Doors to Ownership

A business case and guidelines for a shared homeownership scheme with NSW community housing associations

May 2014

Credits

This document has been prepared by the Shared Homeownership Working Group that was convened by the Council of Social Service of NSW (NCOSS) and Regional Development Australia Sydney (RDA Sydney). The Working Group, who has been meeting since 2012, includes representatives from SGCH, Evolve Housing, Link Housing, Wentworth Community Housing, Argyle Community Housing, Community Housing Ltd, NSW Federation of Housing Associations, Shelter NSW, Western Sydney Community Forum, NCOSS and RDA Sydney, as well as Barry Nicholls and Dr Louise Crabtree in their individual capacities. The views expressed in this document should not be taken to necessarily represent the views of all and each of those organisations and individuals.

This document draws on a feasibility study commissioned by the working group from Sphere Company (2013).

This document does not constitute legal or financial advice to people wishing to purchase a home. Individual homebuyers should seek independent legal advice before entering an arrangement for shared homeownership with a community housing provider.

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Regional Development Australia SYDNEY

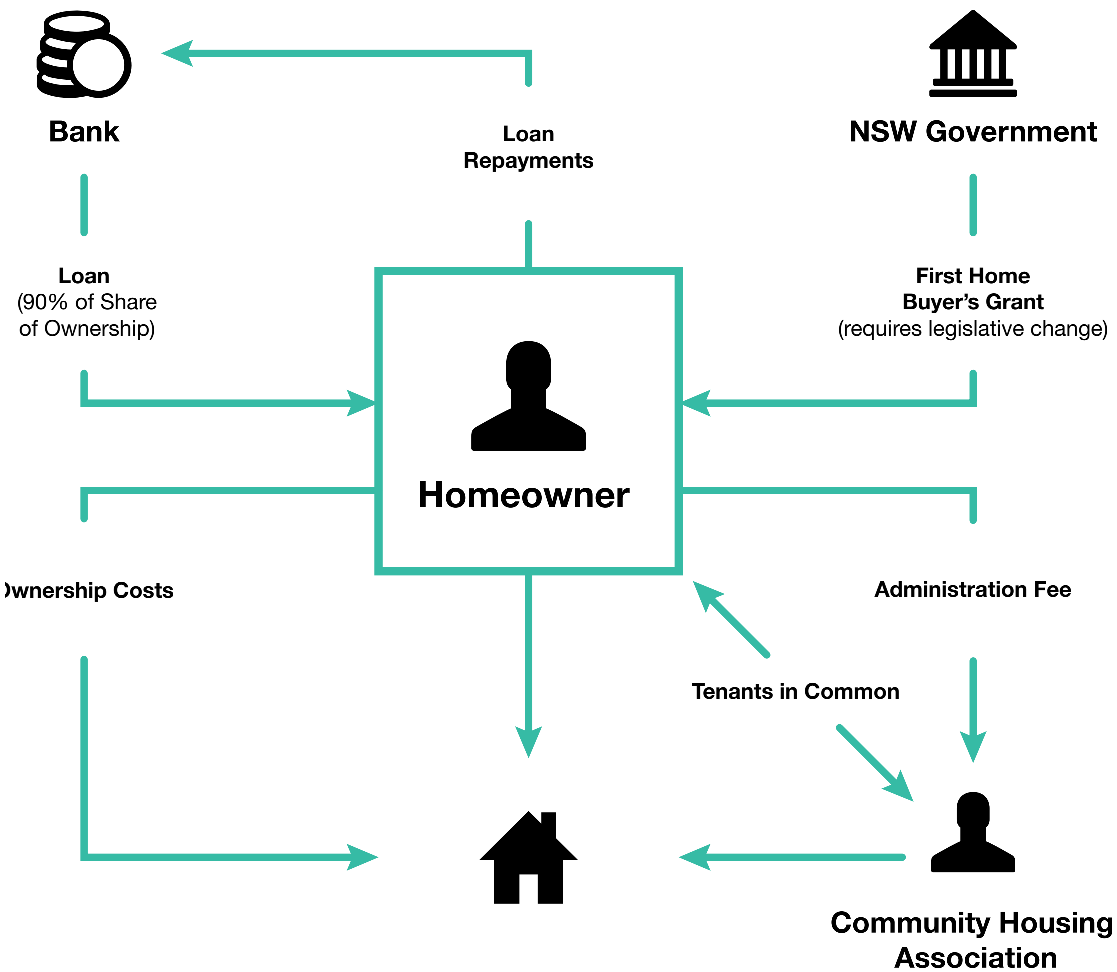
Contents

Overview

This document outlines a scheme for a shared homeownership arrangement where the two parties concerned would be an individual (the homeowner) and a community housing association (which would be a registered community housing association under NSW law). It sets out:

- the need for the product,
- the operation of the product,
- affordability issues for consumers,
- potential market demand, and
- a viability assessment of the delivery of the product as part of housing developments undertaken by community housing associations.

Figure 1
Summary of the operation of the proposed product.[1]



1 Figure 1 is based on a figure in S Manickam, P Nott and E Ferrer, Shared-equity home-ownership: recommendations for a business case, Sphere Company, Darlington NSW, 2013, p.3. Eligibility for the First Home Owners Grant (New Home) to a homeowner in a shared homeownership arrangement with a housing association would require (as at May 2014) legislative amendments to be made to the First Home Owner Grant (New Homes) Act 2000.

The proposed scheme offers the following advantages:

- It provides an alternative to the costs of full homeownership for families and individuals on low-to-moderate incomes.
- It provides an affordable housing product to the homeowner.
- It does not require special loan products from banks.
- It suggests that a community housing association be the co-owner with the homeowner, which assures the homeowner that their partner has a social mission.
- It gives community housing associations the option of providing another product in the range of services they provide to lower and moderate-income households, and does so in a way that is consistent with their key role as providers of non market rental housing, without reducing the supply of affordable rental or social housing.
- The community housing association delivering the product is exposed to minimal financial risk.
- It is simple to administer and implement.
- It is independent of government and does not need government support.
- It enables the concept of shared homeownership to be tested in the particular circumstances of the NSW housing market.

Key features: affordability for homeowners, flexibility for community housing associations.

In terms of affordability and sustainability for homeowners, the proposed shared homeownership product is more likely to succeed if it is applied to:

- households with incomes in the range $70,000–$100,000 p.a.
- dwellings with prices under $400,000,
- home buyers who seek at least 50 percent ownership of their homes, and
- varying levels of administration fee according to individual circumstances and geographical areas.

The parameters set out above have been chosen based on the financial modelling performed by Sphere Company. Each community housing association will need to determine its own tolerances with respect to their product's target households and local housing market—these will affect target incomes, house prices and the allocation of equity gains. Ideally, lower thresholds would be welcomed provided the thresholds selected do not place homeowners in housing stress.

In terms of market demand for the proposed shared homeownership product, there is a large number of renters in NSW who would be eligible, and are already paying rents that would cover the total housing costs of participating in the proposed shared homeownership scheme.

In terms of delivering shared homeownership dwellings as part of housing developments undertaken by housing associations, the inclusion of the product in the development mix would improve the viability of developments and allow greater affordable product yield.

In terms of the impact of the shared homeownership product on community housing associations, the product would result in a reduction in rental income from the association's housing portfolio because of the reduction in the number of dwellings they manage. This is not an argument against a community housing association providing a shared homeownership product as proposed, if it fits in with their social mission, but rather a recommendation to factor this impact into their overall business financial planning.

