A new approach to delivering shared equity opportunities in Western Australia: a case study evaluation

Final Report

authored by

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with

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December 2013

Australian Housing and Urban Research Institute

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EXECUTIVE SUMMARY

The shared equity EOI initiative

This is the Final Report of a case study that evaluates the outcomes of a new housing assistance program in Western Australia (WA). The Department of Housing WA shared equity Expression of Interest (EOI) initiative is part of the State Government's Affordable Housing Strategy (2010–20). The EOI initiative is designed to assist low-income households to enter home ownership.

The shared equity EOI initiative is comprised of two distinct but connected elements:

1. *The Expression of Interest (EOI) project*—The Department procured, at scale, newly constructed, affordable dwellings from the market at discounted rates. The EOI sought submissions from builders and developers to deliver new housing into the scheme. The discounts to market prices achieved by the Department became their equity share in a portfolio of properties.
2. *The SharedStart loan*—The shared equity loan product through which eligible applicants are able to buy the properties procured through the EOI project. SharedStart is offered through Keystart, the state government mortgage lender. Two shared equity loan options are available to eligible clients:
   - The flexible equity loan is a transitionary home ownership product, with buyers encouraged, over a number of years, to refinance with an alternative lender to purchase the Department's share of the property.
   - The fixed equity loan allows the Department to retain its share of the property in perpetuity thus ensuring that the Department maintains a supply of affordable houses in key locations where housing values are likely to appreciate rapidly. The Department guarantees to buy back the client's property at market value if the client wishes to sell. In this case, the property returns to the Department's stock of shared equity properties.

By assisting low-income households into home ownership the initiative sought to provide them with an affordable, well located, well designed property. As households eligible for the scheme could potentially receive other forms of housing assistance—either now or in the future—the scheme also sought to offset housing assistance costs that could cost government more over time.

This initiative was launched against a backdrop of significant housing affordability constraints blocking lower income households from home ownership and placing more pressure on conventional forms of housing assistance. At the same time, tightening fiscal constraints upon government meant that cost effectiveness of housing assistance had to be maximised.

The EOI initiative is a home ownership shared equity scheme—but with a difference. Traditional shared equity schemes operate in WA, South Australia and the Northern Territory (Pinnegar et al. 2009). What is unique about the design of the EOI is the procurement of a new supply of dwellings at scale (1005 properties) and through this, negotiating significant discounts to the market price (circa 16%). These discounts in turn became the Department's equity share in the properties, valued at $58 million in September 2013. This form of housing assistance, rather than resulting in significant net government expenditure, will see a net surplus of funds delivered by government over time.

Case study evaluation task and scope

The Department of Housing contracted the Australian Housing and Urban Research Institute (AHURI) in partnership with PricewaterhouseCoopers (PwC) to carry out a case study evaluation of the shared equity EOI initiative. The evaluation was carried out between June and November 2013 and focused on the period between July 2011 and November 2013.

The purpose of the evaluation was to investigate the impacts and effectiveness of the shared equity EOI initiative, with a particular focus on:

- Whether the initiative is achieving its goals and objectives.
- The wider social and economic impacts involved for households and government.
- The cost effectiveness of the initiative to government.
- Evidence informed recommendations to inform future investment and development of shared equity approaches.

To meet the aims of the case study evaluation, a methodology was designed with two modules:

- Module 1 investigated the social and economic impacts of the scheme on households, the government and the construction industry. It utilised a multi-stranded methodology that included: desk-based research; a post-occupancy resident survey; follow-up interviews with residents; and interviews with Department and industry stakeholders, including builders, land developers, peak bodies and real estate agents. The resident survey was completed by 238 out of 507 SharedStart home owners providing a 47 per cent response rate.
- Module 2 focused on the cost-benefits of the scheme and utilised cost-benefit analysis and decision and financial modelling techniques.

This evaluation is a ‘case study’ in as much as it focuses upon one particular ‘case’ of a shared equity scheme delivered through a particular set of mechanisms in the context of housing markets in WA from 2011–13.

The key mechanisms that distinguish this shared equity scheme from others are:

- The shared equity loan was linked to a property procurement project, meaning it increased the supply of affordable housing.
- The Department’s equity share was produced through discounts offered to the Department by builders and land developers, which meant the scheme did not require government subsidies.
- The shared equity loan included a ‘fixed loan’ option, which was a significant shift in policy focus from historical shared equity loan products offered in WA, which have largely sought to provide ‘once-off’ assistance for low to moderate income earners (i.e. through ‘flexible loans’) rather than a pool of properties for future home ownership opportunities.

Key evaluation findings

Effectiveness of the scheme in achieving program outcomes

Consistent with achieving the broader policy outcome of increasing the supply of smaller, more affordable housing options for low to moderate income earners, the Department outlined a range of intended outcomes to be achieved by the shared equity EOI scheme.

Overall, the scheme was successful in meeting the intended outcomes, as evidenced in the table below.

Table 1: Outcomes achieved by the shared equity EOI scheme in relation to program outcomes

Intended outcomes of the shared equity EOI scheme	Outcomes
1. Increase in the volume of lower cost affordable home ownership entry points.	The shared equity EOI initiative increased the overall supply of low-cost dwellings by 1005 by 30 June 2013 through its EOI procurement process.[1] The scheme procured properties that were below median house prices—in 84 per cent of cases the SharedStart sale price was below the lowest quartile dwelling price for the suburb. Resident satisfaction with housing affordability was very high overall: 87 per cent of survey respondents agreed or strongly agreed that their mortgage payments were affordable. The scheme provided home ownership opportunities to a new market segment of people on low to moderate incomes who would not otherwise have entered home ownership.
2. Increase in the supply of one- and two-bedroom housing products in the affordable housing market place.	The scheme increased the supply of one- and two-bedroom housing products by 241 (24% of the total number of houses built) in the affordable housing market segment.
3. Increase in the volume of affordable home ownership opportunities in regional areas.	The scheme delivered 29 SharedStart properties in regional areas. Some of these areas had significant constraints associated with smaller and more depressed markets.
4. Establishment of a pool of affordable home ownership properties that will be retained as affordable housing in perpetuity through the fixed equity loan option.	The scheme delivered 71 fixed loans through SharedStart by 30 June 2013. These properties will be retained in perpetuity as affordable housing. This is a positive achievement, considering low market acceptance in WA for this new mortgage product. One of these properties was delivered as part of the EOI and 70 of these properties were sourced from other housing stock areas.[2]
5. Client group.	The scheme was successful in providing home ownership opportunities to members of the target client group, including eight public housing residents. Available data on target groups is limited. However the resident survey included: → 188 first home owners. → 198 respondents who reported that they would otherwise have been excluded from standard home ownership. → Six respondents with a disability and nine living with a person with a disability. → 58 single parents. → 42 key workers.

[1] It should be noted that this number (1005), which was provided by the Department of Housing, is different to the number (983) used in Module 2 modelling. This difference can be accounted for by the different dates used in each dataset.

[2] It should be noted that the modelling for Module 2 used the fixed equity loan figure of two, which was the number of fixed equity loans delivered with EOI properties by September 2013. Other Department programs generated this greater number of fixed equity properties.

In addition to meeting its intended outcomes, the shared equity EOI scheme produced a range of positive social and economic returns for households, the government and the construction industry. These wider benefits are described below.

Social and financial benefits for households

The evaluation found high rates of satisfaction with the shared equity EOI scheme amongst residents. The majority of the 238 survey respondents (87%) agreed or strongly agreed that their housing arrangement meets their household's needs and the vast majority (91.3%) would recommend the scheme to others. The social and financial benefits for the households participating in the scheme are summarised below:

- The benefits reported by survey respondents included: good quality housing; affordable mortgage payments that are comparable to private rents; security of tenure; financial security, including a financial investment for the future; pride in owning a home; and improved social status and self-esteem.
- Financial benefits to households, determined through financial modelling, included: an implicit subsidy to households' consumption of housing services through the Department's part ownership of the property; and increases in wealth as a result of the capital gains on the household's share of the property. The benefit-cost ratio at baseline assumptions is projected to be 1.6 (i.e. households received $1.60 in benefits for every $1 of cost they incurred).

Economic benefits for government

Interviews with Department staff, and financial modelling, revealed significant economic benefits for government from the shared equity EOI scheme.

- The 983 properties in the Department dataset constructed under the EOI had a total market value of $338 million but were purchased for $293 million resulting in a gross margin of 15 per cent. Of these, 261 properties are or will be sold in full with a market value of $89 million but were purchased for $79 million resulting in a gross margin of 13 per cent. The 722 properties that were or will be sold as shared equity have a market value of $248 million but were purchased for $214 million resulting in a gross margin of 16 per cent. These margins, created through purchasing at scale, are used to cross-subsidise the shared equity properties to the buyers to purchase at initial equity shares of between 52 and 95 per cent.
- The main economic benefit identified for government was the creation of a significant asset through the embedded equity in housing stock. These initial equity shares had an estimated value of $58 million by September 2013 for 722 properties ($80 729 per property). Importantly, these equity shares were created without a capital expenditure by the Department. Over time, as house prices will increase so will the value of equity shares held by the Department.
- The scheme's projected internal rate of return for the Department is 25 per cent. In addition, by 2029–30 the EOI is projected to result in an increase in net assets of $116 million.
- Taking into account the growth in the value of the Department's equity shares over time results in a projected benefit-cost ratio of 1.4, or in other words $1.40 in benefits for every $1 of cost incurred by the Department.
- Stakeholders also suggested there may be cost savings to government by diverting residents from social housing or other forms of housing assistance into home ownership. Though the numerical extent of this is small, the potential dollar savings are significant.

- The significance of the positive rate of return for Government from this form of housing assistance should not pass without comment. The typical expectation of housing assistance is that it is a form of subsidy to households that generates significant costs to government. This form of housing assistance makes a sustained, substantial difference to the financial wellbeing of lower income households and delivers a positive rate of return for Government.

Economic benefits for industry

The shared equity EOI scheme produced significant economic benefits for the construction industry in WA. Key findings from financial modelling include:

- $149 million of direct additional activity was created in the construction industry in WA.
- $112 million of induced economic activity was created amongst suppliers of the construction industry in WA.
- The additional $149 million of construction activity supported 427 jobs directly in the construction industry, and 788 jobs in the wider field including construction services. 1491 jobs were supported in total considering the impacts in other sectors that underpin the construction industry.
- Further economic benefits to the building companies arose from the nature, manner and scale of partnering with government rather than private clients. These included: efficiencies arising from bulk purchasing; greater project certainty from 'front-end' engagement; skills development; increased exposure to the affordable market segment with a low-risk opportunity to test new product types; and the development of new business models with the EOI initiative providing a discrete income stream complementing work from the private market.
- For land developers, economic benefits of the scheme included: sales of 'slow to sell' land; saving existing development projects; and enabling new projects.

Why does the shared equity EOI scheme work?

The case study evaluation identified the key mechanisms and contextual factors that enabled the shared equity EOI scheme to work well and these are described below.

The right conditions

- It was consistently reported that the shared equity EOI scheme worked well because it was implemented at a time when the construction industry was experiencing a downturn and therefore larger builders were prepared to trade-off profit for cash-flow. Some concerns were raised about the sustainability of the scheme when market conditions improve and builders may be less willing to offer such discounts. A suggested response is the 'gearing up and down' of the procurement process in response to market conditions.
- Department conditions conducive to the successful implementation and operation of the shared equity EOI scheme were identified as: policy leadership; land development and built form procurement; and the ability to draw on working capital. The scheme provides a productive example of leveraging the functions and capabilities of the Department to provide affordable housing opportunities.

Key mechanisms: supply, sales and home finance

- A key mechanism for delivering the supply of low-cost housing through the EOI initiative was the scaled delivery model—this involved the Department buying in bulk from builders and developers to secure a discount, which then became the Department's embedded equity share in the property.

- A second key mechanism was an efficient and effective sales program to find and engage eligible clients. An online sales portal proved very effective as did engaging real estate agents in the sales effort. Marketing to manage consumer expectations and address issues of stigma associated with 'government housing' were also important to success.
- A third key mechanism was the provision of the SharedStart loan to enable targeted clients to enter home ownership. This loan is available to low and moderate income earners and older age groups who experience barriers to obtaining finance through the private market. Important to its success were no mortgage insurance costs, mortgage repayments commencing only once full construction was completed, and a low deposit of 2 per cent of the home owners share.

Making the scheme work better

Whilst the main elements of the shared equity EOI scheme worked well, a number of potential improvements to the scheme were suggested by participants in the evaluation. These relate to each of the key intervention points: the procurement of new, affordable housing at scale; an efficient and effective sales program; and provision of the shared equity loan.

In relation to the procurement of new, affordable housing at scale participants recommended:

- Creating a separate business model within the Department to administer the program rather than the activity being an additional output of existing teams performing their respective core business.
- Promoting greater cultural change within the Department towards a more commercial way of working and thereby enabling greater flexibility, for example, with regard to dwelling specifications.
- Increasing the choice of properties and locations, for example, by increasing the number of medium rise properties in the scheme.

In relation to an efficient and effective sales program participants recommended:

- A more comprehensive advertising campaign.
- Informing real estate agents abut new properties in the construction pipeline
- Leveraging off the reputation of builders and land developers to attract more customers.

In relation to the provision of the shared equity loan, participants recommended:

- Raising the income eligibility ceiling to enable more single households to afford properties
- Ensuring the minimum size of apartments built aligns with the minimum square metre requirements for obtaining a private sector mortgage
- Increasing the speed of the application approvals process.

Conclusions and evidence-informed recommendations

Based on the case study evaluation findings there are four key conclusions.

1. The shared equity EOI initiative was successful in meeting its defined outcomes.

2. The achievements of the shared equity EOI initiative went beyond its defined outcomes to generate significant economic benefits for participating households, for the state government, and the construction industry in WA.
3. The three main mechanisms, acting in concert, that underpin the success of the scheme are the procurement of new affordable housing at scale, an efficient and effective sales program, and the provision of a shared equity loan.
4. A downturn in the property market and the Department of Housing's management capabilities were the two important contextual factors that enabled these mechanisms to deliver a successful scheme.

It should be noted that the shared equity EOI initiative is unlike 'typical' shared equity programs in that it:

→ Increased the supply of new affordable housing.

→ Did not require significant recurrent funding due to the embedded equity created out of discounts extracted through bulk procurement. One stakeholder commented 'I've been involved in home ownership for over 30 years and this is about the only time in this history where someone's come up with an idea like that. It's really innovative'.

→ Played an anti-cyclical role, stimulating the building industry when the market was weak.

Based on the key conclusions, five recommendations are made:

Recommendation 1

The state government continue to employ, in concert, the three key mechanisms of scale procurement, house sales and shared equity loans to increase the supply of new, affordable home ownership properties for those otherwise blocked from the housing market.

Recommendation 2

Future rounds of a shared equity EOI initiative continue at a scale of approximately 1000 properties and again over a period of 24 months or so.

Recommendation 3

Preserve the distinctive feature of the shared equity EOI as an unsubsidised form of housing assistance.

Recommendation 4

Maintain a cyclical, opportunistic approach that is flexible enough to gear up and gear down in response to market conditions and maintain and improve the Department's capability to deliver such a program by continuing to refine its commercial acumen.

Recommendation 5

Investigate other ways of enabling this 'market-facing' approach to housing policy and housing assistance and consider its replicability nationally. National replication will need to bear in mind that unlike the WA Department typical housing agencies in Australia are 'government facing' rather than 'market facing'. They are within community services departments with a primary focus on integration with other community services. As such their focus is upon the bottom-end of the housing system only, and is more concerned with linking government services provision than opening doors to positive housing futures across the housing system.

1 INTRODUCTION

1.1 Task and scope

In June 2013 the Australian Housing and Urban Research Institute (AHURI), in partnership with PricewaterhouseCoopers, was engaged by the Department of Housing in WA to undertake a case study evaluation of the Department's recent shared equity Expression of Interest (EOI) initiative. The evaluation was carried out between June and November 2013 and focused on the period between July 2011 and November 2013.

The shared equity EOI initiative is comprised of two distinct but connected elements:

1. *The Expression of Interest (EOI) project*
   This is the procurement process through which newly constructed affordable dwellings are procured from the market at a discounted price by the Department.
2. *The SharedStart loan*
   This is the shared equity loan product through which eligible applicants are able to buy the properties procured through the EOI project.

The evaluation focuses on the impacts and effectiveness of the shared equity EOI initiative in the two-year period between July 2011 and June 2013. The supporting financial modelling uses a project level dataset, including a small number of multi dwelling projects up to early September 2013.

The aims of the case study evaluation are to determine:

- Whether the initiative is achieving its goals and objectives.
- The wider social and economic impacts involved for households and government.
- The cost effectiveness of the initiative to government.
- Evidence informed recommendations to guide future investment and development of shared equity approaches.

The findings will also contribute towards the evidence base on housing affordability solutions.

The aims of the case study evaluation will be met by addressing four questions:

1. How effective was the initiative in providing opportunities for aspiring home owners and increasing affordable housing supply—especially when compared to more traditional approaches to shared equity?
2. Who are the households assisted and what are the trade-offs made in order to secure affordability?
3. What were the benefits (if any) to wider stakeholders and the economy, and to what extent is this approach, or variations of it, a viable and cost effective model of housing assistance for government? What else may be needed to make this approach sustainable in different market conditions? Are there opportunities for other enhancements and/or to blend with other initiatives such as Commonwealth Rent Assistance or Housing Affordability Fund?
4. What were the essential preconditions and context that made the shared equity EOI initiative possible?

This evaluation is a case study of the outcomes of one particular approach to shared equity housing assistance. It focuses on the key mechanisms that produced these outcomes and the important contextual conditions. This approach to shared equity is characterised by the following features which distinguish it from other shared equity schemes in WA:

- The shared equity loan was linked to a property procurement project, meaning it increased the supply of affordable housing.
- The Department's equity share was produced through discounts offered to the Department by builders and land developers, which means the scheme did not require government subsidies.
- The shared equity loan included a fixed loan option, which was a significant shift in policy focus from historical shared equity loan products offered in WA that have largely sought to provide 'once-off' assistance for low- to moderate- income earners (i.e. through 'flexible loans') rather than a pool of properties for future home ownership opportunities.

1.2 Methodology

The methodology included two modules:

- Module 1 investigated the impacts of the scheme and utilised a multi-stranded methodology, combining desk-based research and primary data collection, including consultations with stakeholders and residents.
- Module 2 looked specifically at the cost-benefits of the scheme and utilised cost-benefit analysis and modelling techniques, and was led by PwC.

1.2.1 Module 1: Impacts of the scheme

Module 1 used the following methods to respond to all of the evaluation questions.

Synthesis

A synthesis of the policy context in which shared equity operates in WA was undertaken as well as a targeted synthesis of the national and international literature. These activities were undertaken in order to provide the appropriate policy and evidentiary context for the case study.

The synthesis focused on three key elements:

1. Western Australia's Affordable Housing Strategy and its existing shared equity program which provide the context for the program and an understanding of the key program components that enabled it to occur.
2. Market factors prevailing at the time that contributed to the effectiveness (or otherwise) of the program and the outcomes achieved.
3. Review of national and international literature to inform the context of the case study evaluation and enable analysis of the shared equity mechanisms.

Findings from the review of the policy and program context and market factors are included in Chapter 2. The overview of the synthesis of national and international literature is included in the Technical Appendix.

Desk top analysis of program documentation and existing data sets

Contextual information related to the case study, existing data, information sources and reports were identified in consultation with the Department of Housing and analysed as part of the project. Examples include:

- SharedStart Policy documentation

- EOI documentation
- post-Implementation Review documentation
- data on property sales through the shared equity EOI scheme
- data on dwelling commencements in WA
- demographic information about households participating in the scheme.

Post-occupancy resident survey

A post-occupancy resident survey was designed in consultation with the Department of Housing and PwC (see Technical Appendix). The survey gathered information about:

- household profiles
- household housing histories
- trade-offs made by residents to enter the SharedStart loan scheme
- household satisfaction with the SharedStart loan scheme.

The survey was distributed to the 507 SharedStart loan holders (at 11 August 2013) via post and email. Residents had the choice of completing the survey online or by returning a hard copy via a prepaid envelope. To increase the response rate and timeliness of the evaluation, participants were offered a $25 grocery voucher to complete the survey. A total of 238 survey responses were received at the close of the three-week survey period, representing a 47 per cent response rate.

Relevant findings from the survey were used by PwC to develop the cost-benefit mode.

Resident follow-up interviews

Semi-structured telephone interviews were undertaken with 10 residents who completed the survey (see Technical Appendix for a copy of the interview schedule). Over 60 per cent of survey respondents indicated that they were willing to participate in a follow-up interview. Residents were offered an additional $25 grocery voucher to participate in the follow-up interview. A sampling framework was developed to ensure an appropriate mix of residents was sampled across variables such as: housing history; household type; age; property type; and location type.

The interviews provided the opportunity to explore in detail findings from the survey in relation to:

- tenant profiles and housing history
- perceptions of affordability
- key benefits of the scheme
- suggestions for improvement to the scheme.

Stakeholder interviews

A total of 18 semi-structured interviews (14 face-to-face and four telephone interviews) were conducted with key stakeholders who were either involved with the shared equity EOI initiative (e.g. department staff, builders, developers) or who have an industry perspective on the initiative (e.g. Housing Industry Association).

Table 2: Stakeholder interviews

Stakeholder group	Number of interviewees
Real estate agents	2
Builders	5
Land developers	3
Peak industry bodies	2
Department of Housing staff	5
Keystart staff	1
Total	**18**

See the Technical Appendix for a copy of the interview schedule

The interviews obtained stakeholder views about the:

- policy context for the shared equity EOI initiative
- overall purpose of the initiative and intended outcomes
- regulatory and governance mechanisms in place
- key strengths of this approach to shared equity
- progress with implementation
- job creation and economic activity.

Relevant findings from the stakeholder interviews were used by PwC to inform the cost-benefit model of the case study evaluation.

1.2.2 Module 2: Cost-benefit analysis

Module 2 focused on four key questions, which were:

- What were the financial benefits for buyers who purchased a property procured under the EOI?
- What was the financial impact of the shared equity EOI for the WA Department of Housing?
- What were the impacts of the shared equity EOI on the wider economy?
- What factors were likely to be important in determining the size of the discount to market price that the Department could negotiate with builders?

Determining the financial benefits for property buyers

The majority of the 983 properties procured under the EOI for which data was available at the time of the evaluation were sold to private buyers either as a sale in full (235), or under a shared equity loan provided by Keystart, the state government owned affordable mortgage lender (722 dwellings).[3] A further 26 dwellings were sold by full sale to community housing organisations. Two of the shared equity dwellings in the sample were sold as fixed equity (i.e. buyers did not have an option to buy the

[3] This figure of 983 properties, which is used in the modelling, was provided in datasets from the Department of Housing. It should be noted that this figure is different to the figure of 1005 which was achieved by 30 June 2013, which was the figure used to assess outcomes against aspirational targets for Module 1.

Department's share of the property at a future date).[4] Buyers who purchased in full, did so using finance provided by a private sector lender. It is reasonable to assume that these buyers would have bought a comparable property in the absence of the EOI. Under these circumstances, there is unlikely to be any net financial benefit to these buyers relative to the alternative and they have been excluded from the assessment of the financial benefits for property buyers.

Modelling of the financial benefits for shared equity buyers who were unlikely to have been able to purchase a comparable dwelling outright was based on an estimation of:

- The consumption benefits of housing in the form of an imputed rent over an assumed 25-year holding period.
- Estimated capital gains, using a baseline assumption of annual growth in house prices of 4 per cent per annum (the average rate of house price growth since June 2009), and which, given an assumed inflation rate of 2.5 per cent, represents an annual real rate of growth in house prices of 1.5 per cent.
- The cost of servicing the low-deposit Keystart mortgage, assuming a 2 per cent deposit once transaction costs and any stamp duties were paid from savings and, where the buyer was eligible, the First Home Owner Grant.
- Operating costs associated with home ownership such as building insurance, rates and maintenance.
- The timing of the purchase of the Department's share of the property and refinancing with a private sector lender. This depends upon the household having sufficient income to service the necessary mortgage, 20 per cent or more accumulated equity in the property, and the purchase of the Department's share being financially preferable to not purchasing the Department's share.

