# Sustainable homeownership for low-income households

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Sustainable homeownership for low-income households: context and policy options

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This report has been prepared by Jon Eastgate from 99 Consulting based on a review of literature, and the input of a small number of practitioners working in the field of homepurchase assistance. While every effort has been taken to check the accuracy of the information contained in this report, no warranty is provided as to its correctness.

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Any opinions expressed in this paper are those of the author and do not necessarily reflect the views of Shelter NSW.

# Contents

# Executive summary

Approximately 70% of Australian households live in owner-occupied housing. Of the other 30%, about three quarters aspire to do so at some time in the future. For many of these, homeownership is a realistic future option. For others, their needs will be better served by good quality rental programs. In between, there are households who can benefit from homeownership, but need some support to achieve that goal. The aim of this paper is to provide a ‘discussion starter’ about the sort of policies and programs which can best support households in this category.

**Affordability of homeownership**

Homepurchase affordability in Australia has declined steadily through most of the past 40 years, although the recent economic downturn has reversed this trend to a small extent.

Overall, homepurchase is less affordable in New South Wales than in any other Australian State and Territory. However, affordability varies widely between regions. Housing is the least affordable in Inner and Middle Sydney and in some regional areas such as the Tweed Coast and Queanbeyan. On the other hand, housing is highly affordable in some more remote communities, although these are typically areas where there are limited economic opportunities.

A small proportion of homepurchasers are struggling to meet mortgage payments to the extent that they are more than 90 days in arrears. In December 2008 approximately 20,000 Australian households were in this position, up from 13,000 at the same time in 2007. These households are not spread evenly across the country, and of the 10 suburbs nationwide with the highest level of mortgage arrears eight are in Western Sydney.

**Current policies**

There is a wide range of policies and programs in place to provide financial support to homepurchasers. These include taxation concessions, direct payments, the provision of advice and advocacy, and a set of regulatory protections for borrowers. These programs are summarized in Table 1 below.

Each of these programs could be altered in some way to better meet the needs of low-income homepurchasers. A number of potential changes are discussed in the body of the report.

**Ideas for new programs**

As well as the programs already in operation in NSW and at a national level, there are many approaches to the support of low-income homepurchasers that have been or are being tried in other states and overseas. Table 2 provides a summary of these programs.

**Table 1 – Summary of existing programs**

| Policy/Program | Provider | Value per household | Notes |
|---|---|---|---|
| Capital Gains Tax exemption for owner occupied housing | Commonwealth Government | Ave $2,600 per year in 2003 | Impact varies between households |
| Non-taxation of imputed rent | Commonwealth Government | Ave $1,600 per year in 2003 | Impact varies between households |
| Stamp duty exemptions | State Government | Up to $18,000 per property | Varies with income and property value |
| Land tax exemption | State Government | Approx $1,000 per year average | Varies with land value |
| Pensioner rate reductions | Local Government | Up to $250 per year for general rates and $87.50 per year for other charges. | Applies to pensioners |
| First Home Owner Grant | State Government | $7,000 | Provided by State Government as part of a national scheme |
| First Home Owner Boost | Commonwealth Government | $7,000 for existing homes and $14,000 for new homes | Time limited – phasing out from October 2009 |
| First Home Buyers Supplement | State Government | $3,000 for newly constructed homes | Time limited, available until July 2010 |
| First Home Saver Accounts | Commonwealth Government | Up to $850 per year with a overall limit of approximately $12,000 | Provided through financial institutions – Commonwealth matches purchaser savings over minimum of 4 years |
| Mortgage Assistance Scheme | State Government | Up to $20,000 over 12 months | Interest free loan |
| Home Purchase Advisory Service | State Government | na | Information and advice service |
| Regulatory schemes | Various levels of government | na | Key regulations will soon be replaced by forthcoming Commonwealth legislation. |

**Table 2 – Summary of program ideas**

| Activity/ Program | Example/s | Advantages | Limitations |
|---|---|---|---|
| **Policy Purpose:** Extend or accelerate access to households further down the income scale. | | | |
| 'Innovative' mortgage schemes tailored to low-income households | HomeFund, other State mortgage schemes, Indigenous Business Australia | Will provide support for homepurchase in clearly defined markets where private sector lenders are not providing a good service. | Can expose government to risk if schemes are poorly designed, especially given the targeting of low-cost households. A well-functioning finance market may make such schemes unnecessary |
| Shared equity schemes | Keystart in WA, Homestart in SA | Provides access for households with some financial capacity but unable to afford full ownership. | Lack of understanding in the community limits interest, appeal is to a particular limited market segment. |
| Rent to buy schemes | Auckland City/Housing New Zealand Foundation | Provides a entry point for households who would not otherwise access homeownership. | Requires fairly high levels of financial input and support. |
| Subsidies – grants, tax relief | First Home Owner Grant, Stamp Duty exemptions | Provides 'up front' financial assistance at the time of accessing homeownership, when financial stress is greatest. | In their current form, are relatively untargeted and there are questions over the effect of such schemes – do they just push up the price? |
| Targeted development projects | ULDA Queensland, LDA ACT | Provides affordable housing integrated with other housing, often in good locations. | Is limited in scale to the developments being undertaken, financial pressures of developments often limit the amount of affordable housing that can be developed and the price points. |

| Activity/ Program | Example/s | Advantages | Limitations |
|---|---|---|---|
| Sweat Equity Schemes | Habitat for Humanity | Provides a way for people with limited financial resources to make a contribution through their labour. Good schemes take place within a supportive community context which maximizes chances of success even for quite disadvantaged households. | Schemes tend to be resource intensive and hence often small scale relative to need. |

| **Policy Purpose:** Information and Support for households at risk of defaulting on mortgages | | | |
|---|---|---|---|
| ‘Ownership to rental’ schemes | Scottish Government ‘Mortgage to Rent’ scheme | Provides an option which allows purchasers to stay in their home without the financial hardship of an unsustainable mortgage. | Relies on social landlords having resources to cover the purchase, and has potential risks to social landlords in acquiring sub-optimal housing stock. |
| Insurance schemes | Joseph Rowntree Foundation ‘SHOP’ proposal | Provides a financial safety net for purchasers who experience hardship. | Requires a degree of coercion to be effective, places extra cost on purchasers. |

**Summary and conclusions**

Support for low-income households to access homeownership has both benefits and risks. Low and moderate income households can benefit from homeownership through increased security and increased wealth to support them in their retirement. However, programs which promote homepurchase too aggressively place low-income households at risk of default, leaving them worse off than they started. The key to successful policy development is to design programs to support those for whom homeownership can be sustainable, while maintaining good quality rental programs to meet the housing needs of those for whom it is not.

# Introduction

The most significant housing issue for the majority of Australians, the issue that claims the bulk of public funding, media attention and reaction in the general community, is the accessibility of homeownership. Approximately 70% of Australian households live in owner-occupied housing. Of the other 30%, about three quarters aspire to do so at some time in the future.[1]

The set of policies which influence homeownership in Australia is a complex one, including as it does policies around the management and regulation of the financial system, taxation, urban and regional planning, and the provision of direct financial assistance. This paper does not claim to be a comprehensive review of this policy environment. Instead, it paints the broad picture of the environment, and then focuses in on the kind of programs which can be used at a state level to support low-income homeowners and purchasers. Its aim is to promote discussion and further exploration by setting the scene and by raising questions about current and potential policies and programs relating to homeownership.

# Affordability of homepurchase

This section of the paper draws on some key data to present a brief picture of housing affordability in Australia and particularly in New South Wales. One thing that becomes plain in looking at affordability is that different measures of affordability yield different answers. There is no absolute answer to the question 'how affordable is housing'. However, the overall picture of housing affordability in Australia and in NSW has been one of a decline in housing affordability since the 1970s, mainly brought about by an increase in housing prices, partially corrected by the effects of the recent financial crisis. While Australia shared fully in the price rises of the earlier part of the decade, it has not experienced the same decline in prices of the last 12-18 months as countries such as the USA and Britain. This has been the result of a combination of factors, including more prudent bank lending practices, strong government intervention in the housing market, and an underlying shortage of housing in Australia.

