously.

The prices of properties purchased varied, but all properties were purchased for less than $200,000 regardless of when they were bought. Purchasers outside Darwin paid between $100,000 and $170,000, whereas those who purchased in the suburbs of Darwin paid between $125,000 and $190,000. Four of the seven respondents held

equity shares of 80 per cent or more. The remaining three interviewees had shares of 70 per cent or less. None of the Territorians interviewed have increased their equity share, despite having held their loan for three years or more.

A4.2 Existing consumer interview schedule

- Just to provide a brief background, can you tell us a little bit about you/your household? (prompt: size, age, working?)
- … and about your current home? (prompt size, type, how many bedrooms)
- Where were you living before? (prompt: tenure, type, did they move far?)
- How did you become aware of [scheme]?
- Had you been trying to buy before, and what barriers were you facing?
- Were you saving for a deposit before you heard about, or thought about applying for, [scheme]
- Had you explored other options, such as taking out a 100% loan, interest-only loans, seeking assistance from your family from parents etc?
- What attracted you to [scheme]?
- If you were explaining [scheme] to your neighbour in terms of how it worked, how would you describe it?
- Did you have any initial concerns once you'd read the information/had it explained to you: what were they, and how did you work through these?
- Could you talk me through how you chose your property? Did you work out what you wanted/needed, and the area you wanted to live in? or was it more a case of working out what you could afford through [scheme] and then looking around?
- Could you talk me through the stages – if you can recall them – of applying for [scheme] and any questions or issues which arose for you during the process?
- Realistically, do you think you would have been able to buy somewhere anyway, without [scheme]
- How would you weigh up the advantages and disadvantages of [scheme] for you/your family?
- Approximately, what is your equity share at the moment?
- Have you already increased, or do you plan to increase, this share? (prompt: by how much, understanding of how process works)
- Do you think you're likely to stay in your current home for a while or do you think you'll move before you've bought all the equity?
- Could you talk me through your understanding of what happens when you sell if you don't own all the equity at that time?
- If and when you move home, would you be looking to enter into a shared equity arrangement again (if it was available), or would you be looking to buy the property using a normal mortgage?

AHURI Research Centres

Queensland Research Centre

RMIT-NATSEM Research Centre

Southern Research Centre

Swinburne-Monash Research Centre

Sydney Research Centre

UNSW-UWS Research Centre

Western Australia Research Centre

Australian Housing and Urban Research Institute

Level 1 114 Flinders Street, Melbourne Victoria 3000

Phone +61 3 9660 2300 Fax +61 3 9663 5488

Email information@ahuri.edu.au Web www.ahuri.edu.au