Shared Equity
Overseas Experience

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To investigate how Shared Equity can become a mainstream solution to housing affordability in Australia
“With the ability to transition from rental to home ownership becoming more challenging, a suite of alternative finance models, loosely known as ‘shared equity’ have sought to bridge the divide and create a stepping-stone into home ownership for home buyers.

Our counterparts in the USA and UK have created an array of schemes to suit market conditions, legislative and regulatory requirements, and political priorities to meet the ever-growing demand for assistance into homeownership.”
Overview

> Key Drivers for Shared Equity
> Shared Equity Models
> Role of:
  – Government
  – Philanthropy
  – Private Finance
> Home Buyer Considerations
> Action Areas
Key Drivers for Shared Equity

> Market
  – Housing affordability
  – Deposit accumulation and purchase costs
  – Credit squeeze

> Household
  – Tenure security
  – Wealth creation

> Investor
  – Long-term stable investment class
  – Underpinned by government assures investor confidence
Shared Equity Models

Source: Adapted from Jacobus, R. and Lubell, J. (2007)
Shared Equity – Overseas Models

- **Subsidy Retention**
  - Deed Restricted Mortgages (USA)
  - Limited Equity Housing Cooperatives (USA)
  - Community Land Trusts (USA)

- **Shared Ownership**

- **Shared Equity Loans / Mortgages**
  - Help to Buy Equity Loans (UK)
  - Landed Loans (USA)

- **Inclusionary Zoning**
  - Section 106 obligations (UK)
Subsidy Retention

- Original Market Value: $300,000
- New Market Value: $400,000
- Original Sale Price: $200,000
- New Sale Price: $225,000

Original Market Benefit: $100,000
Community Benefit Share: $75,000
Capital Growth: $100,000
Home Buyer Share: $25,000
Original Purchase Price: $200,000
Shared Ownership

Buy a share of the property, between 25%-75%

Pay rent on the share you don’t own
Help to Buy Equity Loans

- Buyer’s 5% deposit
- Government’s 20% loan
- 75% mortgage from commercial lender

Example House Value: £200k
Role of Government
Role of Government

> INVESTMENT
  – £36.1B have gone onto registered provider's balance sheets from grants
  – 10-year long term funding to avoid the usual delivery lags between funding rounds
  – Support the housing market and operate in a counter-cyclical manner to smooth market volatility

> PLANNING
  – Inclusionary zoning has been a key driver in creating the supply of shared equity homes

> REGULATION
  – Market/Investor confidence
  – Standard Lease and Capital Funding Guide
Role of Philanthropy
Role of Philanthropy

- Supports ‘proof of concept’ through pilot schemes e.g. Landed
- Creates market intelligence that can underpin private investment business cases particularly as schemes look to scale
- Philanthropic expectations on returns are generally either nil or well below market
- Comparatively high risk appetite as long as the funded activities are consistent with the intent of the investment
- Philanthropic funds are just as difficult to source as government funding although have ‘less strings attached’
Role of Private Finance
Role of Private Finance - USA

- Unison, Point, and Patch (USA) provide shared equity although focus is mainly in debt consolidation.

- Narrow market for home buyers that can accumulate the 10% deposit but still require the other 10% from investor driven shared equity (and willing to forego 25% of the capital appreciation).

- The price reverts to a market price at the point of sale rather than assisting new home buyers.

- Seed capital to start up shared equity particularly for CLT's is sourced from public funds principally through grants and occasionally through land contributions.

- City/council or another intermediary offers a loan to the housing provider as construction finance with a grant to provide the seed capital once completed.
Role of Private Finance - UK

> Shared ownership considered a 'triple net investment' - all costs covered, no outgoings as they are covered by a service charge, and all repairs/maintenance covered by home buyer.

> Reliable income and considered a 'super-investment' grade.

> Incredibly investable, low delinquency, and includes a mortgagee protection clause.

> Downside issue is creating negative equity.

> 150% increase in shared ownership supply required to meet demand after Help to Buy ends in 2023

> Private finance to take a greater market share in similar equity loans schemes given the market (lenders, registered providers etc.) have been primed through the resourcing of the Help to Buy Scheme and shared ownership.
Home Buyer Considerations
Home Buyer Considerations

Upfront
- Who is eligible?
- Is there adequate understanding?
- What are the costs including fees?
- How does it compare to conventional lending?

Ongoing
- What is the term?
- What consumer protections are in place?
- What happens if there is default?
- Are there credit restrictions placed on the home owner?

Exiting
- How to terminate the agreement?
- How are capital improvements treated?
- How is capital gain or loss treated at exit?
Action Areas
Action Areas

**SUBSIDY ALIGNMENT**
Ensuring that subsidy to home-owner is correctly targeted

**ISSUE OF SCALE**
Ensuring increasing take-up doesn’t affect housing markets

**INDUSTRY ALIGNMENT**
Ensuring all stakeholders are working together

**EVIDENCE / DATA CAPTURE**
Ensuring evidence capture is built into all models
Subsidy Alignment

- **0%** Credit Help
- **3.5% Subsidy** Down-payment Assistance (Homebuyer Grant)
- **10% Subsidy** Investor-driven Shared Equity Assistance
- **30-50% Subsidy** Non-Profit Shared Equity Assistance

Increasing subsidy needed by home buyer
What is Needed?

- Deposit Assistance Scheme (NHFIC) – January 2020
- Inclusionary Zoning
- Development of Standardised Documentation
- Industry Engagement – Finance, Superannuation, Development, Non-Profits
- Market Analysis / Testing