## National affordability trends

The overall picture of house price movements in Australia since 1970 is one of steady real price growth (i.e. growth over and above inflation). Abelson, Joyeux, Milunovich and Chung estimate that between 1970 and 2003 real house prices in Australia's capital cities increased by over 100% with an increase of 64% between 1990 and 2003. Sydney prices between 1990 and 2003 increased by just over 70%. Both nationally and in Sydney the majority of this growth occurred in the years from 2000 to 2003[2].

A similar picture is seen when comparing median house prices to median household income. The Reserve Bank of Australia reports that while there were fluctuations from year to year, house prices stayed between three and four times household incomes between 1981 and 1998, then climbed rapidly to be over six times household income in 2002 before dropping back slightly from 2003 onwards, still remaining above five times household income in 2008. The Reserve Bank comments that house prices peaked in March 2008, then fell around 4% to the beginning of 2009, in an environment where housing markets in other major Western economies were declining much more rapidly[3].

In analyzing affordability, however, the third variable along with house prices and incomes is that of interest rates. The historic lows in interest rates through most of the 2000s have to some extent offset the rise in house prices, and indeed might have fuelled part of the increase, as low interest rates and easy availability of credit increased demand for housing. Hence, the Reserve Bank's Housing Affordability Index shows a peak of unaffordability in the late 1990s followed by steady improvement in affordability (with fluctuations) up to 2008, when affordability declined as result of declining incomes brought on by the recession[4].

All of this data refers to aggregate housing affordability across the market. Affordability for specific households depends on a number of factors, including their level of income, the amount of assets they have (whether in housing or other assets), their location and their household makeup, which influences the type of housing they need.

As an example of this analysis, AMP and NATSEM analyzed data from the ABS 2005-06 Survey of Income and Housing to get a clearer picture of the affordability picture for renters – those who are likely to want to enter homeownership in the future[5]. Because renters have on average lower incomes than existing owners or purchasers, the national average ratio of median house prices to median renter incomes was nine, as opposed to 7.5 overall. Obviously this ratio was higher for those in lower income brackets – for those whose income was below half of the median, the average ratio was 26.6, while for those between half the median and the median itself, the ratio was 10.7. The data also show that certain types of households – especially sole parents and lone person households – are more likely to face affordability barriers, while those unemployed or not in the workforce are more likely to experience affordability problems than those who are employed.

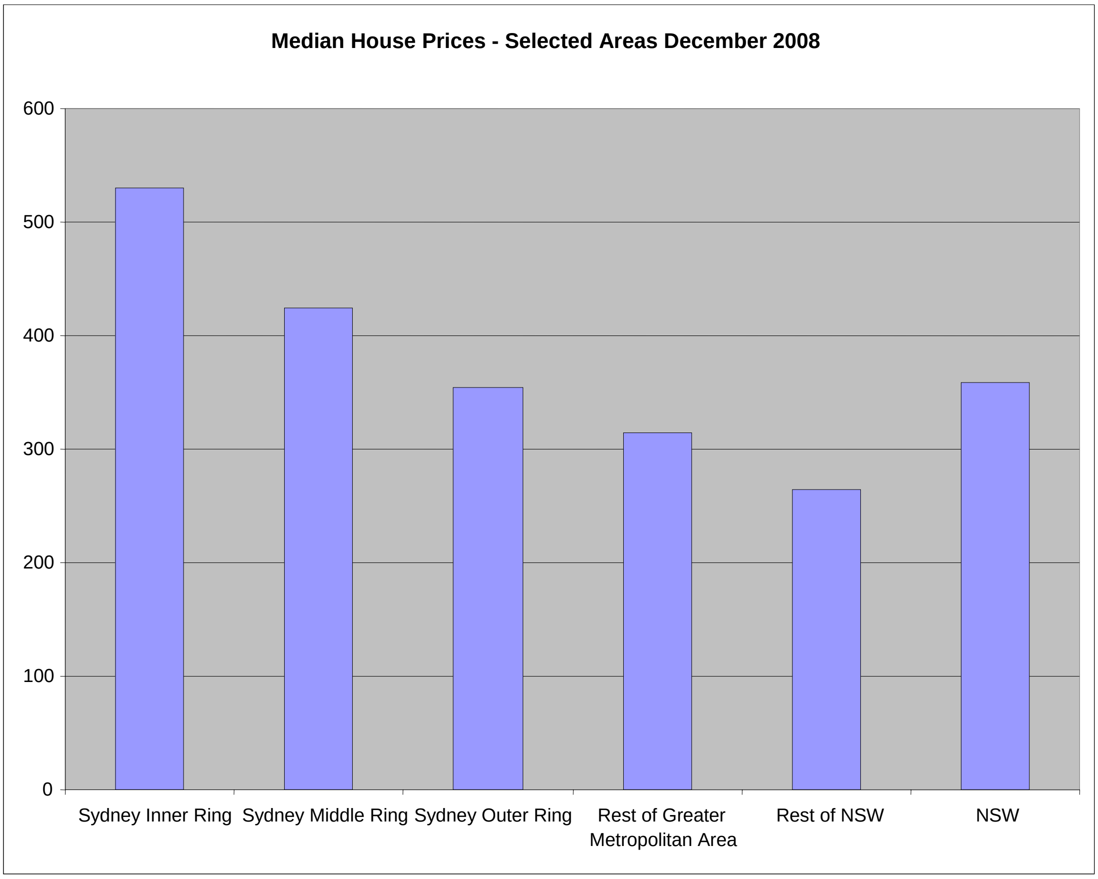
Another way of looking at this issue is by measuring the amount of deposit a first homebuyer household would need to save before entering homeownership. Bankwest has recently released an analysis of this question based on data on house prices and incomes from over 500 local government areas across Australia[6]. Their conclusions are based on an analysis of the incomes of people aged 25-34 in each local area, compared to the average house price. They found that across Australia potential first homebuyers would need to save 20% of their income for an average 3.7 years to raise a 20% deposit on a median priced house, even taking account of the First Home Owners Boost. These figures, however, varied markedly from region to region – as discussed in the next section.

## State and regional affordability

These national indicators of affordability mask considerable differences not only between households, but between states and regions.

On most measures, New South Wales is shown as having more severe affordability problems than other states. According to AMP/NATSEM, New South Wales has the highest ratio of house prices to incomes (8.7 to the next highest, Western Australia at 7.5) and the highest proportion of households in housing stress (25.4% to Queensland's 22.7%)[7].

However, affordability also varies markedly within New South Wales. Looking purely at house prices, the most obvious difference is between the major metropolitan areas, in particular Sydney, and the rural and regional areas. Housing NSW figures[8] for December 2008 show that while New South Wales as a whole had a median dwelling price of $358,000, the Sydney Statistical district had a median of $406,000. Within this district, Inner Sydney had the highest median price ($530,000) while the middle ring of Sydney had a median of $425,000 and the outer ring $355,000.




*Source – Housing NSW Rent and Sales Report No. 87*

By contrast, prices in other Greater Metropolitan Area locations tend to be lower – for instance Wollongong has a median price of $341,000, Newcastle $315,000, Maitland $288,000 and Cessnock $219,000. Overall figures are lower still for rural and regional areas. The median dwelling price for areas outside the Greater Metropolitan Area was $265,000. Some regional areas did experience relatively high prices – for instance the Tweed Coast area had a median price of $393,000 and Queanbeyan $356,000. However, most non-metropolitan areas had median prices of below $300,000. The lowest prices were found in the remote districts of Upper Darling ($65,000) and Macquarie/Barwon ($80,000), while Northern Slopes, the North Central Plain, Central

Macquarie, Lachlan, Central Murrumbidgee, Upper Murray and Far West all had median prices of under $200,000.