Collectively, these elements of the model allow us to estimate the net present value (NPV) of buying the home, allowing for refinancing and buy-out of the Department's share over the assumed holding period.

The net financial benefit for shared equity buyers is then calculated by deducting the NPV of an alternative strategy, such as renting a comparable home and then purchasing outright when accumulated savings and income allow the household to do so.[5]

Determining the financial impact on the Department of Housing

The modelling of the financial impact of the shared equity EOI on the Department of Housing takes into account a number of determinants of the revenues, costs and balance sheet impacts. These are:

- Land and construction costs associated with the properties, including properties that were sold in full, where the timing of payments in relation to construction is based on progress payment schedules.

[4] The number of fixed shared equity properties included in the Module 2 modelling was two; this was the number of fixed shared equity loans that were linked to EOI properties and delivered by September 2013. The number of fixed shared equity properties referred to in Module 1 analysis was 71; this was the number of fixed shared equity loans that were delivered by June 2013, and included EOI properties as well as properties delivered through other initiatives.

[5] While this is the comparison reported below, it is worth noting that the modelling suggests that for 213 buyers (29.5% of all shared equity buyers), they would be financially better off if, in the absence of having been able to buy under shared equity, they rented and invested their surplus income. These households purchased at relatively low equity shares and consequently would have to wait an average of 17 years before being able to buy out-right.

- Administrative costs associated with the program, which on the basis of advice from the Department have been set equal to 5 per cent of construction costs.
- The cost of specific services associated with the development and acquisition of the properties (e.g. valuation costs).
- Revenue from the initial sale of properties, and for the cash flow analysis the subsequent sale of the Department's share with the timing of those sales determined by the modelling of buyer decision making.
- Net income from Keystart in relation to the mortgages used to finance the shared equity purchases, which takes into account interest income less net financing costs and a doubtful debts expense.
- Balance sheet impacts take into account net revenue associated with the shared equity EOI and changes in the value of the Department's equity shares as house prices increase. When the buyer purchases the Department's share the balance sheet is unchanged due to an offsetting increase in liquid assets and where land owned by the Department was used, its sale generates a similar offset.

Determining wider economic impacts

The impact of the shared equity EOI on economic output and employment was estimated using an Input-Output model. The model estimates the first and subsequent round effects of the construction expenditure on output and employment in all industries.

Given the widely acknowledge limitations of Input-Output analysis and particularly its susceptibility to over-stating impacts when an economy is close to full employment, the reporting of results is focused on the direct, first round impacts of the shared equity EOI on the residential construction industry and industries supplying inputs into the construction process.

Determining factors influencing the discount to market value

Desktop research on the structure of the residential construction and land development industries was augmented by consultation with industry participants undertaken as part of module one to develop the assessment of these factors.

1.3 Structure of the report

- Chapter 2 provides an overview of the EOI shared equity initiative.
- Chapter 3 outlines the outcomes of the scheme in relation to program specific objectives.
- Chapter 4 outlines the benefits of the scheme for households, including financial benefits.
- Chapter 5 outlines the economic benefits of the scheme for government, primarily using cost-benefit analysis.
- Chapter 6 examines the economic benefits of the scheme for industry, primarily using cost-benefit analysis.
- Chapter 7 identifies the preconditions and success factors for the scheme.
- Chapter 8 provides suggested improvements that could be made to the scheme.
- Chapter 9 provides conclusions and evidence informed recommendations.

2 OVERVIEW OF THE EOI SHARED EQUITY INITIATIVE

2.1 Introduction

The Department of Housing in WA implemented a new affordable home ownership initiative as part of the state government's affordable housing strategy. This initiative, referred to as the 'shared equity EOI initiative', was introduced by the Department on 25 May 2011 and aimed to assist low- and moderate-income earners into home ownership in an increasingly difficult housing market. Shared equity involves the Department of Housing taking a minority co-ownership position in each applicant's home, which may be held in perpetuity or sold down to the applicant over time as their circumstances allow.

The shared equity EOI initiative is comprised of two distinct but connected elements (See Figure 1):

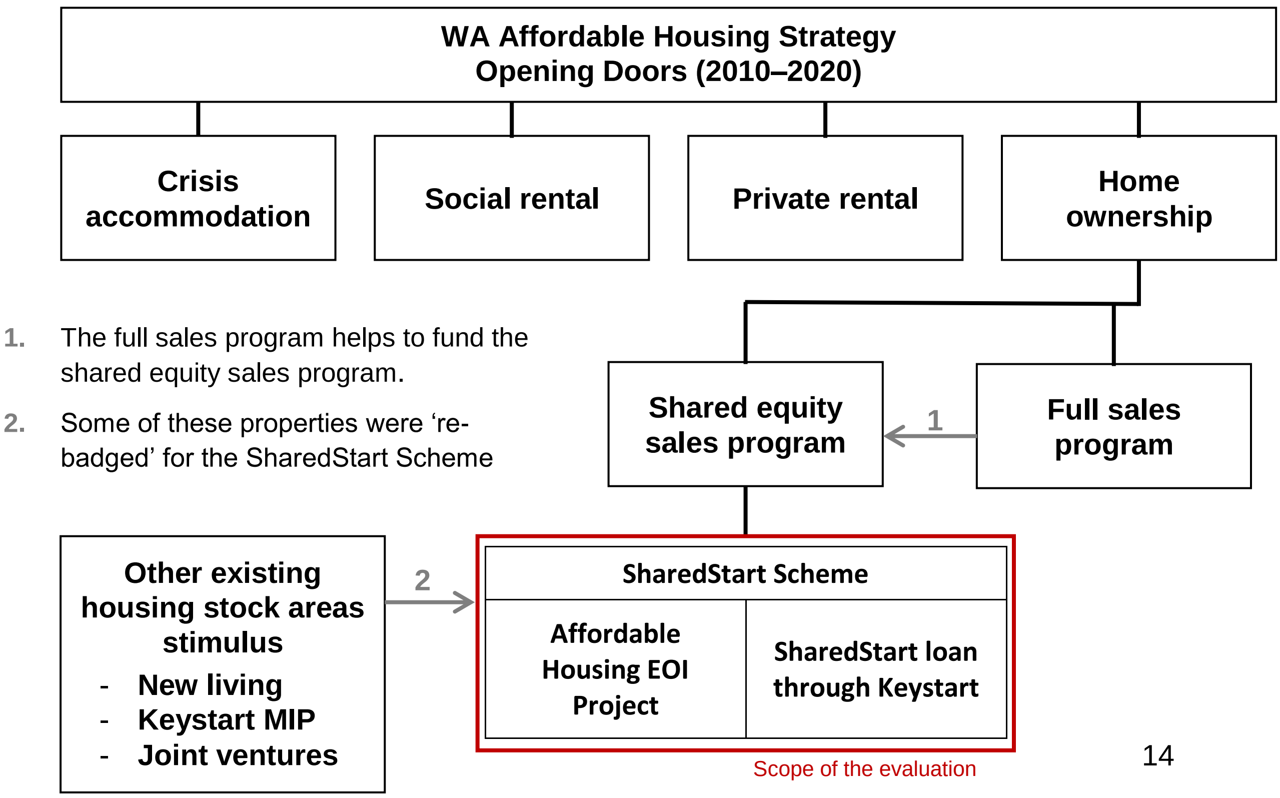
1. *The Expression of Interest (EOI) project*

This is the procurement process through which newly constructed affordable dwellings are procured from the market at a discounted rate by the Department. The EOI seeks submissions from builders and developers to generate affordable housing supply. The Department's shared equity contribution is achieved through discounts secured by the Department.

2. *The SharedStart loan*

This is the shared equity loan product through which eligible applicants are able to buy the properties procured through the EOI project. SharedStart is offered through Keystart, the state government mortgage lender. The SharedStart loan scheme is the loan product through which eligible applicants are able to buy the properties procured through the EOI project.

Figure 1: The shared equity EOI initiative in its broader context



Two elements are included in this diagram that were not officially part of the scope of the evaluation, however they were important contextual features, and will be referred to later in the report. These are:

- The full sales program, which cross-subsidises the shared equity program. If all equity splits were 80/20 (i.e. 80% owned by the household and 20% owned by the Department), the Department's equity would be covered by the discount offered by the builders/developers. However, in some circumstances, the Department takes on a greater share of the equity than 20 per cent. In these cases, there is a need for subsidy and the full sales program cross-subsidises the shared equity program.
- Existing housing stock from areas other than the EOI procurement projects. Because there were some initial delays in the procurement of new properties (related to 'teething problems' while awareness of the scheme was still growing and the rapid roll out of the initiative), it was necessary to utilise existing stock from other areas to support the scheme. For example, these other areas included refurbished social housing properties and mortgage in possession (MIP) properties.

2.2 The Expression of Interest (EOI) project

The EOI project aims to provide affordable entry level home ownership, whilst also stimulating activity in the WA building industry.

The EOI project aimed to leverage the purchasing power of the Department by procuring enough properties in bulk to secure discounts from the property developers. As part of the EOI process, the Department of Housing sought to procure up to 2000 shared equity properties at 'wholesale' prices (of approximately 80%t market value). The difference between the price paid and the market value is captured as the government's equity in the property (rather than taken as profit), meaning that borrowers only need to provide around 80 per cent of the market value themselves (Loosley-Smith no date). An important feature of the scheme is that every property procured through the EOI process is sold at market value; that is, these properties are not subsidised by the Department. This ensures that the scheme does not negatively impact on the market and that other property values are maintained. The reasons for the low-cost to the consumer are:

- The properties are 'entry level' homes.
- The scheme achieves a lower cost by offering a different housing product to what is otherwise available in a given suburb. For example, this may mean the housing product is smaller, has lower amenity, is on a smaller piece of land, or is a different housing type (e.g. duplex rather than detached housing).
- The consumer only needs to provide around 80 per cent of the market value.

The Department's equity share in the property is recovered when the buyer sells the property or refinances through an alternative lender.

The Department released the *Submissions for Affordable and Social Housing on Proponent's Land* (EOI #1) in June 2011 and a subsequent request for submissions on Department-owned land in July 2011 (EOI #2). The EOIs sought to 'stimulate, guide and facilitate constructive and focused engagement between Government and industry in an effort to increase the supply and diversity of affordable housing and social housing in Western Australia' (EOI #1, p.5).

The EOI project was seeking EOI submissions to deliver new homes that:

- are innovative in design
- respond to a changing WA housing market
- meet the affordable housing needs of one and two person households as well as families
- represent a cost to the Department of no more than $250 000 (GST inclusive) for 75 per cent of the dwellings (EOI #1, p.13)
- include an embedded return to the Department of approximately 20 per cent that can be captured as the Department's equity component
- are in desirable locations with good access to employment opportunities, public transport, services and general amenities
- meet the EOI requirements relating to the design of the houses including size, materials and energy efficiency.

2.3 The SharedStart loan

The SharedStart loan is a new shared equity loan product offered through Keystart, the state government mortgage lender. SharedStart adds to Keystart's existing suite of shared equity products, which are listed in Table 3 below.

2.3.1 Features of the SharedStart loan

The SharedStart loan is available only for properties for sale by the Department of Housing under the shared equity EOI scheme. Features of the loan include:

- Shared ownership—the Department of Housing co-owns up to 30 per cent of the property.
- Properties for sale from the Department of Housing available through the OpeningDoors online portal (www.openingdoors.housing.wa.gov.au).
- Deposit of $2000 or 2 per cent of the purchase price for first home buyers.
- Deposit of $2000 or 2 per cent of the purchase price plus stamp duty and fees for non-first home buyers.
- No proof of savings history required.
- No lenders mortgage insurance.
- No monthly account keeping fees.
- First home buyers can use the First Home Owners Grant (FHOG) towards the deposit.

Two shared equity loan options are available to eligible clients: a flexible equity loan option; and a fixed equity loan option.

The flexible equity loan

The flexible equity loan is a transitionary home ownership product, with buyers encouraged to refinance with an alternative lender to purchase the Department's share of the property.

In the flexible equity loan, buyers are given incentives to 'buy-out' the Department's equity through:

- Annual Reviews—through which owners are encouraged to increase their share in the property.
- Early Exit Incentives—through which buyers receive a 10 per cent discount on the Department's share of the property if they purchase this share through refinancing within two to five years; and a 5 per cent discount if this is done within six to seven years.

The flexible equity loan could be categorised, according to Pinnegar et al.'s (2009) typology of shared equity products, as a 'transitional model' of shared equity. These types of shared equity loans aim to help consumers gain a foothold on the property ladder and facilitate asset accumulation by the purchaser (Pinnegar et al. 2009, p.18).

The fixed equity loan

The fixed equity loan allows the Department to retain its share of the property in perpetuity thus ensuring that the Department maintains a supply of affordable houses in key locations where housing values are likely to appreciate rapidly. The Department guarantees to buy back the client's property at market value if the client wishes to sell. In this case, the property returns to the Department's stock of shared equity properties.

Properties designated for purchase through fixed equity loans were determined according to:

- Proximity of the dwelling to critical infrastructure and amenity (e.g. public transport, business activity centres, education facilities).
- Recent and likely future capital growth.
- specific demand requirements of the locations, for example, key worker demands (e.g. hospitals, key state infrastructure projects) or targeted client groups (e.g. clients with disabilities)
- Future development opportunities for the government.
- Economic and social conditions.

The fixed equity loan could be categorised, according to Pinnegar et al.'s (2009) typology of shared equity products, as a 'continuing model' of shared equity. These types of shared equity loans aim to protect affordable home ownership opportunities and preserve the supply into the future. These models are well established in the USA, but have received little attention in Australia (Pinnegar et al. 2009, p.23).

2.3.2 Key differences between SharedStart and other KeyStart loan products

The SharedStart loan differs from the other KeyStart loan products in a number of ways.

- Unlike other KeyStart loan products, the SharedStart loan is linked to properties delivered through the EOI procurement process.
- SharedStart loan options include both fixed equity and flexible equity loans. The other Keystart loan products do not offer fixed equity loans.
- For the SharedStart loan, the Department's equity share is produced through discounts offered by builders and land developers. For the other KeyStart loan products, the Department must find money to pay for their equity share.
- Because SharedStart created its own equity, it did not require the same rigidity with regard to the maximum percentage of equity in the property owned by the

government. The maximum limit owned by the household is based on the person's capacity to borrow, provided there is enough embedded equity to cover it.

- The target client group for SharedStart is more generalised than it is for the other KeyStart loans, which are more targeted.

Table 3: Keystart shared equity loans

Keystart shared equity loan product	Target group
GoodStart loan	Department of Housing tenants
Aboriginal Home Ownership Scheme	Aboriginal applicants
Access Loan	People with disabilities
Sole Parent Loan	Sole parents
Perpetual Shared Equity Scheme	Key workers in specified industries
SharedStart Loan	'Catch all' of all Keystart target groups

2.3.3 Target client group for SharedStart

Unlike the other shared equity loans offered through Keystart, each of which is highly targeted to a specific group (e.g. people with disabilities), the SharedStart loan is considered more of a 'catch all' loan. SharedStart has a broader range of target groups, including:

- First home buyers or those excluded from home ownership opportunities.
- Disadvantaged client groups (people with disabilities, sole parents, Indigenous people).
- Specific target groups such as key workers or non-government employees.
- Ineligible or aspirational social housing tenants or applicants.

The eligibility requirements include (SharedStart Policy, 2011, pp.3–4):

- Maximum income limits ($70 000 for singles; $90 000 for couples; and $110 000 for singles and couples in the North West).
- Maximum loan values ($330 000 for singles; $380 000 for couples; and $480 000 for North West).
- Liquid assets of no more than 15 per cent of the market value of the property.

2.4 Intended outcomes

Consistent with achieving the broader policy outcome of increasing the supply of smaller, more affordable housing options for low- to moderate-income earners, the Department outlined a range of intended outcomes and aspirational targets for the shared equity EOI scheme to be achieved in the two-year period (2011–12 to 2012–13). The full list of intended outcomes and aspirational targets are included, with references, in Attachment 1. For the purpose of the evaluation, these have been summarised in Table 4 below.

The targets listed below were *aspirational,* given that:

- The scheme was not a funded program and was therefore entirely opportunistic in its approach.

- The participation of builders and developers in the EOI scheme was not mandatory. The procurement process relied on the voluntary participation of builders and land developers in responding to the initial EOI.
- The scheme involved a vast array of contingencies related to the supply and demand for this type of affordable home ownership product.

Table 4: Summary of intended outcomes and aspirational targets for the shared equity EOI scheme

Intended outcomes of the shared equity EOI scheme	Related aspirational targets
1. Increase in the volume of lower-cost affordable home ownership entry points	Provision of up to 2000 affordable home ownership opportunities for people who meet the SharedStart selection criteria.
2. Increase in the supply of one- and two-bedroom housing products in the affordable housing market place.	Stock mix targets: → one-bedroom (20%); → two-bedroom (50%); → three-bedroom (20%); → four or more bedrooms (10%).
3. Increase in the volume of affordable home ownership opportunities in regional areas.	Provision of 15 per cent or 300 opportunities for households in regional areas.
4. Establishment of a pool of affordable home ownership properties that will be retained as affordable housing in perpetuity through the fixed equity loan option.	Fifty per cent of SharedStart loans (i.e. 1000) to be fixed equity loans.
5. Achieve a target mix of client equity loan amounts	Loan mix targets: → $200 000–$220 000 (10%) → $220 001–$240 000 (20%) → $240 001–$260 000 (30%) → $260 000–$280 000 (20%) → $280 000+ (20%).
6. Create home ownership opportunities for target client groups, including: → First home buyers or those excluded from home ownership opportunities. → Disadvantaged client groups (people with disabilities, sole parents, Indigenous households). → Specific client groups such as key workers or non-government employees. → Social housing tenants or applicants. → Households with a target income mix.	Provision of up to 400 home ownership opportunities for social housing tenants or applicants to transition out of the social housing system in two years. (i.e. representing 20 per cent of the 2000 shared equity loans). Target income mix: → $50 000–$55 000 (10%) → $55 000–$60 000 (20%) → $60 000–$65 000 (30%) → $65 000–$75 000 (20%) → $75 000+ (20%).

2.5 Policy context and prevailing market conditions

The shared equity EOI initiative sought to take advantage of market conditions to bring to the market, at little or no cost to the Department, a shared equity product to assist aspiring home owners into the housing market. The initiative was designed to respond to two sets of conditions:

- a shortage of affordable housing in WA
- poor market conditions for the local housing construction industry.

2.5.1 Affordable Housing Strategy: Opening Doors 2010–2020

The *Affordable Housing Strategy: Opening Doors 2010–2020* (*Affordable Housing Strategy*) was launched in May 2011 and provides the policy framework within which the SharedStart shared equity scheme sits. The Strategy outlines the Department's goal of providing an additional 20 000 affordable housing opportunities by 2020.

The *Affordable Housing Strategy* describes a 'whole of life' approach to affordable housing, articulated by the 'Affordable Housing Continuum', which includes crisis accommodation, social rental, private rental and home ownership. The Affordable Housing Strategy positions the Department of Housing as a provider of housing across this continuum. This represents a shift from the Department's traditional role as a provider of social rental housing. The Department is positioned alongside other agencies, not-for-profit organisations and the private sector in increasing the supply of affordable housing.

2.5.2 Prevailing market conditions

The shared equity EOI initiative attempts to encourage the supply of dwellings in the lowest quartile house price in Perth and regional areas, a segment of the housing market that has diminished in recent years.

The Housing Industry Forecasting Group's *Dwelling Commencements* reports between October 2011 and April 2013 provide comprehensive background data to inform the context of the shared equity EOI initiative. This information presents context of the overall 'soft growth' in house prices—driven by the global financial crisis, poor consumer confidence and below CPI increase in labor prices. Despite the soft conditions in the housing market, a household on a median income would only have been able to afford between 8 and 17 per cent of dwellings on the market in this period (see Housing Industry Forecasting Group 2012a, p.24; 2013, p.13).

The shared equity EOI initiative is predicated on a depressed housing market in which the Department is able to leverage poor market conditions to secure properties at 'wholesale' prices that would not normally be available in a strong housing market.

3 EFFECTIVENESS OF THE SCHEME IN ACHIEVING PROGRAM SPECIFIC OUTCOMES

This chapter presents findings on the outcomes of the shared equity EOI initiative in relation to the scheme's intended outcomes and aspirational targets. The chapter covers whether the scheme:

- **increased the supply of affordable housing**
- **increased the supply of smaller dwellings**
- **increased the supply of affordable housing in regional areas**
- **retained the housing affordability dividend in perpetuity**
- **assisted the targeted client groups.**

Key findings

- Overall, the scheme was successful in meeting its intended outcomes, though the aspirational targets were not fully met.
- The shared equity EOI initiative increased the overall supply of low-cost dwellings through its EOI procurement process. This distinguishes the EOI initiative from shared equity schemes that are linked to existing dwellings and therefore do not achieve an increase in the overall supply of dwellings. As at 30 June 2013, 1005 EOI initiative properties had been built and of these, 784 SharedStart properties had been sold.[6]
- The scheme procured properties that were below the median house price in their respective suburbs: the SharedStart sale price was below the lowest quartile dwelling price for the suburb in 84 per cent of cases and on average 28 per cent below the lowest quartile dwelling price for the suburb.
- Resident satisfaction with housing affordability was very high: the majority of respondents (87.4%) agreed or strongly agreed that their mortgage payments were affordable; and the majority of respondents (74.9%) agreed or strongly agreed that their home was affordable to run (e.g. in terms of utility bills).
- The scheme was successful in increasing the supply of one- and two-bedroom housing products. The scheme delivered: 130 new one-bedroom dwellings (13% of total properties delivered) and 111 new two-bedroom dwellings (11%) as at 30 June 2013. Stakeholders believed the shared equity EOI initiative had helped to improve consumer and supplier perceptions of smaller properties and smaller blocks.
- The scheme delivered 29 SharedStart properties in regional areas, as at 30 June 2013, despite the challenges of procuring affordable housing in some of these regional areas (e.g. smaller and more depressed markets).
- The scheme was successful in delivering 71 fixed loans at 30 June 2013; these properties will be retained as affordable housing in perpetuity. One of these properties was delivered as part of the EOI and 70 of these properties were sourced from other housing programs.

[6] It should be noted that this number (1005), which was provided by the Department of Housing, is different to the number (983) used in Module 2 modelling. This difference can be accounted for by the different dates used in each dataset.

- The scheme was successful in providing home ownership opportunities to members of the targeted client groups. This included: eight public housing tenants who moved into home ownership via the shared equity EOI scheme; 188 survey respondents who were first home owners and 198 survey respondents who reported that they would never have been able to buy a home from the private market without the shared equity EOI scheme; six survey respondents who reported having a disability; and nine respondents who reported living with a person with a disability; 58 survey respondents who were single home owners with one child or more; and 42 survey respondents who were key workers.
- Findings from the stakeholder interviews and resident survey suggest that, by linking low-cost properties with an accessible mortgage option, the shared equity EOI initiative has created a new market segment of people on low- to moderate-incomes who would not otherwise have been able to afford home ownership.

3.1 Introduction

This chapter focuses on the extent to which the scheme achieved its intended outcomes. There is less emphasis on whether or not the scheme met the targets related to these intended outcomes because of the aspirational and contingent nature of these targets, as explained in Chapter 2.

The evaluation findings in relation to the intended outcomes of the scheme are presented under the following five categories.[7]

1. affordable housing supply
2. smaller dwellings
3. regional areas
4. fixed equity loans
5. target client group.

