Research Synthesis

Intermediate housing markets and effective policy responses

authored by

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This report examines both Australian and international evidence around the nature of housing stress for many low–moderate income households, as well as ways to assist these families into sustainable, affordable housing that meets a variety of individual needs. The findings suggest that whilst there are existing initiatives which make a positive difference in their lives, more needs to be done to alleviate their housing stress.

Interventions from across Australia, the US, Canada and Europe are described here and recommendations emerge for further action to address the housing needs of low–moderate income households in NSW.

The problem

Part 1 of this study demonstrated that a range of structural housing market issues converge with highly constrained incomes and net worth to create critical housing affordability problems for low–moderate income households. Low–moderate income earners are being squeezed out of home ownership and both private and social rental:

- Increases in wages have not kept pace with rising house prices (both purchase and rental). This has contributed to increasing deposit gaps for aspirant homebuyers and the reduced ability to obtain an adequately-sized loan.
- A chronic shortage of private rental is locking those in low–moderate incomes out of much of the previously affordable housing stock.
- Tightened eligibility criteria for social housing means that moderate-income households are unable to access this type of tenure. This further reduces the options available to them.

The synthesis has demonstrated there is a broad range of people on low–moderate incomes who experience different kinds of housing affordability issues. This suggests that there is no one-size-fits-all approach to solving the housing affordability difficulties faced by this group of Australians.

Recommendations:

Part 2 has therefore covered three broad areas for intervention – rental, purchase and hybrid options. Within each of these a variety of mechanisms could be used to provide these people with more reasonable housing options. The recommendations emerging from the evidence presented here are as follows:

Affordable rental

For those low–moderate income households who may never achieve home ownership, it is imperative that a supply of affordable rental be maintained, and indeed increased. This housing needs to be earmarked specifically for this income bracket to ensure that higher income groups do not crowd lower groups out of these dwellings.

Support for outright home ownership

For those who have both the capacity and desire for home ownership, a range of interventions are needed throughout the life cycle of ownership to support such households to purchase and then preserve their home:

- Waiving or reducing stamp duty and other transaction costs of home purchase.
- Homebuyer education and financial literacy programs to build potential moderate-income homebuyers' awareness of the rights and responsibilities of home purchase.

- → Government-subsidised mortgage protection insurance, as these are found to meet the needs of lower-income groups more effectively than privately-run insurance schemes.
- → Mortgage brokers with a specific mandate to find the most cost-effective and appropriate mortgage products for low–moderate income households.
- → Grants for home maintenance and renovation. These assist households on modest means to maintain and improve the value of their home, which in turn can contribute to maintaining property prices across the local neighbourhood.

Support for hybrid models: shared equity

Hybrid ownership models appear to provide the greatest potential for ownership for low–moderate income households. The studies utilised in this report suggest a number of recommendations for implementing shared equity at sufficient scale in New South Wales:

- → In order for the effects of the shared equity model to be analysed, evaluations of all Australian shared equity clients and their subsequent interaction with the housing market need to be undertaken. Particularly with respect to paying off their part mortgages and moving onto full home ownership after participating in shared equity schemes.
- → Pinnegar et al. (2009) recommend that these models should be a key element in a strategic whole-of-housing approach to easing the burden of home ownership for low–moderate income groups. This recommendation not only aims to ease the burdens of low–moderate income purchasers but to consequently ease the pressure of private rental housing.
- → In the interest of catering to the specific needs of this low–moderate income group, shared equity schemes should remain relatively small scaled so their services can attend to this portion of the housing market that is under pressure from unaffordable housing prices and high income groups moving into their affordable rental areas (Pinnegar et al. 2009).
- → Two international models of shared equity could also provide useful ways of assisting low–moderate income households into home ownership:
    - Limited equity cooperatives are a means for a group of low–moderate income households to support each other in achieving home ownership. They require a small amount of subsidy for establishment costs, but are found to be mostly self-sustaining thereafter.
    - Studies of the Community Land Trust model suggest that it is highly effective in providing both ownership and affordable rental opportunities. This model should therefore be given serious consideration and support in the New South Wales context.

Ongoing structural housing market interventions

Finally, there are a range of structural problems with the Australian housing market which place unrealistic demands on low–moderate income earners to provide their own housing. These include the expectation that property prices will continually increase. Comprehensive and coordinated whole-of-government interventions will be required to address this problem, in order to reduce the pressure on low–moderate income earners. Examples include changes to the tax treatment of private housing and securing long-term financing mechanisms for social housing.

Whilst these types of interventions have been outside the scope of this study, they nonetheless deserve careful consideration and action if Australian society broadly and New South Wales in particular are to genuinely address the housing affordability problems faced by those on highly constrained incomes.

1 INTRODUCTION

1.1 Purpose of study

With rapidly rising housing costs along with the tightening of social housing eligibility criteria in recent years, we have seen growing numbers of low–moderate income households in NSW being progressively locked out of the home ownership market while also struggling to maintain decent, appropriate housing in the private rental market.

Consequently, Shelter NSW has broadened its policy advocacy around housing outcomes for people disadvantaged in housing markets. This has been achieved by raising issues relevant to these low–moderate income households rather than focusing solely on very-low income households.

There is a widespread view that that scarce public resources should go to those most in need, and consequently a conclusion that public funds should not be diverted to ‘middle class welfare’ which would assist low–moderate income earners into home ownership. Therefore, at every level, this group forms an intermediate housing market, who earn too much for social housing assistance and too little to manage comfortably in private rental or home ownership.

In order to assist with advocacy for the needs of intermediate households in NSW, Shelter NSW has engaged AHURI to undertake a research synthesis on the housing needs of this intermediate group of households, to assess the nature and level of housing stress they face and identify possible public policy interventions which may ease their housing struggles.

This report is the final outcome of the synthesis undertaking. It finds that there is indeed an intermediate group of Australian households in moderate to severe housing stress who require assistance in order to maintain adequate housing. Evidence presented here indicates a range of interventions from around Australia, the US, Europe and Canada which are highly effective in helping these types of households to achieve and maintain sustainable, appropriate, affordable housing in both the rental and ownership markets. Some useful hybrid models of housing are also presented.

1.2 Scope and quality of research

There is a large body of evidence in Australia around the housing needs of low–moderate income households, although few academic studies have focused specifically on the moderate income group. AHURI has conducted a comprehensive, collaborative body of research utilising a number of sources of national data as part of AHURI’s *National Research Venture 3*, *Housing affordability for lower-income Australians*. However, one area notably missing is evaluative studies of a range of housing interventions, such as shared equity projects.

Australia’s National Housing Supply Council has also contributed a robust national understanding of housing affordability issues over the last two years.