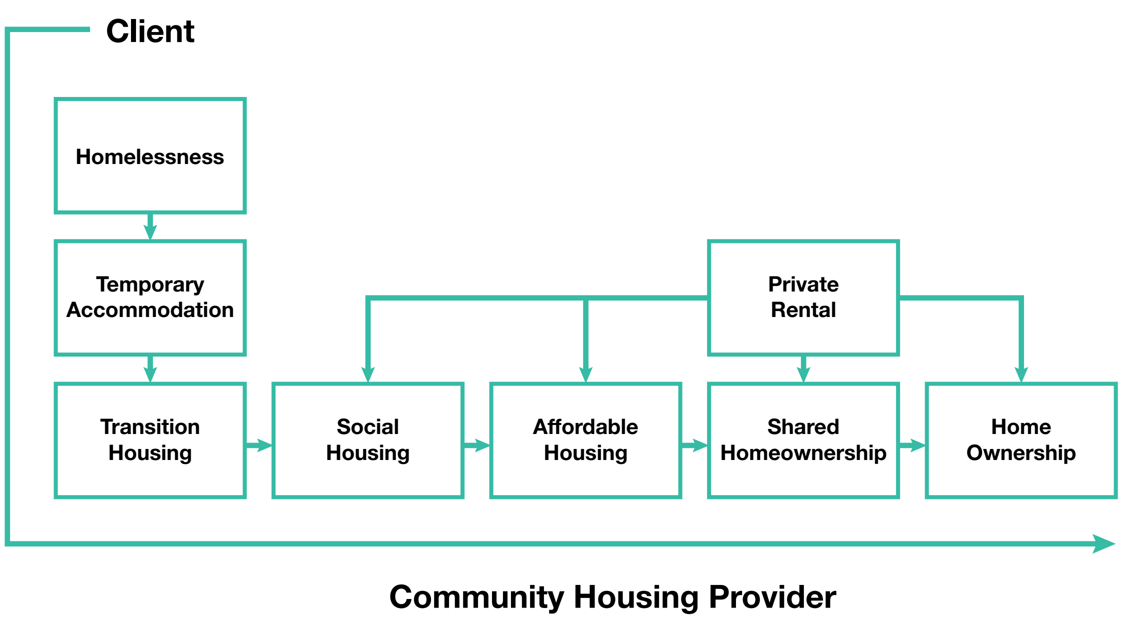
Background

Why shared homeownership?

Government and community organisations in New South Wales provide a range of services to assist individuals and families confronted with the lack of affordability in the housing market. The high cost of both buying and renting homes in NSW (in particular in Sydney) means that many tenants in the rental market find it difficult, not only to afford home loan repayments, but also to save enough money for a deposit to buy a home. Lack of affordability also means that, in order to be able to buy a house, families sometimes have to move away from the areas where they work and where they have family support.

A shared homeownership product would provide an opportunity to improve the continuum of available housing assistance, as shown in Figure 2 [2]. This would improve the capacity of community housing associations to provide assistance that best meets the individual circumstances of families and individuals.

Figure 2
A continuum of housing assistance



2 Figure 2 comes from S Manickam, P Nott and E Ferrer, Shared-equity home-ownership: recommendations for a business case, Sphere Company, Darlington NSW, 2013, p.6.

Shared homeownership products in other jurisdictions

Overseas experiences

The government in England supports four kinds of homeownership assistance schemes: equity loans, mortgage guarantees, NewBuy (for new-build dwellings) and shared ownership. In the case of the last mentioned, the experience in England has built on the capacity of housing associations.[3] They have often benefited from an element of government subsidy via the Homes and Communities Agency. This product has been seen as a way of moving people who cannot afford to buy a house to full ownership over an extended period. Generally, the occupier buys at least 25 percent of the equity in a property and rents the balance from the housing association. There is also provision for these part-owners to increase their ownership percentage as their finances improve.

However, there have been problems, especially following the Global Financial Crisis (GFC) where many homeowners have found themselves with negative equity because of a decline in property values, and with incomes that have not risen enough to allow them to increase their ownership level. The restrictions on renting their houses and selling their share have inhibited the growth of the shared homeownership product in this market. Further, many providers are worried about the loss of affordability due to homeowners being able to 'staircase' to full ownership.

US models have a slightly different focus, though models are emerging in England using elements of the US models due to concerns about loss of affordability. [4] Many US providers have been concerned with retaining the housing stock indefinitely and in striking a fair balance between the interests of the community and the homeowner. As a result, US shared homeownership arrangements have tended to place more restrictions on the homeowners' equity gains than UK shared ownership schemes have done.

In the US models, residents have security of tenure, while restrictions on resale are designed to ensure that these houses remain affordable after many resales. Although the studies conducted are small, they currently indicate that the US models can deliver equity gains while retaining affordability[5]. In contrast to the English models, these performed well during the GFC—and better than the open market did—with minimal foreclosures and equity losses.[6]

Australian experiences – governments outside NSW

In Australia, the dominant focus seems to be on equity loans. Western Australia, South Australia, Tasmania, Northern Territory and the ACT all operate schemes designed to broaden homeownership among people who do not have sufficient financial resources to enter the housing market in their own right. The level of subsidy varies among the states and territories, but the central principle is to assist people in owning their own home. A summary of the schemes run in other states and territories is contained in Appendix 1.

Australian experience – private organisations

The Rismark-Bendigo Bank Equity Finance Mortgage was launched in 2007. It is not currently available, but offered loans of up to 20 percent of a property's value on an interest-only basis for up to 25 years, with the lender entitled to up to 40 percent of any capital gain when the loan was repaid. Interestingly, the lender shared any capital loss in proportion to the percentage ownership at the time of sale.

A number of other private organisations have attempted to offer shared equity/shared homeownership products. These have generally looked to investors to provide the capital not funded by the resident partner. These have not been successful. Failures have generally been attributed to the difficulty of generating attractive returns while still making the proposition affordable and to resistance from lending institutions when asked to fund unfamiliar loan products.

3 See 'Affordable home ownership schemes', at https://www.gov.uk/affordable-home-ownership-schemes/overview (viewed 18 February 2014).

4 J E Davis, *The changing landscape of resale restricted, owner occupied housing,* National Housing Institute, New Jersey, 2006.

5 K Temkin, B Theodos and D Price, *Balancing affordability and opportunity: an evaluation of affordable homeownership programs with long-term affordability controls cross-site report,* The Urban Institute Metropolitan Housing and Communities Policy Center, Washington, DC, 2010, at http://www.urban.org/uploadedpdf/412244-balancing-affordabiliity.pdf

New South Wales

The NSW Government does not offer a shared homeownership product; however, between 1986 and 1993 it did offer a home loan product aimed at people who could not borrow from commercial lenders. Under the HomeFund scheme, the government borrowed funds from commercial lenders and then lent those funds to home buyers at fixed rates of 12 percent to 15.8 percent for 25 to 30 years[7]. Some interest was initially capitalised, and repayments increased at 6 percent each year. This proved unsustainable and the scheme became a negative experience for many of those involved, including the NSW Government. It is important to note that HomeFund was not a shared homeownership scheme, and the eligibility criteria applied to participants did not have high thresholds.

The Shared Homeownership scheme described in this document has as a primary principle: consumers are not to be placed in a position where, in order to achieve homeownership, they have to borrow more than they can afford to repay (i.e. there will be no interest capitalisation or even interest-only periods). The scheme requires home buyers to meet normal commercial lending requirements respecting their share of ownership. This principle has been determined in order to avoid an outcome similar to that suffered by the HomeFund scheme. Moreover, the scheme proposed in this document does not require government loans, government-backed loans or government guarantees on loans; it can operate independently of government support.

6 US Department of Housing and Urban Development, *Shared equity models offer sustainable homeownership,* 20102, at http://www.huduser.org/portal/periodicals/em/fall12/highlight3.html.

7 Greg Kirk, 'A history of HomeFund', *PIAC Bulletin*, no. 13, June 2001.

Proposed shared homeownership product

This section outlines the characteristics of the proposed shared homeownership product. The following terminology is used:

> 'Homeowner': the person purchasing a share of the dwelling and living in it.
> 'Administration fee': a regular payment from the homeowner to the community housing association representing fees for service on the proportion of the property owned by the community housing association.
> 'Co-ownership deed': a deed between the homeowner and the community housing association to manage their relationship during the period of shared homeownership[8].
> 'Shared homeownership subsidy': the difference between market rent that would apply to the community housing association's share of the dwelling, were they to rent it out, and the administration fee actually charged.
> 'Staircasing': the method adopted for the homeowner to increase their percentage of ownership over time, if the community housing association's policy allows for this.
> 'Tripartite agreement': an agreement to manage the relationship between the homeowner, the selected bank and the community housing association during the period of shared homeownership.