[7] Department data was available for some but not all of the intended outcomes.

3.2 Affordable housing supply

Intended outcome: Increase in the volume of lower cost affordable home ownership entry points. *Outcome achieved*: The scheme was successful in increasing the volume of lower cost affordable home ownership entry points. By 30 June 2013, 1005 dwellings had been built and 784 of these sold. The scheme procured properties that are on average 20 per cent below the median house price for their respective suburbs: the SharedStart sale price was below the lowest quartile dwelling price for the suburb in 84 per cent of cases and on average 28 per cent below the lowest quartile dwelling price for the suburb. High satisfaction with affordability was reported by resident survey respondents: 202 survey respondents (87.4%) agreed that their mortgage payments were affordable and 173 respondents (74.9%) agreed their home was affordable to run (e.g. in terms of power bills). Of the SharedStart home owners surveyed, 84.9 per cent believed they would not have bought a house without participation in this scheme.

Increasing the volume of lower cost affordable home ownership entry points was the major objective of the shared equity EOI scheme. Determining the scheme's effectiveness in relation to this objective involved consideration of three indicators:

- Did the scheme produce a numerical increase in the number of lower-cost properties?
- Are these properties affordable to the target client groups?
- Do these properties represent new entry points for aspiring home owners?

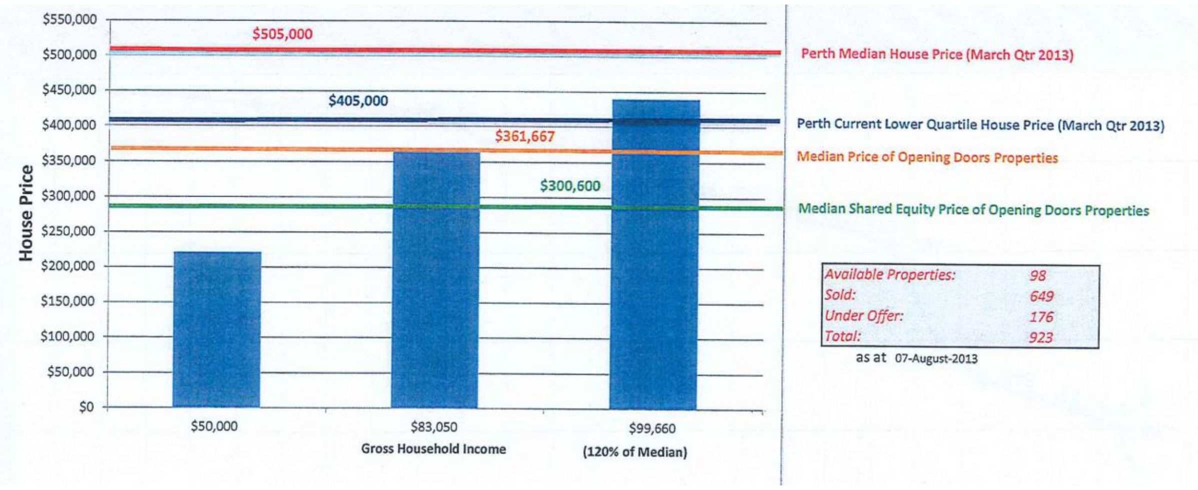
3.2.1 Numerical increase in lower-cost properties

The first indicator is whether the scheme produced an increase in lower-cost properties.

- There was agreement amongst all stakeholders interviewed that the shared equity EOI initiative has been highly effective in increasing the supply of lower-cost housing. For example, a peak body representative described the effectiveness in relation to increasing lower-cost housing supply as 'outstanding' and a senior Keystart representative commented that the scheme has been highly effective in terms of providing low-cost properties, which were under $300 000 in several circumstances.
- The scheme brought about an increase of 1005 low-cost dwellings, of which 784 had been sold by June 2013. The aspirational target was the provision of up to 2000 affordable home ownership opportunities for people who meet the SharedStart selection criteria in the two-year period (2011–12 to 2012–13).
- Administrative data analysis revealed that the prices of properties sold through the shared equity EOI scheme were cheaper, on average, than the prices of existing dwellings in the suburb. This comparison is limited by the fact that it does not necessarily compare 'like with like' dwellings. However, it is illustrative of whether the new supply generated through the EOI process was available at price points below those of the existing supply.

- The full sale price of properties built through the EOI initiative was below that of the median dwelling price for the suburb[8] in 87 per cent of cases. On average the full sale price of EOI properties was 20 per cent below the median dwelling price for the suburb. The SharedStart sale price was below the lowest quartile dwelling price for the suburb in 84 per cent of cases and on average 28 per cent below the lowest quartile dwelling price for the suburb.
- Regardless of whether the housing is sold on a shared equity basis or a full sales basis, the scheme has procured properties that are well below Perth median house prices (See Figure 2 below).

Figure 2: Median SharedStart property prices compared with Perth median house price, March Quarter 2013



Based on 30 per cent of gross income, 10 per cent deposit, 6.45 per cent interest rate and 30-year loan term

Source for Perth house price: REIWA Market Update, March quarter 2013

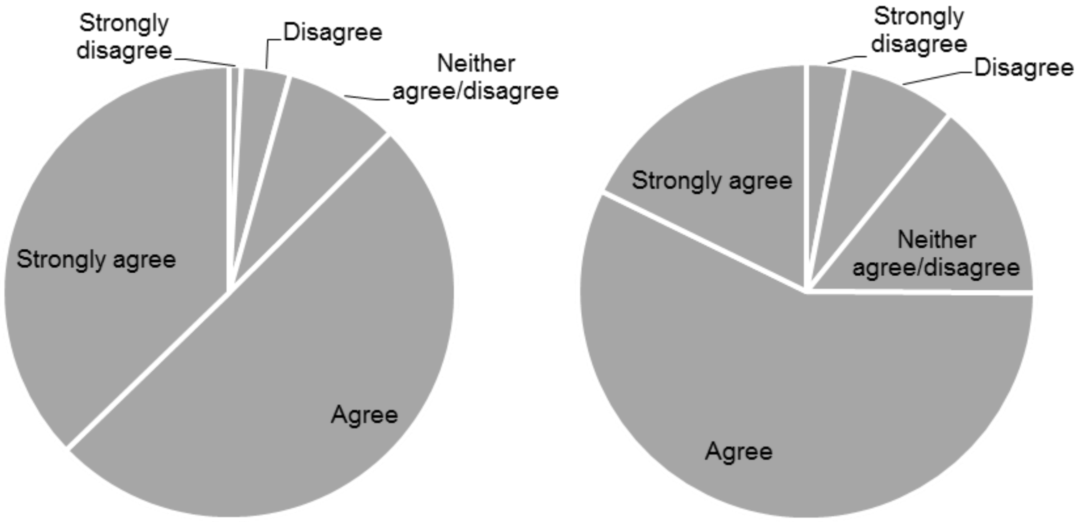
3.2.2 Affordability

The second indicator is whether the SharedStart properties are affordable to mortgage holders in terms of mortgage payments and running costs.

- The Keystart representative, who has a strong understanding of what is affordable to aspiring home owners, reported that the scheme has been highly effective in terms of providing housing that is affordable for households on low-incomes ($56 000–$58 000).
- Respondents to the survey indicated high levels of satisfaction in relation to affordability of their SharedStart properties. In terms of mortgage payments, 202 respondents (87.4%) indicated that they agreed or strongly agreed with the statement, ‘My mortgage payments are affordable’. In terms of costs to run the property, 173 respondents (74.9%) indicated that they agreed or strongly agreed with the statement, ‘My home is affordable to run (e.g. in terms of power bills)’.
- Department staff reported in interviews that all buildings procured through the EOI conformed to energy efficiency standards, which means all properties have a six-star energy rating.

[8] Where suburb data is available for comparison—this excludes 15 suburbs and a total of 63 properties of the 885.

Figure 3: a) Mortgage payments are affordable; b) Property is affordable to run



The evidence on affordability presented above has a bearing on whether shared equity buyers are receiving value for money. The financial modelling also provides insight into this issue. One feature of shared equity mortgages is the implicit subsidy for the consumption of housing services that comes from living in a dwelling that is part owned by the Department of Housing. Based on imputed rents for each property calculated by the model, the average value of this subsidy was $3810 per year at the time of purchase.

3.2.3 New home ownership entry points

Findings from the evaluation indicate that the scheme provided home ownership opportunities to those who would not have otherwise entered home ownership. By creating a new kind of lower-cost supply and linking this to a shared equity loan, the scheme created a new low-cost market segment.

Department staff explained that the purpose of the scheme was to provide affordable home ownership opportunities for the lower quartile income earners who earn too much to be eligible for social housing and too little to access home ownership through traditional mortgage arrangements. Department staff reported that the scheme has been successful in achieving this outcome.

Stakeholders consistently reported that the scheme has created a new market segment:

→ Department staff reported that the scheme has been very successful in providing a housing alternative for residents who would otherwise be paying high rents in the private rental market.

→ It was acknowledged by a peak body representative that the existence of Keystart has allowed people with an interest in smaller, lower-cost properties to obtain a mortgage.

→ Builders commented that the scheme has exceeded expectations with regard to its aim of assisting aspiring home owners into home ownership. Builders consistently expressed the belief that the EOI procurement mechanism, in combination with the SharedStart loan offered by Keystart, has created a new market segment by providing home ownership opportunities to a part of the population who would not been able to purchase a home with a private financial institution. One builder provided an anecdote to support this view:

> I would hear people crying in the sign-up room … I'd open the door and they're crying because they're happy about getting a home … [The new home owners would say:] 'We just never thought we'd get a house'. [B1a]

- A senior representative from the government mortgage provider, Keystart, said they believed the scheme has created a new market segment. They commented that: 'It's addressed a market segment that before had no options to get into home ownership so it's added an additional pathway' [Keystart]. The Keystart representative reported that focus groups conducted by Keystart with potential home owners revealed that if people have to spend too long saving for a house deposit, they eventually give up. These focus groups reportedly revealed that eight years was considered by potential home owners to be too long to save for a deposit.
- The view that the shared equity EOI scheme has created a new market segment was also expressed by land developers.
- According to a peak body representative, the EOI initiative has benefits over the First Home Owners Grant (FHOG) in terms of creating new entry points to home ownership. The initiative was viewed as critical because if an individual/household is unable to get finance then they are unable to get into a first home, regardless of what support is offered through the FHOG. This comment is consistent with findings from research by Gavin Wood (AHURI 2003), which found that: a shared equity scheme will have a greater impact on the home ownership rate than the FHOG; a shared equity scheme is more likely to be taken up by lower income households than the FHOG; and a shared equity scheme is less likely to simply bring forward home purchase decisions.

Survey findings supported the claims made by stakeholders that many SharedStart loan holders would not have entered home ownership if they had not been given the opportunity through this shared equity scheme.

- In one survey question, residents were asked why they chose shared equity home ownership instead of traditional home ownership from the private market and were given a list of possible reasons to choose from. They were able to select more than one reason. The highest ranking reason, selected by 198 respondents (84.9%), was: 'I could never have afforded to buy a home from the private market'.
- However, a number of respondents who indicated that they could never have afforded to buy a home from the private market also indicated that they would have had to make compromises in order to buy a home from the private market. For example, 101 residents (51%) indicated that they would have had to wait longer to save for the deposit.
- At first glance, this may appear contradictory, since residents indicated that they would never have been able to afford a home from the private market and also that they would have made compromises in order to do so. However, findings from resident interviews suggest that while residents understand technically that there are ways to enter traditional home ownership (e.g. waiting longer to save for a deposit or borrowing money from family or friends), they believed they never would have actually pursued one of these arrangements.
- In another survey question, respondents were asked to indicate which housing arrangement would have been most likely for their household if a shared equity home ownership opportunity had not been available (see Figures 4, 5 and 6). In the short-term (next five years), only 10 respondents out of 196 (5.1%) indicated

that they would be living in a house with a mortgage that was not secured through a shared equity scheme. In the medium-term (five to 10 years), 59 respondents out of 196 (30.1%) indicated that they would be living in a house with a mortgage that was not secured through a shared equity scheme. And in the long-term (10 years or longer), 90 respondents out of 196 (45.9%) indicated that they would be living in a house with a mortgage that was not secured through a shared equity scheme.

Figure 4: Where tenants believed they would be living without SharedStart in the short term (next five years)

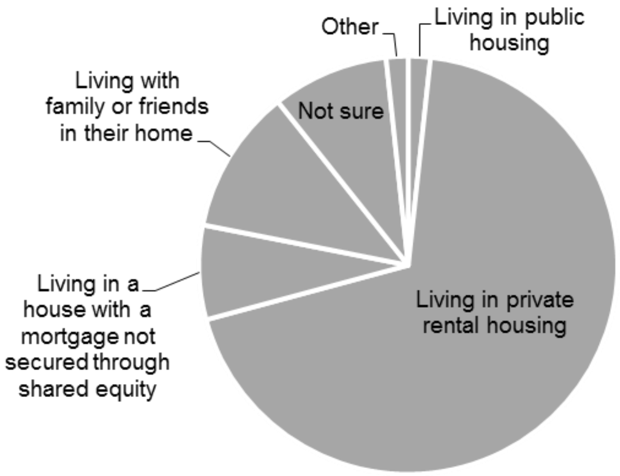


Figure 5: Where tenants believed they would be living without SharedStart in the medium term (five to 10 years)

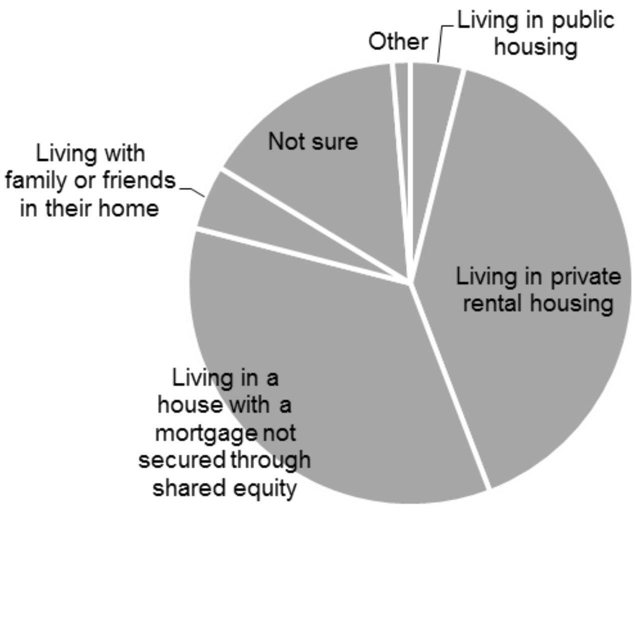
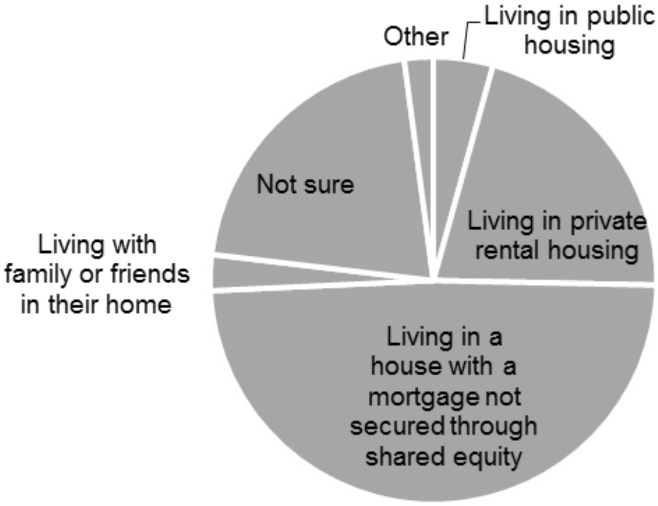


Figure 6: Where tenants believed they would be living without SharedStart in the long term (>10 years)



- These findings suggest that for some residents, the shared equity scheme has brought forward home ownership rather than creating a new home ownership opportunity.
- However, it is also clear that for a significant proportion of SharedStart residents, it has created home ownership opportunities that probably would not have existed otherwise. Even in the long-term, a significant proportion of people feel they would not have been able to purchase their own home. The financial modelling undertaken as part of Module 2 supports this finding, showing that most shared equity buyers would have had to wait for 10 or more years before they could afford to purchase outright. Given Keystart's finding that aspiring home owners are likely to give up after eight years, this further reinforces stakeholder claims that the scheme has created new home ownership entry points and a new market segment.

3.3 Smaller dwellings

Intended outcome: Increase in the supply of one- and two-bedroom housing products in the affordable housing market place.

Outcome achieved: The scheme was successful in increasing the supply of one- and two-bedroom housing products in the affordable housing market place. The scheme delivered: 130 new one-bedroom dwellings (13% of total properties delivered) and 111 new two-bedroom dwellings (11%) as at 30 June 2013. This represents a total of 241 one- and two-bedroom housing products.

The scheme aimed to increase the diversity of housing stock, in particular by increasing the supply of smaller properties, including one-bedroom and two-bedroom properties. Delivering smaller properties had the dual aims of increasing the supply of affordable housing and responding to the changing WA housing market, which has an increasing demand for one- and two-bedroom properties. The questions the evaluation asked was:

- Did the scheme produce a numerical increase in the supply of one- and two-bedroom dwellings?
- Has the scheme shifted perceptions of consumers and suppliers in relation to one- and two-bedroom dwellings?

3.3.1 *Numerical increase in the supply of one- and two-bedroom properties*

- The initiative was successful in procuring 130 one-bedroom properties and 111 two-bedroom properties, representing a total of 241 one- and two-bedroom housing products.
- One builder commented that there has been a growing demand for smaller properties and smaller lots and that the scheme had been 'very effective' in meeting these demands [B1a]. An example of this type of development mentioned is the Golden Bay development, which is mainly comprised of small properties (See Box 1).

Box 1: Case study example of a development with small properties

> *Golden Bay*
>
> Golden Bay is made up of 62 house and land packages through BGC and Summit homes, which were developed during 2012. House and land packages were mainly comprised of small properties (one- and two-bedroom) and priced between $280 000 and $380 000. The majority of opportunities for purchase were through the SharedStart program, in which the purchaser could share up to 30 per cent of the mortgage with the state government.
>
> Construction for the program was completed within six months of commencement and the majority of lots sold within three months of release to market. At the time of construction, only a limited number of traditional lots were available and titled at Golden Bay, so this product filled a gap in the market and enabled the program to gain momentum and attract purchasers to the beachside community.
>
> The age range of purchasers was between 25 and 65 years. Occupations of purchasers included: school teachers; police officers; a librarian; a young professional; and retired residents.

- Builders and Department staff commented on the significance of bringing this number of one-bedroom properties to the market. It was recognised that most private developers do not build one-bedroom homes because of a perception that these properties are difficult to sell in Perth. One Department staff member commented: 'It's certainly brought a lot of one-bed stock to the market that wouldn't have been there previously, and in some quite good locations now' [Dept3]. One real estate agent picked up on this point about location, applauding the scheme for addressing a gap in the current market in terms of one-bedroom apartments in the CBD.
- Whilst the scheme was successful in delivering one- and two-bedroom properties, the original stock mix targets were not met. The results show more three- and four-bedroom dwellings were built than the original targets and fewer one- and two-bedroom dwellings (see Table 5).

Table 5: Number of properties built and sold through the shared equity EOI initiative (as at 30 June 2013)

Number of bedrooms	Number built	Number sold	Aspirational target	Built
One-bedroom	130	104	20%	13%
Two-bedroom	111	64	50%	11%
Three-bedroom	587	453	20%	58%
Four or more bedrooms	177	160	10%	18%
Total	**1005**	**784[9]**	**100%**	**100%**

3.3.2 Shifting consumer and supplier perceptions

- One builder felt that the scheme had reinforced confidence in builders providing smaller properties. He commented that his company planned to respond to the demand for smaller, family-type properties including one-bedroom/one-bathroom properties and two-bedroom/two-bathroom properties [B1a].
- Bringing one-bedroom and two-bedroom properties to the market was considered to be innovative by builders and Department staff because it was recognised that three-bedroom properties remain the default housing product. One builder commented that 'the average developer wouldn't build a one-bedroom house', because it is assumed there is a better market for three-bedroom properties [B2]. One builder commented on the value of the scheme in promoting innovation in the supply of smaller properties:

  > I think one of the great things about the scheme is the government can explore some fringe areas that, as private practitioners, we usually wouldn't … the risk gets too much for us, we stay in the safe ground. So they're able to say, 'yeah, let's give it a go; let's try pushing some one-bedrooms out' … So I commend them for that. [B3]

- One land developer reported that the shared equity EOI initiative had been helpful in changing residents' perceptions about living in smaller properties. As he described:

  > People couldn't imagine it … looking at it on a plan. They'd think 'God this is really small and it's a good price, but how am I going to live in that?' And then when [they] actually go and see it, [they] think 'crikey this is fantastic: it's well designed, it's opposite a park'. [LD2]

- Department staff reported that it is important to manage the development risk in procuring one-bedroom properties because they can be difficult to sell. It was felt the way to do this was to procure one-bedroom properties that were good examples to increase market acceptance.
- A peak body representative commented that in promoting a greater diversity of housing stock in suburban developments, including smaller properties, the scheme has provided opportunities for households to 'downsize' their properties in their own suburb, or a similar suburb, as they age.

[9] FY data reports 787, but six sales fell through.

3.4 Regional areas

Intended outcome: Increase in the volume of affordable home ownership opportunities in regional areas.

Outcome achieved: The scheme delivered 29 SharedStart properties in regional areas, as at 30 June 2013. Some of these regional areas had significant constraints associated with smaller and more depressed markets

The scheme sought to increase affordable home ownership opportunities in regional areas. The evaluation asked:

- Did the scheme produce a numerical increase in the volume of affordable home ownership opportunities in regional areas?

3.4.1 Numerical increase

- The scheme delivered 29 SharedStart loans (sales) in regional areas.
- The Department reported that they had received a number of submissions for properties in regional areas. It was reported that stock had sold well in specific regional areas, particularly Busselton.
- The aspirational target was for 300 opportunities (15% of total) for households in regional areas. The scheme delivered 29 SharedStart loans (sales) in regional areas; representing 3.3 per cent of total sales as at 30 June 2013.
- Department staff recognised that a problem with procuring properties in some regional areas is the limited capacity for builders to make a financial return. For example, it was commented that in the south-west of WA the markets were 'soft' and too small to achieve sufficient economies of scale to ensure sufficient embedded returns. Further, even when builders in regional areas could meet the Department's price points, it was discovered through the valuation and market testing process that some of these regional markets were so depressed that it was possible to purchase relatively new existing homes of a similar size and shape for a lower price than the cost of the builder producing the housing.

3.5 Retaining affordability through fixed equity loans

Intended outcome: The establishment of a pool of affordable home ownership properties that will be retained as affordable housing in perpetuity through the fixed shared equity loan option.

Outcome achieved: By 30 June 2013, 71 fixed loans were provided through SharedStart. These properties will be retained in perpetuity as affordable housing. This is a positive achievement considering low market acceptance in WA for this new mortgage product. One of these properties was delivered as part of the EOI and 70 of these properties were sourced from other housing stock areas. [10]

The scheme sought to create a pool of properties that would be retained as affordable housing through the fixed equity loan. The evaluation asked:

- Did the scheme produce a numerical increase in the number of properties that will be retained as affordable housing in perpetuity?

[10] It should be noted that the modelling for Module 2 used the fixed equity loan figure of two, which was the number delivered with EOI properties by September 2013.