The international evidence base on low–moderate income housing needs and interventions is more limited. A small number of studies exist, mainly focused on Anglophone countries. There are also very few evaluative studies available. This is partly due to the difficulty inherent in assessing housing interventions.

1.3 Report structure

This research synthesis report is presented in two main parts:

→ Part 1 outlines the housing affordability problems faced by low–moderate income households:

- Chapter 2 outlines structural problems within the housing market and their implications for low–moderate income households.
- Chapter 3 describes the qualitative issues faced by these households in dealing with housing stress.

→ Part 2 outlines some solutions already being used in parts of Australia as well as internationally to address the problems faced by this group:

- Chapter 4 discusses the importance of growing the supply of affordable rental dwellings.
- Chapter 5 presents some strategies for supporting those low–moderate income households who are struggling to obtain and maintain home ownership.
- Chapter 6 describes some innovative hybrid models of housing for the intermediate market, which combine aspects of both rental and ownership. Some of these are being used already in parts of Australia. Others are drawn from the international literature.

→ The final chapter makes final recommendations for ways in which government, private and community sector organisations can intervene in the housing market to improve the circumstances faced by low–moderate income households.

Detailed summaries of the key research used to inform this report are provided in the appendix for further reference. Each summary highlights the findings relevant to the intermediate housing market in NSW. The summaries contain more detail than the synthesis and provide context and methodology behind the findings.

1.4 Definitions

The report defines the intermediate housing market as the market segment occupied by low–moderate income households.

There is not a single consistent definition of households in this category. As detailed within the report, the category can most simply be defined as a specified part of the income distribution—for example most of the housing affordability research focuses on households in the bottom 40 per cent while the ABS defines low income earners as those in the second and third deciles (excluding the bottom 10%).

In most cases, the term ‘low–moderate’ is used to designate those in the bottom 40 per cent of the income distribution, with moderate specifically referring to those between the bottom 20 and 40 per cent, that is between $25 000–$55 000 per year, depending on family structure.

PART 1: THE ISSUE

Research suggests that there is a latent demand for home ownership amongst low–moderate income earners. However, there are a broad range of barriers at every level which prevent them from achieving these goals. This section outlines some of these barriers and provides a qualitative profile of the housing stress and related difficulties faced by these households. This sets the context for interventions in the intermediate housing market.

2 THE NATURE OF THE HOUSING AFFORDABILITY PROBLEM FOR MODERATE INCOME AUSTRALIANS

There are a range of structural issues with the housing market in Australia, which contribute to the housing stress increasingly faced by low–moderate income households. This section provides a brief overview of some of these problems in order to situate the solutions advocated in part 2 of this paper.

2.1 Structural problems with housing affordability – rising costs

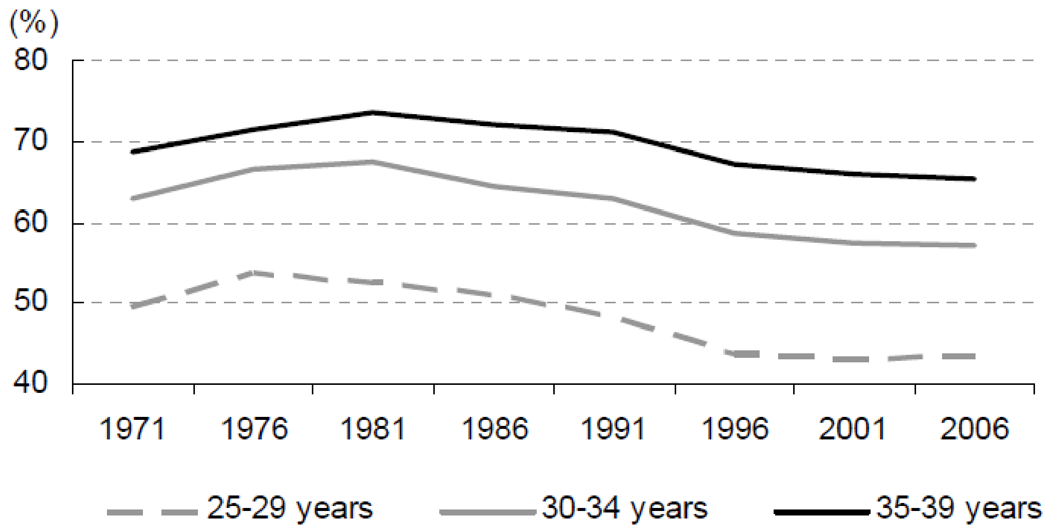
There is now a clear evidence base showing that Australian house prices have been growing at a faster rate than incomes for the last half-century and since the 1990s, this rate has been accelerating (Yates 2007; Yates et al. 2007). As a result, in the decade 1995–96 to 2005–06 average housing prices have increased from five times average annual net incomes to at least seven times annual net incomes (AMP.NATSEM 2008).

The ABS' *House Price Indexes Report* (2010) shows the cumulative changes in housing prices from June 2009 to June 2010. This analysis indicates that in this short time period there have been significant increases across all capital city housing prices. In Melbourne housing prices increased by 24.3 per cent, prices increased by 21.4 per cent in Sydney, 19.6 per cent in Canberra, 14.6 per cent in Darwin, 13.0 per cent in Perth, 11.6 per cent in Adelaide, 10.8 per cent in Hobart and 8.5 per cent in Brisbane (ABS 2010). Unsurprisingly, Melbourne and Sydney demonstrate the largest increase in housing prices.

This long-term and continuing rise in housing costs relative to income has resulted in an increasing housing deposit gap for homebuyers. Deposit amounts have grown from twice median household's annual income during the 1970's through to a deposit worth three to four times a households' annual income by early 2000, Yates et al. (2007) note that the high cost of a basic deposit affects the dynamic of house purchasing for lower income households and first home buyers who are now in need of considerable financial assistance from parents and grandparents to enter the housing market (Yates et al. 2007).

The implication of this deposit gap is that households who are in lower income brackets and who are without familial financial support face financial difficulties before they have even purchased a home. As a result, rising costs are now also contributing to a decrease in new home buyers in the 25–29, 30–34 and 35–39 age cohorts (13%, 10% and 6% respectively) (Yates et al. 2007, p.1). Figure 1 shows these decreasing rates of home ownership over time:

Figure 1: Home ownership rates over time for younger households by age cohort



Source: Yates 2007, pg.1

Although these prices are increasing across Australia, NATSEM (2008) notes that lower income earners are particularly affected because prices in areas of the country which have been traditionally affordable for lower income brackets are now increasing at a rapid pace. For example, in the period 1995–96 Tasmania was one of the most affordable areas of Australia to buy a house. Average house prices in the area were equivalent to 3.7 times annual household incomes (1995–96); however, in the past decade house prices in Tasmania have shifted to the equivalent of 6.1 times the annual household incomes (NATSEM 2008, p.8). This shift demonstrates how traditionally affordable housing markets and areas for lower income brackets are dwindling, creating a unique problem for this group of Australians who are now facing affordability and supply issues.

