

# Shared Equity Home Ownership

## *Pathways in Housing*

National Affordable Housing Consortium

# About the National Affordable Housing Consortium

- Not For Profit Charity Incorporated in 2008
- NAHC's mission is to address market failure in the supply of affordable housing
- Facilitated 3,300 new affordable homes in cities, towns and regional centres
- Further 300 new homes in delivery pipeline.
- Located in QLD, NSW and Victoria
- **NAHC is embarking on serious investment in Shared Equity Home Ownership as a key new business line directed towards fulfilling its mission**

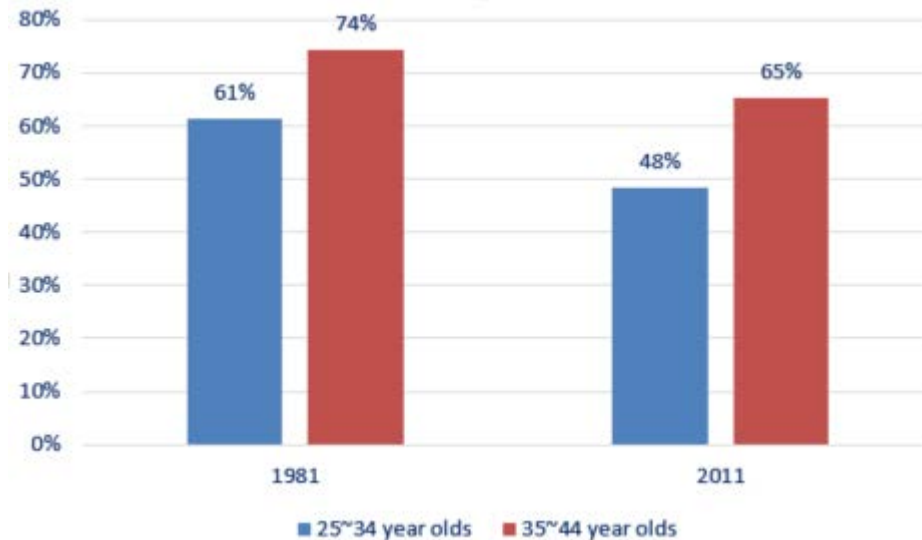


## About the National Affordable Housing Consortium

- NAHC leverages strong partnerships with;
  - Developers
  - Financiers
  - Community Housing Providers
  - Government
- Advantages of partnership approach
  - Mutual respect of each parties expertise
  - Portfolio diversity: geographic, spread of projects
  - Mixed communities, integration, low concentration
  - NAHC investment is directed fully to affordable housing

## Shared Equity in Perspective

- Period 1998 to 2011; change in home buying rates
  - 25–34 year-olds; 61.4% to 48.4%
  - 35–44 year-olds; 74.3% to 65.3%



- In 2014, first home buyers accounted for 11.8% of mortgage finance, the lowest on record

Source : AHURI Evidence Review 074 April 2015, and Positioning Paper 163

## Shared Equity in Perspective

*The fall in home ownership is due to a number of social factors and changes in lifestyle and preferences; e.g less job certainty, preference for inner city living, HECS debt, overseas travel, but*

### Barriers for willing homebuyers include;

- Lack of capacity to service a loan based on income (high housing price to income ratio)
- Inability to save a deposit while paying rent
- Only 5.5% of homebuyers received parental financial assistance towards a home in the last 10 years

*Historically low interest rates currently translate to better borrowing capacity, but this is a risk if interest rates increase. So banks typically qualify at 7.25%.*

Source : AHURI Paper 163

# Shared Equity in Perspective

*Borrowing capacity will vary with individual circumstances and bank credit policy  
Many key workers salary will qualify them for a loan between \$200,000 ~\$300,000,  
but this does not meet real estate market prices  
They will require a deposit of 10% ~20% which is difficult to achieve while renting*



Salary-The First 5 years

RANK	PROBATIONARY CONSTABLE	CONSTABLE LEVEL 2	CONSTABLE LEVEL 3	CONSTABLE LEVEL 4	CONSTABLE LEVEL 5
Annual Salary	\$65,059.00	\$67,515.00	\$69,967.00	\$72,420.00	\$73,651.00

*\*Borrowing capacity depends on individual circumstances, interest rates, deposit savings, bank credit policy and qualification rate etc*