This data on its own would suggest that housing affordability is primarily an urban problem. However, prices are only one side of the affordability question. Median incomes also vary substantially between locations. Indeed, there is a strong link between housing prices and housing demand, so that the areas with low house prices tend to be areas of low employment, limited economic opportunity and in extreme cases, shrinking populations. Hence, as with the national figures we need to look at the relationship between house prices and median incomes.

In 2007 the Urban Development Institute of Australia conducted a review of affordability in regional markets around Australia using the 'UDIA/Matusik Affordability Measure' which compares median incomes to the expected loan repayments on a median priced house and unit[9]. They reported four housing markets in NSW as being in 'affordability crisis' – Inner, Middle and Outer Sydney and the Ballina/Tweed/Lismore area. Five more were reported as having 'serious constraints on affordability' – Blue Mountains, Coffs Harbour, Wollongong, Gosford and Port Macquarie. By contrast, Bathurst, Dubbo, Orange, Tamworth and Wagga Wagga were all classified as 'affordable'.

Bankwest's analysis of affordability for first time buyers[10], discussed above, paints a similar picture at a greater level of detail. They estimate that a first homebuyer couple in Sydney would have to save for 5.2 years to raise a 20% deposit for a house, or 3.5 years for a unit. However, they also estimate that there are 60 local government areas in NSW where a first time buyer could save a deposit in less than two years, all of these in regional and rural NSW, including three local government areas (Brewarrina, Central Darling and Urana) where the first home owner grant on its own is enough to provide for a 20% deposit.

These measures, while not comprehensive, suggest that overall the most striking affordability problems in NSW are to be found in the Sydney area, while some other coastal and urban areas face serious affordability problems. Overall problems are less severe in most rural and regional areas.

This should not, however, be taken to mean that there are no affordability problems in these areas. The AMP/NATSEM research referred to above highlights the fact that affordability is just as much related to individual household circumstances – even in lower priced markets, households on low-incomes are likely to face affordability issues.

## Home loan arrears

Most people who gain mortgages are able to maintain mortgage payments and eventually proceed to homeownership. However, a small but significant minority experience significant problems with mortgage repayments. The Reserve Bank of Australia reports that in contrast to other Western nations, Australia's proportion of home loans in arrears has only experienced a moderate increase through 2008. In December 2008 0.48 percent of loans kept on bank balance sheets (more than 75% of all loans) are more than 90 days in arrears, an increase of 0.16 percent over the same time in 2007. The proportion of securitized loans (where loans have been bundled up and on-sold to third parties) is slightly higher at 0.78% and has increased a little more sharply. The highest levels of arrears are found amongst ‘low-documentation’ loans (where borrowers are subject to less scrutiny over their credit-worthiness) of which 2.0% were in arrears, and in the ‘non-conforming’ category (where loans are made to people who don’t meet the criteria for ‘normal lending’ – approximately 0.5% of all home loans) of which 9.86% were in arrears. Translated into figures, this equates to approximately 20,000 borrowers in arrears for over 90 days across Australia in December 2008, compared with 13,000 in December 2007[11].

Not all of these situations end in repossession – in some cases owners are able to rectify the problem while in others they might choose to sell or refinance. However, research for AHURI shows that in 2006 there were over 5,000 applications for claims of possession in the NSW Supreme Court, and approximately 4,000 in 2007[12]. No more recent figures are available but it is to be expected that this will have increased in 2008 in line with increases in the number of loans in arrears.

Default is more prevalent in some locations than others – the same AHURI research reports a list of the 10 areas in Australia with the worst performing loans. Of these eight are concentrated in the western suburbs of Sydney – in the outer west, the Fairfield/Liverpool area and Canterbury – Bankstown – while one of the remaining two was in Wollongong[13].

It should come as no surprise that low documentation and non-conforming loans provide the greatest risk of arrears, since these loans are more commonly used by ‘marginal’ borrowers who do not qualify for bank loans at more attractive interest rates or conditions.

The reasons people get into arrears with their home loans are as varied as their personal circumstances. The AHURI research identifies four categories of reasons why borrowers might fall into arrears (individuals might experience more than one of these).

- They might have taken out a loan which they never had the capacity to service – i.e. they (and their lender) have made a poor financial judgment from the beginning.
- They might have experienced a personal crisis which has reduced their ability to pay – for instance, loss of employment, illness or marital breakdown.
- They might have been in a marginal position and then had this worsened by increasing interest rates.
- Some purchasers might find that these circumstances are combined with falling house values which limit their ability to clear the debt by selling the home - the ‘negative equity’ situation referred to above[14].

## Policy questions

The rapid price increases of the past decade, and the current downturn, have created a difficult policy dilemma for the Commonwealth Government. On the one hand, there is a general acknowledgement that housing prices are too high, and that prices at this level will place long-term pressure on housing affordability. However, if prices are allowed to fall rapidly many recent purchasers will find themselves with ‘negative equity', owing more than the current value of their property. Wood and Parkinson estimate that a 10% decline in house prices in Australia would result in 110,000 households holding negative equity – approximately 5.3% of all borrowers[15]. Negative equity is not necessarily a serious problem for borrowers if they are able to continue to manage their mortgage payments – over time the problem would be solved even by modest levels of inflation combined with the repayment of the mortgage. However, it does present a major problem for those who default on their mortgages, as they can sell their house or have it repossessed and still be carrying a substantial debt. Negative equity also places extra stress on the banking and finance industry, increasing their exposure to risk as a result of an increase in unsecured debt.

In this situation, the ideal is to allow real prices to decline slowly, improving affordability in the medium to long term without creating short-term shock. However, this is much easier to say than do – governments have only limited ability to control such price movements in an environment where factors such as land supply, construction costs, credit costs, demographic change, employment and consumer confidence, many of them operating at an international level, all influence demand and price movements.

# Current policies

The 2006 Census reports that 69.8% of all Australian households were in owner-occupied housing. 35.1% of households were outright owners, while 34.7% were paying off mortgages[16]. This rate of homeownership, relatively high by international standards, is not an accident, but a result of deliberate housing policy choices. This section provides a very brief summary of some of the policies which support this high level of homeownership.

## Policy context

In the years following the Second World War, Australia faced a dual challenge. On the one hand, there was an absolute shortage of housing, created by the redirection of economic resources towards the war effort, combined with the effects of the preceding depression. On the other hand, there was widespread community dissatisfaction with the quality of much urban private rental housing, and a strong social aspiration to do better, particularly for the returning servicemen who were seen as having done so much for the nation.

The response of the Commonwealth Government at the end of the war was a set of policies which encouraged the development of a public housing system through grants and concessional loans to state governments for mass construction of rental housing, and a set of policies to promote homepurchase, including loans to ex-service families, favorable tax arrangements for owner-occupation, and strong government intervention to develop a banking sector geared to home lending.

This initial policy setting envisaged two main housing options for Australian Households. For those who could afford it, homeownership would be easily available on good terms. For those who couldn't or who chose not to purchase, a quality public rental system would provide secure, affordable and adequate housing near centres of employment. Meanwhile, private rental was seen as a transitional tenure, providing housing for those who were either saving to buy their own home or waiting to be allocated public rental.

However, subsequent Australian governments rapidly shifted this focus, promoting homeownership as the preferable option and public housing as a temporary or 'fall-back' option for those unable to access homeownership. Hence, funding for public housing construction was wound back in the 1950s and 1960s, sales to tenants were encouraged, and measures to promote homeownership were strengthened. The economic boom and the maintenance of full employment meant that during this period homeownership seemed a realistic aspiration for most households, with private rental housing providing temporary housing for people who were between houses or saving to purchase a home. Public housing came to be seen as a fallback option for people experiencing temporary hardship[17].

These policies were certainly effective. In 1947 only 53.4% of Australian households were owner-occupiers, including 8% who were paying of a mortgage. By 1961, 70.3% of households were in owner-occupied housing, including 22.5% paying off mortgages. Since that time, the proportion of owner-occupiers has remained fairly steady at around 70%, while the split between outright owners and purchasers has fluctuated[18].