General principles

Shared homeownership products should be tailored to local circumstances such as target households and market conditions. In designing an indicative product, the following framework has been used in this document:

- The scheme should offer an alternative to full homeownership for people on-low-to-moderate incomes, taking into consideration the affordability of total housing costs. In particular, homeowners should not be expected to borrow beyond their capacity to meet repayments.
- The homeowner will buy a minimum of 25 percent, and a maximum of 80 percent, of the value of the dwelling and will buy their proportion of the dwelling at market value.
- Housing stress should be avoided.
- The non-residential partner in the scheme will be a registered community housing association that has as an objective which is the provision of housing assistance, and that is a registered charitable institution.
- The product should be simple and inexpensive to administer.
- The product should reduce financial risk to the community housing association.
- The implementation of the product should not be dependent on banks providing special 'shared homeownership loans'.
- Banks should lend to homebuyers on standard housing loan terms and conditions.
- Homeowners may be able to increase their share of ownership over time, if they wish to do so, within the rules and conditions specified by the scheme. Community housing associations in designing their schemes need to carefully consider whether such staircasing presents an unacceptable risk of losing affordable stock, this will depend on local household and market characteristics.
- The product is linked to project (housing) development activities of the community housing association because the homeowner will only be eligible for government assistance if the dwelling is newly built or substantially renovated.
- The product can be factored into the financing of mixed-tenure, multi-unit housing developments (projects) where the provider wishes to promote tenure mix, social mix, and housing choice.

8 The Working Group is preparing a template deed that could form the basis of the deed to be used by housing providers participating in the scheme.

Eligibility

In order to ensure that the product provides assistance to people on low-to-moderate incomes, it is recommended that the following eligibility criteria for prospective homeowners be considered for inclusion in any scheme offered by a community housing association:

- they will have a maximum household income of $100,000 per annum, although individual community housing associations may need to vary this according to their target households and local housing market conditions,
- they will be permanent residents of Australia,
- they will be currently renting and not be an owner or part-owner of any other residential property,
- they may only participate in one shared homeownership purchase at a time,
- they must live in the shared homeownership dwelling. It cannot be leased.

Mortgage, deposit requirements and deposit assistance

It is proposed that properties be jointly bought by homeowners and community housing associations as ‘tenants in common’. This mechanism for joint ownership is commonly used and banks already provide loans on this basis.

Presently, banks provide loans based on joint ownership on the basis that the joint owners are responsible for payment of the home loan. It is proposed with this shared homeownership product that the homeowner is responsible for payment of the home loan that the homeowner raises for the purchase of their share of the dwelling.

The community housing association will not provide a guarantee or underwrite the home loan provided to the homeowner by the bank and will not subsidise the homeowner’s loan repayments.

Key features of the scheme, for homeowners

The homeowner:

- must meet the eligibility criteria in relation to household income, residence status and so on;
- buys a share of at least 25 percent of a dwelling;
- shares the dwelling ownership with a registered community housing association;
- arranges their own home loan, and should pay a deposit of no more than 10 percent of their share of the dwelling;
- arranges and pays for their own legal and financial advice;
- has all the rights and responsibilities of a full homeowner;
- pays all outgoings associated with homeownership, such as repairs and maintenance, rates, insurance, body corporate fees, insurance, and utility charges;
- pays a total cost of shared ownership, including home loan repayments of no more than 35 percent of household income;
- may sell their interest in the dwelling to the housing provider; and
- has their interest in the dwelling passed on to inheritor/s as per the homeowner’s will in the event of the homeowner’s death.

The financial modelling presumes the bank will take security over the entire property regardless of the shared homeownership ratios between the homeowner and the community housing association. Consequently, it is expected the loan-to-value ratio on a shared homeownership property will be significantly lower than the ratios presently being experienced in the market.

In the event the community housing association has a General Security Agreement (GSA) or the like (also known as a 'fixed and floating charge') over its business, the tripartite agreement would need to be suitably amended to reflect this situation and to 'carve out' this security from the GSA.

It is also noted that community housing associations apply different accounting policies in respect of property assets. Community housing associations should obtain accounting advice to understand how their share of the home should be reflected in their financial statements.

How much the homeowner will pay as a deposit to the finance institution that provides the loan is a matter between the homeowner and that institution.

However, the affordability of the shared homeownership product as a package would be jeopardised if homeowners were expected to pay a deposit of more than 10 percent on their share of ownership to the bank. That is, if their share of ownership is 50 percent, homeowners should not be asked to pay more than 5 percent of the total dwelling cost as a deposit. If their share is 25 percent, they should not be expected to pay more than 2.5 percent of the total dwelling cost as a deposit.

The homeowner should be eligible for an exemption from transfer duty under the guidelines for the First Home – New Home scheme, if the dwelling is a newly built or substantially renovated dwelling valued at no more than $550,000 [9].

The homeowner might be also eligible for the First Home Owner Grant subject to a minor amendment being made to the First Home Owner Grant (New Homes) Act 2000 [10].

Key features of the scheme, for community housing associations

The community housing association:

- owns a share of between 25 percent and 75 percent of a dwelling;
- arranges their own financing of construction costs;
- arranges and pays for their own legal and financial advice;
- has 'fallback' rights and responsibilities in accordance with a co-ownership deed with the homeowner;
- receives an agreed regular administration fee from the homeowner; and
- may sell their interest in the dwelling to another registered community housing association.

9 Office of State Revenue, 'First Home – New Home scheme', at http://www.osr.nsw.gov.au/grants/fhnh (viewed 8 May 2014).

10 The Working Group has put forward a proposed amendment to the NSW Government which would, if enacted, make a homeowner participating in a shared homeownership arrangement with a registered community housing association eligible for the Grant.

Tripartite agreement

It is proposed that a tripartite agreement is entered into between the bank, the community housing association and the homeowner. The tripartite agreement will help manage the interests of the three parties. In particular it will:

- provide time for the homeowner or community housing association to 'cure' any default that may occur by the homeowner,
- provide step-in rights for the community housing association to take possession of the property,
- provide rights that allow the community housing association to sell the property to liquidate any homeowner debt between the bank and the homeowner, and
- specify how the bank may exercise its right to the underlying security in the event the bank has provided the community housing association with a loan wherein the loan is secured by the shared homeownership property.

Co-ownership deed, administration fee and other costs of ownership

Under the shared homeownership scheme, homeowners will normally be subject to three types of costs:

1. home loan repayments to a finance institution (e.g. bank);
2. normal costs associated with homeownership, including rates, strata fees (if applicable), insurance and utility charges; and
3. an administration fee payable by the homeowner to the community housing association.

The home loan repayment arrangements will be in line with the requirements of the lending institution and the terms of the tripartite agreement.

Homeowners will generally be responsible for all normal dwelling costs associated with homeownership, such as council rates, utility charges, body corporate fees, insurance, maintenance and repairs. These costs will vary throughout the term of the shared homeownership agreement. Aspects of the detailed arrangements applying to particular housing developments will be spelt out in the co-ownership deed. The guiding principle will be to ensure clarity and certainty to both the homeowner and the community housing association.

The co-ownership deed will also specify how any capital gain or loss in the value of the property will be shared between the homeowner and the community housing association in the event that the homeowner decides to sell their proportion of the dwelling.[11]

The financial modelling for the proposed scheme requires the homeowner to pay a regular administration fee to the community housing association. This fee will recompense the community housing association for their expenses and for being denied the use of their proportion of the dwelling.

In the absence of any external subsidy, such a fee will be necessary for the shared homeownership scheme to be self-supporting and financially sustainable. The community housing association will set the administration fee applicable for a particular property by taking into account the homeowner's household income, their loan repayments, and the likely level of the other normal costs of homeownership.

The arrangements covering the administration fee will be set out in the co-ownership deed. The guiding principle shall be to ensure that the homeowner's total housing costs do not exceed 35 percent of household income and that the fee, once agreed, remains relatively stable over time.

11 Examples and justification of various resale formulas can be found in L Crabtree andothers, *The Australian community land trust manual*, University of Western Sydney, Sydney, 2013.

Modelling: Affordability for homeowners and impact on community housing associations

In this section, analysis is provided to illustrate the affordability of the proposed product for home buyers. The factors taken into account in the modelling are:

- dwelling price
- interest rate
- homeowner share
- household income maximum limit
- deposit required
- maximum limit of homeowners' housing costs.