## Roles of Shared Equity Participants

- **NAHC**
  - Not for Profit, tax concession charity
  - Risk capital
  - Legal documentation, agreements, licences
  - Homebuyers; sales and marketing, qualification
- **Banks;**
  - comfortable with the concept and willing to lend on similar credit conditions as for normal home buyers
- **Developer;**
  - suitable entry level stock, diversity
  - Purchase price discount recognises volume and savings in sales and transaction costs
- **Government**
  - Revolving Fund or land contribution

## Shared Equity Process

- The Home
  - NAHC identifies and qualifies homebuyer
  - Bank approves a home loan
  - Developer identifies suitable housing stock
- Purchase;
  - Developer provides a discount
  - Buyer finances 75% of value; standard home loan
  - Government commits revolving fund/land to value
  - NAHC commits revolving fund
- Term;
  - Homebuyer pays down bank mortgage
  - Homebuyer pays down NAHC equity after interest-free term
  - Proceeds shared in proportion to equity share when sold
  - Surplus proceeds reinvested in revolving fund by NAHC Charitable Entity



**NSW Case Study:**

**Gosford**  
 2 Bed Apartment  
 \$350,000

**Wallis Creek, Hunter**  
 3 Bed House  
 \$400,000

**Airds, Campbelltown**  
 4 Bed House  
 \$560,000




**Current Situation - Open Market**

Minimum Income Hurdle	\$104,000	\$115,600	\$162,000
Monthly Repayment hurdle to Qualify for a loan (7.25%), ignoring deposit requirements	\$2,600	\$2,890	\$4,050
Payments at current interest rates (5%)	\$2,110	\$2,340	\$3,280

**Affordability Greatly Improved under Shared Equity**

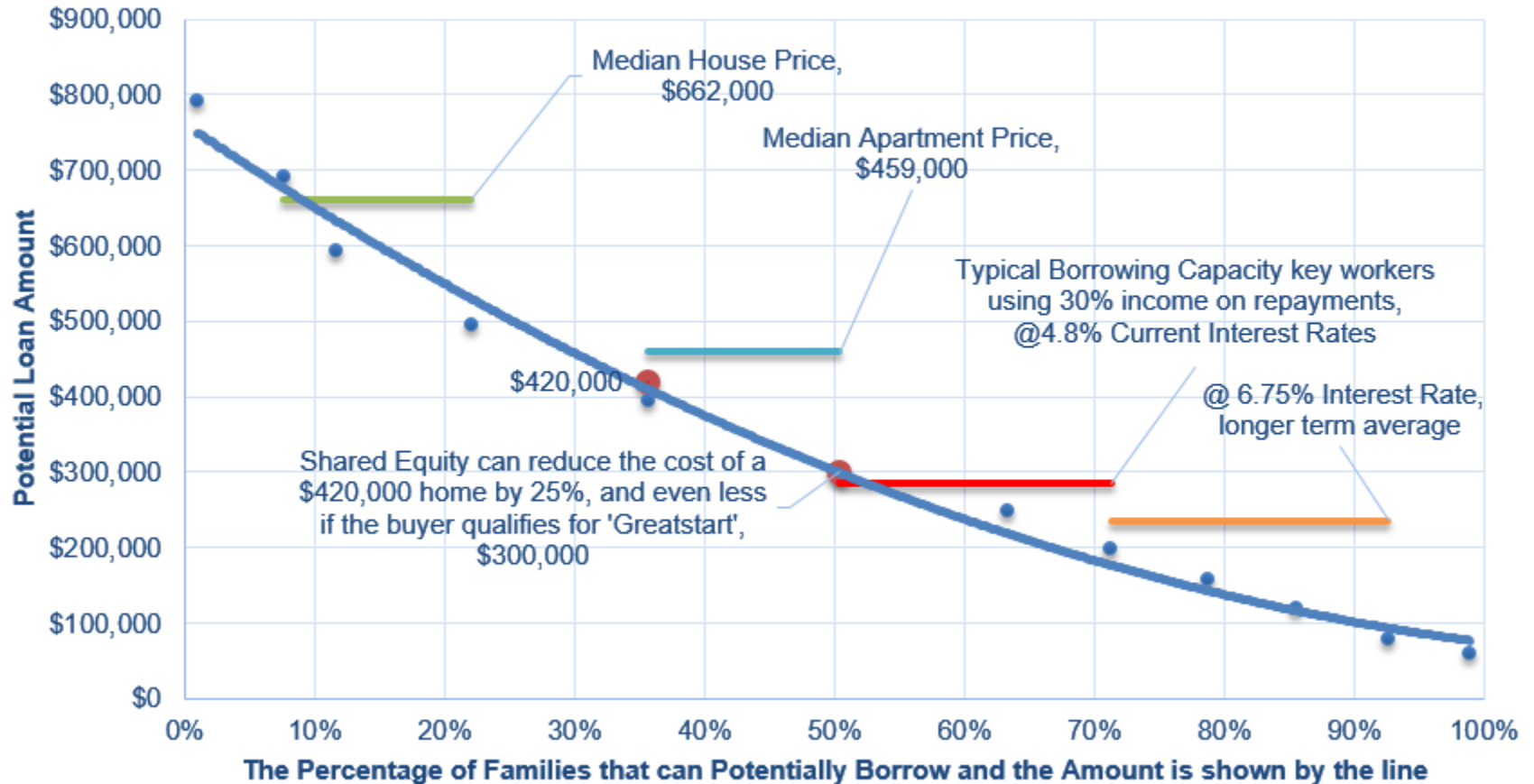
Minimum Income Hurdle	\$78,800	\$87,600	\$122,400
Monthly Repayments to Qualify (7.25%)	\$1,970	\$2,190	\$3,060
Payments at current interest rates (5%)	\$1,590	\$1,770	\$2,480