While a lot of specific policies and programs have changed since the 1950s, the overall policy direction has remained much the same.

- Homeownership is supported through a range of taxation, regulatory and funding measures, and is seen as the ‘natural’ and preferred tenure for most Australians.
- Public rental is supported as a housing option for those who are unable to afford housing in the private market, and is increasingly framed as a ‘welfare’ measure for the most disadvantaged as opposed to a housing option available to any household.
- The private rental market, largely unregulated, is seen as providing a ‘stop-gap’ between these two tenures, although increasingly households stay long-term in private rental housing as they are unable to access either homeownership or public rental.

Homeownership is clearly consistent with the liberal, individualistic mind-set that guides much Australian social action. There is also a sense in which such policies become self-perpetuating. Both Kemeny[19] and Rowlands[20] have pointed out that the more exclusively policy measures promote homeownership, and the less supported other tenures are, the less desirable they seem and the more homeownership is seen as a ‘natural’ preference.

However, while the policy approach has remained the same, the housing circumstances of Australian households have changed significantly.

- The recession of the 1970s, and the changes in family and household structure that have taken place from the 1960s onwards, have led to a far larger group of people who require long-term subsidies for housing. These include sole parents, people with disabilities, people who are long-term unemployed and, increasingly, people in unskilled and low-wage occupations.
- Despite a number of ‘boom and bust’ cycles in housing costs, the overall affordability of housing (measured by the ratio between median house prices and median household incomes, with interest rates providing an extra determinant of affordability) has declined since the 1960s, so that households can only purchase by taking out larger loans.

These trends have meant that an increasing number of households remain in long-term private rental, with an increasing number in housing stress. These households often have little hope of accessing homeownership, and face long waits for public or community housing if they meet the eligibility criteria at all.

## Key policy settings – national and state

A number of polices are currently in place to support access to homeownership across the board. These are presented here as a backdrop to a more detailed discussion of specific measures to assist low and moderate income homepurchasers. The measures are summarized in the table below (page 10), and discussed in more detail in the following sections.

## Indirect assistance

By far the largest amount of support for homeownership in monetary terms is provided indirectly through the tax system.

At the Commonwealth level, the two key tax measures which support owner-occupation are as follows.

- The exemption of the principal place of residence from Capital Gains Tax. In general, tax is payable on the profits on the sale of assets (the capital gain) in Australia. Residential property that is not the owner's principal place of residence (i.e. rented housing) is taxed at 50% of the normal rate, while profits on the sale of the principal place of residence are not taxable. Judith Yates estimated that in 2003 this exemption was worth $13b per year[21]. The current Commonwealth review of the taxation system (the Henry Review) also quotes a 2004 Productivity Commission estimate of benefit from this source at $10b per year[22].

- The non-taxation of 'imputed rent'. The concept behind this is that owner-occupiers get a measurable benefit from their ownership of housing (roughly equivalent to the rent they would be paying if they rented the dwelling) which they receive in kind rather than in cash. Australia's taxation system treats other forms of in-kind income, such as fringe benefits from employment, as taxable income, but the in-kind benefit of investment in owner-occupied housing is tax free. A hypothetical tax on imputed rent would generally involve net benefit after the costs of the investment (mortgage interest, maintenance, rates, etc.) are deducted. Judith Yates estimated that the net income foregone by the absence of such a tax (after deductions are allowed for) was approximately $8b per year in 2003[23]. The Productivity Commission report arrives at the same figure for this exemption[24].

Yates estimates that in 2001 these indirect measures provided an average benefit of $4,200 per owner-occupied household per year[25]. These measures have been in place for a number of decades and could be argued to have become entrenched in the Australian taxation system to the extent where changes would be politically very difficult. This is especially the case with the tax treatment of imputed rent, which is difficult to explain to a non-specialist audience. However, there is potential for some movement on the taxation of capital gains on owner-occupied housing, particularly at the top end of the market.

NSW Government indirect assistance consists of the following.

- Exemption from stamp duty for first homepurchasers for any home up to $500,000 in value, with exemptions then phased out for purchasers of properties between $500,000 and $600,000. This exemption can be worth up to $18,000 per property, and is combined with a range of other benefits for first homeowners provided by the NSW and Commonwealth governments[26].

- Exemption of owner-occupied housing from land tax – in common with other states, NSW does not charge owner-occupiers land tax. Nationally, this exemption is worth a total of $7b to owner-occupiers, or over $1,000 per household per year[27].

In addition to this, under the *Local Government Act 1993* pensioner homeowners are eligible for a reduction in rates and Council charges of 50%, up to a specified maximum reduction which varies for different types of charges[28].

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| Mortgage Assistance Scheme | State Government | Up to $20,000 over 12 months | Interest free loan |
| Home Purchase Advisory Service | State Government | na | Information and advice service |
| Regulatory schemes | Various levels of government | na | Key regulations will soon be replaced by forthcoming Commonwealth legislation. |

## Direct assistance

The quantum of direct assistance overall is more modest than indirect assistance, but because it is more targeted it tends to amount to more per household assisted.

The principal form of direct assistance is the combination of measures available to first homepurchasers. These include:

- the First Home Owner Grant, worth $7,000 per dwelling
- the First Home Owners Boost, provided for a limited period (October 2008 to September 2009) by the Commonwealth Government, worth an additional $7,000 for the purchase of an existing home and $14,000 for a newly constructed home. This grant will be phased out, with purchasers between October and December 2009 eligible for half of these amounts.
- the NSW Government's New Home Buyers Supplement, provided for a limited period (November 2008 to June 2010) and worth $3,000 for purchasers of newly constructed housing
- the Commonwealth Government has also recently provided for the creation of First Home Saver Accounts, to be provided by existing financial institutions. These accounts allow prospective first homebuyers to save up to $75,000. The Commonwealth will contribute an amount of 17% on deposits in these accounts, up to a maximum of $5,000 in any one year (i.e. the Commonwealth will contribute up to $850 in any one year) and interest in the accounts is taxed at 15%. These accounts provide for a mix of direct subsidy for people saving for a home, and tax subsidies through the concessional tax rate[29].

These measures, combined with stamp duty exemptions summarized above, mean that until September 2009 first homebuyers can receive up to $42,000 worth of State and Commonwealth assistance. Even when the boost and supplement payments are not available, first homebuyers can receive to $25,000 worth of assistance under 'normal' policy settings, and this will increase by up to $3,000 plus the value of tax concessions for holders of first home saver accounts once these begin to take affect after their minimum four year savings period (i.e. from 2012-13). The Office of State Revenue records that over 50,000 households have received benefits under these programs between May 2008 and April 2009, with total benefits of over $1 billion[30]. Since the First Home Owners Boost and New Home Buyers Supplement were not available for much of this period, it can be expected that figures for the latter part of 2009 will be substantially increased. Recent figures from the Commonwealth Minister of Housing indicate that over 27,000 households in New South Wales took up the First Home Owners Boost between October 2008 and April 2009[31].

Further, the 2009-10 State budget of 16 June provided for purchasers (other than first homebuyers) of newly-built dwellings valued up to $600,000 to be given a 50% concession on transfer duty between July and December this calendar year.[32] This concession is called the 'Housing Construction Acceleration Plan'.[33]

Aside from this substantial intervention, the NSW Government operates a modest program, the Mortgage Assistance Scheme[34]. This scheme is aimed at providing assistance for homepurchasers who are at risk of mortgage default. To be eligible homeowners must:

- be experiencing difficulties due to a specific, time-limited crisis such as illness or unemployment
- have exhausted avenues such as restructuring payments by negotiation with their lender and calling on savings
- owe no more than $350,000 and own a house valued at no more than $500,000
- have a gross household income of no more than $90,000 per year
- have current loan payments exceeding 36% of household income
- have been paying at least 27% of their income in mortgage repayments.

