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

<table>
<thead>
<tr>
<th>RANK</th>
<th>PROBATIONARY</th>
<th>CONSTABLE LEVEL 2</th>
<th>CONSTABLE LEVEL 3</th>
<th>CONSTABLE LEVEL 4</th>
<th>CONSTABLE LEVEL 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CONSTABLE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ANNUAL SALARY</td>
<td>$65,059.00</td>
<td>$67,515.00</td>
<td>$69,967.00</td>
<td>$72,420.00</td>
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</table>

*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: Home Ownership

### Garrison
2 Bed Apartment  
Wallis Creek, Hunter  
3 Bed House  
Airds, Campbelltown  

<table>
<thead>
<tr>
<th>Location</th>
<th>Description</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gosford</td>
<td>2 Bed Apartment</td>
<td>$350,000</td>
</tr>
<tr>
<td>Wallis Creek, Hunter</td>
<td>3 Bed House</td>
<td>$400,000</td>
</tr>
<tr>
<td>Airds, Campbelltown</td>
<td>4 Bed House</td>
<td>$560,000</td>
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</tbody>
</table>

### Current Situation - Open Market

| Location         | Minimum Income Hurdle | Monthly Repayment hurdle to Qualify for a loan  
(7.25%), ignoring deposit requirements | Payments at current interest rates (5%) |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gosford</td>
<td>$104,000</td>
<td>$2,600</td>
<td>$2,110</td>
</tr>
<tr>
<td>Wallis Creek, Hunter</td>
<td>$115,600</td>
<td>$2,890</td>
<td>$2,340</td>
</tr>
<tr>
<td>Airds, Campbelltown</td>
<td>$162,000</td>
<td>$4,050</td>
<td>$3,280</td>
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</table>

### Affordability Greatly Improved under Shared Equity

<table>
<thead>
<tr>
<th>Location</th>
<th>Minimum Income Hurdle</th>
<th>Monthly Repayments to Qualify (7.25%)</th>
<th>Payments at current interest rates (5%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gosford</td>
<td>$78,800</td>
<td>$1,970</td>
<td>$1,590</td>
</tr>
<tr>
<td>Wallis Creek, Hunter</td>
<td>$87,600</td>
<td>$2,190</td>
<td>$1,770</td>
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<tr>
<td>Airds, Campbelltown</td>
<td>$122,400</td>
<td>$3,060</td>
<td>$2,480</td>
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</table>

**NAHC**

**Shared Equity Home Ownership**
# Shared Equity Financial Contributions

<table>
<thead>
<tr>
<th></th>
<th>2 Bedroom Unit Gosford</th>
<th>Family Home, Wallis Creek, Hunter Valley</th>
<th>Airds, South West Sydney</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assumed Contribution</strong></td>
<td>$360,000</td>
<td>$400,000</td>
<td>$560,000</td>
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<tr>
<td><strong>Purchase</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homebuyer (bank loan), 75%</td>
<td>$270,000</td>
<td>$300,000</td>
<td>$420,000</td>
</tr>
<tr>
<td>Government Finance Contribution</td>
<td>$45,000</td>
<td>$50,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Developer Contribution</td>
<td>$22,500</td>
<td>$25,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>NFP Charitable Contribution</td>
<td>$22,500</td>
<td>$25,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Settlement</td>
<td>$360,000</td>
<td>$400,000</td>
<td>$560,000</td>
</tr>
<tr>
<td><strong>Cost to the Homebuyer</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Homebuyer Cost</td>
<td>$270,000</td>
<td>$300,000</td>
<td>$420,000</td>
</tr>
<tr>
<td>First Homebuyers Grant</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Assume legal and establishment costs</td>
<td>$2,500</td>
<td>$3,500</td>
<td>$3,500</td>
</tr>
<tr>
<td>Deposit</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td><strong>Cost to the Homebuyer</strong></td>
<td>$272,500</td>
<td>$303,500</td>
<td>$423,500</td>
</tr>
</tbody>
</table>
Shared Equity in Perspective

Affordability illustration for a Brisbane middle-ring Suburb

Median House Price, $662,000
Median Apartment Price, $459,000

Typical Borrowing Capacity key workers using 30% income on repayments, @4.8% Current Interest Rates

@ 6.75% Interest Rate, longer term average

Shared Equity can reduce the cost of a $420,000 home by 25%, and even less if the buyer qualifies for 'Greatstart', $300,000

The Percentage of Families that can Potentially Borrow and the Amount is shown by the line

Source: ABS, Cannon Hill prices quoted on pricefinder

NAHC
National Affordable Housing Consortium
Brisbane Case Study - Outer Ring - Moderate City Market

The Property

Headline Price: $261,700
Contingency: $13,300
Settlement: $275,000

Purchase

Homebuyer (bank loan), 75%: $206,250
Developer Discount, 8%: $22,000
NAHC, shortfall 'gap': $46,750

Cost to the Homebuyer

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

Fernbrooke Ridge Real Estate

Lot 601 - The Hummingbird Release Evo 125 by Burbank Homes

Stunning well designed home at Fernbrooke Ridge
The Evo 125 by Burbank Homes is the new exekutive home that grows with your family. The all new corner with its ample size bedrooms, so transforms this space into a bedroom or bathroom when the time is right. Complete with pre-approved building design, your Evo homes takes the stress out renovating.

Features of the Evo 125 includes:
- 110mm, dining room & living allowance
- Carpet & tiles
- Dishwasher & appliances
- Lot sizes 650m²

Perfectly located just 5km from Spanish City Centre and 3km from Brisbane West
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For more information
Call 07 3243 3021 or visit www.fernbrookeredge.com.au

Sales and Information Centre
Corner of School Road & Lieres Street, Redbank Plains 4166
Open Sat - Sun 9am Saturday to Wednesday

Nobody knows Fernbrooke Ridge like... Lend Lease

NAHC National Affordable Housing Consortium

Shared Equity Home Ownership
# Shared Equity: Brisbane Case Study

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

<table>
<thead>
<tr>
<th></th>
<th>Annual</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Income</strong></td>
<td>$60,000</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Affordability Limit: 30% Gross Income</strong></td>
<td>$18,000</td>
<td>$1,500</td>
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<tr>
<td>$55</td>
<td>$355</td>
<td></td>
</tr>
<tr>
<td>$1,500</td>
<td>$1,500</td>
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<tr>
<td>Loan Principal outstanding in Year 5 with additional repayments up to 30% of gross income</td>
<td>$178,938</td>
<td>$153,923</td>
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</table>
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

<table>
<thead>
<tr>
<th>FOHG</th>
<th>Shared Equity – Revolving Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Off ‘Private’ Benefit</td>
<td>Long term community benefit retained via Revolving Fund – an ‘Affordability Future Fund”</td>
</tr>
</tbody>
</table>
| FOHG scope is a blunt instrument | SEHO can be targeted to specific groups and the level of social equity can be adjusted to different policy objectives eg  
  • Key workers  
  • NDIS recipients [including targeted family support]  
  • 10-15% of social housing tenants directly reducing State liabilities  
  The social equity stakeholding can reflect local market conditions for example it could be 30% in Sydney and 20% in Newcastle |
| 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 | Government can contribute cash or land.  
  Land will be converted into its full market value as part of the SEHO process. |
| 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