# Shared Equity Financial Contributions

	Assumed Contribution 	2 Bedroom Unit Gosford 70sqm + 10 sqm balcony <b>\$360,000</b>	Family Home, Wallis Creek, Hunter Valley 3 bed, 2 bath, on 551 sqm lot <b>\$400,000</b>	Airds, South West Sydney 4 Bedroom, 313 sqm lot <b>\$560,000</b>
<b>Purchase</b>				
Homebuyer (bank loan) , 75%	75.00%	\$270,000	\$300,000	\$420,000
Government Finance Contribution	12.50%	\$45,000	\$50,000	\$70,000
Developer Contribution	6.25%	\$22,500	\$25,000	\$35,000
NFP Charitable Contribution	6.25%	\$22,500	\$25,000	\$35,000
Settlement		\$360,000	\$400,000	\$560,000
<b>Cost to the Homebuyer</b>				
Homebuyer Cost		\$270,000	\$300,000	\$420,000
First Homebuyers Grant		\$0	\$0	\$0
Assume legal and establishment costs		\$2,500	\$3,500	\$3,500
Deposit		\$0	\$0	\$0
<b>Cost to the Homebuyer</b>		<b>\$272,500</b>	<b>\$303,500</b>	<b>\$423,500</b>

# Shared Equity in Perspective

## Affordability illustration for a Brisbane middle-ring Suburb



Source : ABS, Cannon Hill prices quoted on pricefinder

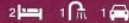
# Brisbane Case Study-Outer Ring- Moderate City Market

**Fernbrooke Ridge**  
Real Estate

For  
Sale



Lot 601 - The Hummingbird Release  
Evo 125 by Burbank Homes



Home and land from  
**\$261,700**

### Stunning well designed home at Fernbrooke Ridge

The Evo 125 by Burbank Homes is the new extendable home that grows with your family. The alfresco comes with plumbing & footings, so transform this space into a bedroom or bathroom when the time is right. Complete with pre-approved building designs, your Evo homes takes the stress out renovating.

#### Features of the Evo 125 includes:

- \* H class, driveway & turf allowance
- \* Carpet & tiles
- \* Stainless steel appliances
- \* Letterbox
- \* Clothesline
- \* Lot size: 265m<sup>2</sup>

Perfectly located just 9km from Ipswich City Centre and 32km from Brisbane. Visit the Sales and Information Centre today or call Bill Dukats on 0477 334 321 for more information.

#### For more information

Call 07 3495 7025 or visit [www.fernbrookeridge.com.au](http://www.fernbrookeridge.com.au)

Sales and Information Centre  
Corner of School Road & Alawoon Street, Redbank Plains Qld 4301  
Open 9am - 5pm Saturday to Wednesday

\*Price correct at the time of printing (July 2015). Artist impression is for illustrative purposes only. Subject to government design approval.



## The Property

Headline Price	\$261,700
Contingency	<u>\$13,300</u>
	<b>\$275,000</b>

## Purchase

Homebuyer (bank loan) , 75%	\$206,250
Developer Discount, 8%	\$22,000
NAHC, shortfall 'gap'	<u>\$46,750</u>
Settlement	\$275,000

## Cost to the Homebuyer

Homebuyer Cost	\$206,250
less Greatstart grant	\$15,000
Assume legal and establishment costs	\$8,750
Deposit	\$0
<b>Net Cost to the Homebuyer</b>	<b>\$200,000</b>

Nobody knows Fernbrooke Ridge like...