Eligible households can receive an interest-free loan of up to $20,000 over a maximum 12 month period, paid directly to the home lender towards mortgage payments.

Compared to the overall number home repossessions, coverage of this scheme is relatively limited, with 364 applications made and 94 households receiving assistance between 1 July 2008 and 31 May 2009[35]. Recent media exposure of this scheme has led to substantially increased interest in the scheme and this has led to a substantial number of applications from ineligible households.

The other program of relevance provided by the NSW Government is the Home Purchase Advisory Service, operated by Housing NSW, which provides phone advice and a range of publications to help people make decisions about home purchase and borrowing. Use of this service has fluctuated in recent years, with over 8,000 requests for assistance in the 2007-08 financial year[36].

## Regulation

Homepurchase takes place in a complex legal and regulatory environment, and this environment is changing rapidly, with the Commonwealth in the process of drafting consumer credit legislation which will supersede existing state regimes. Some key elements of the legislative framework are:

- the land title system administered by the NSW Department of Lands
- a range of laws around consumer credit, including the provision of mortgage lending, currently administered by the State Government but soon to be replaced by Commonwealth legislation
- overall regulation of the banking sector, managed by the Commonwealth Government
- a range of more or less voluntary codes of practice and dispute management arrangements set up by sectors of the finance industry to operate within the overall legislative framework – the application and coverage of these is likely to change with the new legislation.

Extensive discussion of these laws is beyond the scope of this paper, but further discussion of some potential reforms is included below (page 17).

## Effect of policies

This very broad, diverse set of polices can not be summarized in terms of one overall effect – rather, different polices have different effects.

In general, the result of the taxation measures is to provide subsidy to outright owners rather than purchasers, and to higher income households as opposed to lower income earners. Outright owners have fewer housing expenses to offset against the benefits of homeownership, and retain more of the value of capital gains on sale. In addition, higher income earners benefit more from tax subsidies in general because their income places them in higher tax brackets[37].

By contrast, the benefits (grants and tax concessions) clearly benefit purchasers and provide the benefits ‘up-front’, although because these benefits are not means tested it is difficult to know the extent to which they benefit lower income as opposed to higher income households.

The overall effect of these direct subsidies on accessibility of homeownership is also a matter of much debate with little reliable evidence available. A number of commentators have argued that the First Home Owner Grant pushes up the price of housing, and hence has little net effect on accessibility[38]. Others have argued that it serves to bring forward purchase by households who would have purchased anyway, by shortening the time needed to save for a deposit[39].

The recent boosts to homepurchase assistance are clearly aimed at maintaining both house prices and employment in the construction industry, and evidence so far indicates that this has been successful, in that while prices overall have fallen, prices at the lower end of the market (generally the end most accessed by first homebuyers) have stayed stable. First time buyers made up 28% of housing loans issued in April 2009, more than at any other time and a massive increase on the 16.8% in the previous April[40].

It is unclear to what extent individual purchasers ultimately benefit from these measures. If the grant has propped up prices, it could simply be the case that first time buyers would have entered the market anyway, with lower prices compensating for the absence of the grant. There is also some question around the sustainability of these purchases. Recently reported research suggests that 30% of people who bought in the past 12 months were experiencing mortgage stress (paying more than 30% of their income in repayments), while 21% expected to have difficulty meeting their mortgage repayments over the next five years[41].

The evidence of the effect of the First Home Owner Boost illustrates the way in which housing policy is closely linked to macroeconomic policy, and at the same time is important for individual households. The motivation for the First Home Owners Boost is very clearly to counter the effects of the recession, avoiding the loss of jobs in the construction industry and the effects on existing homeowners and the banking industry of a substantial fall in house prices. At the same time, while the policy lever used is a direct grant to first homepurchasers, these households might not receive any tangible benefit from the grant if it prevents house prices from falling and it leads them to take out unsustainable mortgages.

There is also a certain amount of risk involved in this strategy. The presumption of a temporary boost in the grant is that as the grant is phased out, the hoped-for economic recovery will see house values maintained. However, if this does not eventuate, the government will have simply postponed the fall in prices, and the most recent buyers will be the most vulnerable to the effects of this, being left with negative equity in their homes while struggling to repay large mortgages. The government will then face a difficult choice – maintain the high levels of subsidy, or allow some of these households to lose out financially.

# Potential improvements to current programs

There is quite a wide range of programs currently in place from Commonwealth and State governments to support homepurchase. Some of these are very open to improvement including better targeting, greater effectiveness and better protection for vulnerable consumers. This section outlines some key ideas for improvement of these existing programs.

## Why support homeownership?

One of the key questions in providing policy support for access to homeownership is 'why do it?'. This raises a number of subsequent questions – who should be supported to access homeownership and to what extent should they be supported?

There are a number of researchers who caution that there are limits to the extent to which households should be supported into homeownership. No developed economy has a homeownership rate of much above 70%, and deliberate policy attempts to increase the homeownership rate in Britain and USA have not succeeded in pushing the rate further than this[42]. This leads to a caution that support for homeownership should not be the sole focus of housing policy, and that there is a need for a robust private and social rental sector to meet the needs of the 30% of households in rental housing.

Nevertheless, there are some strong reasons for supporting access to, and maintenance of, homeownership amongst certain categories of household. These include:

- Consumer preferences – repeated surveys of housing preference show that over 80% of Australians aspire to own their own home[43]. It could therefore be argued that supporting this aspiration is a legitimate goal of public policy.

- Wealth accumulation – homeownership is one of the principal means of wealth accumulation for Australian households (partly due to the indirect subsidies through the taxation system), and provides a key means to bolster a household's wealth[44], provide for retirement and pass on wealth to the next generation. Homeowners have lower housing costs and greater security in old age as a result of owning their home, while families who own property are less at risk of intergenerational poverty.

- Independence and security – homeowners are seen to have a greater level of independence from state support (ignoring tax subsidies and the like) and from family, and a greater level of commitment to their community and neighborhood as a result of ownership.

On the other hand, there are some general indicators that some types of households might not be appropriate recipients of assistance, drawn both from the literature[45] and from interviews conducted as part of this project. The argument mostly focuses around the sustainability of homeownership – will the household assisted be able to maintain themselves in ownership over the medium to long term? A number of factors come into play here.

- Security of income – for homeownership to be sustainable, households need to have sufficient income, and this income needs to be sufficiently secure, for them to be able to meet the costs of a mortgage over its life. This also applies to assistance to sustain a mortgage through financial hardship – there needs to be a reasonable assurance that the hardship faced by the household is temporary and that their income will recover in the foreseeable future.

- Financial and homeownership skills – it is also suggested that households need to have a basic level of knowledge and skill in managing their finances and in meeting their obligations as homepurchasers. This includes a level of financial management ability, and an understanding of the legal obligations involved in homeownership. It should not be assumed that all households have this, particularly households which do not come from a 'culture' of homeownership (for instance, families from remote Aboriginal communities, refugees from countries which have different housing tenure systems, or households whose families have been multi-generational renters). These households might need a higher level of education and support to sustain homeownership even if they have the financial capacity to do so.

- Level of equity – it is suggested that homepurchasers do better if they have a level of equity in their own home, through making a substantial deposit. This provides them with a financial buffer against default and negative equity, and establishes a history of savings and financial discipline which needs to be continued into the paying of a mortgage.

- Locational factors – it is considered that assisting people to purchase in risky or declining markets places them at risk of both default and negative equity. In addition it might also lock them into locations with declining employment opportunities.

These factors form some of the key background to the discussion in the remainder of this section and in the next section.

## First homeowner assistance

Proposals for change in the First Home Owner grant, including the direct and indirect State and Commonwealth components, need to take account of the dual aims of the measure. On the one hand, the measures are aimed to assist first homeowners to access homeownership. On the other, they act to stimulate the housing industry and prevent a sharp downturn in this industry.