Modelling was undertaken for the working group by Sphere Company to assess the affordability of the product for different levels of household income.[12] Under each scenario modelled it was assumed that the homeowner's housing costs (including homeownership costs[13]) would be a maximum of 35 percent of household income.[14] Each scenario varied the loan interest rates (6 percent and 9 percent were tested) and the administration fee provided on the share owned by the housing provider (subsidies of 25.1 percent, 50 percent and 75 percent were tested[15]).

The figures below show the qualifying household annual income required to meet these affordability constraints as applied to varying dwelling prices: $300,000, $400,000 and $500,000, and homeowner share of ownership at 25 percent, 50 percent and 75 percent.

The figures also show the required savings required by the homebuyer to meet the deposit requirements (without receipt of the First Home Owner Grant (New Home) (FHOG)).

In the case where household income exceeds $100,000, the figure shows 'Ineligible' because this level of income exceeds the eligibility threshold set for this product.

12 S Manickam, P Nott and E Ferrer, *Shared-equity home-ownership: recommendations for a business case,* Sphere Company, Darlington NSW, 2013.

13 These costs might include water usage and water rates, council rates, strata fees, maintenance and insurance.

14 In practice, the actual cost of housing policy will be determined by the cost of the bank home loan and the amount of ownership costs passed on the homeowner by each housing provider participating in the scheme.

15 Corresponding to rents set at 74.9 percent, 50 percent and 25 percent of market rent, respectively.

Illustrations of opportunity

The following 6 figures indicate that households in the $70,000–$100,000 income range would be able to purchase homes up to $400,000 with a share of ownership up to 50 percent in most instances. (The only exception in the scenarios modelled is where the administration fee and home loan costs are only 25.1 percent and the loan interest rate is 9 percent). These homeowners could own up to 75 percent of the homes in dwellings with prices up to $300,000, and could take a lower share of ownership in more expensive dwellings. These homeowners would need savings up to $25,000 to meet deposit requirements. In general, $500,000 homes could only be purchased under this model with a low share of ownership of 25 percent. These homeowners would need savings of $22,500 to meet deposit requirements.

- In terms of affordability for homeowners, the modelling shows that a viable homeownership suggested product would realistically apply to:
- households with incomes in the range $70,000–$100,000 per annum
- dwellings with prices under $400,000
- homeowners purchasing 50 percent ownership of dwellings
- varying levels of administration fees applied by community housing associations according to individual circumstances and geographical areas.

Figure 3

Affordability scenario at 6% interest rate, administration fee set at 74.9% of market rent, 35% housing costs as a proportion of income

Minimum Household Income

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$58,861	$77,390	$95,918
$400,000	$74,250	$98,555	Ineligible
$500,000	$90,067	Ineligible	Ineligible

Savings Required for Deposit

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$7,500	$15,000	$22,500
$400,000	$10,000	$20,000	$30,000
$500,000	$12,500	$25,000	$37,500

Figure 4

Affordability scenario at 9% interest rate, administration fee set at 74.9% of market rent, 35% housing costs as a proportion of income

Minimum Household Income

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$63,174	$86,015	Ineligible
$400,000	$80,000	Ineligible	Ineligible
$500,000	$97,255	Ineligible	Ineligible

Savings Required for Deposit

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$7,500	$15,000	$22,500
$400,000	$10,000	$20,000	$30,000
$500,000	$12,500	$25,000	$37,500

Figure 5

Affordability scenario at 6% interest rate, administration fee set at 50% of market rent, 35% housing costs as a proportion of income

Minimum Household Income

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$47,733	$66,261	$84,789
$400,000	$60,154	$84,458	Ineligible
$500,000	$73,003	Ineligible	Ineligible

Savings Required for Deposit

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$7,500	$15,000	$22,500
$400,000	$10,000	$20,000	$30,000
$500,000	$12,500	$25,000	$37,500

Figure 6

Affordability scenario at 9% interest rate, administration fee set at 50% of market rent, 35% housing costs as a proportion of income

Minimum Household Income

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$52,045	$74,886	$97,727
$400,000	$65,904	$95,959	Ineligible
$500,000	$80,191	Ineligible	Ineligible

Savings Required for Deposit

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$7,500	$15,000	$22,500
$400,000	$10,000	$20,000	$30,000
$500,000	$12,500	$25,000	$37,500

Figure 7

Affordability scenario at 6% interest rate, administration fee set at 25% of market rent, 35% housing costs as a proportion of income

Minimum Household Income

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$36,559	$55,088	$73,616
$400,000	$46,001	$70,305	$94,610
$500,000	$55,871	$86,037	Ineligible

Savings Required for Deposit

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$7,500	$15,000	$22,500
$400,000	$10,000	$20,000	$30,000
$500,000	$12,500	$25,000	$37,500

Figure 8

Affordability scenario at 9% interest rate, administration fee set at 25% of market rent, 35% housing hosts as a proportion of income

Minimum Household Income

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$40,872	$63,713	$86,554
$400,000	$51,751	$81,806	Ineligible
$500,000	$63,058	Ineligible	Ineligible

Savings Required for Deposit

Dwelling Cost	Home Buyer % Ownership		
	25%	50%	75%
$300,000	$7,500	$15,000	$22,500
$400,000	$10,000	$20,000	$30,000
$500,000	$12,500	$25,000	$37,500

Source: Shared-equity home-ownership: recommendations for a business case, Sphere Company

Modelling: Market demand

This section reports on an analysis of 2011 Australian Bureau of Statistics Census data undertaken by Sphere Company to estimate the size of the potential market for a shared homeownership product along the lines recommended in this document.

Data analysis was performed looking at two key indicators:

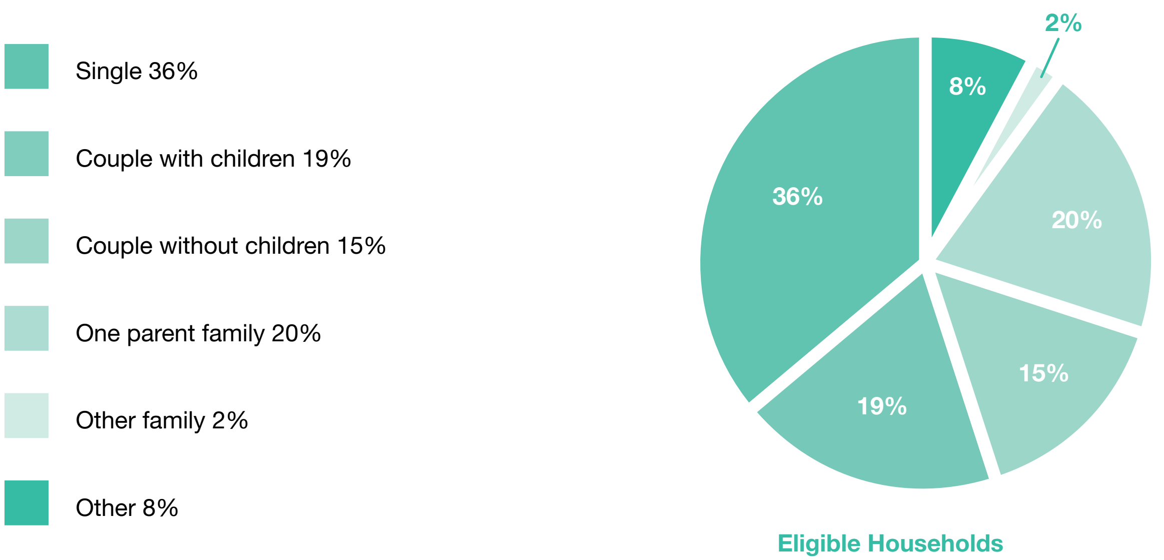
- eligible households: defined as rental households with incomes below $104,000 per annum;[16]
- target household: defined as rental households with incomes below $104,000 per annum currently paying rents that would already cover the total housing cost associated with participation in this shared homeownership scheme.[17]

Therefore, target household represents families and individuals who would be able to participate in the shared homeownership scheme without increasing their current housing costs. The definition of target household varied depending on the dwelling price, the homeowner's share of ownership and the level of shared equity subsidy.

Eligibility

The 2011 ABS Census shows that there were 491,774 rental households with incomes below $104,000 per annum in NSW. Figure 9 shows the proportion of eligible households for different family types.

Figure 9
Family composition of eligible households



Source: Shared-equity home-ownership: recommendations for a business case, Sphere Company

16 $104,000 p.a. income was chosen as the closest ABS Census category to the $100,000 eligibility threshold.