3.5.1 Numerical increase of fixed equity properties

- When the scheme began, the number of fixed equity properties in WA was zero. By 30 June 2013, 71 fixed loans had been provided through SharedStart (1 of these properties was delivered as part of the EOI and 70 of these properties were sourced from other housing stock areas). This number of fixed loans (71) represented 11.5 per cent of the total loans (i.e. total of 615 loans) provided through SharedStart by 30 June 2013.
- The aspirational target of offering fixed loans on 50 per cent of the procured dwellings had not yet been met at 30 June 2013.
- Department staff noted that any number of fixed shared equity loans was a positive achievement, as these will provide a pool of affordable properties that will be available into the future, even if the scheme ceases to operate.
- Department staff reported that the fixed shared equity loan was a new product in the marketplace and it would take some time to establish market acceptance. The survey revealed a low interest in fixed equity loans. When asked why they had chosen a fixed home loan, most survey respondents indicated that they would have preferred a flexible loan but the fixed loan was the only available loan option for the property they had chosen. Many of these respondents mentioned that they were willing to accept the fixed loan option because of the benefits associated with the location of the property. These findings are consistent with research by Pinnegar et al. (2009), which included focus groups with potential shared equity consumers and found that there was a clear preference for 'transitional' models (i.e. flexible equity loans) over 'continuing' models (i.e. fixed equity loans). This is because asset accumulation was one of the main motivations for entering home ownership and also because the 'transitional' loan product was associated with being a 'normal purchaser', whereas the 'continuing model' differentiated them from the wider housing market and reinforced a sense of being 'other'.
- The fixed shared equity loan properties have been developed in locations that are transit-oriented developments (TOD) or strategic activity centres. The fixed loan properties maintain an affordable housing presence in locations where property prices are expected to appreciate relatively quickly.

3.6 Target client group

Intended outcome: Providing home ownership opportunities to the target client groups, which includes: first home buyers or those excluded from home ownership opportunities; disadvantaged client groups (people with disabilities, sole parents, Indigenous households); specific client groups such as key workers or non-government employees; and social housing tenants or applicants.

Outcome achieved: The scheme was successful in providing home ownership opportunities to members of the target client groups.

- 8 public housing tenants transitioned into home ownership via the SharedStart loan scheme.
- 188 survey respondents were first home owners and 198 survey respondents reported that they would never have been able to buy a home from the private market without the SharedStart loan scheme.
- 6 survey respondents reported having a disability and nine respondents reported living with a person with a disability.
- 58 survey respondents were single home owners with one child or more.
- 42 survey respondents were key workers.

The target client group for the scheme covered a range of groups, including: first home buyers or those excluded from home ownership opportunities; disadvantaged client groups; key workers; and social housing tenants or applicants. The evaluation asked:

- Were the target client groups represented in the clients with SharedStart loans?

Available administrative data, as well as relevant findings from the resident survey, are provided below. The survey is based on a 47 per cent response rate, and may not be entirely representative.

First home buyers or those excluded from home ownership opportunities

- 188 survey respondents (80%) were first home owners.
- 198 survey respondents (85%) reported that they would never have been able to buy a home from the private market without the SharedStart scheme.

Disadvantaged client groups

- Six respondents (2.6%) reported having a disability; and nine respondents (3.8%) reported living with a person with a disability.
- 58 survey respondents (24.9%) indicated that they were a single home owner with one child or more.
- None of the survey respondents identified as being from an Aboriginal or Torres Strait Islander background or reported living with a person from an Aboriginal or Torres Strait Islander background.

Key workers

- 42 respondents (17.8%) indicated that they, or the other home owner, were employed in key worker occupations (defined in the survey as: nurse, teacher, police, social worker, psychologist/therapist, urban planner, firefighter, environmental health officer, emergency services and not-for-profit workers).

Social housing

- Eight social housing clients transitioned into the SharedStart loan, according to administrative data from the Department. The Department sent 668 letters to existing and wait list social housing clients to inform them of affordable home ownership opportunities and received 64 responses from clients interested in the SharedStart loan. The aspirational target was to create up to 400 home ownership opportunities (20% of 2000) for social housing tenants or applicants.

Income targets

- In addition to the income eligibility criteria of $70 000 maximum for singles and $90 000 for couples, the Department set some aspirational targets with regard to income mix: $50 000–$55 000 (10%); $55 000–$60 000 (20%); $60 000–$65 000 (30%); $65 000–$75 000 (20%); and $75 000+ (20%).
- Administrative data reveals that, as at 30 June 2012, 86% of all clients were earning less than $75 000. This data also reveals income mix to be: under $55 000 (30%); $55 000–$65 000 (34%); $65 000–$75 000 (22%); and $75 000+ (14%) (PIR 2012, p.33).

4 FURTHER BENEFITS FOR HOUSEHOLDS

This chapter presents findings on the impacts of the shared equity EOI scheme for participating households. It addresses the following questions:

- **Who are the households assisted?**
- **What were clients' pathways into the scheme?**
- **How satisfied are households with the scheme?**
- **What are the financial benefits for households in participating in the shared equity EOI scheme?**
- **What are the trade-offs made by households in order to secure affordability?**

Key findings

- Amongst SharedStart survey respondents 43.8 per cent were single persons, 39.7 per cent were aged 30–39, 95 per cent were in employment with more than three-fifths on gross annual incomes between $50 000 and $75 000.
- The majority (79.8%) of respondents were first home owners who had predominantly moved from private rental properties (71.3%) or family/friends' homes (16.6%) in the past 10 years.
- Overall resident satisfaction with the scheme is very high. The majority of survey respondents (87%) agreed or strongly agreed that their housing arrangement meets their household's needs. The vast majority of respondents (91.3%) would recommend the scheme to others.
- Financial benefits to households, determined through financial modelling, include: 1) an implicit subsidy to households' consumption of housing services through the Department's part ownership of the property with an average annual value of $3810 and average NPV of 24 cents per dollar of initial equity share, and 2) increases in wealth as a result of the capital gains on the household's share of the property of between $111 769 and $130 149 in NPV terms relative to the alternative of renting an equivalent property or purchasing an equivalent property outright at a future date. For shared equity buyers as a group, the benefit-cost ratio at the baseline assumptions is projected to be 1.6 (i.e. households received $1.60 in benefits for every $1 of cost incurred). The scheme enabled home purchase up to 22 years before outright purchase could otherwise be made.
- Other benefits of the scheme noted by households themselves include: access to good quality housing; security of tenure; a financial investment for the future; and mortgage payments that are often equal or lower than rental payments in the private rental sector for the same area.
- Survey respondents reported making a range of trade-offs to participate in the SharedStart scheme. Most respondents reported that they have higher housing-related costs in their current home compared with their previous housing arrangements across all measures (i.e. council rates, cost to run the house, maintenance costs, transport costs and housing payments). A proportion of respondents had scaled down the size of their dwellings (28%). Over half of respondents (54.9%) had made trade-offs in increasing their commute to work. Only a small number believed they had made trade-offs in the quality of their home (9.1%).

4.1 Who are the households assisted?

At 11 August 2013, there were 507 SharedStart loan holders. A total of 238 survey responses were received, representing a 47 per cent response rate. Key profile data for survey respondents is included below (further detail is included in the Technical Appendix).

- In terms of household type, the greatest proportion of respondents was single home owners with no children (43.8%).
- Two thirds of respondents were under the age of 40 with the highest proportion being between the ages 30–39 (39.7%) and a significant proportion (27%) being between 20–29 years.
- With respect to income, over 95 per cent of households were supported by someone in employment. The majority of respondents were in full time employment (78.3%).
- More than three-fifths of respondents have gross annual incomes between $50 000 and $75 000.
- In terms of tenants' housing history, the majority of respondents were first home owners (79.8%) who had predominantly lived in either private rental properties (71.3%) or family or friends' homes (16.6%) in the past 10 years.
- A very small percentage of respondents reported having a disability (2.6%) or living with a person with a disability (3.8%).
- None of the respondents identified as being from an Aboriginal or Torres Strait Islander background or reported living with a person from an Aboriginal or Torres Strait Islander background.

4.2 Pathways into SharedStart home ownership

Four housing tenure pathways into home ownership with SharedStart were identified through the survey. These were pathways from:

- public housing
- private rental housing
- living with family or friends
- other home ownership arrangements (including standard mortgage and shared equity).

Each of these pathways has a slightly different client profile—both in terms of demography and perceptions of the SharedStart scheme. Each pathway is briefly outlined below and a case study example, sourced from the resident follow-up interviews, is provided to illustrate the different client experiences of the scheme.

4.2.1 Transitioning from public housing into home ownership with SharedStart

Five respondents indicated they had moved from public housing into the SharedStart scheme.

Demographic information:

- even spread across all household types
- all between 40 and 59 years old, with the majority (75%) between 50–59

- source of income was spread fairly evenly across full time, part time and casual employment and government payments. Most (60%) earning less than \$50 000; the highest was \$70 001–\$75 000.

Housing circumstances:

- 60 per cent indicated private rental had been their main tenure during the previous 10 years.
- 100 per cent said they could never have afforded to buy a home from the private market.

Willingness to refinance with a private mortgage provider:

- One respondent (20%) would definitely be open to this.
- Two respondents (40%) said they would not be open to refinancing
- The remaining two (40%) indicated they would possibly be open to this.

Advantages and disadvantages of their SharedStart home compared with public housing:

- Main advantages included: brand new housing; stability; security; comfort; freedom to make changes to the property without asking permission; ownership; control.
- Indicative quotes from SharedStart clients who had moved from public housing:

  ‘Freedom to make changes to the property without asking permission’

  ‘Stability and ability to take charge of the decision making process’.
- Only one person reported a disadvantage—having to pay for water and land rates.

Box 2: Case study example of a public housing pathway

'Nagesh'

After having lived in public housing with his wife and teenage son for over 10 years, Nagesh recently purchased a new four-bedroom detached house by securing a flexible loan of less than $200 000 through the SharedStart program.

While Nagesh saw advantages in living in public housing, particularly around the reasonable cost of rent, the family had struggled with accessing maintenance for the property. The fact that rent increased in line with Nagesh's increasing salary also highlighted the difficulties of getting ahead financially whilst in the public system.

Nagesh is over 50 years of age and maintains a household income of less than $50 000 through casual work and a government disability payment. Given his low-income, Nagesh had had many issues with securing a loan, including other KeyStart loans, despite his desire to gain some independence outside the public housing system.

The SharedStart loan was key for Nagesh in enabling him to purchase a property which he believes he would never have been able to do in the private market.

Although purchasing his own home has meant that the family has had to move to an entirely new area, Nagesh doesn't see this as a problem. Rather, the move has brought the family closer to the natural environment, good schools, shopping facilities and public transport.

'Everything is so nice here … We are in heaven now, we are very happy. We don't have any maintenance problems now that we've bought our own home.'

Nagesh has a 60/40 share in his property at present and hopes to increase this share in the next two years. Although he plans to be guided by KeyStart's ongoing evaluation of his finances, Nagesh is also open to refinance with an alternate lender in future.

4.2.2 Transitioning from private rental housing into home ownership with SharedStart

One hundred and sixty-six survey respondents indicated they had moved from private rental into SharedStart home ownership.

Demographic information:

- Spread across all household types, but the largest proportion (36.1%) was single with no children.
- Spread across the age bands between 20 and 69, 88.4 per cent were 20–49.
- Source of income: 81.21 per cent were in full time employment; the remainder was spread across part time, casual and government payments. Income ranged from less than $50 000 to over $110 000.

Housing circumstances:

- Housing history: 88 per cent of respondents (146 respondents) indicated that private rental had been their main housing tenure in the previous 10 years. The remaining respondents had lived in a home owned with a mortgage, which was not through shared equity, or with family or friends.
- 84.2 per cent said they could never have afforded to buy a home from the private market.

Willingness to refinance with a private mortgage provider:

- Eighty-seven respondents (52.7%) would definitely be open to this.
- Eighteen respondents (10.9%) said they would not be open to refinancing.
- The remaining 60 respondents (36.4%) would possibly be open to this.

The advantages of householders' SharedStart home compared with their earlier private rental experience focused on:

- Getting out of the rental market—various negative experiences were noted, including rental inspections, rent rises, and fear of eviction.
- A brand new house—previously the household was living in old rental housing.
- The symbolic importance and pride related to home ownership leading to an improved self-esteem.
- Not paying someone else's mortgage.
- Freedom to change the property to their own taste—including the garden and indoor decorating.
- The freshness and comfort of the property.
- Increased tenure security—especially when children were in the household.
- Not having to live in a share house.
- The financial investment/asset aspects.
- Living in a preferred location.

The following quotes from SharedStart clients who had moved from private rental housing indicate their sense of the benefits:

> 'The house is very energy efficient, modern and has plenty of space. My mortgage isn't much more than what I was paying in a private rental and I'm able to have pets.'
>
> 'I find that buying instead of renting is less precarious and less stressful. I don't have a yearly lease renewal and steep rent increase in the back of my mind constantly. It has improved my quality of life immensely.'
>
> 'One of my biggest fears was having nowhere to live due to the tight rental market. I now have security knowing that I have a nice place to live for as long as I like.'
>
> 'Mortgage payment will eventually be less than paying rent. I will be able to help my son purchase his own home through the equity in this one, in far future. My son will receive the property when I die, as I plan to purchase 100 per cent. It breaks the family history cycle of living in public housing. Rise in social status.'

Some of the disadvantages these households noted in comparison with their earlier private rental experience included:

- A poor location—especially when far away from the city and/or amenities.
- Poor connections to public transport.
- More obligations and responsibilities regarding housing maintenance.
- Having to pay rates.

Box 3: Case study example of a private rental housing pathway

'Belinda'

Belinda had lived in private rental properties for the past 10 years. In her 30s, Belinda is employed as a librarian and her partner is a nurse—one of the SharedStart scheme's target occupations. They share a household income of $90 000–$95 000.

Through the SharedStart scheme, Belinda and her partner have purchased a new one-bedroom apartment in the middle of the Perth CBD by accessing a fixed loan of between $260 000–$280 000.

The couple had found the rental market in Perth to be extremely competitive and expensive. They also felt insecure in their rental property—both in the sense of possible eviction and also because they had been broken into recently.

The couple had saved about $40 000 for a deposit but had been finding it difficult to get a standard bank loan. They came across the SharedStart scheme which they say allowed them to own a home much sooner than they otherwise would have been able to.

The apartment is small but Belinda and her partner don't have an issue with this, particularly since the couple previously lived in Japan where tiny apartments are the norm. For them, the proximity to the city, security, views and ease of maintenance far outweigh the smaller size of their home.

Although the couple would have ideally liked to have taken a flexible loan, they chose to go with the fixed equity loan because they were so keen on the apartment.

4.2.3 Transitioning from living with family or friends into home ownership with SharedStart

Fifty-three survey respondents indicated they had transitioned into SharedStart from living with family or friends.

Demographic information:

- 71.2 per cent (37 respondents) were single households with no children, followed by singles with one child or more (nine respondents or 17.4%), with the remainder being in a household with two adults with or without children.
- 81.1 per cent were aged between 20–39 years.
- 84.5 per cent had full time employment. Incomes were spread fairly evenly between less than $50 000 and $85 001–$90 000.

Housing circumstances:

- Housing histories over last 10 years were spread across private rental, home ownership via a standard mortgage and living with family or friends in their home.

Willingness to refinance with a private mortgage provider:

- 47.2 per cent (25 respondents) said they would definitely be open to this;
- 5.7 per cent (three respondents) said they would not be open to refinancing;
- the remaining 25 (47.2%) were possibly open to this.

The advantages of SharedStart compared with living with family or friends were noted to be:

- greater independence
- a preferred location
- that they will have equity later in life to pass down to their children
- freedom to renovate
- pride in owning a home
- greater privacy
- not paying off someone else's mortgage
- self-esteem
- more space and comfort
- having an investment for the future.

Indicative quotations from SharedStart clients who had moved from living with family or friends are as follows:

> 'Previously I was living with my parents so I have gained 100 per cent independence and a greater sense of achievement.'
>
> 'I will eventually own my own home as a single mother. My kids won't have to move and change schools when rental property changes. Investment for the future.'
>
> 'Independence; be your own boss and live under your own rules, can make improvements to house. Kids have their own rooms and space. To own the house someday and pass it onto kids.'
>
> 'I live on my own in my own house with my son and not living with my parents.'

The disadvantages of SharedStart compared with living with family or friends were noted to be:

- less money for leisure activities
- having to pay the bills
- general maintenance costs
- living further away from amenities.

Box 4: Case study example of a pathway from living with family or friends

'Suzie'

Suzie is in her 20s and recently bought a new four-bedroom, two-bathroom detached house in the inner suburbs for her and her toddler son. They had been living with Suzie's mother, which had been Suzie's home almost for her entire life.

Although she is in full-time employment and earns between \$60 000–\$65 000 per annum, Suzie had been unable to afford to buy a house through the standard channels, particularly one that was large enough for her and her son. Suzie found this to be the case even with the option of financial assistance from her parents, who had offered to give her some of the proceeds from selling their own home.

Suzie was keen to own her own home for the greater independence and freedom it provided for her and her son, and as a long-term financial investment; however, she wasn't willing to sacrifice size or to move too far from her family.

Suzie accessed a flexible SharedStart loan between \$260 000–\$280 000.

'The greatest benefit of the scheme was the fact that I was able to get a house being a single mum', Suzie explained.

'There was no other way I was going to get a house on my own'.

Although in the end Suzie was forced to make trade-offs in being slightly further than she wanted from her family and her work, she says that she quickly got used to the increased distances.

Suzie is keen to increase her equity in the property within the next four years and to refinance with an alternate lender offering lower interest rates. While she considers her new property to be her family's long-term home, she hopes that in 10 years or so she'll be able to sell and buy closer to her family and the city, her ideal location.

4.2.4 Transitioning from a home ownership arrangement into home ownership with SharedStart

Six respondents had moved into SharedStart from another home ownership arrangement. Of these, two had moved from a home they owned through a different shared equity scheme; and four had moved from a home that they owned through a standard mortgage.

Demographic information:

- 83.3 per cent are between the 50 and 70+ age bands. The youngest respondent, just one, was aged 30–39.
- Source of income—80 per cent received government payments; 20 per cent were in casual employment. Most (five respondents, or 83.3%) had a household income of less than \$50 000; and the remainder (one respondent) had a household income of \$70 001–\$75 000.

Housing circumstances:

- All six respondents said they would not be open to refinancing their home loan with a private financial institution in the future and that they would rather hold their mortgage with KeyStart. This may be related to the older age of this group, as older clients are less likely to be approved for a loan with a bank.

- Their main housing arrangement over the last 10 years included private rental and home ownership.

Willingness to refinance with a private mortgage provider:

- 6 respondents (100%) said they would not be open to refinancing.

The main advantages of SharedStart compared to their previous home ownership arrangement included

- That the scheme allowed them to move into a smaller house with a smaller block for easier maintenance

> We really love our brand new home complete with floor coverings and window treatments which are low maintenance. Reduced block size and smaller house is easier to manage overall. The mortgage repayments are affordable on our pension. We like the proximity to the beach.

Though half of these respondents stated SharedStart had no disadvantages compared to their previous home ownership arrangement, the disadvantages noted included:

- not enough parking
- aspects related to the design of the house, for example the finishing was not what was expected.

Box 5: Case study example of a home ownership pathway

'Jane'

Jane is one of the small number of SharedStart loan holders who have entered the scheme after having previously owned their own home.

Aged in her 50s, Jane is a single home owner with no children who works full time, earning between $55 000–$60 000. She purchased a new detached house in a rural area through SharedStart with two-bedrooms and two-bathrooms, drawing on a loan of between $200 000–$220 000.

Jane had previously owned a home with her husband but had to sell when they divorced. She was keen to buy her own home following the divorce; as a renter she had always felt under threat of rent increases and inspections. She wanted greater independence and control, and to be paying off her own rather than someone else's investment.

Keystart ended up being the only lender through whom she could access a loan and, given this, Jane was forced to make the trade-off of buying much further out than she had previously lived and what she would have ideally liked.

While Jane loves her house, including the area, design and quality, and finds no difficulties accessing shops and leisure activities, her work commute has increased to one hour and she is much farther away from family and friends. The lack of affordable properties closer to the city and subsequent lack of choice for lower income earners in choosing a location is Jane's primary source of dissatisfaction with the scheme.

The costs relating to this, particularly around travel to and from work, contribute to Jane's desire to increase her equity in the property and transfer the mortgage to a cheaper, alternate lender in the future.

4.3 Household satisfaction with the scheme

The resident survey and follow-up interviews revealed the extent to which residents were satisfied with various aspects of the scheme, including affordability, housing stock and location. Findings indicate generally high levels of household satisfaction across most aspects of the scheme.

4.3.1 Overall satisfaction with the scheme

Overall satisfaction with the scheme was very high:

- 87.0 per cent of respondents agreed or strongly agreed that their housing arrangement meets their household's needs.
- 91.3 per cent of respondents agreed or strongly agreed that they would recommend the scheme to others.

Other general findings of satisfaction with the scheme include:

- 76.6 per cent of respondents agreed or strongly agreed that they were satisfied with the information and advice provided to them. Only 10 per cent of respondents reported dissatisfaction with this.
- 69.1 per cent of respondents reported that the SharedStart process was easy to navigate. Only 14.5 per cent did not believe that this was the case.
- 45.0 per cent of respondents agreed that appropriate support is available if they were having difficulties with mortgage repayments. The remaining respondents neither agreed nor disagreed with this statement; however, this may not necessarily reflect dissatisfaction but rather that this type of support has not yet been required by many loan holders.

4.3.2 Housing stock

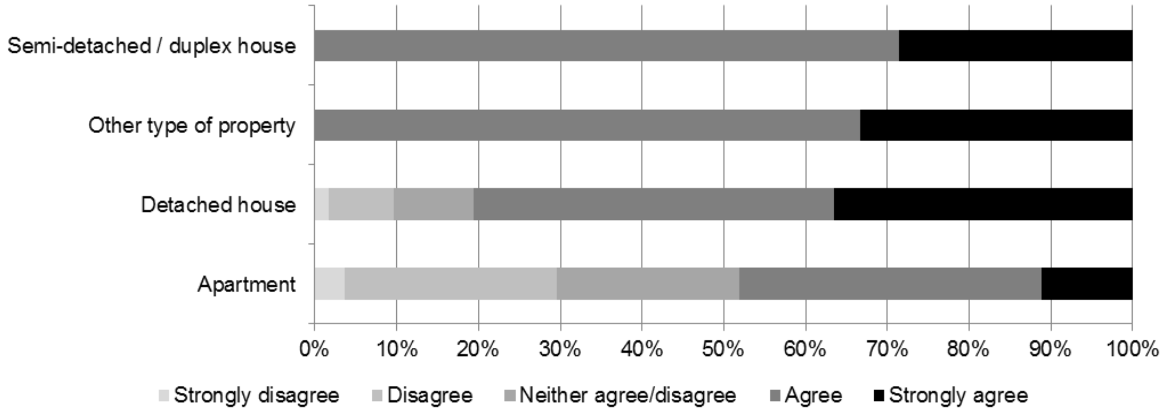
Interviews with Department staff revealed a belief that the housing procured through the EOI process had generally been of a high standard. One Department representative commented that the quality of the properties procured had exceeded expectations. Survey results reinforced this feedback from the Department.

Survey respondents were overwhelmingly satisfied with the dwellings purchased through the SharedStart program*:*

- 88.8 per cent agreed that their current housing arrangement meets their household's needs (51.8% agreed and 35% strongly agreed).
- Only 10 respondents (4.5%) disagreed that their household's needs were met, and this proportion was slightly higher (11.1%) for apartment owners.
- 77.9 per cent of respondents were satisfied with the size of the property they had purchased, and 11.3 per cent dissatisfied.

Lower levels of satisfaction with property size were reported by residents living in apartments (48.2% satisfaction) compared with those living in detached housing (80.7% satisfaction) (See Figure 7).

Figure 7: Level of agreement that dwelling size meets household needs



Whilst survey respondents predominantly expressed high levels of satisfaction relating to size of dwellings, satisfaction related to design and build quality was slightly lower.

