

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**

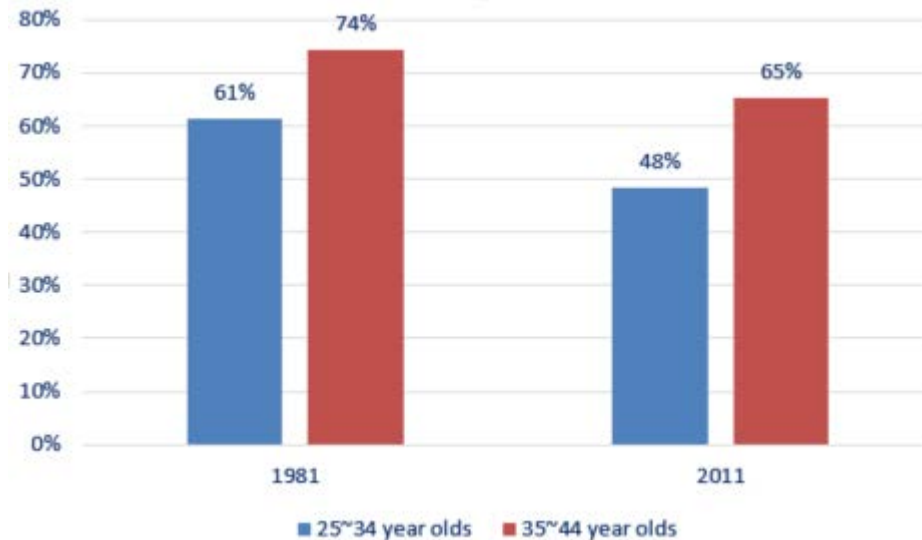


About the National Affordable Housing Consortium

- 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

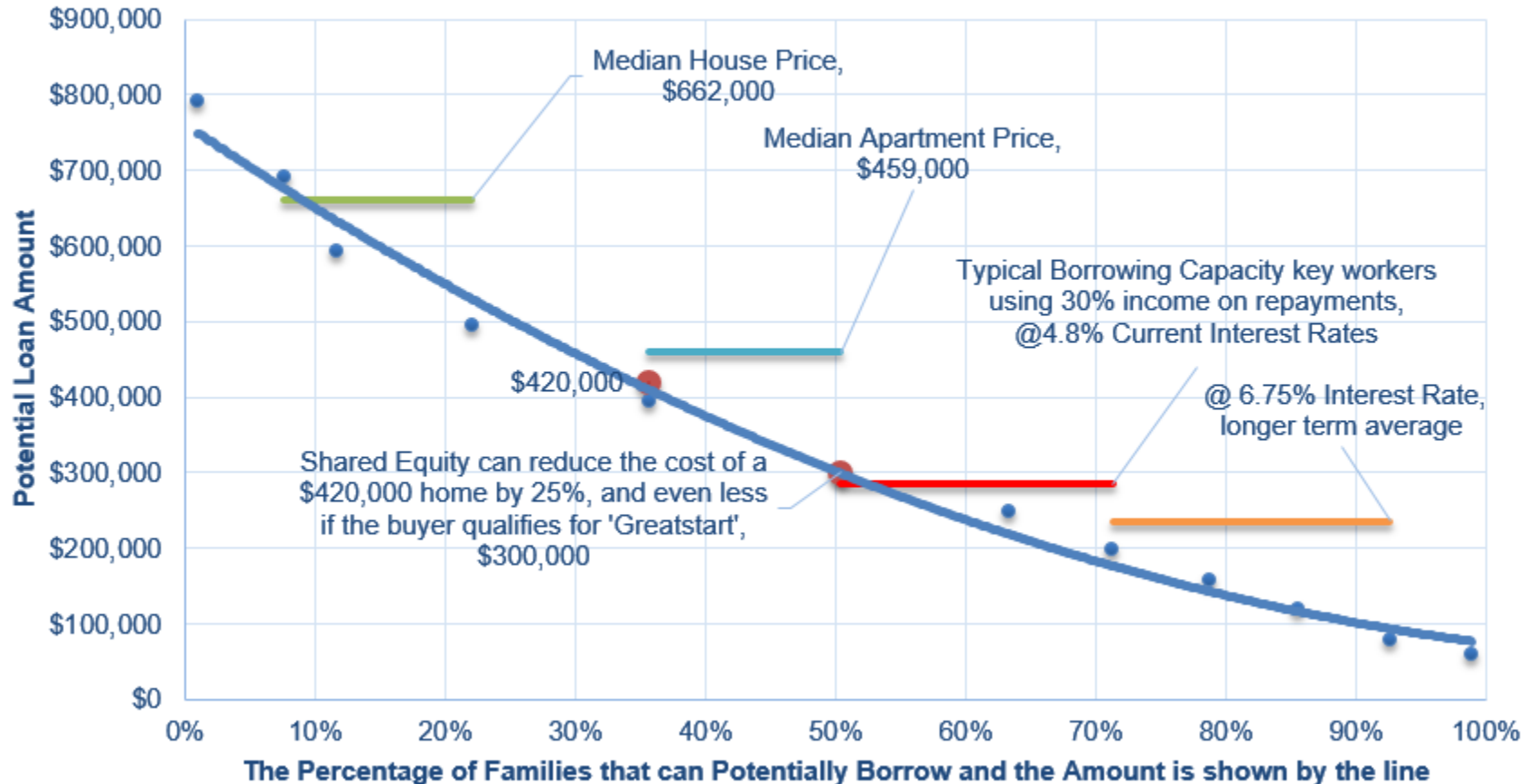
Minimum Income Hurdle	\$78,800	\$87,600	\$122,400
Monthly Repayments to Qualify (7.25%)	\$1,970	\$2,190	\$3,060
Payments at current interest rates (5%)	\$1,590	\$1,770	\$2,480

Shared Equity Financial Contributions

	Assumed Contribution 	2 Bedroom Unit Gosford 70sqm + 10 sqm balcony \$360,000	Family Home, Wallis Creek, Hunter Valley 3 bed, 2 bath, on 551 sqm lot \$400,000	Airds, South West Sydney 4 Bedroom, 313 sqm lot \$560,000
Purchase				
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
Cost to the Homebuyer				
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
Cost to the Homebuyer		\$272,500	\$303,500	\$423,500

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: 265m²

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

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>
	\$275,000

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
Net Cost to the Homebuyer	\$200,000

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:

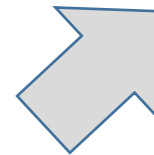
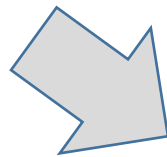
- New Built 'first home owner' starter dwelling – NSW- \$400,000 ~ \$500,000
- Average Shared Equity Investment required \$100,000 ~ \$140,000
- Average Cost to Government of each SEHO \$60,000
- Average Developer Contribution 5% \$30,000
- Average NFP contribution \$30,000
- Potential value escalation 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"> • Key workers • NDIS recipients [including targeted family support] • 10-15% of social housing tenants directly reducing State liabilities <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