17 Housing costs: mortgage repayments + shared equity rent + homeownership costs.

Figure 10 on page 25 shows the top ten local government areas (LGAs) in NSW ranked by the total eligible number of households.

Target market

The number of target households in NSW changes as the following assumptions change:

- dwelling price ($300,000, $400,000 or $500,000);
- homeowner's share of ownership (25 percent, 50 percent or 75 percent);
- level of shared equity subsidy (low – 25.1 percent, medium – 50 percent, high – 75 percent).

Figure 11 on page 25 shows the number of target households in New South Wales. In the case where homeowners take a 50 percent ownership share, and the administration fee is subsidised by 50 percent (medium), the numbers are as follows: for a dwelling price of $300,000, there would be some 170,000 target households that could potentially benefit from the recommended shared homeownership scheme. For a dwelling price of $400,000, there would be some 70,000 target households. For a dwelling price of $500,000, there would be some 25,000 target households.

This analysis can be reproduced at the local level. For example, in the Kogarah local government area where homeowners take a 50 percent ownership share and the administration fee is subsidised by 50 percent (medium), the numbers are as follows:

for a dwelling price of $300,000, there would be some 2,300 target households that could potentially benefit from the proposed shared homeownership scheme; and

for a dwelling price of $400,000, there would be some 900 target households that could benefit from the proposed scheme.

Appendix 3 contains graphs showing the number of target households in selected LGAs across urban, rural and regional NSW.

The analysis shows the demand for the shared homeownership product could be high, both in terms of eligibility and in terms of families and individuals who could be part of the scheme without increasing their current housing costs. By changing the share of ownership of homeowners and the level of administration fee charged by community housing associations, the product could easily match the individual circumstances of homeowners across different geographical locations.

In practice, it is clear that the demand for a shared homeownership product will be greater than the ability of the market to supply such a product. The demand risk for the shared homeownership product should be negligible.

Figure 10

LGAs with highest number of eligible households

Rank	LGA	Single	Couple with Children	Couple without Children	One Parent Family	Total
1	Sydney	6,311	763	2,805	637	12,994
2	Blacktown	1,211	4,099	1,514	2,186	10,143
3	Parramatta	1,646	2,706	1,807	992	8,207
4	Newcastle	1,745	1,353	1,365	997	6,843
5	Wollongong	1,496	1,718	1,233	1,184	6,572
6	Randwick	2,097	1,068	1,230	706	6,320
7	Penrith	1,234	2,049	1,034	1,340	6,276
8	Sutherland Shire	1,789	1,459	1,068	997	5,885
9	Cantebury	776	2,257	1,161	768	5,749
10	Gosford	1,192	1,744	1,067	1,110	5,708

Figure 11

Target households in New South Wales

Source: ***Shared-equity home-ownership: recommendations for a business case, Sphere Company***

Implementation issues

This section identifies actions required by an individual community housing association that decides to implement the proposed shared homeownership scheme as part of the products it offers to the market.

Operational requirements need to take into account the following:

- governance
- management
- marketing and promotion
- delivery
- banks
- homebuyer assessment and education.

Governance

The introduction of a shared homeownership product would require a clear and unambiguous governance statement that should cover:

- eligibility
- waiting list
- provision of independent legal advice
- 'tenants in common' guidance
- administration fee
- staircasing.

The shared homeownership product would be offered as further product by the community housing associations. Community housing associations' existing tenants could be given priority but the product would also be available to tenants renting from other community housing associations or the private market. It is very likely that demand for the product will outstrip supply; consequently, it may be necessary to implement a waiting list of prospective buyers or some form of qualification to ensure that there is equity in the allocation process. Individual community housing associations might wish to include a requirement for independent financial counselling or homeowner training as part of their waiting-list eligibility.

The shared homeownership product would be offered using standard legal documents to reduce the start-up costs for the homeowners. However, homeowners would be required to arrange their own legal advice—possibly selecting a solicitor from a panel of independent practitioners who had agreed to cap their fee and who had been trained in the product's features.

The community housing associations will need to make decisions on the level of administration fee to be charged and on the costs and activities they wish to be responsible for. In the financial modelling performed, these were the amounts used to arrive at 35 percent of the homeowner's income after taking into account ownership costs such as interest, capital repayments and homeownership costs such as insurance, rates and maintenance. In order to improve transparency, the community housing association will need to establish an equitable method for determining the administration fee rather than having it as a balancing figure on a case-by-case basis.

Staircasing is the term applied to the process of allowing the homeowner to increase their percentage ownership over time and as their economic circumstances improve, if provider policies allow this. It may be that community housing associations decide to prevent staircasing in order to retain a pool of housing stock available for affordable purchase on an ongoing basis. In such cases, other mechanisms can be stipulated for balancing the departing homeowner's equity gain with the ongoing affordability to subsequent buyers. This would involve the determination and provision of an appropriate resale formula as a schedule within the co-ownership deed.[18]

18 For examples and explanation of indicative formulas, see Louise Crabtree and others, *The Australian community land trust manual*, University of Western Sydney, Sydney, 2013.

Where staircasing is allowed, the method of staircasing will need to be determined so that each party understands how any change to equity arrangements will affect the:

- amounts of repayments to the bank
- share of any gain or loss in the property value that may have occurred
- changes in administration fee
- change in homeownership costs.

The proposal in this document is for a minimum 25 percent share by the homeowner, and a maximum of 80 percent, which, if the homeowner wishes to acquire more, would jump straight to 100 percent so that the community housing association is not carrying transaction costs for a small equity share.

Management

The shared homeownership product should require less management than other types of community housing, as the homeowner would be accepting responsibility for many of the functions usually carried out by the community housing association, and there should be very low turnover. Nevertheless the following processes will need to be managed:

- identifying the home buyer;
- preparing and executing the legal agreements;
- regularly monitoring the homeowner's performance under the co-ownership deed;
- managing staircasing where it is allowed;
- sale of the dwelling—either a sale by the homeowner to release its equity, ideally for use in purchasing another dwelling with the subsequent need to start the process again; or to use the dwelling in some other way; or by way of the residential owner purchasing the community housing association's remaining equity.

These tasks are very similar to tasks already carried out by community housing associations in their current business of acquiring, renting, and maintaining rental housing. They will represent an incremental increase of their existing operations.

Marketing and promotion

The key marketing task will be attracting potential homebuyers. These will come from two sources: the community housing association's current tenants and the general renting public. The community housing associations should widely canvas its intention to begin offering a shared homeownership scheme in its in-house publications. Themes here could include:

- the role of shared homeownership as a step on a continuum of services that starts by offering assistance to the homeless via focused social housing offerings, and continues by providing encouragement to find employment with a move to affordable housing, and then on to shared homeownership, if applicable;
- the financial issues—how the costs of a shared ownership compare with affordable and market rentals, if and how staircasing works as family income increases, the capital gains that are available to the home buyer, and the opportunity to trade up to full ownership where possible;
- case studies showcasing the success stories of long-term tenants.

Demand for the shared homeownership product is likely to be much greater than the capacity of community housing associations to deliver shared homeownership properties. Consequently, it is envisaged that only a small amount of resources would have to be dedicated to marketing the shared homeownership product.

Delivery

The community housing association would identify dwellings that were suitable for the shared homeownership scheme as part of its development and procurement program. Criteria for suitability could include:

- new dwellings or dwellings that have been substantially renovated;[19]
- located in areas with mixed housing types;
- located in areas with relatively affordable housing prices;
- moderate housing demand.

A key decision each community housing association will need to make is the scale of its participation. It would seem sensible to start small and gradually increase the proportion of its properties available for shared homeownership use as it gains experience and its successes become more widely known. The small-scale start is probably best managed through a mix of one-off market purchases and the inclusion of shared homeownership dwellings in its own mixed developments.

FACS Housing NSW has indicated that any dealing request in connection with 'Nation Building' social-housing properties needs to consider the nature of the housing assistance being provided. Nation Building was focused on social housing needs whereas the proposed shared homeownership scheme has a different focus. Consequently, any dealing request would need to consider the differing policy outcomes and how any loss of social housing will be overcome.

It is considered that in the immediate future the scheme could successfully be applied to the Asset Ownership properties that five community housing associations were granted in 2010. Also, the scheme may have great applicability to the National Disability Insurance Scheme and how that is introduced.