It is reasonable to assume that the stimulus is intended as a temporary measure, and that this will become unnecessary assuming the economy recovers over the next few years. Thus, the most fruitful discussion is around how to treat the longer term components of this set of measures. These include:

- the First Home Owner Grant, worth $7,000 per dwelling
- exemption from stamp duty for first homepurchasers for any home up to $500,000 in value, with exemptions then phased out for purchasers of properties between $500,000 and $600,000. This exemption can be worth up to $18,000 per property.

It is a moot point what effect these subsidies have on access to homeownership by low to moderate income households. Some questions around this include:

- whether it allows access to homeownership for households who would not otherwise have been able to enter ownership, or simply brings forward purchases by cutting the time needed to save for a deposit
- whether it has an overall inflationary effect on the market, or that segment of the market most attractive to homeowners
- whether it has the effect of placing some marginal purchasers in unsustainable situations by making it possible for them to enter homeownership without saving for a deposit, using 'low documentation' and higher risk loan products.

The two main options for reforming these programs seem to be as follows.

- Increased targeting – it is frequently suggested by National Shelter and others[46] that benefits for first homepurchasers should be means tested, and targeted towards households below a certain income threshold. It is argued that this would increase the social equity outcomes of the program and preserve its ability to assist moderate-income homeowners into homeownership, while at the same time reducing its overall inflationary effect and the overall budget outlay.

- Deposit requirements – another proposal for improving this area of assistance is to only provide financial assistance where this is matched by a deposit from the purchaser themselves. This would ensure that the purchasing household had a history of savings, demonstrating financial capacity, and also provide them with a financial stake in the dwelling over and above the grant. There appears to be no realistic way of preventing this extra deposit being contributed by other family members rather than the person themselves, but this is probably not a significant issue as it at least ensures that the purchaser has some committed family support beyond the resources of the household. One way of doing this is through the mechanism for the Commonwealth Government's proposed First Home Saver Accounts, in which the person's savings are matched by Commonwealth contributions. This scheme could be seen as a logical replacement for the first homeowner grants in the medium term, although for the present it seems designed to operate alongside existing programs.

Other proposals present different ways of approaching this type of assistance altogether. For instance, Pope and Rowland present a proposal for tax deductibility of mortgage interest for first homebuyers, with the loss of tax revenue partially offset by the application of Capital Gains Tax to owner-occupied homes over $1m in value[47]. This proposal, and others like it, point to the fact that there are many ways to provide assistance to first homebuyer, and that the system we have in place could be improved or replaced in many different ways.

## Consumer advice and protection

Consumer regulation and protection applies to all borrowers, but it tends to only become an issue when borrowers get into arrears. At this point they are faced with a complex set of legal arrangements and options. Detailed comment on this area is outside the scope of this paper, especially as the current regulatory regime is in flux pending Commonwealth legislation to replace current state-based regulatory regimes. However, there are a number of key issues which need to be covered in new regulations and supporting arrangements, and these are summarized here.

- Protection against unscrupulous or predatory lending practices – a number of borrowers are caught in unsustainable situations as a result of poor decisions right from the beginning of their loan. At times these can result from failures of duty of care in lenders or their agents. These issues can be made more likely by situations in which there is poor accountability on the part of the selling agent – for instance, where a broker receives a fee for 'selling' a loan but has no legal responsibility for the information provided to support the granting of that loan, or where sellers provide 'advice' which is not in the interests of the purchaser. Improved accountability within the system of mortgage broking and linked sales/lending arrangements would improve this.

- Hardship provisions – there need to be clear procedures in place to deal with temporary hardship. At present, many lenders have voluntary practices for dealing with hardship, offering options including reduced payments, deferred payments and restructuring of loans at their disposal. However, not all lenders subscribe to these practices, and borrowers are to some extent at their mercy. A codified set of processes for dealing with these situations would put all borrowers on a more equal footing.

- Informal dispute resolution – the experience of those involved in this area of law is that once the issue reaches court there is little likelihood of resolution other than the property being repossessed. In this formal legal setting, borrowers, particularly those in financial hardship, will always be at a disadvantage against financial institutions that have the resources to pay for high-cost legal representation. However, a number of financial institutions are signatories to voluntary codes of practice that include the use of external dispute resolution schemes. These schemes do not provide legally binding rulings, but provide an independent process for negotiating settlements before issues get to court. Mandating of these schemes would once again help borrowers, and this is proposed in the draft Commonwealth legislation. At the next level of formality, the NSW Consumer Credit Code empowers the Consumer, Trader and Tenancy Tribunal to hear some matters in a less formal setting, and the continuation and extension of such mechanisms under the new Commonwealth legislation would help to provide a more even-handed forum for disputes.

- Independent advice – while some borrowers might have access to their own legal advice, the reality is that those who are in default on their loans will mostly not be able to afford this. This means they are dependent on either Legal Aid NSW or on community legal centres such as the Consumer Credit Legal Centre for advice. These bodies have the skills to do the work and handle large numbers of cases, but have limited resources. It is important to ensure that they or similar bodies are adequately resourced to provide independent support to borrowers in default situations.

- Education and information – there are currently two main independent sources of information about mortgage issues:

- the Home Purchase Advisory Service, which provides general advice on a range of issues around homepurchase, mainly over the phone, and has a number of ‘plain English’ publications covering issues around homepurchase[48];
- Legal Aid NSW, which has published a manual on dealing with mortgage stress focusing on the various legal processes involved[49], and has recently run a series of information workshops covering the same territory.

While these sort of educative processes cannot take the place of individualized advice and support at the time people get into trouble, they can help people to avoid problem situations, and provide them with a first point of guidance on what to do when they do get into trouble.

## Mortgage assistance

As outlined above, Housing NSW operates a Mortgage Assistance Scheme which provides financial assistance to households who face mortgage arrears as a result of temporary hardship. Over 90 households received assistance under this program in the period from July 2008 to May 2009. This is obviously only a very small proportion of the households who experience arrears in their mortgages. There appear to be a number of reasons for this.

- The scheme is very much a ‘last resort’ option, after borrowers have exhausted the options of negotiating with their lender and going through independent dispute resolution.

- The eligibility criteria are relatively narrow, focusing on specific and temporary hardship events, so than many households who simply find themselves overcommitted do not qualify.

- Its structure as a loan – albeit on very generous terms – might mean that many households do not see it as a viable solution to their problem with debt.

- The scheme is not heavily promoted and it might be that many eligible households don’t know about it.

It is an open question how far the State government should go in providing assistance to borrowers who get into arrears. It seems reasonable to suggest that the state has no obligation to bail out people who simply make unwise financial decisions. However, the extent to which it should provide assistance to those who get into hardship as a result of personal circumstances, or who are at risk of losing their housing as a result of economic downturns like the present one, are likely to remain hot issues if the current downturn continues. Some other ideas for dealing with this issue are summarized in the next section.

# Ideas for new programs

There is quite a wide range of homeownership assistance programs operating in other Australian states and in comparable countries. This brief section provides a brief review of the sort of options which could be considered in the NSW context, merely as a way of broadening the discussion beyond existing programs. These programs are summarized in Table 2 below, and outlined in more detail in the sections that follow.