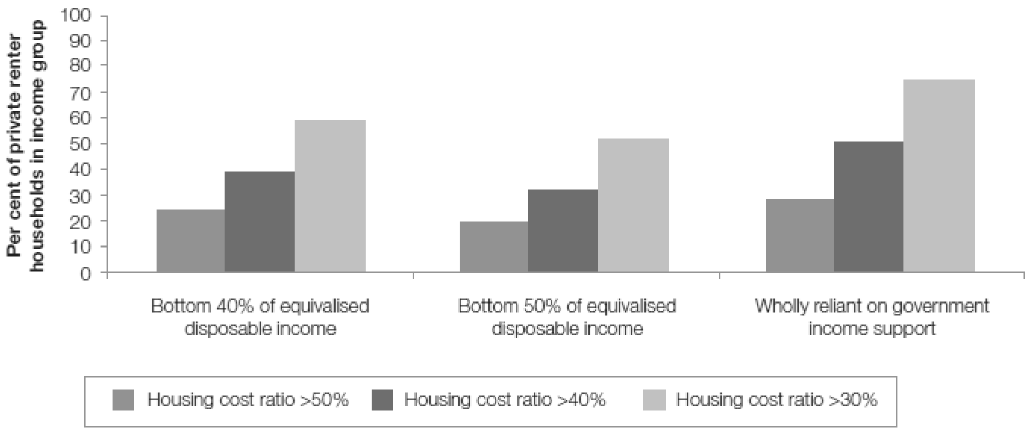
This evidence demonstrates that the nature of the Australian housing market is characterised by a rapid progression of increasing housing prices that does not favour those in low and low–moderate income groups who are trying to enter the housing market.

2.2 Another structural problem: shortage of private rental

Of the groups at risk of housing affordability problems Yates et al. (2007) identified low–moderate income renters as the most at-risk due to their wide ranging and concentrated housing issues

The National Housing Supply Council (2010) finds that 60 per cent of low–moderate income private renters had rental costs that were equivalent to 30 per cent or more of their total household income and twenty per cent had rental costs that were equivalent to 50 per cent or more of their household income as demonstrated in Figure 2.

Figure 2: Housing cost outcomes for private renter households, 2007–08



Source: National Housing Council 2010 101 Derived from Australian Bureau of Statistics, *Microdata: Income and Housing, Basic and Expanded CURF on CD-ROM/RADL, Australia, 2007-08*, cat. no. 6541.0.30.001, ABS, Canberra, 2009.

Not only do low–moderate income renters feel the effects of rising house prices, but the amalgamation of rising house prices and limited housing supply has placed the low–moderate income rental market in considerable stress. The National Housing Supply Council (2010) notes that rental vacancy rates in capital cities have been below 3 per cent since 2005, significant rent increases have taken place over the past two years and public housing stock has been steadily declining since 1990 from 400 000 units downwards.

The impacts of this pressure are evidenced by the fact that of the 1.4 million private rental dwellings which were affordable for low income earners—costing less than 30 per cent of their household income—three quarters of these dwellings are currently occupied by households in higher income quintiles. As a result of this 500 000 lower income renters are denied access to available housing that is financially accessible (National Housing Supply Council 2010).

As rental prices increase the housing market allows for higher income brackets to step down into less expensive rental options. However, this downward movement of higher income renters' housing options creates severe pressure on low–moderate income earners as they are subsequently denied access to their affordable housing market.

2.3 Tightening of social housing eligibility criteria

In some instances, low–moderate income households are further pressured by their inability to meet the criteria for social housing support. Housing NSW stipulates that to be eligible for public housing the maximum gross annual income is $26 100 for a single tenant and escalates to $61 300 for a couple with four children (Housing NSW 2010). These real dollar amounts present a working and easily quantifiable definition of low–moderate incomes, they also introduce the issues faced by those who are outside of these brackets yet still have need of public housing due to rising house prices in the mainstream market.

Moderate income households in Australia face the combined difficulty of a highly constrained income and low levels of savings that may otherwise have assisted them in achieving more stable housing outcomes.

There are a range of definitions of low–moderate income in use in Australia. The Australian Bureau of Statistics' (ABS) *Household Income and Income Distribution* report defines low income earners as belonging to the second and third deciles of all income earners, approximately 10.4 per cent of all Australians (ABS 2009)[1].

AHURI's research on low income households in Australia (Hulse & Burke 2009; Yates et al. 2007) classifies low income earners as belonging to the first quintile (lowest 20% of Australian incomes) and low–moderate income earners belonging to the second quintile (second lowest 20%) of all Australian incomes. In dollar terms, the last two quintiles average out to an equivalent of $367 per week per household or $25 000–$55 000 per year depending on family structure[2].

Low–moderate income families are not only constrained by limited incomes—they also face the challenge of having inadequate savings either for a deposit on a home or to buffer them against other expenses. The ABS describes this group as having the 'lowest net worth' in Australian society, noting that of the people who belong to the group with the lowest net worth, only 0.8 per cent own a home without a mortgage, 3.3 per cent own homes with mortgages, 65.9 per cent rent privately and 20.4 per cent rent from a state/territory housing authority. The ABS suggests that the principle defining point of this group is their equity/asset poverty rather than their annual income (ABS 2007).

Wood et al. (2003) suggest that whilst there is a latent demand for home purchase amongst this group (Wood et al 2003, p.61), that a combination of low income *and* low net worth are locking them out of achieving this goal:

- '[Net worth] constraints *alone* are binding for 27.2% of tenants.
- Income constraints *alone* are binding for 4.5% of tenants.
- Income and [net worth] constraints *together* are binding for 62.7% of tenants.' (p.vi).

2.4 Summary of housing affordability issues facing low–moderate income households in Australia

There are a range of structural housing market issues which converge with highly constrained incomes and net worth to create critical housing affordability problems for low–moderate income households:

- Increases in wages have not kept pace with rising house prices (both purchase and rental). This has fuelled greater deposit gaps and concomitant difficulties in saving for this deposit.
  - Furthermore, higher house prices mean bigger mortgages. Those on low–moderate incomes may find themselves ineligible for the size loans they may need to purchase even a modest home. This is particularly acute in high-cost housing markets, such as that of Sydney.
- A chronic shortage of private rental is locking those in low–moderate incomes out of much of the previously affordable housing stock: as higher income groups seek to save costs by accessing cheaper rental properties, less and less become available for those on lower incomes.
- Tightened eligibility criteria for social housing means that moderate-income households are unable to access this type of tenure. This further reduces the options available to them.