In applying the shared homeownership scheme to a housing development, the commercial assessment of the project will largely depend on the characteristics of the actual housing development project. The financial modelling prepared as part of this document is only for illustrative purposes.

State government involvement in the shared homeownership scheme is not required or anticipated. However, there are a variety of ways that the NSW government could become involved in such a scheme to facilitate its timely rollout. For example, it could assist by providing existing housing stock to allow for density uplift, by providing land or by vesting further properties with community housing associations (like the 500 Asset Ownership properties vested to five community housing associations in 2010).

If the NSW Government wants to create opportunities for shared homeownership for current public housing tenants, this would seem to require the development of a government-supported scheme.

Banks

The proposed 'tenants in common' ownership method is already familiar to banks. This together with a requirement to provide a maximum 10 percent deposit on their share of the dwelling should allow homebuyers to obtain loans without impediment.

However, it would be important for community housing associations to explain the features of the shared homeownership scheme to local bank relationship managers to confirm that banks regard this kind of loan as a 'tenants in common mortgage', and to be able to direct homebuyers to institutions that will provide loans on such a basis.

The community housing association requires step-in rights to allow time to recover the financial situation when a homeowner experiences financial difficulties. Step-in rights will need to be established with the banks that provide housing loans. Ideally, the banks should be requested to allow a cure period of six months, for example. In these six months the community housing associations would work with the homeowner to either restore the situation or dispose of the property.

Community housing associations should ensure that their treasury management policies and practices provide sufficient free cash,

19 The home buyer will not be eligible for the First Home New Home duty exemption or the First Home Owner Grant (New Home) *unless* the dwelling is a 'new home'. In the case of the First Home New Home duty exemption, a 'new home' is a dwelling that has not been previously occupied or sold as a place of residence, or a substantially renovated dwelling. In the case of the First Home Owner Grant (New Home) scheme a 'new home' is a dwelling that has not been previously occupied, including occupation by the builder, a tenant or other occupant; a dwelling that has not been previously sold as a residence (or where the dwelling is being purchased, it must be the first sale of that dwelling); or a dwelling that has been substantially renovated and a dwelling built to replace demolished premises.

in order to carry the costs when a loan is being cured by either the sale of the property or by the homeowner resolving his or her financial difficulties.

Another solution to ensure cash flow during a cure period could be the establishment of a fund that could be accessed by community housing associations when a homeowner encounters financial difficulties. Such a fund could be established by a consortium of community housing associations. The community housing associations could loan funds at market rates from the fund while the situation was 'cured' via sale of the home or by the homeowner paying the outstanding amounts. In the event of a loss being incurred upon sale of the property, the community housing associations would need to enter into a repayment arrangement with the fund.

Homeowner assessment and education

Homeownership is a long-term commitment that should not be entered into without a great deal of due diligence. In order to ensure that applicants for the scheme have carried out sufficient due diligence, it is recommended that they attend a financial management course, such as those offered by TAFE, and get independent legal advice on the financial implications of the choice of this housing option.

Legal requirements

The shared homeownership structure proposed in this document is squarely aimed at providing an option for homeownership for low-to-moderate-income households who cannot afford full homeownership. The model of shared homeownership described in this document is based on the parties—the homeowners and community housing associations—being 'tenants in common'. In Australia, this concept of shared ownership is well understood and is available in all legal jurisdictions. It allows the partners to have unequal shares and to deal with their shares independently and at different times. The more common use of this ownership structure is where the parties live in the dwelling and have essentially equal rights and responsibilities.

Under the proposed shared homeownership scheme, it would be essential for the sales contract to be accompanied by a co-ownership deed that establishes the responsibilities and relationship of the parties and any restrictions on dealing with their ownership share.

Co-ownership deed

Matters covered in the agreement should include:

- sole occupancy rights for the homeowner;
- agreed obligations of the homeowner and community housing associations with regard to relevant insurances, payment of local government rates, payment of owners' corporation fees, repairs and maintenance, etc, with a right of regular inspection by the community housing association and step-in rights for the community housing association if these responsibilities are not met;
- payment of an administration fee to cover the agreed costs of the community housing association, in line with the agreed responsibilities of the homeowner and the community housing association;
- options for the homeowner to staircase where community housing associations allow this, by buying some or all of the community housing association's share of the property at its market value at the time of the step-up: this could be done incrementally or in one step;
- step-in rights of the community housing association if the homeowner experiences financial difficulties;
- the equity arrangement between the homeowner and community housing association and the treatment of equity at resale;
- the right of the community housing association to nominate a party to acquire the homeowner's portion of the property (while it is less than 100 percent) when the homeowner elects to sell its interest at its market value; the co-ownership agreement would lapse in cases where the homeowner became the sole owner;
- inheritance rights;
- dispute resolution procedures, initially via the community housing association's usual dispute resolution system, and then mediation by the Institute of Arbitrators and Mediators Australia;
- the associated terms required to regulate relations between the parties.

Community housing associations should ensure that the central tenets of the document capture the facts that:

- The homeowner should not enter into the arrangement if it means that their total housing costs will exceed 35 percent of gross income at the time of entering into the arrangement.
- The homeowner understands and has received independent legal and financial advice before entering into the transaction.
- The transaction has been entered into in a transparent manner and will be administered in a transparent manner.
- Exit arrangements from the transaction have been carefully explained and are understood.
- 'Cooling off' periods have been explained.

A template co-ownership deed can be found in the Australian Community Land Trust Manual.[20] That template includes core clauses with options for variation regarding resale formulas and equity allocations, and provides commentary about individually tailoring clauses regarding renovations/improvements, repairs and maintenance, and subletting.

The Working Group has commenced work on a template co-ownership deed that is specifically designed for shared homeownership projects involving registered community housing associations in NSW. Community housing associations will be free to modify the template deed in line with their particular projects and policies.

Taxation implications

This document does not deal with the taxation issues for community housing associations providing a product to a customer base that includes moderate-income earners. This proposed product is consistent with the social purpose of community housing associations as social enterprises, and resonates with their charitable services to households disadvantaged in housing markets. In principle, the taxation challenges that a community housing association might face in delivering a product as proposed are similar to organisations with other services targeted to intermediate-income households. Community housing associations considering provision of a shared homeownership product along the lines suggested in this business case and guidelines, need to obtain their own legal advice on the taxation implications for their business.

20 L Crabtree and others, *The Australian community land trust manual*, University of Western Sydney, Sydney, 2013, at http://imap.vic.gov.au/uploads/Strategy%20Documents/The%20Australian%20CLT%20Manual%2020130409.pdf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Modelling: Housing developments

This section provides financial analysis of case studies to illustrate how the shared homeownership product could be used as part of a development conducted by a community housing association.[21] These case studies are based on projects that were in the pipeline of Sydney-based community housing associations at the time.

Community housing associations developments aim at growing affordable housing, and usually deliver new dwellings targeting a mix of housing tenures. These usually include:

- Social housing: targeting tenants who pay rents based on 25 percent of their income. In the case where the land in the development contains existing public housing, there will normally be an expectation that the existing public housing is at least replaced.
- 'Affordable' rental housing: targeting tenants who pay rents up to 74.9 percent of market rent.
- Private housing for sale: the revenue from these sales is used to contribute toward the cost of producing the social and affordable housing above.

In the case studies examined, analysis was undertaken to determine the impact of delivering a mix of affordable (for rent) and shared homeownership dwellings. The modelling examined three hypothetical scenarios in terms of dwellings delivered by the development.

- Scenario 1: a mix of public (if required), affordable (for rent) and private dwellings (if required to fund the project);
- Scenario 2: a mix of public (if required), affordable for rent, shared homeownership and private dwellings (if required to fund the project); and
- Scenario 3: a mix of public (if required), shared homeownership and private dwellings (if required to fund the project).