**Table 2 – Summary of program ideas**

| **Activity/ Program** | **Example/s** | **Advantages** | **Limitations** |
|---|---|---|---|
| **Policy Purpose:** Extend or accelerate access to households further down the income scale. | | | |
| 'Innovative' mortgage schemes tailored to low-income households | HomeFund, other State mortgage schemes, Indigenous Business Australia | Will provide support for homepurchase in clearly defined markets where private sector lenders are not providing a good service. | Can expose government to risk if schemes are poorly designed, especially given the targeting of low-cost households. A well-functioning finance market might make such schemes unnecessary. |
| Shared equity schemes | Keystart in WA, Homestart in SA | Provides access for households with some financial capacity but unable to afford full ownership. | Lack of understanding in the community limits interest, appeal is to a particular limited market segment |
| Rent to buy schemes | Auckland City/Housing New Zealand Foundation | Provides a entry point for households who would not otherwise access homeownership. | Requires fairly high levels of financial input and support.. |
| Subsidies – grants, tax relief | First Home Owner Grant, Stamp Duty exemptions | Provides 'up front' financial assistance at the time of accessing homeownership, when financial stress is greatest. | In their current form, are relatively untargeted and there are questions over the effect of such schemes – do they just push up the price? |

| Activity/ Program | Example/s | Advantages | Limitations |
|---|---|---|---|
| Targeted development projects | ULDA Queensland, LDA ACT | Provides affordable housing integrated with other housing, often in good locations. | Is limited in scale to the developments being undertaken, financial pressures of developments often limit the amount of affordable housing that can be developed and the price points. |
| Sweat Equity Schemes | Habitat for Humanity | Provides a way for people with limited financial resources to make a contribution through their labour. Good schemes take place within a supportive community context which maximizes chances of success even for quite disadvantaged households. | Schemes tend to be resource intensive and hence often small scale relative to need. |

| **Policy Purpose:** Information and Support for households at risk of defaulting on mortgages | | | |
|---|---|---|---|
| ‘Ownership to rental’ schemes. | Scottish Government ‘Mortgage to Rent’ scheme | Provides an option which allows purchasers to stay in their home without the financial hardship of an unsustainable mortgage. | Relies on social landlords having resources to cover the purchase, and has potential risks to social landlords in acquiring sub-optimal housing stock. |
| Insurance schemes | Joseph Rowntree Foundation ‘SHOP’ proposal | Provides a financial safety net for purchasers who experience hardship. | Requires a degree of coercion to be effective, places extra cost on purchasers. |

## Innovative or concessional home loan schemes

Up until the first part of the 1990s most state governments were very active in home lending, providing a range of home loan products to low and moderate income households, including social housing tenants. These included both subsidized loan products, which became less common through the 1980s as government spending became more closely scrutinized, and innovative loan products such as low-start loans, capital-indexed loans and shared-equity schemes (discussed in the next section). These schemes often had twin aims:

- to provide access to homeownership for households on moderate incomes who could afford to service a loan, but couldn't get access to private sector finance
- to pioneer innovative loan products in the hope that these would eventually be taken up by private lenders.

These schemes had a high level of success in both these aims – a large number of households around the country were helped sustainably into homeownership, and the private finance sector gradually broadened its range of loan products under the impetus of a more competitive loan market and the credit boom of the late 1990s and early 2000s.

Unfortunately the specter of HomeFund haunts any discussion of these products in New South Wales. HomeFund was essentially a low-start mortgage product in which early payments were set at a rate below the interest on the loan and the excess was capitalized into the value of the loan, on the assumption that income growth would allow the borrower to pay this amount at a later date and house price appreciation would ensure that the loan remained secured.

This scheme was troubled by a number of issues related to its marketing and administration which were the subject of lengthy litigation. However, the core flaw in its design was its assumption of inflation-driven income and property value growth, which was punctured in the early 1990s by the combination of falling inflation and a property downturn. This left a significant proportion of borrowers with negative equity in their homes and accelerating loan repayments they were unable to meet, at interest rates well above those then prevailing in the market. This problem was shared by similar schemes in other states which did not receive the same public attention as HomeFund. In hindsight, this represents a classic case of uncoordinated policy – while the Commonwealth and State treasuries were strongly focused on reducing inflation (and ultimately succeeded), state housing departments around the country developed home lending products that were built around an assumption of continued high inflation.

Much has changed since the 1990s, not least the deregulation of the finance industry, the long-term fall in interest rates, and, up until the current downturn, a buoyant private finance market that provided access to credit in a number of different ways.

It suggests that any future role for governments in this field could be based on the following:

- lending to borrowers who for various reasons are not well served by the private sector – for instance Indigenous Business Australia continues to provide home

loans specially tailored to the needs of Aboriginal and Torres Strait Islander homepurchasers[50]
- providing ‘niche’ products which might not be provided by the private market
- ensuring that the provision of housing finance is consistent with other government policy objectives (for instance macroeconomic policy) as well as using finance provision to support the achievement of micro-objectives such as the sale of public housing to tenants or the development of land and housing in particular locations.

## Shared equity schemes

Shared equity has been widely used in Australia and in other Western countries as a way of providing access to the perceived benefits of homeownership for households who cannot afford to borrow the full price of a home in the location where they need to live. While these schemes typically involve some government subsidy, at least in the form of income foregone from their share of the equity in the home, the levels of subsidy are small in relation to the cost of social housing. In Britain, shared equity schemes are seen as a business activity which provides cross-subsidy into the social housing side of the business, although this comes with some risks as has been shown in the current financial downturn.

In Australia, shared equity schemes are currently operated to some extent in most states and territories, with the most substantive schemes offered by the governments of Western Australia, South Australia and Tasmania[51]. Essentially, a shared equity scheme involves the owner-occupier buying a proportion of the home, while the remainder is owned by another party, most commonly a government or non-profit housing provider. Within this general outline there is a wide range of variations on shared equity. Variations include:

- The minimum proportion of the home which the owner-occupier needs to purchase. In Australia, schemes typically require the purchaser to purchase the bulk of the property (75% in Victoria, 75% in Tasmania) although Western Australia have recently changed their scheme so that the minimum share for a purchaser is 25%. British schemes typically allow for smaller shares with 25% a typical minimum share.

- The apportioning of responsibility for ongoing costs and repairs and maintenance. These are most commonly borne by the owner-occupier but in some cases the costs are shared.

- The apportionment of capital gain on sale. Most typically this is shared in proportion to the share of equity. However, variations on this occur – for instance in some cases where owner-occupiers bear 100% of the occupancy costs, this is taken into account in the final distribution of equity so that improvements might accrue 100% to the occupier.

- The process for buying further shares. Most schemes have provision for the owner-occupier to purchase further shares as they are able. Key questions are how these are valued (most commonly at market valuation at the time of the purchase of the additional share) and what proportion needs to be purchased at each point (most schemes only sell in ‘chunks – for instance no less than 5% of total property value).

- Whether the owner-occupier also has the option of selling down their equity to the equity partner. This is not usually the case but is sometimes a ‘fallback’ option in the event of hardship.

- The source of finance. In some cases, purchasers are required to source their own finance in the private market for their share, while in others the equity partner also provides finance, or there might be a combination of the two.

- Whether rent is charged on the share of the property owned by the equity partner, and if so how this is calculated.

- Who the equity partner is. In Australia shared equity arrangements typically involve a state housing department or state-owned corporation as equity partner, although a private sector scheme is currently being marketed in Australia. In Britain non-profit housing associations are the most common equity partners.

- How homes are sourced. In some schemes the purchaser sources property on the open market (for instance in South Australia’s HomeStart scheme). In others, the purchase is limited to particular properties – for instance as part of a government-sponsored land development (e.g. Victoria’s program limited to house and land packages in VicUrban communities) or to existing social housing dwellings.

- Breadth of eligibility. Some schemes are limited by basic income and asset limits, others are targeted more specifically – for instance at existing public housing tenants, or households on the public housing waiting list.

Although shared equity schemes have been in operation in various parts of Australia for close to 30 years, they have remained small in all Australian jurisdictions. The largest scheme, Western Australia’s Keystart scheme, aims to assist 3,000 households from 2007 to 2010. South Australia’s Homestart Breakthrough scheme aims to assist 500 households per year, while the Victorian and Tasmanian schemes are on a much more modest scale. Some of the research accessed in our limited review of British schemes indicates that it is in the nature of these schemes to have a relatively small potential market[52]. Essentially, most households will prefer to purchase outright if they can, while it is not prudent to make such schemes available to people below a certain income level.

This means that shared equity is only a potential solution to the housing needs of households within a relatively narrow income band. However, within this income band, shared ownership schemes have the potential to provide some moderate-income households with a pathway into homeownership, with relatively modest subsidies from state governments.