[1] ABS excludes the first decile of income earners due to the fact that there are pensioners in this group who receive relatively small amounts of income but are house and asset rich, unlike their second and third decile counterparts (ABS 2009).

[2] A single person with a low income would have $25 000 per annum, a sole parent with one child would have a gross income of approximately $32 000 per annum, a couple with one earner and no children a gross income of approximately$35 000 per annum; and a couple with one earner and two children would have an approximate gross income of $55 000 per annum. (Yates et al. 2007)

The next chapter will examine the implications of these problems for those on moderate incomes.

3 THE OUTCOMES FOR MODERATE INCOME EARNERS IN AUSTRALIA

Statistical analysis of low–moderate income earners has demonstrated some of the characteristics of this group. This next chapter looks at how the characteristics of low incomes interact with the increasingly unaffordable Australian housing market. This section focuses on the experience of both low–moderate income renters and home purchasers.

3.1 Who are these people?

Low–moderate income households exhibit a range of general trends (ABS 2009):

- The majority of these households are families with dependent children (31.4%), followed by couple households (25.9%) and lone person households (18.3%). It is estimated that there are 1 469 000 low–moderate income households in Australia.
- Although the mean weekly income for all Australians households is $811, the mean incomes for low and low–moderate households are $299 and $504 respectively (ABS 2009).
- These households also have the lowest proportions of wages or salaries contributing to their household income in comparison to all other income earners and the highest percentages of government pensions and allowances (ABS 2009). This suggests that there is a *qualitative* difference in incomes between these groups and higher income households, as well as a *quantitative* difference.
- Home ownership figures suggest that low–moderate income families are achieving ownership at a little less than the Australian average. However, the number of aged pensioners in this group skews the data on tenure somewhat, as these people tend to be asset rich even though they are income-poor. Excluding pensioners, low–moderate income households had larger proportions of renters than the national average.

However, this group is not homogeneous. Yates et al. (2007) found that low–moderate income renters could be classified into four different subgroups—*Strugglers*, *Backsliders*, *Pragmatists* and *Aspirant purchasers*.

- *Strugglers* represent 30 per cent of the national population of low–moderate income renters (140 000 people). Their experience of renting is characterised by difficulties paying rent and large financial stress. The people in this category are predominantly single, lone parent households who are not in the workforce. Struggling lower income renters will often pay upwards of 50–60 per cent of their income on housing costs and as such will often rent for long periods of time due to inability to save (Yates et al. 2007).
- *Backsliders* represent 10 per cent of the national population of low–moderate income renters (46 000 people). This group consists of people who have previously owned homes and due to severe decreases in income, health problems or loss of partners have lost their houses and slide back into renting (Yates et al. 2007).
- *Pragmatists* are a sub-group as large as the *strugglers* and comprise 30 per cent or 140 000 people. Pragmatists were paying high levels of income to housing costs; however, this was seen as a trade off for lifestyle and family choices (Yates et al. 2007).
- *Aspirant purchasers* represented 30 per cent of the low income renting population (140 000). This group consisted mostly of full time workers and households with dual incomes who aimed to own a home in the short or medium term. This group also consisted of older renters who aspired to home ownership and had begun to realise that this was not a feasible option (Yates et al. 2007).

Yates et al.'s (2007) classifications demonstrate that despite being in the same income bracket there are qualitative differences within this group. This evidence indicates that low–moderate income renters are a diversified group each with a different relationship towards the housing market. Therefore, a broad range of interventions will be required to ease their housing cost burdens.

3.2 The effects of poor housing affordability

Three broad problems present themselves when a household is experiencing poor housing affordability—housing stress, housing insecurity and difficulty meeting non-housing expenses.

3.2.1 Housing stress

One of the key defining measures of Australian low–moderate income earners housing experience is *housing stress*. People who are living in 'housing stress' are defined as those low and low–moderate income earners (bottom 40% of all Australian earners) who are spending 30 per cent or more of their income on housing costs (Yates et al. 2007). As a quantitative definition this term does not take into account the qualitative experience of housing stress that can occur when less than 30 per cent of income is spent on housing costs.

US housing research has begun to deal with this problem by introducing analysis of low income earner's *residual income* as a way to better understand the effect high housing prices have on these groups. *Residual income* rejects the arbitrary 30 per cent of housing income attributed to housing costs as a measure for housing stress. Instead it analyses the difference between a household's disposable net income and the cost of their non-housing needs, as a measure of their ability to afford a house (Stone 2009).

3.2.2 Housing insecurity

Housing insecurity describes the individual's need for 'a sense of continuity and constancy in everyday life (ontological security) to enable a stable mental state' (Hulse & Saugeres 2008).

Hulse and Saugeres (2008) found that a sense of ontological security was not limited to home owners. For the maintenance of ontological security in a housing context the most important factors were

> Having a safe place of one's own in which the routines of daily life can be established, privacy can be negotiated, and where there is a secure base from which to engage in social interactions based on trust which enable self-esteem to be enhanced and self-identity to be maintained (Hulse & Saugeres 2008, p.13).

Housing insecurity is characterised by psycho-social factors, physical conditions and relationships, and it gives voice to the qualitative experience of housing insecurity that is not captured by the term 'housing stress'. Hulse & Saugeres 2008 study identified six key factors of housing insecurity faced by low–moderate income households in housing stress: mobility, housing instability, lack of privacy (within, between and outside the dwelling), feeling unsafe (both inside and outside the dwelling), lack of belonging and lack of physical comfort.

3.2.3 Housing affordability problems and non housing needs

Housing stress and housing insecurity are the experiences of low income earners with high cost housing. However, they do not define the tangible impacts of being housing stressed or insecure. Housing affordability problems as defined by this research are characterised by deprivation and occur as a by-product of the costs of housing. Examples of affordability problems include going without meals, inability to provide for children's school activities or inability to afford proper medical and dental care. The proportion of people who are in housing stress and experience housing affordability problems is 25 per cent (Yates et al. 2007).

Yates et al.'s (2007) research into the nature of housing affordability found that there were 860,000 Australian people across all tenure types experiencing housing stress and were therefore at risk of experiencing housing affordability problems. Although housing stress and housing affordability problems do not have a 'cause and effect' relationship, Yates et al. (2007) found that the proportion of the 860 000 people experiencing housing stress and affordability problems was 25 per cent.

Analysis of this bracket of the housing population revealed that certain sub-groups demonstrated a higher propensity for housing affordability problems. Young people, single people, households with children, private renters, purchasers, working households and capital city households who were in the low–moderate income bracket were more likely to be at risk of housing stress and subsequent affordability problems.