In scenarios containing shared homeownership dwellings, results are given for 25 percent, 50 percent and 75 percent shared ownership, and a shared homeownership administration fee of 50 percent was assumed in all scenarios. Under each scenario, the modelling maximises the production of affordable (for rent) and/or shared homeownership dwellings with the constraint that the development must deliver a surplus (i.e. it must be viable with no outstanding debt at the end of the development). The modelling estimated number of dwellings delivered for each tenure type, the development surplus, and the annual surplus generated by the rental portfolio.[22]

In both case studies the modelling showed that the inclusion of shared homeownership dwellings in the development mix:

- improved the viability of the developments;
- allowed a greater total affordable product yield (i.e. affordable for sale dwellings plus shared homeownership dwellings); and
- resulted in lower ongoing portfolio surpluses than delivering affordable housing for rent only.

The above factors are exacerbated as the ownership share of homeowners increase.

Detailed results for the different scenarios tested in these case studies are set out in Appendix 2.

Consequently, it can be concluded that:

- It is highly realistic that a shared homeownership product could be used as part of the dwelling mix of community housing association developments.
- The limits on how many shared homeownership dwellings can be included in a development will be driven by the potential need for operational surpluses to service debt. In general, 'affordable housing' for rent is more financially advantageous over time as it delivers higher operational surpluses.

21 These are drawn from S Manickam, P Nott and E Ferrer, *Shared-equity home-ownership: recommendations for a business case,* Sphere Company, Darlington NSW, 2013.

22 Including administration fee, if applicable.

Key points

- The proposed shared homeownership product could be implemented in a simple and inexpensive way.
- The legal requirement for the implementation of the scheme would be minimal. This would be achieved by using tenants in common titles and a co-ownership agreement between the homeowners and the community housing association.
- Banks would be likely to lend to shared homeownership homeowners without impediment, using existing residential loan arrangements.
- Community housing associations would incur minimum financial risks by participating in the scheme. In fact, from the community housing association's perspective, the product is just another form of tenancy assistance and rental subsidy provision.
- By setting administration fees at the right levels, the product could be implemented without causing housing stress for homeowners.
- There would be high demand for the product across NSW.
- The product could be delivered as part of housing developments undertaken by community housing associations. Substituting affordable housing for rent with shared homeownership dwellings would make developments more viable, necessitating less private sales. However, this would mean lower levels of surpluses once the developments became operational.
- The scheme could operate without start-up or ongoing government assistance.

Appendix 1: State and territory homeownership subsidy schemes

This appendix gives a brief description of the schemes operated by other states and territories. It was correct as of March 2014.

The Western Australian Government links a shared ownership scheme on dwellings it builds with a loan scheme, known as SharedStart.[23] SharedStart is integrated into the Department of Housing's construction activities, and provides a mortgage of up to 30 percent of the purchase price of properties built by the Department with the balance funded by the purchaser from a bank or other commercial source. It requires a low deposit ($2,000 or 2 percent of the purchase price) and is aimed at individuals earning up to $70,000 and families up to $90,000 a year. The Department of Housing does not charge rent for the homebuyer's use of its share of the dwelling. The homebuyer may not buy out the Department's share completely.

The Western Australian Government also has a shared ownership product for public-housing tenants who wish to buy a share of a public-housing dwelling.[24] As in the case of SharedStart, loans are available through KeyStart, the government's home-loans agency. The loan is for a maximum of 30 years and a 2 percent deposit is required. The Department of Housing caps its equity share at 40 percent of the value of the dwelling or at $150,000. There are income eligibility thresholds: $60,000 annual income for singles, $70,000 for couples, and $80,000 for families.

The South Australian model is based on its HomeStart Finance operation, which was established in 1989.[25] It provided loans worth $265 million to 1,297 households in 2012–2013. A normal loan mortgage is provided by the government-owned HomeStart lending operation. This is very competitive with private lenders and requires a 3 percent deposit for a low-deposit loan for an existing dwelling. It can be supplemented by $45,000 for borrowers earning less than $60,000 after tax by an Advantage Loan, which charges interest equal to CPI (refunded if it is repaid within five years). An interest-only Breakthrough Loan of up to 35 percent of the purchase price is also available. This is repayable with a betterment factor of 1.4 on sale of the property.

In South Australia, there is also a non-profit organisation that provides finance for lower-income households to help them buy a dwelling. A Wyatt loan, provided by the Wyatt Benevolent Institution, is available for borrowers earning less than $40,000 after tax (or up to $50,000 with dependents) with a year to pay for the deposit and transaction costs. It is interest- and repayment-free for five years, and is then added to the government's HomeStart loan.[26]

Tasmania operates the HomeShare scheme where ownership is shared with the Director of Housing.[27] Various eligibility criteria apply that take account of household composition and income. For example, a family with two adults and two children may not earn more than $82,832. A deposit of $3,000 or 5 percent of the purchase price (whichever is the greater) is required and purchasers are required to borrow as much as they can, with the Director of Housing buying up to 25 percent with a maximum payment of $50,000. The Director of Housing's share must be bought out over time, within 30 years. The Department of Housing does not charge an administration fee for the home buyer's use of its share of the dwelling.

23 See 'Shared home ownership', at http://housing.wa.gov.au/sharedstart/Pages/default.aspx (viewed 18 February 2014).

24 'Goodstart home loan', at http://www.keystart.com.au/home-loans/shared/#goodstart (viewed 18 February 2014).

25 See HomeStart Finance, at http://www.homestart.com.au/ (viewed 18 February 2014).

26 Wyatt Trust, at http://wyatt.org.au/housing/ (viewed 18 February 2014); 'Wyatt loan', at http://www.homestart.com.au/home-loans/boost-your-borrowing-power/wyatt-loan (viewed 18 February 2014). A loan from the Wyatt Trust is taken out at the same time as a loan from HomeStart.

27 See 'What is HomeShare?' at http://www.homesharetas.com.au/ (viewed 18 February 2014).

The Northern Territory's HomeBuild Access scheme is a set of home loans.[28] There are two products on offer. Both have limits on eligible purchase prices for dwellings which the homebuyer acquires themselves. One is a Low Deposit loan. Here, the borrower must obtain 80 percent of the purchase price from an approved financier. Currently, the government-owned Territory Insurance Office is the only approved financier. Up to 17.5 percent of the purchase price is also available as a HomeBuild Access loan. There are no income or asset limits for the low deposit loan. The purchase price of dwellings may not be more than $475,000 (1 to 2-bedroom dwelling) or $550,000 (3+ bedroom dwelling).

The second loan product is a Subsidised Interest Rate loan, for which there are income and asset tests; these vary with household size; the gross per-annum income limit for a one-person household is $80,000.

The Queensland Government does not have a general shared homeownership or home loans scheme for lower and moderate-income households, but it does have two loan schemes for public-housing tenants to assist them to buy a public-housing dwelling. The Queensland State Housing Loan is for existing public-housing tenants who wish to buy the dwelling they are renting.[29] There is a 5 percent minimum deposit on the loan. Maximum repayments of the loan are no more than 35 percent of household income. The homeowner pays for normal homeownership costs (repairs and maintenance, local government rates, etc.) but does not pay shared equity rent on the portion of the dwelling they have not paid off (i.e. the Department of Housing's share). (This is a shared equity scheme, not a shared ownership scheme.)

The Pathways Shared Equity Loan is similar to the Queensland State Housing Loan.[30] The public-housing tenant is resident in the dwelling, loan repayments are capped at 35 percent of income, the homeowner pays for normal homeownership costs. the homeowner does not pay a shared equity rent or administration fee on that part of the dwelling they do not own (the Department of Housing's share). In both cases, loans are arranged through the Department of Housing.

The ACT Government has a shared equity scheme with public-housing tenants.[31] Tenants may buy 70 percent of their home, with the assistance of a loan provided by a building society designated by the government, IMB. The remaining 30 percent equity of the dwelling remains with Housing ACT. The homeowner must buy out Housing ACT's equity progressively over a maximum 15 year period. During this period, the homeowner does not pay rent to Housing ACT for use of their 30 percent share.

The ACT also runs a Land Rent Scheme as part of its Affordable Housing Action Plan. This is not targeted specifically at public-housing tenants. In this scheme, residents pay for the construction cost of their house and pay rent for the land. Initially, rents were either a discounted rent of 2 percent of the unimproved land value per annum for households with incomes below $102,150 per annum, or a standard rent of 4 percent of the unimproved land value per annum for higher income households.[32] In early 2014, the scheme was amended so only the 2 percent rent applies and households can be on incomes of up to $160,000 per annum.