- In terms of design, 70 per cent (161 respondents) agreed with the statement that 'My home is well designed'. Meanwhile, 15.2 per cent disagreed with the statement.
- In terms of quality, 57.5 per cent (131 respondents) agreed with the statement that 'My home feels like good quality'. Meanwhile, 21.5 per cent disagreed with the statement.

Levels of dissatisfaction related to design and quality were slightly more pronounced among apartment owners than owners of other property types (see Figures 8 and 9).

Figure 8: Level of agreement that the home is well designed

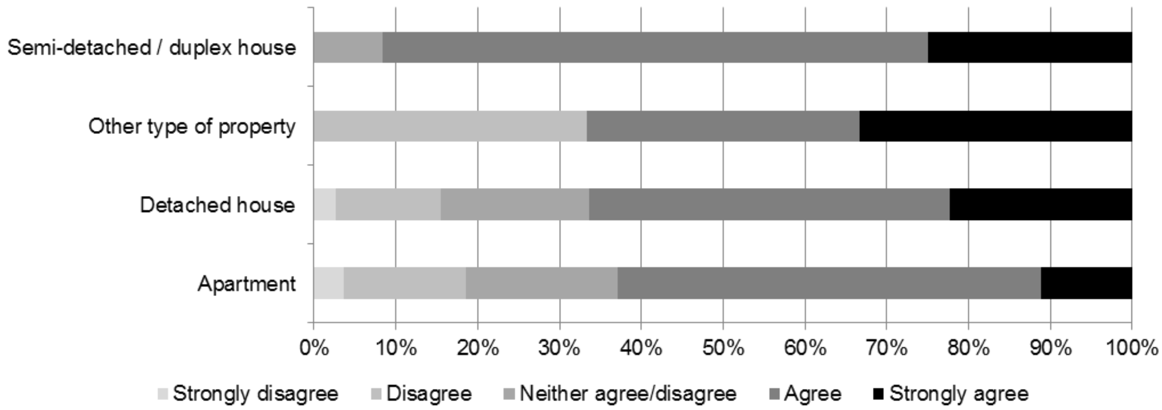
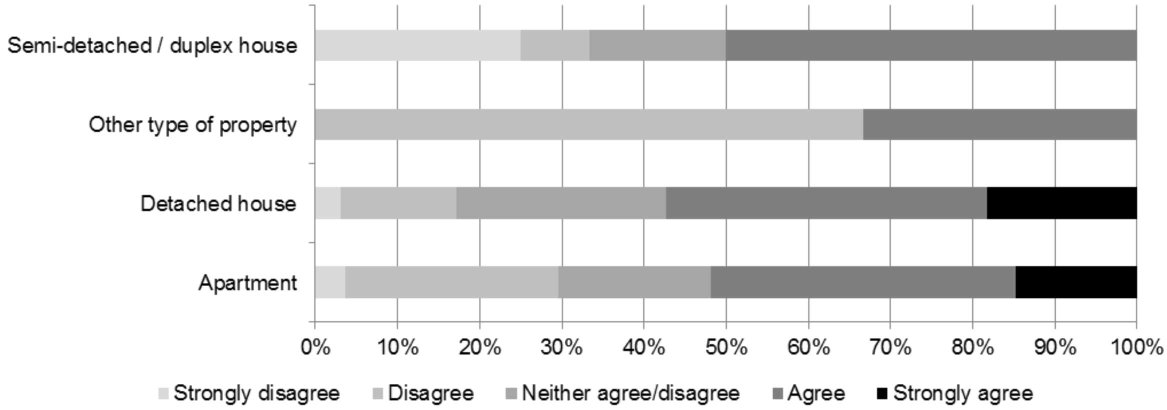


Figure 9: Level of agreement that home is good quality



When asked about whether their properties were accessible for people with restricted movement (e.g. people with disabilities), only 34.7 per cent of respondents agreed that their home is accessible. Meanwhile, 33.8 per cent disagreed that their homes are accessible, with another 31.6 per cent neither agreeing nor disagreeing that their homes are accessible.

4.3.3 Location

Of all respondents, 79.2 per cent agreed that the location of their property meets their household needs.

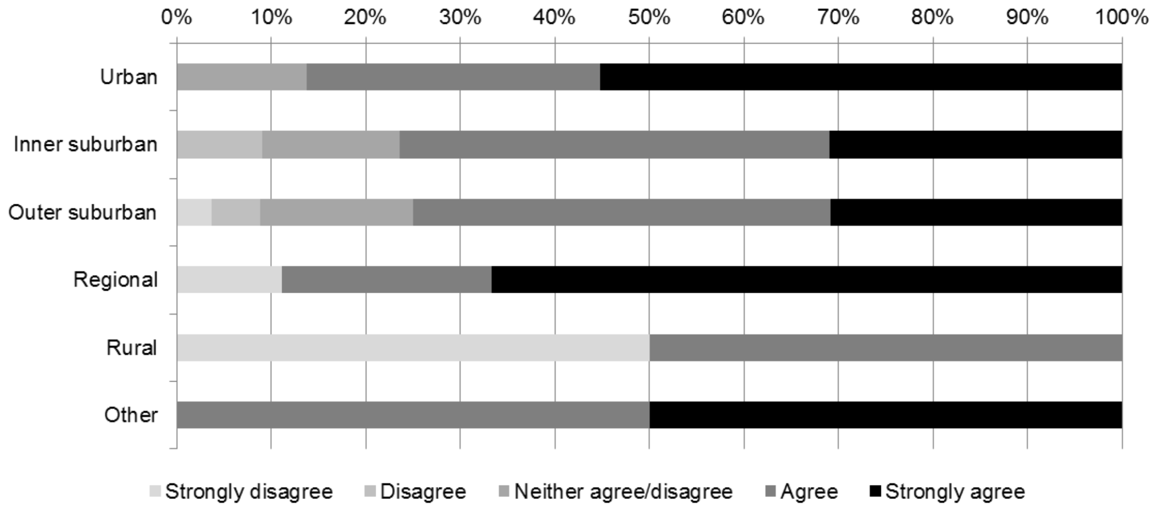
At a more granular level, the majority of respondents agreed that their dwellings were close enough to shops and services (76.6%) parks and green spaces (87.8%) and education (72.1%). Smaller majorities agreed that their homes were close enough to public transport (63.4%) and to leisure opportunities (61.3%).

A significant finding, however, is that less than half of the respondents (47%) agreed that their dwellings were close enough to employment opportunities.

Significant minorities of respondents felt that their homes were not close enough to employment opportunities (27.4%), to public transport (22.6%) and leisure opportunities (20%).

The levels of dissatisfaction relating to location of dwellings were predominantly seen amongst residents of outer suburban areas and, to a lesser extent, regional areas. Given that almost 60 per cent of dwellings secured through SharedStart are in outer suburban areas, these issues relating to location are of significance for the program (see Figure 10).

Figure 10: Level of agreement that location meets household needs



4.4 Financial benefits to households participating in the scheme

The modelling suggests that all shared equity buyers benefited from the purchase of a home relative to the alternatives of renting an equivalent property or purchasing an equivalent property as an outright owner at a future date.

The key sources of these positive financial outcomes for buyers are:

- Around two-thirds of all shared equity buyers are projected to purchase the Department's equity share and refinance with a private sector lender, ultimately becoming outright home owners.
- Over time, market rents continue to increase while the mortgage payment remains fixed so that the buyers are ultimately better off in terms of out of pocket expenses than they would have been had they continued to rent.
- The Department's ownership of a share of the property effectively involves a subsidy to the buyer in the form of greater consumption of housing services.
- The opportunity exists to accrue capital gains on the home, initially on the equity share taken out by the buyer and then, following the purchase of the Department's equity share, the full value of the home.

The financial benefits of home ownership include the imputed rental stream for the dwelling (a measure of the consumption of housing services), and any increase in wealth due to the increase in house prices over time. The costs of home ownership include mortgage servicing and property rates, maintenance costs and building insurance.

Buyers who purchased in full, generally did so through a mortgage provided by a private sector financial institution. This suggests that they would have purchased a comparable dwelling irrespective of whether the Shared Equity EOI occurred. We therefore consider there to be no net financial benefit for this group of buyers from purchasing a property constructed as part of the program.

4.4.1 Refinancing and purchase of the Department's equity share

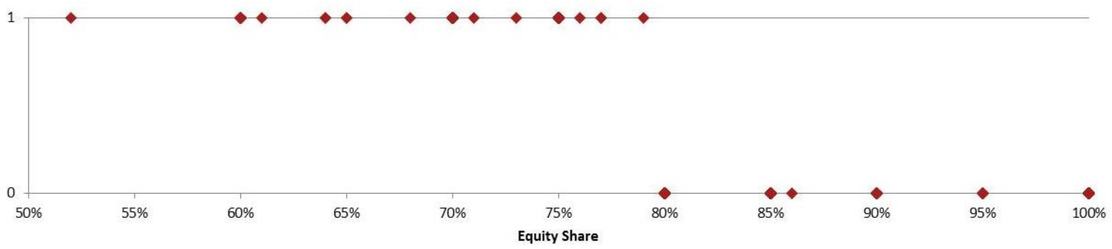
The net financial benefits for shared equity homebuyers are calculated under a scenario in which they purchase the Department's equity share and refinance with a private sector lender if and when it is both possible and optimal for them to do so.

The assumption that they refinance with a private sector lender is justified as the interest rate applied by Keystart is higher than the rates charged by private sector lenders on their basic variable interest rate mortgages.

Shared equity buyers can purchase the Department's equity share at the prevailing market value at that time. The timing of this decision depends primarily on how long it takes the buyer to accumulate equity equivalent to a 20 per cent share of the total value of the property and for their income to increase to the point where they can afford the mortgage repayments after refinancing.

However, at the baseline assumptions used in the modelling the simulations suggest that around a third of shared equity buyers do not find it optimal to buy-out the equity share and refinance. The modelling assumes that refinancing with a private sector lender without buying out the Department's equity share at the same time is not possible. There are few shared equity mortgages available through private sector lenders and, where they are available, the terms are less financially advantageous than the Keystart shared equity mortgage. In addition, private sector lenders are unlikely to want to be in a position where they are unable to take out a mortgage with respect to the entire property as would be the case if the Department still owns its share.

Figure 11: Does buy-out and refinancing make shared equity buyers better off financially (1 = buy-out and refinancing is sub-optimal)



Source: Department of Housing, PwC calculations

Figure 11 shows that at the baseline assumptions, buying out the Department's equity share is not the best strategy financially for buyers who purchase at relatively low initial equity shares. This reflects the comparison made between the value of the implicit subsidy of the consumption of housing services represented by the Department's equity share, the additional costs associated with servicing the mortgage for the Department's equity share and foregone capital gains on that share.

Whether equity buy-out is optimal is highly sensitive to the expected future rate of growth of house prices as a result. At an expected rate of growth of house prices of 6 per cent, all buyers find it optimal to buy-out the Department's share. Equally, at lower rates of expected house price growth the proportion of buyers who find purchasing the remaining equity optimal decreases rapidly.

4.4.2 Out of pocket expenses

Figures 12 and 13 provide a comparison of cash costs (the sum of the mortgage repayments (MR) and non-mortgage costs (NMC) incurred by home owners) with the cash costs of the alternative of renting a comparable home.

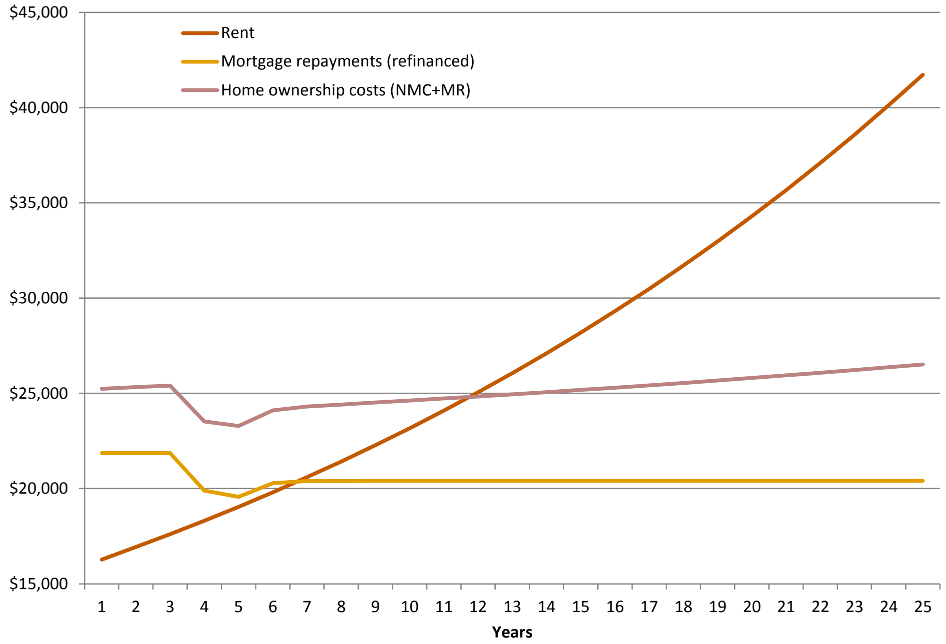
Figure 12: Annual home ownership costs assuming no refinancing and equity buy-out versus the cost of renting

Source: Department of Housing, PwC calculations

Figure 12 shows the comparison for a scenario in which the home owners do not refinance in order to buy-out the Department's share of the equity. Under this scenario it takes on average 9 years before rental payments exceed the mortgage repayments and 14 years before total annual home ownership costs are less than the cost of renting.

Figure 13 shows the same comparison between renting and owning but for a scenario where the home owners do refinance and buyout the Department's equity share. In Figure 13 the average mortgage payment declines from the third to the fourth year when the home owners who purchased in full refinance their home at a lower interest rate through private lenders. Its subsequent increase over years five to nine shows the rise in mortgage repayments as shared equity home owners buy-out the Department's share of the equity. Under this scenario it takes on average six years before rental payments exceed the mortgage payments and 11 years before total annual home ownership costs are less than the cost of renting.

Figure 13: Annual home ownership costs assuming refinancing and equity buy-out versus the cost of renting



Source: Department of Housing, PwC calculations

4.4.3 The financial benefits of subsidised consumption of housing services and increasing household wealth

The net present value for homebuyers participating in the Shared Equity EOI is $103 million, which is calculated as the sum of housing services valued at the market rent plus capital gains minus mortgage payments and non-mortgage costs, then assuming refinancing and buy-out of the Department's equity share when this is optimal. 'Net present value' is an expression of the value of a cash flow over time in present value terms, in excess of the cost of the funds.

The NPV based on the buyers preferred options are broken down into the individual sources of the benefits and costs of home ownership in Table 6.

Table 6: Present value of the components of shared equity buyer model returns

	Total	**Per dollar of initial equity share**
Present Value	**$m**	**$**
Housing Services	$193.5	$1.02
Capital Gains	$144.7	$0.76
Mortgage Payments	-$180.8	-$0.95
Non-mortgage Costs	-$34.8	-$0.18
Net Present Value	*$122.7*	*$0.64*

On average, shared equity buyers are between $111 679 and $130 149 better off in terms of NPV terms relative to the alternative (see Table 7), with this advantage depending in part upon their initial equity share. Furthermore, the largest benefits are generally enjoyed by the buyers who were able to afford a larger initial equity share as they are the first buyers to refinance and buy-out the Department's equity share, benefitting from the lower interest rate and capital gains on the full value of the property sooner.

Table 7: Shared equity buyers, average NPV per buyer and time required to meet lending constraints for full purchase

Initial equity share	No.	Time (years)	Average benefit per buyer
60% or less	12	22	$111,679
61% to 70%	203	17	$125,105
71% to 80%	458	11	$119,200
81% to 90%	42	7	$130,149
91% to 99%	7	2	$125,758

The modelling also provides two further insights into shared equity purchase:

- The implicit rental subsidy on the Department's share of the property is a source of significant financial benefit to the homebuyer, with an average NPV of 24 cents per dollar of initial equity share
- It is a powerful, albeit partial, hedge against future house price growth for these lower income families and singles, allowing home purchase up to 22 years before an outright purchase could be made.

The size of the net benefit to buyers is sensitive to several assumptions made in the modelling, and particularly to the assumed rate of house price growth, including:

- gross rental yield
- rate of growth of house prices
- rate of growth of household disposable income
- the mortgage interest rate.

Sensitivity testing of these parameters is reported in the Technical Appendix.

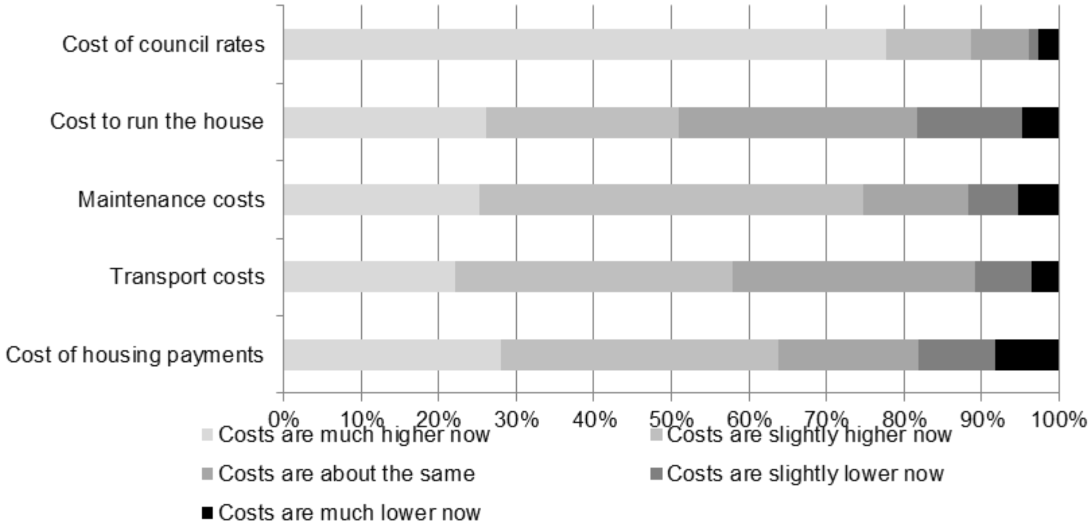
4.5 Trade-offs made by residents to participate in the scheme

Findings from the resident survey and follow-up interviews reveal the types of trade-offs residents made in order to participate in the SharedStart scheme. These include trade-offs related to housing-related expenses, property size and location.

4.5.1 Cost trade-offs

Most participants in the SharedStart program reported that they have higher housing-related costs in their current home compared with their previous housing arrangements across all measures (i.e. council rates, cost to run the house, maintenance costs, transport costs and housing payments). Less than 20 per cent of respondents believed that their costs had decreased across any of the measures (see Figure 14).

Figure 14: Trade-offs related to housing costs made by SharedStart households



Housing-related costs had increased in terms of: housing payments (for 68.3% of respondents); transport costs (for 58% of respondents) and cost to run the house (for 50.9% of respondents).

The increased cost of council rates for 88.7 per cent of respondents exists given that most respondents had previously rented, and therefore had not directly paid council rates. This factor would also explain the increase in house maintenance costs (for 74.8% of respondents).

The financial modelling undertaken as part of Module 2 also shows that buyers were likely to have experienced increasing housing payments following purchase. However, the modelling also shows that over time the rent they would be spending in the private rental market would continue to increase, while mortgage payments would remain fixed. As Figure 13 shows, under the baseline assumptions rental payments would exceed mortgage payments after around six years on average, and that after 12 years on average the annual costs of home purchase, including both mortgage payments and non-mortgage costs, would be less than the annual rent on a comparable property.

It also needs to be recognised that home buyers are purchasing both housing services and, under the baseline assumptions, an asset that is appreciating in value. This is not the case for rental payments.

4.5.2 Property and location trade-offs

Although a large proportion of respondents agreed that they are better off now than before, there were some areas where they had to make trade-offs in order to enter home ownership. A proportion (28%) had to reduce the size of their dwelling, while a small number (9.1%) felt they had compromised on the quality of their home. Furthermore, a third (33.3%) of respondents felt that the move had meant they were located further from employment opportunities. This finding is echoed by the 55 per cent of respondents who reported that they had increased their commute to work due to the move to their new home.

Despite these trade-offs, the overall response to the shared start scheme was positive. Ultimately, this suggests that the households who chose to take up home ownership through this scheme found the benefits to outweigh the compromises they had to make.

5 ECONOMIC BENEFITS FOR GOVERNMENT

In presenting findings on the economic costs and benefits of the shared equity EOI initiative for government, this chapter addresses the evaluation question:

- **What, if any, are the economic benefits of the scheme to government?**

Two elements of the economic benefits are considered:

- **the direct costs and benefits of the scheme to government**
- **potential savings to other government programs as an indirect benefit of the scheme.**

Key findings

- The 983 properties in the Department dataset constructed under the EOI had a total market value of $338 million but were purchased for $293 million resulting in a gross margin of 15 per cent. 261 of these properties are or will be sold in full with a market value of $89 million but were purchased for $79 million resulting in a gross margin of 13 per cent. The 722 properties that were or will be sold as shared equity have a market value of $248 million but were purchased for $214 million resulting in a gross margin of 16 per cent. These margins created through purchasing at scale are used to cross-subsidise the share equity properties to the buyers to purchase at initial equity shares of between 52 and 95 per cent.
- The main economic benefit of the scheme for government identified by stakeholders was the creation of a significant asset through the embedded equity in housing stock. These initial equity shares are estimated to have had a value of $58 million by September 2013 for 722 properties ($80 729 per property).
- The significance of this positive rate of return for Government should not pass without comment. The typical expectation of housing assistance is that it is a form of subsidy to households that generates significant costs to government. This form of housing assistance makes a sustained, substantial difference to the financial wellbeing of lower-income households and delivers a positive rate of return for Government.
- The scheme's projected internal rate of return for the Department is 25 per cent. In addition, by 2029–30 the EOI will have resulted in an increase in net assets of $116 million.
- Taking into account the growth in the value of the Department's equity shares over time results in a benefit-cost ratio of 1:1.4, or in other words, $1.40 for every $1 expended.
- Stakeholders also suggested there may be cost savings to government by diverting residents from social housing or other forms of housing assistance into home ownership. This is particularly true where households would, in the absence of the share equity EOI, have been private sector rental tenants who would exit the workforce at retirement. Though the number of public housing tenants housed via SharedStart was small (eight households), the potential dollar savings are significant. Whereas the shared equity scheme generates a financial surplus for government, other forms of housing assistance generate significant costs.

5.1 Direct economic costs and benefits of the scheme to government

The financial impact on the Department as a result of the Shared Equity EOI depends primarily upon:

- costs incurred in acquiring the Department's equity share of the properties
- the impact of future house price growth on the value of the equity share
- the timing of when shared equity purchasers choose to buy-out the Department's equity share and refinance with a private mortgage lender
- net income from Keystart's program related mortgage lending.

5.1.1 Acquisition costs and margins

The dataset provided by the Department contains 983 properties that have been constructed under the EOI with a total market value of $338 million. The cost of these properties, excluding GST and administration and transaction costs was $293 million, a gross margin of 15 per cent (i.e. the increase in value between buying and selling price as a percentage of the original cost).

Two hundred and sixty-one of these properties were, or are intended to be, sold in full with a market value of $89 million. The cost of these properties, excluding GST and administration and transaction costs was $79 million, representing a gross margin of 13 per cent.

The 722 properties that were, or will be, sold as shared equity have a market value of $248 million. The cost of these properties, excluding GST and administration and transaction costs was $214 million, resulting in a gross margin of 16 per cent.