3.3 A lack of control over one's circumstances

One of the key factors here is the issue of control: low–moderate income renters are vulnerable to changes in the market and have little control over external factors, such as rising housing costs. In their study on the nature of 'housing insecurity' for renters, Hulse & Saugeres (2008) explored the importance of control related concerns for those in the rental market. In this study focus groups with 105 renters either receiving rent assistance or living in public housing and a group of 40 disabled renters and their carers provided information on the degree and type of 'housing insecurity' existing in the rental market.

Hulse and Saugeres (2008) preface their findings by noting that the private rental market in Australia typically provides only short fixed-term leases (6–12 months in Victoria and NSW). Therefore, renting has little security for the renter. Also landlord controls over rental prices mean that low–moderate income renters are vulnerable to rental increases that are beyond their control. One participant in this present study articulates the insecurities experienced as a low–moderate income earner and the control landlords have over rental prices:

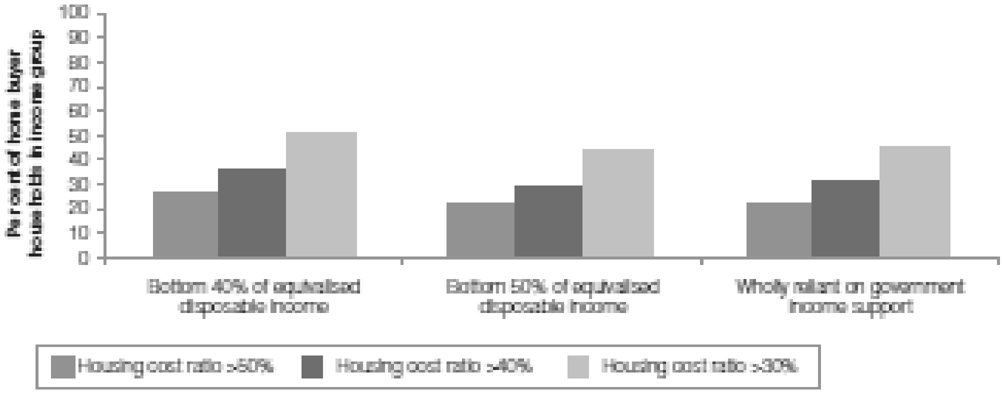
> So they sold it [the house], put up $300 and I was out. Then I moved to another place where I am now same thing happened, and the agents come to me and say, 'All the houses in the area are having a rental increase at $300 a week so yours must go up too.' Never mind that my toiletries are outside, the roof leaks in three rooms, but the rent must go up, and there's no law to secure me (Hulse & Saugeres 2008, p.20).

This evidence indicates that there is a structural lack of control on behalf of the low–moderate income renter contributing to the experience of housing insecurity. In order to clarify the parameters of housing security Hulse and Saugeres (2008) determine that mobility, instability, lack of privacy, lack of safety, lack of belonging and lack of comfort are the six indicators of housing insecurity. Evidence indicated that every one of these indicators was experienced by renting participants.

3.4 Low income home buyers in an unaffordable market

Low–moderate income home-buyers experience rates of housing stress not dissimilar to their renting counterparts. There were 312 000 people in this group experiencing housing stress during the 2007–08 period (National Housing Supply Council 2010). Proportionally, 50 per cent of all low–moderate income purchasers had housing costs exceeding 30 per cent of their gross income and 20 per cent of this group were paying more that 50 per cent of their household income to mortgage costs (National Housing Supply Council 2010).

Figure 3: Housing cost outcomes for home buyers, 2007–08



Source: National Housing Council 2010, p.101 Derived from Australian Bureau of Statistics, *Microdata: Income and Housing, Basic and Expanded CURF on CD-ROM/RADL, Australia, 2007–08*, cat. no. 6541.0.30.001, ABS, Canberra, 2009.

Fujitsu's (2010) measure of mortgage stress uses data from 26,000 statistically representative Australian households and surveys conducted across 2,000 households each month. Fujitsu has found that mortgage stress (30% or more of household income spent on housing costs) can be categorised by qualitative housing type (Fujitsu 2010). For the purpose of this synthesis the two household categories identified by the Fujitsu mortgage Stress-O-Meter (2010) *Battling urban* and d*isadvantaged fringe* have been selected as representative of the low–moderate income groups.

- *Battling urban*: households with strong financial constraints and limited incomes, living in urban and suburban areas. High density apartment blocks are common in these areas, and State and privately rented housing availability leads to a highly transient and mobile population. Suburban semidetached and separate houses also make up a significant proportion of these neighbourhoods catering to mobile couples and families. Building activity and property values are average to low and housing density is high. With average incomes and education levels, the jobs in this segment are across a variety of industries and are mainly mid to lower white-collar and clerical roles. They have above average ownership of computers and internet use. Vehicle ownership is below average. Unemployment levels are high in many areas and qualifications are low. There are significant areas with post 1980s migrant populations, and tertiary education is valued in these areas (Fujitsu 2010, p.9).
- *Disadvantaged fringe*: households in disadvantaged peripheral urban and country areas with low income levels. State rental accommodation is common, but there is also a significant proportion of young families purchasing homes in newer peripheral suburbs with low-mid density housing and low property values. The majority of homes are owned or being purchased. Most of the population have a European or Oceanic ancestry. Education levels are low but tertiary institution attendance is average, suggesting academic and professional aspirations. They are not technologically savvy; hence computer and internet use is low. Credit card usage is uncommon and multiple car ownership (older models) common. Individuals mainly have manual blue-collar or clerical white-collar jobs in a variety of industries, especially retail, wholesale trade, health, community services and hospitality. Unemployment is high (Fujitsu 2010, p.9).

Together these two groups represent 41.9 per cent of all Australian mortgage stress, with the *Disadvantaged Fringe* group experiencing 30.5 per cent, and the *Battling Urban* 11.4 per cent.

Other groups with high percentages of mortgage stress are the *Suburban Mainstream* with 20.7 per cent of housing stress and *Young Growing Families* with 18.8 per cent (Fujitsu 2010). Currently, *Young Growing Families* have the highest proportion of mild mortgage stress and *Battling Urban* has the highest proportion of severe mortgage stress (Fujitsu 2010). The Fujitsu stress-o-meter provides a qualitative sense of the different types of households experiencing housing affordability pressures in the home-purchase market.

Yates et al. (2007) also note that Australian home purchasers experience home ownership in different ways and can be separated into different categories – *Stretched*, *Focused* and *Ambivalent*.