28 See HomeBuild Access, at http://www.housing.nt.gov.au/housing_choices/buy/homebuild_access (viewed 18 February 2014).

29 'Queensland state housing loan', at http://www.qld.gov.au/housing/buying-owning-home/qld-state-housing-loan/ (viewed 18 February 2014).

30 'Pathways shared equity loan', at http://www.qld.gov.au/housing/buying-owning-home/pathways-shared-equity-loan/ (viewed 18 February 2014).

31 'Shared equity scheme', at http://www.communityservices.act.gov.au/hcs/buying/shared_equity_scheme (viewed 18 February 2014).

32 L Crabtree and others, *The Australian community land trust manual*, University of Western Sydney, Sydney, 2013.

Appendix 2: Development case studies

The section Modelling: housing developments provided general findings from a small number of case studies. This Appendix provides further details on the different scenarios tested for those projects.

Case study 1

A community housing association will undertake a development in land owned by the NSW Land and Housing Corporation with 10 existing public housing dwellings. The development will deliver 30 new units with a mix of 1-bedroom, 2-bedroom and 3-bedroom units. The development must replace the existing 10 public housing dwellings. The remaining 20 dwellings can be a mix of affordable housing for rent, shared homeownership dwellings and private dwellings for sale. The NSW Government is contributing $7.2 million towards development costs, but the development must pay $3.6 million to the government for the land. The remaining costs of the project will be funded through a development loan at 7.5 percent p.a. The average construction cost per dwelling is $210,000. Additionally, the project has $300,000 in planning costs and $142,000 in infrastructure and demolition costs. The average estimate price of private sales is $430,000.

Scenario 1

Public housing dwellings are replaced; remaining dwellings are a mix of affordable housing (for rent) and private sales:

	Affordable Rental Dwellings	Shared Homeowner Dwellings	Private Sales	Development Surplus	Annual Surplus from Affordable Rental Dwellings	Annual Surplus from Shared Homeowner Rental Dwellings	Total Annual Surplus
No Shared Homeownership	13	0	7	$13,598	$147,186	-	$147,186

Under this scenario:

- It is estimated that seven dwellings would have to be sold in the private market to make the project feasible, and 13 dwellings would be delivered as affordable housing for rent.
- The estimated annual surplus generated by the portfolio, once operational, is around $147,000 per annum.
- The estimated development surplus is around $14,000.

Scenario 2

Public housing dwellings are replaced; remaining dwellings are a mix of affordable housing (for rent), shared homeownership dwellings and private sales:

	Affordable Rental Dwellings	Shared Homeowner Dwellings	Private Sales	Development Surplus	Annual Surplus from Affordable Rental Dwellings	Annual Surplus from Shared Homeowner Rental Dwellings	Total Annual Surplus
Shared Homeownership 25% Ownership	7	8	5	$13,855	$77,692	$49,160	$126,852
Shared Homeownership 50% Ownership	8	9	3	$61,525	$96,825	$34,132	$130,957
Shared Homeownership 75% Ownership	10	10	0	$95,252	$116,344	$20,353	$136,697

Under this scenario:

- It is estimated that up to five dwellings would have to be sold in the private market to make the project feasible, and between 13 and 20 dwellings would be delivered as affordable housing for rent and shared homeownership dwellings.
- The annual surplus generated by the portfolio, once operational, is estimated in the range $127,000–$137,000 per annum.
- The estimated development surplus is in the range $14,000–$95,000.

Scenario 3

Public housing dwellings are replaced; remaining dwellings are a mix of shared homeownership dwellings and private sales:

	Affordable Rental Dwellings	Shared Homeowner Dwellings	Private Sales	Development Surplus	Annual Surplus from Affordable Rental Dwellings	Annual Surplus from Shared Homeowner Rental Dwellings	Total Annual Surplus
Shared Homeownership 25% Ownership	0	17	3	$63,525	-	$102,705	$102,705
Shared Homeownership 50% Ownership	0	20	0	$1,265,525	-	$81,411	$81,411
Shared Homeownership 75% Ownership	0	20	0	$3,545,525	-	$40,706	$40,706

Under this scenario:

- It is estimated up to three dwellings would have to be sold in the private market to make the project feasible, and between 17 and 20 dwellings would be delivered as shared homeownership dwellings.
- The annual surplus generated by the portfolio, once operational, is estimated in the range $41,000–$102,000 per annum.
- The estimated development surplus is in the range $64,000–$3.5 million.

Case study 2

A community housing association has received a land donation with a potential housing yield of 120 units. This case study only considers the first stage of the development with a yield of 40 units with a mix of 1-bedroom, 2-bedroom and 3-bedroom units. The new dwellings can be a mix of affordable housing for rent, shared homeownership dwellings and private dwellings for sale. Development cost for the project will be funded through a development loan at 7.5 percent p.a. The average construction cost is $180,000 per dwelling. Additionally, the project has $190,000 in planning costs and $100,000 in infrastructure and demolition costs. The average estimate price of private sales is $440,000.

Scenario 1

Developed dwellings are a mix of affordable housing (for rent) and private sales:

	Affordable Rental Dwellings	Shared Homeowner Dwellings	Private Sales	Development Surplus	Annual Surplus from Affordable Rental Dwellings	Annual Surplus from Shared Homeowner Rental Dwellings	Total Annual Surplus
No Shared Homeownership	20	0	20	$39,714	$259,637	-	$259,637

Under this scenario:

- It is estimated that 20 dwellings would have to be sold in the private market to make the project feasible, and 20 dwellings would be delivered as affordable housing for rent.
- The annual surplus generated by the portfolio, once operational, is estimated at around $260,000 per annum.
- The estimated development surplus is around $40,000.

Scenario 2

Developed dwellings are a mix of affordable housing (for rent), shared homeownership dwellings and private sales:

	Affordable Rental Dwellings	Shared Homeowner Dwellings	Private Sales	Development Surplus	Annual Surplus from Affordable Rental Dwellings	Annual Surplus from Shared Homeowner Rental Dwellings	Total Annual Surplus
Shared Homeownership 25% Ownership	11	12	17	$73,819	$142,507	$85,472	$227,979
Shared Homeownership 50% Ownership	13	15	12	$148,492	$169,838	$68,619	$238,457
Shared Homeownership 75% Ownership	15	18	7	$298,664	$205,370	$42,866	$248,236

Under this scenario:

- It is estimated up to 17 dwellings would have to be sold in the private market to make the project feasible, and between 23 and 33 dwellings would be delivered as affordable housing for rent plus shared homeownership dwellings.
- The annual surplus generated by the portfolio, once operational, is estimated in the range $228,000–$248,000 per annum.
- The estimated development surplus is in the range $143,000–$205,000.

Scenario 3

Developed dwellings are a mix of shared homeownership dwellings and private sales:

	Affordable Rental Dwellings	Shared Homeowner Dwellings	Private Sales	Development Surplus	Annual Surplus from Affordable Rental Dwellings	Annual Surplus from Shared Homeowner Rental Dwellings	Total Annual Surplus
Shared Homeownership 25% Ownership	0	27	13	$95,981	-	$186,250	$186,250
Shared Homeownership 50% Ownership	0	40	0	$307,844	-	$188,764	$188,764
Shared Homeownership 75% Ownership	0	40	0	$4,712,844	-	$94,382	$94,382

Under this scenario:

- It is estimated up to 13 dwellings would have to be sold in the private market to make the project feasible, and between 27 and 40 dwellings would be delivered as shared homeownership dwellings.
- The annual surplus generated by the portfolio, once operational, is estimated in the range $94,000–$186,000 per annum.
- The estimated development surplus is in the range $95,000–$4.7 million.

Source: *Shared-equity home-ownership: recommendations for a business case, Sphere Company*

Appendix 3: Shared homeownership target households for selected LGAs

This appendix contains graphs that illustrate the likely number of renters who could possibly be interested in a share homeownership housing product in selected local government areas in 2013. It is taken from the modelling undertaken for the working group by Sphere Company. Further investigation and analysis should be performed by the housing provider when considering individual shared homeownership schemes.

Figure 12
Auburn

Figure 13
Blacktown

Figure 14
Fairfield

Figure 15
Hurstville

Figure 16
Newcastle

Figure 17
Parramatta

Figure 18
Wyong

Source: ***Shared-equity home-ownership: recommendations for a business case, Sphere Company***

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