The margin achieved on the properties sold in full was an important contributor to the ability of the program to provide properties to shared equity buyers at affordable initial equity shares. It was this margin that was used to cross-subsidise the shared equity properties to the buyers to purchase at initial equity shares of between 52 per cent and 95 per cent. The distribution of the initial equity shares taken out by purchasers is shown in Table 8:

Table 8: Shared equity buyer's initial equity shares

Initial equity share	No.	Percentage of total
60% or less	12	2%
61% to 70%	203	28%
71% to 80%	458	63%
81% to 90%	42	6%
91% to 99%	7	1%
Total	*722*	*100%*

5.1.2 Value and costs of the Department's initial equity shares

The EOI resulted in the creation of initial equity shares with a value of $58 million for the Department as at September 2013.

The cost of the Department's equity shares was logically significantly lower than in other forms of shared equity schemes as these shares were generated through discounted purchasing at scale. Indeed, stakeholders interviewed commented that the government had ‘created something from nothing’ by taking advantage of market conditions to obtain a very good discount from builders and developers to fund the equity component of the new homes.

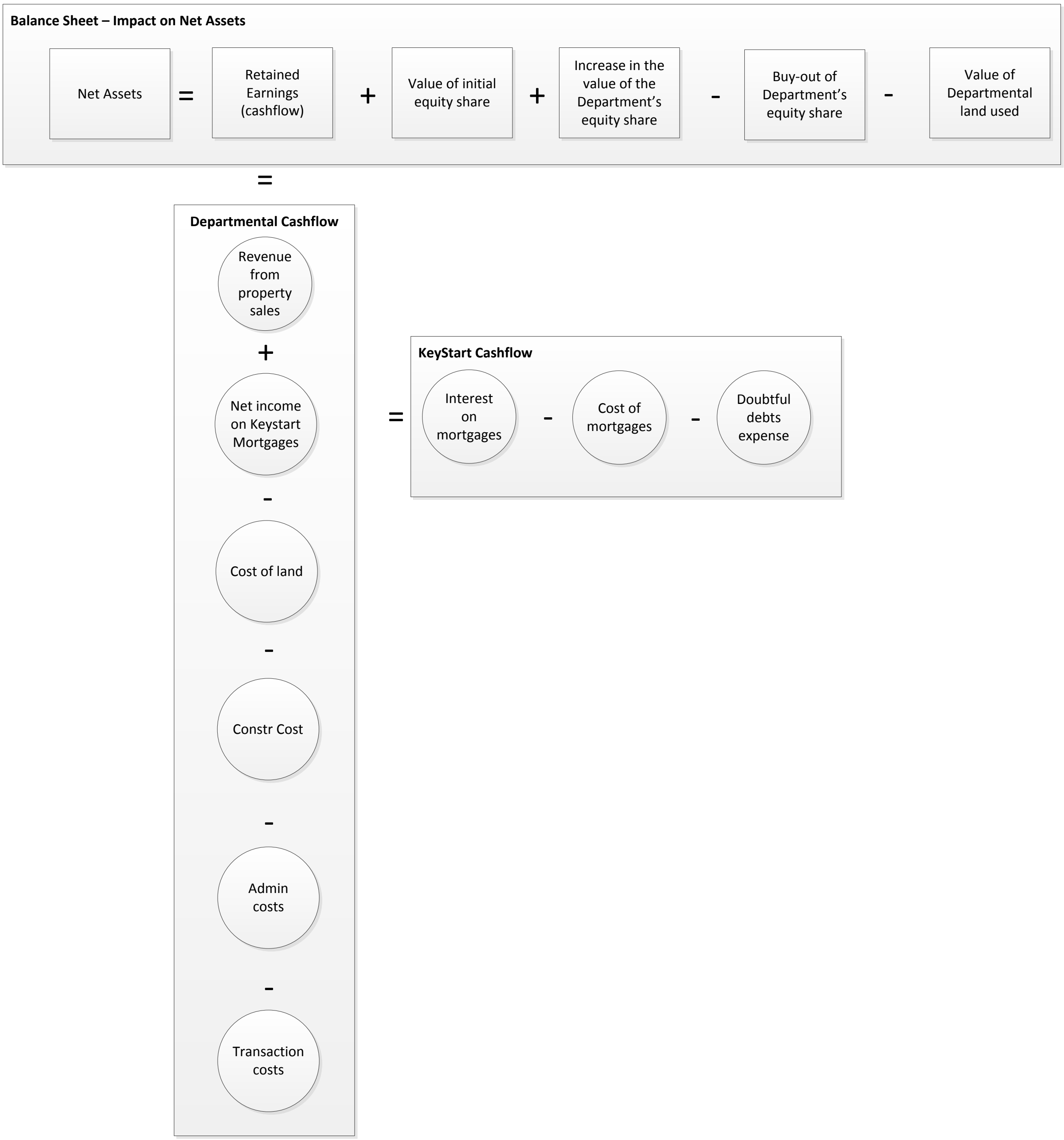
It is also worth observing that it is a rarity to find government programs that make a sustained, substantial difference to the financial wellbeing of lower income households and deliver a positive rate of return for Government.

5.1.3 Impact on the Department’s financial position

The calculation of the financial impacts on the Department has been conducted in a manner consistent with standard accounting practices to provide the transparency that other agencies will require in considering replication of the scheme.

Figure 15 summarise the model’s treatment of the financial impacts on the Department of Housing.

Figure 15: Cash flow and balance sheet impacts on the Department of Housing



In addition to the inputs into the modelling of financial impacts identified above, the modelling also takes into account:

- The progress payment schedules for the construction contracts.
- Where land owned by the Department was used for specific properties, the impact of the sale of that land on the balance sheet is offset by a corresponding increase in retained earnings.
- GST paid and claimed by the Department.
- Administration expenses set at 5 per cent of construction costs (based on advice from the Department.
- Transaction costs that include valuations, site inspections and selling costs.

→ Income and expenses associated with the SharedStart mortgages that were taken out to finance purchase the homes. [11]

5.1.4 Impact on Department cash flows

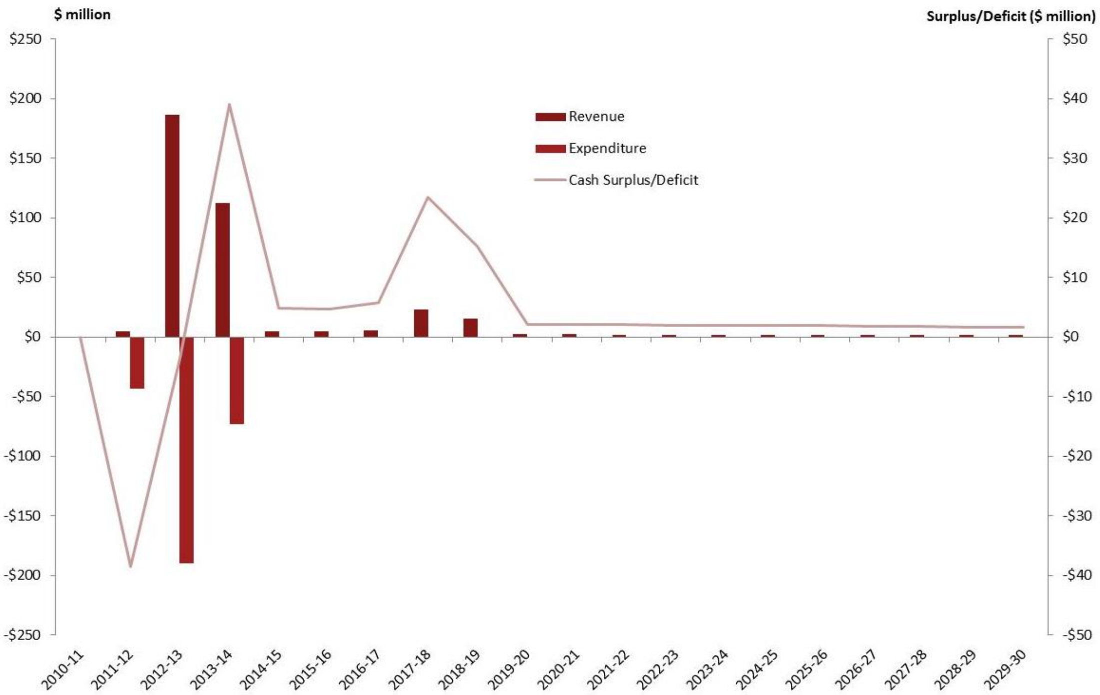
Projected cash flows for the project are shown in Figure 16.

Taking into account the administration and transaction costs incurred in the acquisition and subsequent sale of the 983 properties, the cost, net of GST, of the properties purchased by the Department amounted to $306 million, compared to a market value of $338 million. The timing of expenditures, particularly with respect to progress payments for construction resulted in a net cost for the shared equity EOI of $37.7 million in the first year of the program. However, this was temporary as the model shows that the program moves into a cash surplus position by 2012–13 as revenue from the sale of properties is received and income is generated from the mortgages provided to shared equity purchasers.

Costs at the Department level associated with the EOI are restricted to the first three years of the project. While there is an ongoing cost associated with the SharedStart mortgages provided by Keystart, at the Department level the modelling reflects the net income generated by those mortgages.

Net income from Keystart's program related mortgage lending, in effect the value of interest charges on the mortgage loans, amounts to $49.7 million over the period modelled. Based on the 30-year period for Keystart loans, mortgages in relation to the shared equity EOI program would continue to generate interest until 2043–44 if we extended the model projections out to this year.

Figure 16: Annual cash flows ($m)



Source: Department of Housing, PwC calculations

[11] The net financing cost and doubtful debts expense allocations were calculated using ratios determined during previous modelling work for the Department. The net financing cost ratio was updated to take into account changes in the average Cash Rate reported by the Reserve Bank of Australia since that modelling was completed.

Project cash flows are projected to increase temporarily between 2016–17 and 2019–20 as households who are able to buy-out the Department's equity share do so. The timing of the decision on the part of buyers as to whether they refinance and buy-out the Department's equity share is a key input. The timing of these decisions determines future cash flows and the value of the Department's equity share at the time of buy-out.

Taking all these financial flows into account and under the baseline assumptions informing the modelling, the program inclusive of both shared equity and full sale properties has a projected Net Present Value (NPV) of $65.5 million and an internal rate of return of 25 per cent.

5.1.5 Impact on the Department's balance sheet

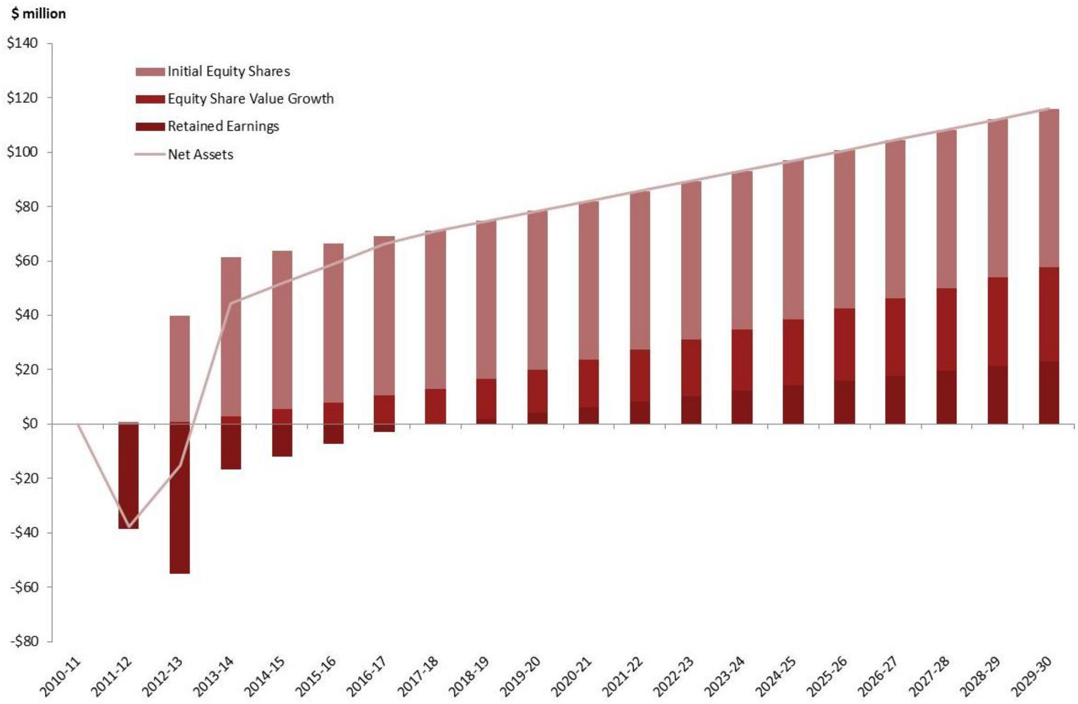
Changes in the net assets of the Department resulting from the EOI reflect three factors:

- Retained earnings from the program reflecting the accumulation of cash surpluses following the initial deficits in the first two years of the program.
- The initial value of the Department's equity shares.
- Growth in the value of the Department's equity shares over time.

When a shared equity buyer purchases the Department's share of the equity in their property there is an increase in retained earnings due to the sale proceeds and a corresponding decrease in the value of the Department's equity shares.

The impact of future house price growth on the value of the equity share is illustrated in Figure 16 showing the value of the equity share in the assets over time. The annual average rate of house price appreciation is assumed to be 4 per cent. These values are sensitive to the timing of when shared equity purchasers choose to buy-out the Department's equity share and refinance with a private mortgage lender. The modelling projects that the average duration for this to occur is six years for those buyers who find it optimal to purchase the Department's share.

Figure 17: Contribution to changes in net assets ($m)



Source: Department of Housing, PwC calculations

Net assets continue to increase over the period of the projection due to continuing growth in the value of the Department's remaining equity shares and net income from the mortgages for those buyers for whom it is optimal not to refinance.

While there was an initial impact on net debt due to progress payments for construction leading revenue from property sales, net assets are projected to become positive in 2013–14 financial year and increase to $116 million by 2029–30.

5.2 Potential savings to other government programs

The mechanism by which the shared equity EOI scheme creates potential savings to other government programs is by diverting clients from other forms of housing assistance that are more costly to government. For public housing in WA in 2011–12, net recurrent cost per dwelling was $9762 (excluding the user cost of capital), and the cost per dwelling including capital costs was $37 390 (Productivity Commission 2013, Table 16A20). The average annual cost to the Australian Government of providing housing assistance to a low-income household in the private rental market in the form of Commonwealth Rent Assistance is $2874 (Productivity Commission 2013, p.G7, Table GA13).

As the Department generated its equity share through the discount to market value achieved from builders, and shared equity buyers are responsible for all recurrent costs in relation to their home and the costs of the SharedStart mortgage are fully recovered through interest on the loan, there is no comparable annual average cost figure associated with the scheme. In fact, after the initial outlays during the first three years of the program there is an average annual net revenue per property of $11 608.

The dimensions of potential savings to other government housing assistance programs are at differing degrees of immediacy. The most immediate includes moving households out of public housing or off Commonwealth Rent Assistance (CRA). Less immediate and more difficult to estimate is the impact of housing people via

SharedStart in the future who would otherwise reside in public housing or receive CRA.

SharedStart for former Public Housing tenants

The Department's administrative data records eight former public tenants housed via SharedStart home ownership. The survey of SharedStart purchasers confirms that a small number of respondents came from social housing either most recently or over the last 10 years:

- Five out of 236 respondents (2.1%) indicated that social housing had been their most recent housing arrangement.
- Two out of 235 respondents (0.9%) indicated that social housing had been their main housing arrangement over the last 10 years.

SharedStart for former CRA recipients

The majority (70.3%) of SharedStart home owners surveyed indicated that private rental had been their most recent housing arrangement. And over the last 10 years 71.1 per cent indicated that private rental housing had been their main housing arrangement during this period.

Amongst this latter group, 53 out of 209 (25.4) respondents indicated that they had previously received Commonwealth Rent Assistance. A further eight respondents (3.8%) reported that they had received another form of government financial assistance to assist with the rent. Additional forms of financial support identified by survey respondents included: National Rental Affordability Scheme (NRAS) housing; Newstart Allowance; and rent assistance for single parents from Centrelink.

SharedStart for future housing assistance recipients

- While 2.1 per cent of surveyed shared equity buyers had previously been public housing tenants there is a potential benefit in terms of reduced expenditure on public housing in the future.

Survey results suggest that a low proportion of respondents would be likely to live in social housing in the future. Survey respondents were asked to indicate which housing arrangement would have been most likely for their household if a shared equity home ownership opportunity had not been available.

- In the short term (next five years), 1.5 per cent of respondents expected to be living in social housing.
- In the medium term (five to 10 years), 4.6 per cent of respondents expected to be living in social housing.
- In the long term (10 years or longer), 5.1 per cent respondents expected to be living in social housing.

While these figures are low, it should be noted that people can require social housing following unexpected life events such as job loss, divorce or death of a partner (Wood 2013). Moreover, as both the survey data and the modelling confirm, for the households involved, private rental is the most likely long-term tenure in the absence of purchasing as a shared equity buyer. Given the relatively low-incomes of such households, it appears likely that they would also have relatively low retirement incomes. This would increase the probability that they would move into public housing following retirement.

Precise estimation of the value of diverting households from other more expensive forms of housing assistance in the future is not possible. However, it is known that:

- Amongst sample of home owners from the Household Income Labour Dynamics Australia (HILDA) survey, 2000–10 some 22 per cent of households fell out of home ownership. Whilst 13 per cent re-entered home ownership, the other 9 per cent did not and of these 42 per cent received CRA (Wood et al. 2013, p.29, p.73, Figure 21).
- Tracking the housing tenure movements of income support recipients from 1995–2003, Seelig et al. found that of those who moved into public housing 2 per cent were formerly home owners. (Seelig et al. 2008, p.50)

Thus, to the extent that SharedStart interrupts such tenure flows and given that SharedStart generates positive financial returns and other forms of housing assistance create significant costs for government on a recurrent basis, these indirect savings will be small but over time important.

6 WIDER ECONOMIC BENEFITS FOR INDUSTRY

This chapter presents findings on the economic benefits of the shared equity EOI initiative to the construction industry. It addresses the question:

- **What, if any, are the economic benefits of the scheme to the construction industry?**

The survey and qualitative analysis also identify further unquantified economic benefits for builders, developers, estate agents and financiers from the nature, manner and scale of partnering with government, rather than private clients.

Key findings

- $149 million of direct additional activity was created in the construction industry in WA.
- $112 million of induced economic activity was created amongst suppliers of the residential construction industry in WA.
- The additional $149 million of construction activity supported 427 jobs directly in the construction industry, and 788 jobs in the wider field including construction services. A total of 1491 jobs are supported if we include all of the impacts in other sectors that support the construction industry.
- Further economic benefits to the building companies arose from the nature, manner and scale of partnering with government rather than private clients. These included: efficiencies arising from bulk purchasing, greater project certainty from 'front-end' engagement, skills development, increased exposure to the affordable market segment with a low-risk opportunity to test new product types, and the development of new business models with the EOI initiative providing a discrete income stream complementing work from the private market.
- For land developers, further economic benefits of the scheme included: sales of 'slow to sell' land; saving existing development projects; and enabling new projects.
- For the real estate sector, economic benefits of the scheme were considered to be minor but did include increased commissions and potential re-sale business.
- For private financial institutions, the scheme was reported to have the economic benefit of introducing a new market segment.

6.1 Introduction

A benefit sought from the Shared Equity EOI was to support activity and employment within the WA residential property development and building industries during a relative downturn. In addition to these direct impacts, investment through the Shared Equity EOI also sought to generate indirect benefits through additional economic activity, such as demand for materials inputs to the construction process.

The modelling analysis examines five elements:

- The 'initial economic effects' in terms of increased economic activity within the construction industry.
- The 'first round economic effects' in terms of increased activity amongst suppliers to the construction industry.

- The 'employment effects'.
- The 'industrial support effect' amongst industries that supply the suppliers.
- The 'consumer spending effect'.

This chapter uses input-output tables (published by the Australian Bureau of Statistics) and some simplifying assumptions to provide insight to the economic benefits of the Shared Equity EOI for the construction industry and those industries that supply and support it. However, the limitations of the modelling should be kept in mind when viewing the results of the modelling. The Technical Appendix explains the limitations of input-output analysis.

Figure 18 illustrates, in terms of a flow chart, the logic behind the analysis and the output effect for the different multipliers.

Figure 18: Construction of the input-output multipliers

The findings from this analysis are detailed below in Section 6.2 on 'initial economic effects within the construction industry', Section 6.4 on 'first round economic effects' amongst suppliers to the construction industry, Section 6.6 on the 'industrial support effect' and 'consumer spending effect' and Section 6.7 on 'employment effects'.

In addition to these measured economic benefits, a number of further economic benefits are reported for the construction industry (Section 6.3) and for suppliers to the construction industry (Section 6.5), that arise from the nature, manner and scale of partnering with government rather than private clients. These elements are significant in adding value to the scheme in the eyes of the participants from the construction industry and suppliers—even though a specific dollar value cannot be attributed to them.

6.2 'Initial economic effects'—increased economic activity within the construction industry

The 'initial economic effect' considers the value of the additional construction activity required to build the houses under the EOI across the construction industry. This figure was $149 million.

The creation of new work for builders and allied industries in difficult market conditions was a major benefit of the scheme confirmed by the stakeholders interviewed. It was acknowledged that the scheme had created opportunities to build houses that would not otherwise have been built. This provided continued work, cash flow, and employment within the construction industry. Builders consistently reported that they did not make significant profits through participating in the scheme, but they were willing to trade their profit margin for continued cash flow and employment, which was seen as preferable to job losses. Examples of the scheme's outcomes in creating work and saving jobs are:

- One builder reported they had built approximately 700 properties through the EOI initiative, with approximately 1600 contracts signed for future dwellings to be completed [B1a].
- A representative from a medium-sized building company reported: 'In terms of economic benefit to the industry, certainly in our own case we now have 15 dwellings and 14 units to build, where previously we didn't, and because the contracts are 'Turnkey', not only builders benefit. The homes all have carpet, blinds, landscaping, clotheslines, TV antennae, and more, which benefit allied industries as well' [B4].
- A representative of an industry peak organisation reported a significant 'multiplier effect' across the industry that results from engaging builders, subcontractors, tradespeople, manufacturers and suppliers. According to the interviewee: 'The multiplier effect for every dollar invested into housing is quite significant, particularly in WA. I think it's close to $5. So there is a policy role to play here for government in ensuring that the housing industry is supported.'

6.3 Benefits to the construction industry from partnering with government

Beyond the dollar value of increased economic activity in the construction industry there are further economic benefits to the industry from the nature, manner and scale of partnering with government rather than private clients. These benefits are summarised below for builders and then land developers.

6.3.1 Benefits to builders

First, in contrast to private clients, the government is more likely to buy in bulk. This creates efficiencies and opportunities for greater savings for the industry.

Second, stakeholders reported that the government is more willing to engage at the ‘front end’ of the development process, clarifying the nature of the product required, which helps builders proceed with more certainty. This certainty was reported to create efficiencies and cost savings for builders.

Third, stakeholders reported that the scheme provided new opportunities for capacity building within the building industry. One builder commented that the EOI process allowed skills development for draftees, designers, supervisors, schedulers. [B4]

Fourth, the scheme allowed a number of builders not previously associated with delivering affordable housing, to gain significant market exposure in this segment. These stakeholders believed this would attract a new income stream for their companies in the future. This occurred as the scheme provided a low-risk opportunity for builders and land developers to experiment with new types of product (e.g. including smaller properties and properties with lower amenity) and to diversify their product range. A Department representative commented that the initiative had been significant in sending messages to builders and developers about the consumer demand for different types of housing product. It was believed that this was resulting in most builders offering housing products with lower specifications to meet this demand [Dept1].

Fifth, for some builders, the scheme enabled the development of a new business model. They considered the scheme to have provided a separate income stream alongside their work for private clients. This was described this as a ‘two-tier business’ model, in which builders rely on private clients for higher profit margins while also taking advantage of the benefits of working with a government client (i.e. regular work with greater security) [Dept3].