- Purchasers in the *Stretched* category represent 40 per cent of the low income home purchasers (106 000 people). Surveys indicated that this group consisted predominantly of young families whose ability to pay the mortgage has been hampered by increasing interest rates. People in the stretched category are often taking on extra work be it second jobs or longer hours to contribute to their mortgage repayments. Of those surveyed Yates et al. (2007) found that a large proportion was unable to continue repaying their mortgages in the previous year.
- Purchasers in the *Focused* group were not having difficulty making repayments however a significant amount of their income (50–60%) was being directed towards their mortgages. Focused purchasers were driven to pay off their mortgages as quickly as possible, often working extended hours, living sparsely and jeopardizing family happiness (Yates et al. 2007).
- *Ambivalent* purchasers accounted for 40 per cent of the lower income groups (106 000 people). This group did not share the drive to home ownership like their two counterparts; their decision to purchase a home was based on the cost benefits of home ownership in comparison to renting. This group was characterised by an appreciation of the positives and negatives of renting and home ownership.

Despite high levels of housing stress experienced by these groups (particularly Stretched and Focused home purchasers) evidence indicates that low–moderate income earners accept this housing stress and are still motivated into home ownership.

Evidence from a South Australian study on the relationship between low–moderate income earners and home ownership demonstrates that there are multiple motivations behind owning a home for this particular group. Focus groups of 15 aspiring lower income home purchasers revealed that the two greatest motivations for home ownership were security and equity; providing stability and privacy to families was also important as was investing in the future (Fopp, Carson & Parker 2003).

Fopp et al. (2003) note that their focus groups had encountered barriers to this perceived level of security that occurred at every level of applying for home ownership. They experienced difficulty saving for a deposit, finding banks who tailored home loans to low incomes and difficulty meeting the terms of their loans; all of which related to the underlying problem that increasing housing prices had made it difficult for lower income earners to enter the housing market.

Evidence from this study indicated that once lower income earners had achieved home ownership, the nature of their financial situations meant that they were still vulnerable and insecure even when housed (Fopp, Carson & Parker 2003). Similarly, consider Yates et al.'s (2007) profile of the 'Stretched Home Purchaser': these households are required to take on extra work burdens and extra work hours in order to keep up with their mortgage repayments. While these households are in the process of paying off respective home loans their situation is one of extreme vulnerability rather than security.

Sudden household changes like loss of income through illness, accidents, divorce or separation pose a great threat to lower income earners with mortgages (Fopp, Carson & Parker 2003). As a large proportion of their incomes are already dedicated (to the point of stress) to mortgage repayments this leaves little protection against external influences. Therefore, despite the fact that security was one of the main reasons for gaining home ownership, insecurity and vulnerability could continue once this goal is achieved. This vulnerability was demonstrated by a higher debt-to-income ratio for low-income home purchases.

3.5 Housing needs for low–moderate income earners

The evidence base indicates that the intermediate housing market is characterised by rising housing prices, lack of supply and housing stress. In order to really affect change in this area Yates (2007) argues that:

> To redress the balance in relation to housing, what is needed is a return to those aspects of the great Australian dream that were important when the concept first evolved: security and stability for those who seek it. This can only be achieved by giving up the speculative wealth accumulation and tax-advantaged unearned gains that became important by default as a result of economic circumstances in the 1970s and that transformed the Great Australian Dream into the Great Australian Nightmare in the 1990s. It need not mean giving up the dream of home ownership. It may mean changing what it entails. (Yates 2007, p.19)

Yates' (2007) comments highlight the spirit of this synthesis, the importance of investigating housing models that cater to low–moderate income earners as a group presently betwixt and between the great Australian dream of home ownership and public housing. These intermediate housing models reflect Yates' sentiments, that employing change in the housing market, rather than expecting low–moderate income earners to try and contend with it, is a valuable approach.

3.6 Summary – squeezed between social housing and affordable home purchase

This chapter shows that low–moderate income households are caught between two housing difficulties: they earn too much to access social housing, yet they struggle to attain and then maintain home ownership:

- A high proportion are priced out of ownership altogether:
  - The high costs of rental are pushing wealthier households down into cheaper rental properties and thereby greatly reducing the access lower income groups have to this stock.
  - High rental costs prevent moderate income households from saving for a deposit.
  - High house purchase prices mean higher mortgages. Some low–moderate income households are unable to obtain an adequate size mortgage on their income, even for a modest home.
  - Two broad types of interventions are needed for this group of trapped renter:
    - There is a need to provide an ongoing supply of more affordable rental which is only accessible to those within this income bracket.
    - There is also a need for interventions to assist them into affordable and sustainable home ownership.
- Smaller proportions have achieved home purchase but are highly stressed. Interventions are required to support this group and assist them to sustain their tenure.

The next part of this paper will explore a broad suite of interventions which could greatly improve the housing conditions faced by low–moderate income earners in New South Wales.

PART II: SOME SOLUTIONS?

This next part of the report outlines a broad suite of interventions which have been shown to be effective in lessening the housing stress, housing instability and lack of resources for non-housing expenses brought about by poor affordability of housing. The next three chapters examine the ongoing provision of affordable rental for low–moderate income households, support mechanisms for low–moderate income home ownership, and hybrid models of home ownership.

It is important to preface this discussion with two underlying principles drawn from part 1:

- *There is no one-size-fits-all categorisation of low–moderate income households. Therefore there is not likely to be one simple solution which will solve all their issues.*
- *As Yates' study suggests (see section 3.5), any genuine long-term solutions to the complex problems of this portion of the housing market will require a change in expectations of what the housing market can provide for low–moderate income households. A market that continues to be predicated on steadily rising house prices, along with the expectation that owning a home will provide a nest egg to finance retirement, is bound to continue contributing to high levels of housing-related stress for those at the bottom of the income spectrum.*

4 DEMAND FOR AFFORDABLE RENTAL HOUSING

4.1 Demand for affordable rental housing

A range of factors will continue to drive demand for affordable rental housing in the future. These include the impact of existing housing affordability pressures, an ageing population, changes in household composition trends as well as the general population growth pressures referred to above.

- The total number of households in private rental housing is expected to increase by 80 per cent to 3.3 million by 2045 and the proportion of lower-income private renters experiencing housing stress to increase by 120 per cent (Yates et al. 2008).
- The number of people aged 65 or over living in low-income rental households is projected to increase from 195 000 in 2001 to 419 000 by 2026 (Jones et al. 2007, p.129). More than half (58%) of these will be sole person households, and nearly two thirds of these will be women (Jones et al. 2007, p.37).
- The number of households is expected to grow faster than Australia's projected population growth and increase from 7.4 million in 2001 to between 10.2 and 10.8 million in 2026 (Australian Bureau of Statistics 2004).

4.1.1 Australians under housing affordability stress.

As previously discussed AHURI's National Research Venture on housing affordability for low income households finds that those households who experience the *greatest instance* of housing affordability stress are low-income private renters, single-person households under 65 years and low-income home purchasers. Private renters, working households and households with dependent children are experiencing this stress *in the greatest numbers* (Yates et al. 2007, p.19).