An additional barrier to take-up is poor understanding of the schemes – because such schemes have not really ‘caught on’ in Australia, most people have limited understanding and generally do not know anyone else who has been involved in such a scheme. This does not necessarily mean that the schemes are too complex for lower-income purchasers to understand, and it is possible that the provision of clear targeted information about their operation would widen their appeal.

## Rent-to-buy schemes

A variation on shared equity schemes is ‘rent to buy’ schemes in which households are provided with a rental home in the medium term on the understanding that at a future date (say within five years) they will be able to buy that home. Once again there are a number of variations on this theme.

- There might be an element of subsidy in the scheme either through a reduced rental during the rental period, or through pegging the price at the value of the home at the time of the initial contract.
- There might also be an element of assisted or even forced saving in the program – for instance a tenant could be charged a market rent, with the difference between that and a subsidized rent being placed in a home deposit account which is used to assist with the eventual purchase.
- Sometimes these schemes are linked to education programs aimed at providing people with the knowledge and skills needed to sustain homeownership – covering items like financial planning and home maintenance.

These schemes are most typically linked to particular locations and even particular developments and might be used as a way of meeting affordable housing targets in government-sponsored development projects, and/or as ways of retaining ‘key workers’ in particular key urban locations.

One example of such a scheme is the partnership between Auckland City Council and the Housing New Zealand Foundation[53]. Under the terms of this partnership, the council is contributing $3.8m to the Foundation in cash or land, which will enable the Foundation to provide approximately 30 dwellings in the Auckland area under one of two schemes:

- A ‘Home Equity’ scheme under which the occupiers initially rent for a period of 5 years, during which time they are granted a share of the capital gain on the property and participate in a homeownership/financial skills program. At the end of this period they are able to purchase the property, with market finance, using their share of the capital gain as their deposit.
- A ‘Shared Ownership’ scheme in which the occupiers immediately purchase a proportion of the property, while the other portion remains in the ownership of the Housing New Zealand Foundation.

This scheme is clearly designed in response to a concern that rising housing costs are forcing lower-paid workers out of Auckland City, with flow-on social and economic effects on the life of the city.

## Sweat equity/intensive support schemes

'Sweat equity' is the process by which purchasers reduce the financial cost of purchasing or constructing a home by contributing their labour to its construction. This process is naturally very common in an informal way with ordinary Australians using their own labour for anything from small home maintenance tasks to completely owner-building their home. However, Australian governments have not so far provided significant programmatic support to the use of sweat equity to support access to housing for lower income households.

The best known sweat equity program in Australia is that run by Habitat for Humanity, a US-based charity that operates through local affiliates around the world. Its model is designed to help disadvantaged and low-income households and involves a number of key elements including:

- the development of a local chapter, generally based in a local church or community centre, which sponsors the project and looks after many of the logistics
- sourcing of land from private donors or local governments
- sourcing donations of materials and labour from local or state-wide businesses
- a partnership with a financial institution to provide finance to cover elements that are not sourced through donations
- the prospective owner agreeing to contribute a fixed amount of their own labour ('sweat equity') to the construction process (this can be contributed by other family members or supporters if the person is unable to contribute themselves, e.g. because of a disability)
- the owner agreeing to a repayment schedule in which they pay Habitat for Humanity for the property at its market value, less the value of their 'sweat equity', over a period of time – this is in effect a mortgage although Habitat for Humanity does not charge interest.

This model is quite labour intensive for the organization and as a result (in the absence of any government funding) only small volumes of housing have been produced over the decade Habitat for Humanity has been active in Australia. However, it has been successful in providing homeownership opportunities for highly disadvantaged households who would not normally be considered eligible for homeownership programs.

Other Western countries have been more active in promoting sweat equity based programs. The US Department of Housing and Urban Development has a grant program aimed at supporting sweat equity initiatives (the Self-help Ownership Opportunity Program or SHOP) which granted over US$ 18 million to four charitable organizations (the largest being the US arm of Habitat for Humanity) in 2007[54].

## Targeted development programs

Many of the elements outlined above are combined in place-based programs designed to ensure a mix of housing options in one (generally government-sponsored) development project. Most state and territory governments in Australia are involved in similar schemes.

The Urban Land Development Authority in Queensland is responsible for planning a development of a number of key urban precincts. It has a clear mandate to improve housing affordability and as part of this mandate is committed to delivering 15% of housing in its precincts that is affordable to households on low and moderate incomes. This will be delivered primarily by using ULDA's control over the planning scheme to ensure that housing is delivered at price points that make sure it is affordable to people below certain income levels[55].

The Australian Capital Territory Affordable Housing Strategy includes a provision that 15% of blocks of land in new land releases (managed in the ACT by the Land Development Agency) be sold for between $200,000 and $300,000 for a house and land package. This has resulted in over 100 house and land packages available in this price range in 2009, with more to be made available over the next five years[56]. These packages are sold to households who meet a set of basic eligibility criteria including an income threshold, residency test and an asset limit.

These schemes provide a way for government bodies to achieve affordability outcomes by trading on their assets and using their position in the land development market. In general, the cost of such initiatives is borne within the project, with 'affordable' land being cross-subsidized by other sites sold at commercial rates, or being created by flexible planning mechanisms which allow for smaller blocks and more efficient land use. For low to moderate income purchasers, they can provide access to affordable housing in good locations as part of mixed developments.

## 'Safety net' schemes

A final area of activity worth considering is the methods in place to provide safety nets for homepurchasers who experience difficulty with their mortgages. Some programs already in place in NSW have been discussed earlier in this paper. Some other options worth considering are:

- Mortgage to Rent Programs – for example, in Scotland the Scottish Government operates a scheme whereby purchasers who are in danger of being made homeless as a result of legal action to repossess their home have the option of having it purchased and rented back to them as social housing. This scheme operates very much as a last resort for people in hardship and with few other financial resources[57].

- Insurance Programs – Current Australian mortgage insurance programs protect the lender from default, but do not protect the borrower. In other countries there are commercial insurance programs that insure the borrower as well, but these are typically expensive and take-up is low. The Joseph Rowntree Foundation in England has been promoting a compulsory levy system to provide pooled funds which can insure borrowers against certain clearly defined circumstances which would otherwise cause hardship and leave them at risk of losing their homes[58].

# Summary and conclusions

Homepurchase is the preferred housing tenure for the majority of Australians. Many are able to access ownership within the current policy framework with a reasonable level of financial comfort. For others, the aspiration will never be realized and it is important that there be a strong social housing system to provide secure, quality rental housing for these households, and strong legal protections for tenants in the private rental market.

Between these two poles there are a number of households who are on the margins of homeownership – they might be able to access housing finance but only at the cost of a number of years of 'mortgage stress' with a consequent risk of losing their home. They might also be vulnerable to predatory lending practices, which expose them to risk of financial hardship in exchange for short-term access to homepurchase. Alternatively, they might fall just short of being able to afford to borrow enough to buy a house where they need to live.

These households are legitimate recipients of assistance to access and maintain homeownership. There are a wide range of programs already in place in New South Wales and Australia which do just this, and others that are in operation elsewhere in the world which could provide inspiration for further program development in New South Wales. None of them provides a 'silver bullet' to solve housing affordability problems. Rather, each provides a tailored, limited solution to particular needs and situations.

Support for low-income households to access homeownership has both benefits and risks. Low and moderate income households can benefit from homeownership through increased security and increased wealth to support them in their retirement. However, programs which promote homepurchase too aggressively place low-income households at risk of default, leaving them worse off than they started. The key to successful policy development is to design programs to support those for whom homeownership can be sustainable, while maintaining good quality rental programs to meet the housing needs of those for whom it is not.

# Appendix: project interviews

A number of interviews were conducted to as part of this project. The following people generously provided input and perspectives, although none should be held responsible for the content of this paper.

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*Legal Aid NSW*
Monique Hitter
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*Consumer Credit Legal Centre*
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# Notes

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