Department staff expected that only the larger builders would participate in this two-tier business model, and that the smaller builders would be happy to walk away from the scheme once market conditions improved and their ‘books were full’ [Dept5]. However, interviews with builders suggested that the medium-sized builders were interested in ongoing work with the Department because the EOI work—which tends to involve smaller buildings that are faster to build—allows a more regular cash flow than much of the building work secured with private clients.

One builder has used the scheme as an opportunity to meet demand for pre-built housing—creating a production line that exists alongside traditional construction methods where consumers attend a display home and then wait six to nine months for their house to be designed and built [B1a].

6.3.2 Benefits to land developers

Further economic benefits to land developers from the nature, manner and scale of partnering with government rather than private clients are as follows.

First, developers stated that the scheme allowed them to sell land that they had been unable to sell in the difficult market conditions.

Second, as noted by a representative from an industry peak organisation, the scheme saved existing development projects that would have failed otherwise due to the difficult market conditions. The scheme was described by one land developer as ‘a positive initiative in a difficult time’ [LD1].

Third, the scheme enabled new projects to ‘get off the ground’ as noted by both real estate agents and land developers. One land developer commented that it stimulated the industry and allowed the initiation of ‘start-ups’. The Golden Bay development was provided as one example of a new land development project that was kick started by the EOI initiative.

A representative from an industry peak organisation also acknowledged the timeliness of the initiative: ‘I think the time when it was happening was important because the industry was fairly tough, so it was a good opportunity not only to stimulate the industry, but also to create more housing stock. So overall I think it was a positive initiative’.

6.4 ‘First round economic effects’—induced economic activity of suppliers to the construction industry

The ‘first round effect’ reflects the induced or ‘flow-on’ activity of the suppliers of materials/services to the construction industry—for example amongst timber yards. The largest suppliers of materials/services to the residential construction industry are ‘construction services’ and beyond this, ‘finance and insurance services’, ‘structural metal products’, ‘wood products’, ‘wholesale trade’, ‘professional, scientific and technical services’, and ‘other residential building construction’. See Table A9 in the Technical Appendix for details on the relevant percentage of input into the construction industry as a percentage of total input.

This induced economic activity is estimated to be of $112 million in value to those industries.

6.5 Benefits to suppliers of the residential construction industry from partnering with government

Beyond the dollar value of this increased economic activity of suppliers to the residential construction industry there are further economic benefits from the nature, manner and scale of partnering with government rather than private clients. These benefits are summarised below for real estate agents and then financial institutions.

6.5.1 Benefits to real estate agents

Though the impacts for real estate agents were stated to be relatively limited, given the low volume of properties involved in the scheme in any given location, there were some further economic benefits identified by stakeholders including:

- Increased commissions which were in part buoyed by Government involvement in the scheme which created credibility and confidence amongst the purchasers (RE1). For instance one real estate agent commented that when selling ‘off the plan’ from a developer there is always a risk that the developer may not deliver what they had previously offered. For example, the finish may be of a lower quality or tiles may be used instead of carpet. This then creates issues when the deal reaches settlement. However, estate agents felt confident dealing with government who had additional processes in place ensuring developers completed work to the agreed standards (RE1 & RE2).
- Potential re-sale business when SharedStart purchasers decide to sell. As real estate agents draw upon repeat-business it was felt that the initial relationships with SharedStart purchasers could deliver increased opportunities for house sales if and when those purchasers came to sell their properties in the future.

6.5.2 Benefits to private financial institutions

It was reported by a senior representative of Keystart that the scheme benefits private financial institutions by introducing a new market segment. Keystart provides support to obtain a mortgage to home owners who would not be approved for a traditional mortgage. These Keystart mortgage holders later refinance with private financial institutions. For this reason, it was reported by the Keystart representative that the scheme is well supported by the banks.

Survey data indicates that most SharedStart home owners intend to refinance with a private financial institutions: 117 respondents (49.6%) indicated they would definitely be open to this. However, 30 respondents (12.7%) indicated they would not be open to refinancing because they would rather hold their mortgage with Keystart. The remaining 89 respondents (37.8%) would possibly be open to refinancing.

6.6 The 'industrial support effect' and 'consumer spending effect'

Beyond the 'initial effects' (Section 6.2) 'first round effects' (Section 6.4) and the 'employment effects' (Section 6.7) it is possible to calculate the 'industrial support effect'. The 'industrial support effect' refers to the effect amongst industries that supply the 'supplier industries'. For example, forest cutting industries that supply the timber yards.

The 'industrial support effect' is estimated to amount to a further $98 million.

Thus a total of $360 million (first round + industrial support effects) of induced or 'flow-on' activity within various sectors is driven by the $149 million (initial effects) of additional construction activity.

The only remaining impact is the impact on 'consumer spending'. When economic activity increases it also induces increased consumption through the wages and salaries paid to labour and returns to the owners of capital. When including this effect, the' total multiplier' results in an estimate of increased activity in the economy to meet the increased demand in the construction sector will be approximately $466 million. These figures are shown in Table 9 below.

This 'total multiplier' should be interpreted with caution. Due to the input-output assumptions, this multiplier is likely to over-estimate the total impact on the economy in the absence of capacity constraints in the modelling.

Table 9: Output multipliers

	Output multipliers	Value
Initial effect	1	$149,239,533
First round effect	0.75	$111,929,650
Industrial support effect	0.66	$98,498,092
Simple multiplier	2.41	$359,667,275
Total multipliers	*3.12*	*$465,627,343*[#]

6.7 Employment effects

The modelling also analyses the impacts of the increased construction activity on employment.

Using the multipliers detailed in Table 9, it is estimated that the additional $149 million of construction activity supported 427 jobs directly in the construction industry and 788 jobs when the analysis is expanded to include industries that supply goods and services to the construction sector. A total of 1491 jobs were involved if all of the impacts in other sectors that support the construction industry are included, subject to the caveats made in relation to the total output multiplier effect. This is shown in Table 10 below.

Table 10: Employment multipliers

	Employment multipliers	Value
Initial effect	2.86	427
First round effect	2.42	361
Industrial support effect	2.03	303
Simple multiplier	7.32	1,092
Total multipliers	*9.99*	*1,491*

Estimations of the impact on output and employment in the wider economy should be treated with caution and considered as an absolute upper limit to the range of likely impacts. See the Technical Appendix for an explanation of the limitation of input-output analysis.

Industry stakeholders confirmed these employment effects:

- A representative from a large building company reported that the scheme had prevented the closing down of their manufacturing facilities, which had kept approximately 150 jobs active: 'When you go and put several hundreds of houses into the marketplace over a short period of time, factories don't close, suppliers can keep running, people keep their job … We estimate it kept 150 people in our factories employed' [B1a].
- Builders also commented on the scheme's achievements in creating work for external suppliers such as bricklayers and carpenters. For example, one builder stated:

  > All of these houses have been turnkey packages. They've all had carpet in them, vinyl flooring, wall painting, light fittings. They will have gardens and fences. So it's not just the builders that are benefiting. All of these houses, people are going to need a fridge. They're going to need furniture … so everyone is going to get a benefit … The people who drive the trucks to deliver the carpet, everyone.

7 WHY DOES THE SCHEME WORK?

This chapter presents findings on the key mechanisms and contextual factors that enabled the shared equity EOI scheme to achieve its outcomes and to create wider benefits for households, government and industry.

Key findings

- Three points of intervention, or aspects of the program, were critical to its success: the procurement of new, affordable housing at scale; an efficient and effective sales program to locate and engage eligible clients; and the provision of the shared equity loan to enable targeted clients to enter home purchase.
- Contextual factors that contributed to the scheme meeting its outcomes included the downturn in the property market which provided the ‘right’ market conditions for the scheme to be successful, and Department’s existing capabilities in ‘land development and procurement’, ‘home finance’, and ‘management of working capital and cash flow’.
- Factors that came together to enable the ‘supply mechanism’ to work effectively included:
  - Engaging land developers and builders of different sizes.
  - Engaging vertically integrated building companies.
  - A range of perceived benefits from working with government rather than private clients.
  - Availability of the ‘right’ land in terms of location, size and price.
  - Flexible implementation by the Department.
- Factors that came together to enable the ‘sales mechanism’ to work effectively included:
  - The Opening Doors website sales portal.
  - Effective marketing to manage consumer expectations and to engage real estate agents in the process.
  - Addressing perceived stigma associated with ‘Department housing’.
  - Good housing design.
- Factors that came together to enable the ‘loans mechanism’ to work effectively included:
  - No mortgage insurance charges
  - Mortgage payments commencing only once full construction is completed
  - A low deposit of 2 per cent only on the share owned by the home owner.

7.1 Introduction

There are three points of intervention, or aspects of the program, that are critical to its success: the supply of new, affordable housing at scale; the sales of housing procured; and the provision of shared equity loans. Before examining what enabled each of these elements to succeed there are also some important contextual matters that provided the right conditions for achieving the outcomes. These relate to property market conditions, and the existing capabilities of the Department of Housing in 'land development and procurement', 'home finance' and 'capital and cash flow management'.

7.2 The right conditions

7.2.1 Property market conditions

It was consistently reported by stakeholders that the scheme worked because the construction industry was experiencing a downturn and big builders were prepared to trade-off their profit for cash flow. For some builders and land developers, downturned market conditions determined their interest in participating in the EOI scheme as they would only be willing to offer discounts in such market conditions. One land developer reported that when the market is flat, there is a financial interest in selling off land, which boosts the supply of available land, but when market conditions improve, the supply of available land diminishes. Therefore, some expressed concerns about the sustainability of the scheme, because it was believed discounts disappear when market conditions improve, meaning that the Department would need to fund their equity share from other sources.

However, other stakeholders believed the scheme is sustainable because the Department is in a good position to 'gear up and gear down' the procurement process in response to market conditions. Some builders (medium and large) expressed a desire to remain involved in the scheme, because of the advantages of working with the Department and because the scheme represents product and market diversification (i.e. especially for small/medium sized builders who would otherwise be building large, single dwellings).

7.2.2 Department's existing capabilities

The Department existing internal capabilities meant it was well placed to commission new dwellings, provide loans to purchasers and provide the government equity share to bring down the cost to the borrower. These capabilities are:

→ Policy leadership (discussed in Chapter 2).

→ Land development and built form procurement.

→ Home finance through Keystart.

→ Working capital and strong cash flow management.

The scheme is an excellent example of leveraging the functions and capabilities of the state government housing department to produce affordable housing.

Land development and built form procurement capabilities

Stakeholders consistently commented upon the importance of Department staff having experience and expertise in working with private industry. This was considered to be critical to the success of this scheme for a number of reasons.

→ A strong understanding of the property market and how commercial sales work is critical for negotiating discounts and purchasing properties at the required price points. This allows sales negotiations to proceed smoothly and quickly and saves time and money. Stakeholders commented that the Department is 'buying well' because of their industry knowledge. This expertise allowed the Department to procure the SharedStart properties at the required price points and with the required embedded equity. A number of builders and land developers reported that they were only willing to participate in the EOI scheme because they recognised the commercial capabilities of the Department and therefore trusted the process would go smoothly.

- The existing expertise and skills of Department staff with regard to shared equity and contractual arrangements with industry were reported to minimise additional workloads within the Department. One Department representative estimated a 5 per cent increase in workload of staff involved in the scheme.
- The industry experience and expertise of Department staff was critical for fostering positive, trusting relationships with the construction industry and ensuring their ongoing satisfaction and participation in the scheme. A number of stakeholders offered positive remarks about working with the Department because of the Department's understanding of private industry. While some builders acknowledged that government processes are more laborious than those of private companies, it was also reported that working with the Department through the EOI process operated to a fair degree as it would have worked with a private client. Another builder commented on the good communication and decisiveness of the Department through the EOI process. In particular, this builder valued the ability to speak to the experienced and pragmatic 'higher-ups'. The shift from a bureaucratic, formalised, labour-intensive tender process to a more open EOI procurement process was described as a 'game changer' by one medium sized builder. This builder would not have participated in a traditional tender system because the process is too time-consuming and onerous.

Home finance capabilities

Having a mortgage provider that is willing to offer mortgages to home buyers normally excluded from accessing home ownership is an essential precondition for this scheme. The Department, via Keystart, has 25 years of experience in offering shared equity loans to people on low- to moderate-incomes. This has provided expertise which enabled the development of the SharedStart loan.

The types of expertise needed to offer the right loan products to the right people include:

- Modelling of housing affordability: a senior representative of Keystart reported how important it is to understand the client base and what they can and cannot afford. Keystart conducts modelling to determine how wages and property prices and rents are shifting over time. Setting the income criteria appropriately is essential for achieving affordability and sustainability of mortgages for SharedStart clients. The Department has a strong understanding of how to set criteria for the SharedStart loan through its experience in designing and delivering other shared equity products with Keystart.

Market research: Keystart conducts market research to monitor demographic and cultural shifts. This has revealed how household types are changing, for example, there is a growing trend for brothers and sisters to be buying properties together.

Working capital and strong cash flow management capabilities

The Department has access to working capital, which is managed through a cash flow model, and this was an important precondition for the shared equity EOI scheme.

- Because the scheme is self-funded, it is critical that Department staff understand how to manage a cash flow model, as opposed to a traditional government budget model. For example, timing is critical in the management of cash flow in order for the scheme to be self-funding. Provided the Department returns the funds with interest, the funds are able to be used in advance, which means that the scheme runs at no cost. However, in order for the model to be self-funding, the sales must happen on time.

- Delivering an appropriate mix of full sales and shared equity sales is critical for managing cash flow. The full sales are not targeted, which means anyone can purchase them, including investors.. The full sales program is specifically set up to support the shared equity scheme and full sales represented 26 per cent of the initiative.

7.3 Delivering new supply at scale

A key mechanism for delivering the supply of low-cost housing was the scaled delivery model, in which the Department bought in bulk from builders and developers to secure a discount, which became the Department's embedded equity in the property.

A number of factors came together to enable this mechanism to work.

- Engaging land developers and builders of different sizes meant that the scaled delivery model bought in 'bulk' and secured discounts across the breadth of the industry. For a large building company, bulk meant hundreds of dwellings; for a small building company, bulk meant 10 dwellings. The scale of purchase also enabled product and market segment diversification by developers and builders which in turn enabled them to 'flatten out the peaks and the troughs' by spreading their work over different types and sizes of developments.
- The involvement of vertically integrated building companies, large building companies with vertically integrated supply chains, meant that they were in a stronger position to secure discounts from allied industries and to pass these discounts on to the Department. One company negotiated discounts with their brick company, window company, concrete company and plasterboard company, which increased the size of the discount they were able to offer the Department.
- Working with government appealed to the industry in a number of ways. It provided greater certainty that the project would go ahead, which meant that securing financing/funding from banks for projects was easier for the builders and developers. Second, the Department paid on time and according to the contract; the Department was also more willing than private clients to engage at the 'front-end' of the project, which reduced risk and meant the project could proceed with a greater degree of certainty. This allowed builders to offer better value discounts because they didn't need to factor in risk margins. Third, there was an expectation of ongoing work and stakeholders reported that this contributed to their willingness to offer discounts. The benefits included: the opportunity to improve processes and efficiencies over time; an investment in an ongoing income stream alongside other work with the private sector; greater capacity to negotiate discounts from allied construction industries (e.g. roof tile company) on the basis that more work will be coming their way; designs can evolve over time, so that each subsequent design is more efficient than the last.
- Procuring the 'right' land was critical for builders to deliver properties at the right price points. Firstly, co-located blocks of land create significant 'building synergies'. When multiple properties can be constructed in close proximity, it reduces the amount of infrastructure required, and this saves money (e.g. providing one toilet facility for five blocks rather than one toilet facility per block). Secondly, block size is important because it partly determines property size. For example, it was considered inappropriate to build a small house on a large block. This is significant, since the delivery of smaller properties was an objective of the scheme. Thirdly, the shape of a block of land affects efficiencies. For example,

irregular shaped lots of land necessitate new housing designs each time, which is a barrier to creating efficiencies and cost savings.

- In order to secure the required discount, it was necessary for the Department to be flexible about some of the original stipulations set out in the EOI documentation. For example, while the scheme had an initial expectation of innovative design, the Department was given feedback by builders and developers that incorporating innovative design would add expense and therefore be a barrier to meeting the required price point. It was also reported that despite the EOI documentation request for universal design, builders and developers explained to the Department that it would cost more to include features targeted to particular groups (e.g. people with mobility impairments), which would present a barrier to meeting the required price point. Therefore, the Department took the view that properties would be modified by exception rather than by rule, to respond to a particular household's need identified by Keystart.

7.4 An efficient and effective sales program

A second key mechanism in meeting the scheme's outcomes was the capacity to attract customers and sell the properties through the EOI process.

A number of factors came together to enable this mechanism to work.

- The Opening Doors website is the online sales portal run by the Department of Housing. The website provides information about shared equity criteria and allows potential home buyers to browse properties for sale and to register their interest. Opening Doors was mentioned by a number of stakeholders as highly important for providing access to potential SharedStart home owners. A number of stakeholders mentioned the value of the Opening Doors portal as a coordinated 'one stop shop' that provided easy access to properties for sale. Without this portal, potential home buyers would need to speak with a land developer, a builder and then to the loan provider. It was reported by a senior representative of Keystart that this would be particularly difficult for the target groups, who are not necessarily familiar with home ownership processes and would find a fragmented process too daunting. Department staff considered the Opening Doors website to be a critical success factor for the scheme because of the role it played in coordinating and streamlining the various processes.
- Marketing: it takes skill to market a complex concept such as the SharedStart scheme. It is important to manage consumer expectations and concerns. Department staff had to clear up some misunderstandings about the scheme—for example, explaining that they would not be conducting property inspections in SharedStart properties. Real estate agents also played an important role in marketing by referring potential SharedStart home owners to the scheme. It was important that the real estate agents had an understanding of the SharedStart scheme and the correct referral pathway. One real estate agent reported that it was important to have developed a good relationship and rapport with the customer service representative at Keystart. This ensured effective referral processes for potential buyers of properties from Keystart to real estate agents and vice versa.
- Addressing stigma: one land developer reported that a successful way of addressing community resistance related to stigma was to deliver newsletters around the neighbourhood with testimonials from SharedStart purchasers demonstrating the advantages of the scheme. Land developers also reported that sales were more successful when the Department minimised their branding on signage at the properties.

- Good design: concerns from neighbours and NIMBYism were addressed successfully through good design—according to land developers. The design of the house needed to look different to social housing. One land developer commented that ensuring a visual distinction between SharedStart housing and Homeswest housing was an important success factor for the scheme.
- Dedicated sales vehicle: one large builder created a dedicated real estate unit as a vehicle to sell the properties they delivered through the EOI process, which was reported to be an effective part of their scaled delivery model.

7.5 The Shared Equity Loan

A third key mechanism in meeting the scheme's outcomes was the capacity to offer a SharedStart loan offered through the state government mortgage lender, Keystart.

A number of factors came together to enable this mechanism to work.

- Keystart does not charge mortgage insurance. They are able to avoid charging this because of their active arrears prevention mechanisms.
- Residents do not pay the full home loan repayments until construction of the property is completed. Keystart acknowledges that paying full mortgage payments on top of private rental payments would make home ownership prohibitive to many potential home owners.
- A low-deposit of 2 per cent, which is only calculated on the share owned by the home owner.

The features of the SharedStart scheme that were identified by stakeholders as being successful for assisting aspiring home owners to *sustain* a mortgage were as follows:

- Appropriate eligibility criteria and screening: An important factor for success is recognising that home ownership is not appropriate for everyone. Therefore, Keystart has mechanisms in place to ensure that applicants are in a position to make the commitment to home ownership. For example, Keystart runs a mandatory counselling session to ensure the client is ready for home ownership. It was noted that this kind of screening process is not offered through private financial institutions.
- Keystart distinguishes itself from private financial institutions by providing a range of supports that are specifically targeted to low–moderate income home buyers who may have no prior experience with home ownership in their family. The supports offered to SharedStart applicants (and applicants of all Keystart shared equity products) are:
    - A detailed education pack with information about successful home ownership, including property maintenance and budgeting.
    - An introductory session for people who are ineligible for a Keystart loan due to their debt levels.
    - Proactive arrears management: in contrast to a bank, which would engage a debt collection service after one or two telephone warnings, Keystart has a devoted arrears group that have been trained on the social aspects of working with this resident group. As a result, Keystart reports a low rate of mortgage defaults. According to the Department, the default rate of Keystart is 0.38 per cent, which is reportedly significantly below the industry average (Loosely-Smith 2013, conference presentation at NHC). While it is too early to say whether Keystart has helped to sustain SharedStart mortgages, these same Keystart supports have been found to be effective in preventing mortgage

arrears in other Keystart shared equity loans. It is reasonable to expect these same mechanisms will be effective with sustaining SharedStart mortgages.

- Safety net option. This allows someone who is struggling to pay their mortgage due to an unexpected change in circumstances (e.g. job loss), to pay whatever they can afford for up to six months. It was reported by a representative of Keystart that 87 per cent of the clients who utilise the Safety Net option reinstate their loan and do not fall into arrears again.
- Ongoing advice and guidance. The Keystart representative reported that many shared equity applicants come from households that have always rented—either in private or public rental housing—and are unfamiliar with home ownership processes. Keystart encourages residents to call and talk over any issues as early as possible to avoid problems such as mortgage arrears or maintenance problems.
- Counselling and outreach. Keystart offers counselling to shared equity clients on the Keystart premises, and they also conduct an outreach service, in which Keystart staff members visit the homes of clients who are struggling. If Keystart has trouble contacting the clients themselves, they will also pursue contact via friends or family members.

In addition, Keystart provides incentives for households to refinance with a private lender. It is important that SharedStart home owners increase their equity share and eventually refinance with a private financial institute, in order to create new Keystart loan opportunities for other potential home owners. Keystart offers incentives to clients to encourage them take up more equity. The incentive is paid by the Department; it comes out of the Department's equity. The incentives are reported to be an effective mechanism for encouraging clients to increase their share and refinance.

8 MAKING THE SCHEME WORK BETTER

This chapter presents findings on potential improvements to the scheme that were identified by participants in the evaluation. These are presented in relation to each of the key points of intervention: the procurement of new, affordable housing at scale; an efficient and effective sales program; and provision of the shared equity loan.

Key findings

- Three points of intervention, or aspects of the program that were critical to its success, are used here to draw out potential improvements to the scheme identified by participants.
- In relation to the procurement of new, affordable housing at scale potential improvements include:
  - Supporting the shared equity EOI in the Department as a distinct business unit.
  - Promoting cultural change towards a more commercial way of working.
  - Greater flexibility with regard to dwelling specifications and perceived red tape.
  - Including more medium rise properties in the scheme.
  - Increasing the choice of properties and locations.
- In relation to an efficient and effective sales program to locate and engage eligible clients potential improvements include:
  - A more comprehensive advertising campaign.
  - Informing real estate agents about new properties in the construction pipeline.
  - Leveraging off the reputation of builders and land developers to attract more customers.
- In relation to the provision of the shared equity loan to enable targeted clients to enter home purchase, potential improvements include:
  - Raising the income eligibility ceiling in order to enable more single households to afford properties.
  - Ensuring the minimum size of apartments being built aligns with the minimum square metre requirements for obtaining a mortgage with a private institution.
  - Increasing the speed of the application approvals process.

8.1 Potential improvements to procuring new affordable housing at scale

Overall, stakeholders were satisfied with the scheme. Only one builder had a negative experience.

A number of potential improvements were identified through the case study evaluation as detailed below.

8.1.1 Greater support for the scheme as a business model within the Department

Department staff commented that the scheme relies on many interdependencies and functions within the agency to make it work. It was suggested the scheme should be supported as a separate business model, rather than as an additional output of existing teams performing their respective core business.