Two of the groups in greatest housing stress create increased demand for affordable rental housing: the *Backsliders* and the *Strugglers.*

The *Backsliders* are those people who have fallen out of homeownership due to various reasons, which may include separation or divorce, loss of earning capacity due to health difficulties or other major life ruptures. This group often has difficulty negotiating the rental market due to a lack of experience (p.23).

The *Strugglers* are those in the private rental market who are having difficulty making their rental payments and are experiencing high levels of financial stress. They can be from any age group but are more likely to be single parent households and are often not working. Despite residing in those suburbs generally deemed affordable, they are spending large proportions of their incomes on housing costs, often between 50 and 60 per cent (p.23).

Yates et al. (2007) stress that policy makers must pay greater attention to the provision of rental accommodation. Private rental accommodation is no longer a transitional tenure and many private renters are the most vulnerable households in Australia. They suggest two reforms need to take place. The first involves the design of policy to attract institutional investors and the second involves increasing the capacity of the not-for-profit sector to provide social housing (p.44).

The AHURI National Research Venture projected the numbers of Australians likely to be impacted by housing affordability to 2045. The modeling finds that the total number of households residing in private rental housing is expected to increase by 80 per cent to number 3.3 million by 2045 (p.41) and the proportion of lower-income earners living in the private rental market who are experiencing housing stress is projected to increase by 120 per cent (Yates et al. 2008).

The age cohort forecast to experience the greatest increases in housing stress are those over the age of 65 (p.46). Yates et al (2007) largely attribute this to the increasing inability of people to enter homeownership by their middle years. This cohort must then remain in the private rental market with increasing rather than decreasing housing costs (Yates et al. 2008, p.46).

Metropolitan households are at greater risk of experiencing housing stress than those in regional areas and will rise from 12.7 to 14.6 per cent. However, the proportional increase of housing stress will be greatest in non-metropolitan areas where housing stress is expected to increase from 10.9 per cent to 13.5 per cent (p.46).

Sydney will continue to have the greatest number of households experiencing housing stress (moving from 230 000 in 2006 to 360 000 in 2045). However, Queensland is forecast to have the greatest proportion of households in housing stress (moving from 13.3% to 17% of total households in 2045) regardless of geographic location (Yates et al. 2008, p.47).

4.2 One solution: an adequate supply of affordable rental

While hybrid home-ownership models are likely to be the preferred housing policy intervention for this group, an adequate supply of affordable rental is also a critical part of the solution to housing stress for this group.

For the group of low–moderate income households for whom home-ownership is not a desired goal, affordable rental housing can provide the best housing option. Increased supply of affordable rental housing would assist young people, for example, seeking flexibility and/or a secure but affordable base from which to save for a deposit, and the so-called ‘key workers’ who prefer to live closer to their workplace rather than commuting long-distances to secure an affordable home purchase at the city fringe.

Australia has a significant supply problem in affordable rental housing, as discussed above. In this section we outline the well-established recommendation from the research evidence that growing the not-for-profit housing sector is an effective mechanism for solving this gap in the supply of housing.

Affordable rental housing is an integral part of addressing housing affordability

AHURI’s National Research Venture on Housing Affordability for Low Income Australians recommended a coordinated, whole of government approach to improving housing affordability with four major components (Yates et al. 2007, pp.47–8):

- Reducing impediments to housing supply in metropolitan areas and regional areas susceptible to house price inflation by improving the efficiency of the residential development process (p.47).
- Targeting existing demand-side financial assistance to specific population groups in a more flexible manner in order to effectively tackle affordability issues (p.47).
- Designing a national funding and delivery framework in order to secure private investment so that supply of affordable rental and sale properties increases (p.47).
- Reforming the social housing sector to secure its viability and stop the residualisation of housing stock (p.48).

The National Research Venture highlighted the importance of ensuring that demand side measures are enhanced or introduced in conjunction with supply side initiatives so that house prices are not inflated further (p.49).

In the context of declining government investment, the evidence strongly supports the development of:

> A national policy, funding and delivery framework that is capable of securing substantial private investment in an additional supply of well-located affordable housing for rent and for sale will be required, in order to stimulate provision at

> the affordable end of the private market and to redress the decline in social housing provision (Yates et al. 2007, p.8).

A significant body of national and international research evidence has established that growing the not-for-profit rental housing sector is a key to increasing the supply of affordable rental housing (Berry et al. 2004; Lawson et al. 2009; Lawson & Milligan 2007; Milligan et al. 2009). The research base consistently suggests there is a close relationship between growth of a well-managed and well-regulated not-for-profit housing sector and growth in large-scale private investment.

Recent research on Australia's not-for-profit housing sector concludes:

> The achievements of the fledgling not-for-profit affordable housing industry to date suggest that significant public policy benefits and highly positive outcomes for tenants will result from building a well designed, well funded, well regulated and well maintained affordable housing policy model that utilises not-for-profit providers (Milligan et al. 2009, p.9).

A successful and mature non-profit affordable housing sector can provide the investor confidence created by market performance history, reputation and stability that makes investment opportunities more attractive to large-scale private investment.

We know that Australia's not-for-profit housing sector is growing rapidly and transforming:

- Leading providers grew at an estimated 220 per cent in the period 2004-08. The sector grew most strongly in Victoria due to concerted policy efforts, but future growth is expected to come from New South Wales (Milligan et al. 2009, p.73).
- The sector is undergoing rapidly changing governance arrangements, including mergers and the creation of subsidiary and special purpose vehicles, to allow providers to meet the increased regulatory requirements of housing development roles (Milligan et al. 2009, pp.107–112).
- Existing gearing ratios overall are conservative, indicating potential for further leverage as organisations gain experience and investor confidence increases (Milligan et al. 2009, p.86).

Based on their analysis of the Australian housing context and the international financing mechanisms, Milligan et al. (Milligan et al. 2009) find that the most significant issue facing community housing associations is their ability to secure long-term finance. Not-for-profit housing associations need secure and long-term access to finance in order to grow and be viable.

Financing growth – encouraging investment in affordable housing

AHURI research has documented a range of financing mechanisms used internationally to grow the not-for-profit rental housing sector (Lawson & Milligan 2007; Milligan et al. 2009). These mechanisms are not the focus of this synthesis; however it is important to highlight the recent Australian Government initiative which specifically targets rental affordability for moderate income households, the National Rental Affordability Scheme (NRAS).

NRAS is a supply-side financing scheme which subsidises housing providers (and therefore their investors) who build and maintain affordable housing for a period of 10 years. The government hopes to create 50 000 new dwellings over the next 5 years via the scheme (Milligan et al. 2009).

The NRAS program provides a subsidy or tax-credit incentive to encourage investment in affordable rental housing. While it is too early for research evidence of the outcomes, we cite one of the few publically available early assessments which identify some of the strengths and weakness of NRAS.