**Lend Lease**

## Shared Equity: Brisbane Case Study



	Annual	Month
Gross Income	\$85,000	\$7,083
Affordability Limit: 30% Gross Income	\$25,500	\$2,125
	7.25%	4.80%
<u>Minimum</u> Repayments, \$200,000 loan	\$1,445	\$1,145
Loan Principal outstanding Year 5 based on minimum repayments	\$182,902	\$176,589
	\$1,445	\$1,145
Headroom for additional repayments	<u>\$680</u>	<u>\$980</u>
	\$2,125	\$2,125
Loan Principal outstanding in Year 5 with additional repayments up to 30% of gross income	\$113,902	\$110,283

	Annual	Month
Gross Income	\$60,000	\$5,000
Affordability Limit: 30% Gross Income	\$18,000	\$1,500
	7.25%	4.80%
<u>Minimum</u> Repayments, \$200,000 loan	\$1,445	\$1,145
Loan Principal outstanding Year 5 based on minimum repayments	\$182,902	\$176,589
	\$1,445	\$1,145
Headroom for additional repayments	<u>\$55</u>	<u>\$355</u>
	\$1,500	\$1,500
Loan Principal outstanding in Year 5 with additional repayments up to 30% of gross income	\$178,938	\$153,923

## An Affordability Future Fund

\$1B program could assist 16,000~20,000 homebuyers  
...In the first round alone

Assumptions:

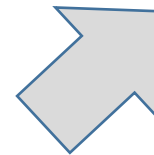
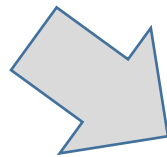
- New Built 'first home owner' starter dwelling – NSW- \$400,000 ~ \$500,000
- Average Shared Equity Investment required \$100,000 ~ \$140,000
- Average Cost to Government of each SEHO \$60,000
- Average Developer Contribution 5% \$30,000
- Average NFP contribution \$30,000
- Potential value escalation over 5 years\* = \$510,000 ~ \$638,000
- Total value of social equity held yr 1= \$2Billion +
- Total value of social equity held yr 5 =\$2.55Billion +

*\*Based on 5% annual escalation*

## An Affordability Future Fund

\$1B program could assist 16,000~20,000 homebuyers

...In each subsequent round



\$1.275B available to  
recycle into further  
SEHO

Assuming 50% turnover in 5 years;  
sale or buy-out by the homeowner

 = 1,000 Homes

# First Home Grants compared to Shared Equity

FOHG	Shared Equity – Revolving Fund
One Off ‘Private’ Benefit	Long term community benefit retained via Revolving Fund – an ‘Affordability Future Fund’
FOHG scope is a blunt instrument	<p>SEHO can be targeted to specific groups and the level of social equity can be adjusted to different policy objectives eg</p> <ul style="list-style-type: none"> <li>• Key workers</li> <li>• NDIS recipients [including targeted family support]</li> <li>• 10-15% of social housing tenants directly reducing State liabilities</li> </ul> <p>The social equity stakeholding can reflect local market conditions for example it could be 30% in Sydney and 20% in Newcastle</p>
Government pays 100% = no leverage	SEHO will leverage NFP contributions, developer contributions, family contributions (NDIS) and could leverage State and even local contributions.
Cash is not always right for the fiscal circumstances	<p>Government can contribute cash or land.</p> <p>Land will be converted into its full market value as part of the SEHO process.</p>
FHOG too to bridge the deposit gap	No [or low] deposit required as banks are lending less than 80%



# Program Focus

## Status

- SEHO is held in a specific Charitable Entity [Developed] with Social Equity to be used for prescribed purposes only, and on an indefinite basis. ie Always recycled into affordable housing
- A Full set of Bank Ready / Buyer Ready documents have been prepared by NAHC through McCullough's Lawyers and Coopers Grace Ward.
- Banks and developers have been consulted and engaged
- A Pilot is underway

## Priorities

- Focus on key workers, especially first home buyers
- Low concentration of shared equity buyers in any street or development
- Program; not a 'one-off' sales initiative:
  - Countercyclical benefits
  - Continuity/Volume of activity over time
- Revolving Fund concept
- Buyer risk of default designed to be no different to 'normal' buyers; buyers qualify for the actual amount borrowed using 'normal' bank criteria
- Suitable to dovetail with other Government programs