Further capacity building within the Department would ensure all staff understand how the scheme works and support greater acceptance of a more commercial way of working. The shift from a budget model to a cash flow model was very significant, especially for the finance team, which needed to set up complex accounting and financial processes. A more consistent understanding across the Department of how this model works would improve operational efficiency of the program.

Related to this a more sophisticated financial software system was needed to capture all of the relevant information and data to manage the cash flow.

8.1.2 Making funding available for the scheme

The shared equity EOI initiative is not currently a funded program, and there are many challenges in managing the scheme as a cash flow model. It was suggested that a line of credit would be very useful in enabling the delivery of a greater supply of affordable housing.

The current cash flow model requires the Department to push builders and developers to offer such significant discounts that they may be reluctant to participate in the scheme in the future. This was reported by one builder who said he would be reluctant to participate in the scheme again for this reason. If there was a line of credit, the Department would have the capacity to accept lesser discounts in some cases, knowing that these would be covered by higher discounts at some later stage in the life of the project. The Department expected that this would attract a greater range of builders and developers, which would help with achieving greater housing product diversity and competition.

8.1.3 Clearer and less onerous dwelling specifications

Whilst the Department sought to procure high quality housing with the stipulations set out in their EOI documentation, all builders commented on the need for the Department to adjust their expectations with regard to dwelling specifications. It was suggested that the Department should be willing to reduce specifications so that it is more commercially viable to offer a discount. This could involve lower-grade carpets, less planting and reticulation, and open carports as opposed to garages. It was acknowledged that the Department had gone some way in fine-tuning the specifications, however, it was felt more could be done.

Builders also suggested that there needs to be greater clarity and consistency regarding what is included in the specifications for a ‘turnkey’ property. For example, one builder reported that it was difficult to compete with other builders who were offering ‘turnkey’ properties with unpainted white plaster walls, as the difference between painting and not painting could represent up to $6000.

8.1.4 Department feedback on housing designs and completed properties

Delays in the EOI development approval process cost time and money and reduced the capacity for builders to offer discounts to the Department. It was suggested that delays could be minimised if the Department provided earlier feedback and more definitive parameters regarding the sorts of designs that were expected. Initial feedback on the feasibility of rough design sketches would be helpful. While it was acknowledged that the Department is more willing than private sector clients to engage with builders at the 'front end', there was still scope for this engagement to be improved to provide builders with greater certainty about what is expected.

One builder suggested that it would be useful to see a 'report card' on properties completed. This builder was interested in knowing whether there was anything that they could improve in order to ensure their ongoing participation in the shared equity EOI initiative.

8.1.5 Greater streamlining of the EOI process

Builders reported time delays related to 'red tape' and bureaucracy. For example, one reported submitting all documentation on a timely basis, and then waiting for three months for Department approval. Whilst it was acknowledged, there had been improvements over time, stakeholders (including builders and a peak body representative) felt there was still need for further improvement to streamline the approvals process. It was reported that there were a lot of lost development opportunities because of time delays.

One builder suggested that Department staff could spend time with a project builder to see how project builders put projects together—in particular the way they fast track various elements including specifications, documentation, contractual arrangements and construction.

8.1.6 Avoid uniformity in housing design

Land developers reported that, in focusing on securing building industry discounts, the Department had paid less attention to the selection of building materials, which had led to some undesirable uniformity in some streetscapes. It was suggested this should be addressed in future to retain the scheme's good reputation amongst consumers, since uniformity can devalue the properties. A key lesson learnt was to vary the type of materials used for roof tiles or render to create more diverse sites, whilst also being mindful of costs.

8.1.7 Facilitate the development of more medium-rise developments

It was suggested that the Department should pursue more medium-rise properties because it is a low-cost way of building housing when land is in limited supply. Builders commented that the limited availability of greenfield land was a major barrier in delivering housing to the Department. For this reason, it was suggested that the scheme should facilitate the development of more medium-rise developments in greyfield areas. It was commented that infill developments would not hit the Department's required price point unless they are medium-rise.

One builder suggested the Department maximise use of their certification facility and remove 'red tape' in the approvals process. However, this would need to be balanced against the reputational risks associated with jeopardising support from local councils.

8.1.8 Increase the range of builders and land developers involved in the scheme

A greater range of builders and land developers participating in the EOI scheme would help with achieving greater housing product diversity and competition. The Department reported that they had not attracted the full list of 'volume builders'. There are several barriers which discourage new participants, some of which could be addressed by the Department. These include:

- Regulatory barriers. Regulations can make it difficult for builders and developers to obtain building approvals and meet zoning standards at the shire and housing estate level. For example, restrictive covenants over a housing estate may prohibit the construction of a one-bedroom property because it is perceived to be out of place in an estate dominated by three-bedroom properties.
- Negative perceptions of participating in the scheme. For example, one land developer reported having initial concerns about the integration of SharedStart properties into existing housing estates, in terms of having harmonious built form and maintaining the developer's good reputation. Some builders and developers also reported being initially reluctant to participate due to expectations of burdensome bureaucracy. The Department could do more to reassure new builders and land developers about these issues.
- The Department is constrained in terms of actively approaching particular builders and developers, as there is a need to avoid 'leading the witness'. The Department had launched EOIs rather than proactively approaching particular builders and suggesting ways they could work together.
- A lack of awareness and understanding of the scheme amongst builders and land developers. One land developer suggested that there are other land developers and builders who would probably be interested in participating in the shared equity EOI scheme if they had more awareness and understanding of the scheme. This developer compared the EOI scheme to the National Rental Affordability Scheme (NRAS), which had a low uptake initially because of limited awareness and understanding within the private sector of how it works. The Department could do more to promote knowledge of the EOI scheme.

8.2 Suggested improvements related to property sales

A small number of suggestions were made by stakeholders to improve the sales of properties procured through the EOI process:

- One real estate agent commented that there was not enough advertising for the scheme, which led to a lack of public awareness about the scheme and its benefits.
- One real estate agent commented that they would benefit from more information from the Department of Housing about new properties in the construction pipeline so that they can advise potential purchasers.
- Some stakeholders believed that the Department needed to leverage off the reputation of builders and land developers in the private sector to a greater extent to attract more potential customers. For example, it was suggested that the logos and branding of private sector stakeholders could be used to a greater extent on signage.

8.3 Suggested improvements related to the SharedStart loan

Improvements to the SharedStart loan were suggested by stakeholders and resident survey respondents. These included suggestions related to eligibility criteria, the effect of apartment size on household capacity to refinance and improvements to the SharedStart application process.

8.3.1 Eligibility criteria

- One real estate agent suggested that it was necessary to raise the income eligibility ceiling in order for single households to be able to afford the price of properties.
- One Department representative suggested that consideration should be paid to increasing the family income cap from $90 000 to $100 000 in order to provide more borrowing power.

8.3.2 The effect of apartment size on capacity to refinance

Whilst the scheme aims to deliver smaller properties, attention should be paid to ensuring a minimum size for apartments that is consistent with the minimum square metre requirements for obtaining a mortgage with a private financial institution. One real estate agent reported that there are only three banks that will approve a home loan for properties under 47 square metres; whereas, every bank will approve a loan for properties over 50 square metres. If Keystart is willing to approve a loan for a 35 square metre property, the resident may have trouble refinancing with a private lender.

8.3.3 Improvements to the application process

The application process was selected by 48 of the 168 respondents (28.6%) as needing improvement, and access to information was selected by 34 of the 168 respondents (20.2%) as needing improvement.

While a small number of respondents found the application process unproblematic, a significant number of respondents believed that improvements could be made, noting issues around speed, complexity, communication, and helpfulness of staff.

Twelve respondents believed that improvements could be made in the speed of the process, some contrasting the fast pace of mortgage applications in the private sector to that through SharedStart.

Eight respondents believed that the complexity of the process could be improved. Respondents specifically referred to the sheer amount of paperwork and its confusing nature. Specific suggestions for improvements were:

- A process flow diagram with related time-frames for each stage should be made available to interested members of the public.
- Parts of the application process to be made available online rather than using older methods such as print and fax.

The need for better communication was noted as an issue by nine respondents, some of whom stated that they had to regularly follow up with program staff in order to seek information on delays to the processing of their applications or completion of their properties. Issues around communication also related to staff being unable to provide accurate information.

8.3.4 Improvements to the provision of support and advice

Provision of support and advice about the mortgage was selected by 44 respondents (26.2%) as needing improvement.

Respondents made a number of specific suggestions for improvements to the provision of support and advice including:

- Information for increasing their equity share, and whether fixed loans could be or are in future planned to be convertible to flexible loans (seven respondents).
- More accurate website information: five respondents noted that many of the properties listed as being available were in fact unavailable when respondents enquired about them. Two respondents suggested an 'upcoming projects' section to give an indication of properties becoming available in future.
- Two respondents were not aware that they were unable to rent rooms within their properties, and suggested changes to this aspect of the program.

8.3.5 Improvements to the properties

Sixteen respondents were dissatisfied with various aspects of the quality of the houses they purchased including linoleum, carpets, blinds, tiles (one respondent noting that the tiles were too rough for their toddler to walk on), paintwork, lack of power points in rooms, and small size of kitchens, including in larger dwellings.

Some of these complaints related to difficulties with the builders who were required to repair issues with the house within six-months.

One respondent noted that while lower quality may be able to produce cheaper dwellings, the actual cost is passed on to home owners through the life of the property as they have to replace fittings. Two respondents also suggested that the Department of Housing should more closely inspect the quality of properties purchased before they are made available to the public.

8.3.6 Improvements to the choice of housing types and locations

Choice of housing locations was selected by 106 (63.1%) respondents who answered the question about suggested improvements. Meanwhile, choice of housing types was selected by 67 respondents (39.9%) as needing improvement.

With respect to housing design, eighteen respondents were dissatisfied with the choice of properties available and the selection of designs available. Some suggested that buyers should have the chance to customise aspects of the design, for example, tiles, blinds, carpets, and colour schemes.

Forty-five respondents suggested improvements in the choice of locations, some specifically suggesting more should be made available closer to the CBD (10 respondents), close to train lines (four respondents), in the north of Perth (two respondents), away from high concentrations of public housing (two respondents), and with better schools (two respondents).

8.3.7 Other suggested improvements

Survey respondents made a number of other suggested improvements including:

- Better marketing of the SharedStart scheme (six respondents).
- A more competitive mortgage rate through Keystart comparable with private mortgage brokers and banks, to better assist low-income earners (seven respondents).
- A lower priced Strata Levy (one respondent).

The following chapter provides conclusions about the achievements of the scheme and recommendations for the Department to take the scheme forward.

9 CONCLUSIONS AND RECOMMENDATIONS

This chapter summarises the key findings of the case study evaluation to draw four main conclusions and from these conclusions to make five key recommendations.

9.1 Summary of key findings

9.1.1 Achievement of program specific outcomes

Intended outcomes of the shared equity EOI scheme	Outcomes	Evaluation assessment
1. Increase in the volume of lower cost affordable home ownership entry points.	The shared equity EOI initiative increased the overall supply of low-cost dwellings by 1005 by 30 June 2013 through its EOI procurement process. The scheme procured properties that were below median house prices—in 84 per cent of cases the SharedStart sale price was below the lowest quartile dwelling price for the suburb. Resident satisfaction with housing affordability was very high overall—87 per cent of survey respondents agreed or strongly agreed that their mortgage payments were affordable. The scheme provided home ownership opportunities to a new market segment of people on low to moderate incomes who would not otherwise have entered home ownership with three-fifths of survey respondents on gross annual incomes between $50 000 and $75 000.	✓
2. Increase in the supply of one- and two-bedroom housing products in the affordable housing market place.	The scheme increased the supply of one- and two-bedroom housing products by 241 (24% of the total) in the affordable housing market segment.	✓
3. Increase in the volume of affordable home ownership opportunities in regional areas.	The scheme delivered 29 SharedStart properties in regional areas, despite the usual constraints associated with procuring affordable housing in the smaller and more depressed markets of regional areas.	✓
4. Establishment of a pool of affordable home ownership properties that will be retained as affordable housing in perpetuity through the fixed equity loan option.	By 30 June 2013, 71 fixed loans had been provided through SharedStart. These properties will be retained as affordable housing in perpetuity. This is a positive achievement, considering the low market acceptance in WA for this new mortgage product.	✓
5. Client group.	The scheme was successful in providing home ownership opportunities to members of the target client group, including eight public housing residents, 188 survey respondents who were first home owners, 198 survey respondents who reported that they would otherwise have been excluded from standard home ownership, six survey respondents with a disability and nine living with a person with a disability, 58 survey respondents who were single parents and 42 who were key workers.	✓

9.1.2 Wider benefits of the scheme

In addition to achieving its intended outcomes, the scheme produced significant returns to households, government and the construction industry.

Benefits of the scheme for households included: good quality, affordable housing; security of tenure; a financial investment for the future; and mortgage payments that are often equal or lower than rental payments in the private rental sector for the same area. Financial benefits for households, determined through financial modelling, included: firstly, an implicit subsidy to households' consumption of housing services through the Department's part ownership of the property; and secondly, increases in wealth as a result of the capital gains on the household's share of the property. For shared equity buyers as a group, the benefit-cost ratio at the baseline assumptions is projected to be 1.6 (i.e. households received $1.60 in benefits for every $1 of cost incurred).

The main economic benefit of the scheme for government identified by stakeholders was the creation of a significant asset through the embedded equity in housing stock. From data provided by the Department, this is estimated to be $58 million by September 2013 for 722 properties ($80 729 per property). The scheme's projected internal rate of return for the Department is 25 per cent. In addition by 2029–30 the EOI will have resulted in an increase in net assets of $116 million. Taking into account the growth in the value of the Department's equity shares over time results in a benefit-cost ratio of 1.4, or in other words, $1.40 for every $1 expended.

The scheme produced $149 million of direct additional activity in the construction industry in WA and supported 427 jobs. A further $112 million of induced, or flow-on, economic activity was created amongst suppliers of the residential construction industry in WA and this supported 788 jobs. A total of 1491 jobs are supported if we include all of the impacts in other sectors that support the construction industry.

9.2 Conclusions drawn from the findings

On the basis of the case study evaluation findings summarised above there are four key conclusions:

1. The shared equity EOI initiative was successful in meeting its defined outcomes.
2. The achievements of the shared equity EOI initiative went beyond its defined outcomes to generate significant economic benefits for participating households, for the state government, and the construction industry in WA.
3. The three main mechanisms, acting in concert, that underpin the success of the scheme are the procurement of new affordable housing at scale, an efficient and effective sales program, and the provision of a shared equity loan.
4. A downturn in the property market and the Department of Housing's management capabilities were the two important contextual factors that enabled these mechanisms to deliver a successful scheme.

   In drawing these conclusions it is noted that the shared equity EOI initiative is unlike 'typical' shared equity programs in that it:

   - Increased the supply of new affordable housing.
   - Did not require significant recurrent funding due to the embedded equity created out of discounts extracted through bulk procurement. One stakeholder commented 'I've been involved in home ownership for over 30 years and this is about the only time in this history where someone's come up with an idea like that. It's really innovative.'

- Played an anti-cyclical role, stimulating the building industry when the market was weak.

9.3 Evidence-informed recommendations

Based on these four key conclusions, five recommendations are made.

Recommendation 1

The state government continue to employ, in concert, the three key mechanisms of scale procurement, house sales and shared equity loans to increase the supply of new, affordable home ownership properties for those otherwise blocked from the housing market.

Recommendation 2

Future rounds of a shared equity EOI initiative continue at a scale of approximately 1000 properties and again over a duration of 24 months or so. Though sensitive to a range of housing market variables (land supply, interest rates and house price movements) the success of the program is contingent upon their being a sufficient number of eligible shared equity purchasers. In the current EOI the Department had to sell properties at equity shares lower than 80 per cent due to this constraint. The modelling suggests that the lower the equity share, the lower the financial returns to the Department.

Recommendation 3

Preserve the distinctive feature of the shared equity EOI as an unsubsidised form of housing assistance. A distinctive feature of the shared equity EOI is that it requires relatively little recurrent funding and the asset value is created through the scale procurement mechanism. As such, this particular form of housing assistance contrasts with all other forms to date that cost governments significant amounts of capital investment and recurrent expenditure. As there are significant tax concessions (stamp duty relief, capital gains tax relief) to home ownership from state and Australian governments already, there appears merit in preserving this unique status rather than seeking to blend the initiative with other forms of subsidy, such as the Housing Affordability Fund (HAF), for example, for up front infrastructure costs.

Recommendation 4

Maintain a cyclical, opportunistic approach that is flexible enough to gear up and gear down in response to market conditions. Maintain and improve the Department's capability to deliver such a program by continuing to refine its commercial acumen.

As internal Department capabilities and the downturn in the property market were important contextual factors to the success of the scheme, investing further in the Department's capabilities will be important to future success. There would appear to be no opportunity costs for the Department to continue the scheme as an ongoing project. This is because it is already engaging in activities such as purchasing and developing land; monitoring the market; and delivering other shared equity programs. However, this scheme challenged traditional modes of bureaucratic practice and stakeholders identified the need to promote cultural change towards more commercial ways of working.

One of the benefits of improving the Department's capabilities is to find the limits of the market conditions that enable the program to be successful. There may be opportunities for the scheme to be successful even when the residential construction industry is more buoyant. For example, builders and land developers can realise:

- Economies in administration, selling and project management costs when a larger number of homes are purchased by a single buyer.
- Cost savings through easier coordination of tradespeople and the procurement and input of building supplies is possible, particularly where the homes to be constructed are close to one another.
- The benefits of the lower credit risk that the Department, as a Western Australian State Government agency, presents compared to many private buyers.
- Trade-offs of profit margins against the other benefits of working with government—such as low risk, being paid on time and ongoing work.

Moreover, the Department could consider taking a smaller share of the equity during up-turned market conditions. However, this could result in a smaller pool of shared equity purchasers and therefore risk the efficient cash flow that the Department requires.

Recommendation 5

Investigate other ways of enabling this ‘market-facing’ approach to housing policy and housing assistance and consider its replicability nationally.

The success of this approach to housing assistance signals the possibility of a different direction for housing policy in the future. This approach to housing assistance uses government resources to leverage housing assistance subsidies from the market, rather than from government directly. This approach to housing assistance generates economic benefits for households and economic surpluses for government.

Given these outcomes there would be significant national value in investigating other ways of enabling this ‘market-facing’ approach to housing policy and housing assistance. Whilst procurement at scale, an efficient sales program and the provision of a shared equity loan were the key mechanisms in delivering the benefits in this case study, what other mechanisms might government employ to generate similar benefits for households and governments?

There would also be potentially significant national benefits in other jurisdictions developing the capacity and the mechanisms to deliver housing assistance through this ‘market-facing’ approach. To do so, the housing agencies in other jurisdictions will need to consider how they differ, organisationally and culturally, from the Department in WA. Unlike the WA Department that has a housing system-wide focus and a concern to provide ‘stepping-stones’ and ‘pathways’ through the housing system, that is, it is ‘market facing’, typically housing agencies in Australia are ‘government facing’. That is they are within community services departments with a primary focus on integration with other community services. As such their focus is upon the bottom-end of the housing system only, and is more concerned with linking government services provision than opening doors to positive housing futures across the housing system.

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ATTACHMENT 1: INTENDED OUTCOMES AND ASPIRATIONAL TARGETS

Overall policy outcome

Increasing the supply of smaller, more affordable housing options for low to moderate income earners (SharedStart Policy document 2011, p.6).

Policy outcomes

The SharedStart Policy document (2011, p.3) lists the following policy outcomes that are sought through the scheme:

1. Provision of up to 2000 affordable home ownership opportunities for people on incomes of less than $70 000 for singles and $90 000 for couples.
2. Creation of up to 400 home ownership opportunities for social housing tenants or applicants to transition out of the social housing system in two years, representing 20 per cent of the overall 2000 shared equity loans.
3. Increase in the supply of one and two-bedroom housing products in the affordable housing market place.
4. Increase in the volume of lower cost affordable home ownership entry points and affordable housing transition options.
5. Establishment of a pool of affordable home ownership properties that will be retained as affordable housing in perpetuity (i.e. fixed equity loans).

The Post-implementation Review document (2012, p.7) includes an additional policy outcome:

1. Deliver 15 per cent or 300 loans over two years in regional areas.

SharedStart eligibility requirements

The eligibility criteria for the SharedStart scheme are as follows (SharedStart Policy 2011, pp.3–4):

Loan eligibility criteria	Shared Equity
Maximum income limit	Single, $70 000 Couples, $90 000 North West (singles and couples), $110 000 (applicants must live, work and purchase in a North West location).
Maximum loan value	Single, $330 000 Couple, $380 000 North West, $480 000
Department share	To be determined at point of sale (based on value–cost) and the client's borrowing capacity up to a maximum of 30 per cent. This may be varied on specific dwellings/locations where the Department is able to generate additional equity under the procurement arrangements and/or to provide targeted affordable housing outcomes including to social housing tenants.
Deposit	For first home buyers—2 per cent (First Home Owners Grant can be used for deposit and fees), 0 per cent genuine savings. For subsequent home buyers—2 per cent genuine savings plus stamp duty and other fees.
Liquid assets	Purchasers cannot have liquid assets of more than 15 per cent of the market value of the property. Where cash assets are greater than $20 000, additional monies must be made available at settlement to reduce the Department's share of the property for flexible equity clients and to reduce the principal on the loan for fixed equity clients. * Discretion may be applied by the CEO of Keystart where a client is within a priority target group and their circumstances may preclude access to alternative borrowing options.
Rates and outgoings	Purchaser is responsible for all outgoings.
Insurance	Purchaser is required to insure the property at all times.
Owner occupiers	Only available to owner occupiers.

Target client groups

The SharedStart Policy document (2011, p.3) states that the scheme is targeted at people on low to moderate incomes with the following characteristics:

1. First home buyers or those otherwise excluded from home ownership opportunities.
2. Disadvantaged client groups (people with disabilities, sole parents and Indigenous people who are already target groups under current shared equity programs).
3. Specific client groups such as key workers or non-government employees.
4. Ineligible or aspirational social housing tenants or applicants.

Aspirational targets

Consistent with achieving the broader policy outcomes of increasing the supply of smaller, more affordable housing options for low to moderate income earners, the following aspirational targets were set to guide the implementation of the shared equity EOI scheme (SharedStart Policy 2011, p.6):

1. Stock mix: one-bedroom (20%); two-bedroom (50%); three-bedroom (20%); four or more bedrooms (10%).
2. Client equity loan amounts: $200 000–$220 000 (10%); $220 001–$240 000 (20%); $240 001–$260 000 (30%); $260 000–$280 000 (20%); $280 000+ (20%).
3. Income targets: $50 000–$55 000 (10%); $50 000–$60 000 (20%); $60 000–$65 000 (30%); $60 000–$75 000 (20%); $75 000+ (20%).
4. The Post-implementation Review document (2012, p.7) includes revised income targets (which are assumed to be the correct figures): $50 000–$55 000 (10%); $55 000–$60 000 (20%); $60 000–$65 000 (30%); $65 000–$75,000 (20%); and $75 000+ (20%).
5. Target of assisting 20 per cent (up to 400) ineligible or aspirational social housing tenants (or applicants).

Mix of fixed equity and flexible equity loans

The Corporate Executive Final Policy Paper (July 2011, p.4) explains that the intention of the Department retaining its share in perpetuity is on the basis that the property can be retained as affordable housing in the future with the dwelling being recycled and sold to second and third generation clients. This is a significant shift in policy focus from historical shared equity loan products which have largely sought to provide once-off assistance for low to moderate income earners rather than a pool of properties for future home ownership opportunities.

The Corporate Executive Final Policy Paper (July 2011, p.4) states that the following targets:

1. A target of 50 per cent (i.e. 1000) fixed equity loans over a two-year period.
2. A target of 50 per cent (i.e. 1000) flexible equity loans over a two-year period.