Milligan et al. (2009) assess the program and find that NRAS is a positive opportunity for bringing private investment in to grow the affordable housing sector but that the ten year time frame may threaten the gains by resulting in stock sales to repay private debt. It recommends a coordinated approach to private fund raising rather than individual leveraging to increase cost-effectiveness (Milligan et al. 2009).

Milligan et al. (2009) judge that NRAS goes some way to providing a flexible funding source, as funds can be allocated as a one off capital grant or as an ongoing subsidy for up to 10 years. A negative characteristic is that NRAS has a short life span (10 years) and is available to the broader market (p.152).

To improve the effectiveness of NRAS to grow the not-for-profit sector, the authors suggest that a set percentage of NRAS be reserved for the not-for-profit sector. This sector, they argue, will capitalise on the capacity building already taking place, deliver cost-effectiveness and is the most reliable way to secure affordable housing beyond the 10 year life of the scheme, given that the sector is motivated to retain some if not all of its stock (p.152). The private sector on the other hand will have a greater motivation to sell the stock once the subsidy or tax-credit ceases to apply.

Channelling NRAS into the not-for-profit sector also provides an opportunity for states to strategically tie not-for-profit finance to the grants (already occurring in NSW and SA) and achieve greater economies of scale.

Secondly, the authors recommend that governments facilitate wholesale private fund-raising on behalf of not-for-profits (either through NRAS incentives, bond financing or government guarantees), which would prove more cost-effective than individual organisations leveraging their own funds (p.152).

5 SUPPORTING OWNERSHIP

This chapter highlights a large number of successful interventions for assisting low–moderate income into sustainable outright home ownership. It is important to note that the study explored here stresses the need for a comprehensive package of interventions across several stages in the home ownership cycle.

In some markets, it may be feasible for moderate income households to achieve outright home ownership, provided a range of supports are provided. One of the many benefits of encouraging home ownership, where appropriate, is the reduced pressure on limited supplies of both private and social rental stock, leaving these available for the neediest households. There are already a wide range of interventions used by international governments to assist families with moderate incomes into sustainable home ownership.

Atterhög & Han-Suck (2009) presented a useful characterisation of these across the broad life-cycle of home ownership in 15 OECD countries. They present a wide range of interventions across four phases:

- prior to purchase
- during purchase
- ownership period
- when selling the home.

The following table provides an overview of these interventions, described in more detail below (Atterhög & Han-Suck 2009, p.252)[3]:

Figure 4: Interventions for sustaining home ownership

Period before buying	Buying period	Period of ownership	Selling period
a. Encourage households to save towards a down payment:	i. First Home Owner's Scheme and First Home Owner's grant (Australia)	a. Measures that can reduce property and mortgage costs:	Home equity insurance or protection (USA)
i. Registered Home Ownership Savings Plan scheme and Home Buyers' Plan (Canada)	ii. Freddie Mac's Affordable Gold program (USA)	i. Property tax relief for low-income households (USA)	
ii. EL Home savings account (CEL & PEL, France)	ii. More objective risk assessment, Freddie Mac's Loan Prospector (USA)	ii. Mortgage interest deduction	
iii. Bausparkassen	iii. Reduced transaction costs	iii. Shared appreciation mortgage (UK)	
iv. Rent a home with an option to buy (USA)	iv. Mortgage brokers (USA and UK)	b. Measures that promote improvement and renovation:	
b. Improve homebuyer education and counselling		i. Improvement and renovation grants (UK)	
		c. Measures that can assist mortgagors in financial distress:	
		ii. Income support for mortgage interest and mortgage payment protection insurance (UK)	

[3] A more detailed description of these interventions is provided in the summary of this article in the Appendix.

Their study suggests that the evidence surrounding the efficacy of housing interventions is somewhat weak. Outcomes of housing interventions are notoriously difficult to measure, due to their interactions with a wide range of other contextual factors and interventions. This does not necessarily mean however, that they are ineffectual – just difficult to measure. Nonetheless, this study suggests that a holistic approach is needed with a range of strategies to support low–moderate income home owners across their housing career.

5.1 Prior to purchase

Prior to purchasing a home, potential home owners with moderate incomes face a range of barriers. These range from inability to save sufficient deposit to bad credit histories to a belief that they are not able to achieve home ownership. Therefore during this phase, there are a number of important ways in which governments can assist these people:

- *Savings plans.* Savings plans overcome both the deposit gap and, in some cases, bad credit histories.
- *Buyer awareness education and financial literacy programs*. Counselling and short courses have been shown to be effective in raising awareness of potential home buyers of the risks and rewards of home ownership, their rights and responsibilities, and the types of affordable mortgage products that may be available to them. Financial literacy is also valuable over the longer term, in helping these families manage their finances adequately to maintain a mortgage.

5.2 During the purchase of a home

Despite a savings plan and buyer education, some families may still face a deposit gap, or may have insufficient income to access traditional mortgage products to allow the purchase of a home. Therefore a range of interventions may be useful:

- *Grants*. These can assist with bridging the gap between savings and the deposit required by lending institutions. These are given either as lump sums (as per the Australian *First Home Owners Grant*) or payments may be spread over several years. The latter arrangement occurs in Germany and Ireland (Atterhög & Han-Suck 2009, p.255).
- *More flexible mortgage products*. One of the ways in which US institutions Freddie Mac and Fannie Mae have assisted lower income groups into home ownership was by increasing the loan-to-value ratio on home mortgages offered. This has been shown to be very effective in getting these families *into* home ownership. However, as the recent Global Financial Crisis has demonstrated, problems with the implementation and some additional costs have diminished the effectiveness of this measure (Atterhög & Han-Suck 2009, pp.255–257).
- *Reduced transaction costs*. Costs such as mortgage transaction fees, capital gains tax, brokerage fees and stamp duty add significantly to the cost of purchasing a home. They have the potential to price lower income groups out of home purchase. Waiving of these fees, or a sliding taxation scale which allows lower duties for lower-cost housing may facilitate lower income groups to purchase a home (Atterhög & Han-Suck 2009, pp.258–259).
- *Objective mortgage assessment tools*. These may remove the potential for discrimination in human assessment methods. Freddie Mac has a computer-based assessment tool, which assesses both the borrower and property quite efficiently. However, any such system is only as good as its inputs. Again, the recent Global Financial Crisis suggests that this system may have allowed many into home ownership, where this may not have been their best option (Atterhög & Han-Suck 2009, pp.257–258).

- → *Mortgage brokers*. Brokers with the specific task of finding the most appropriate and affordable mortgage product for low–moderate income earners may greatly reduce both initial and ongoing mortgage costs (Atterhög & Han-Suck 2009, p.259).

5.3 The ownership period

Once home ownership has been achieved, a range of unexpected costs can potentially bring about mortgage default, or at least worsen the housing stress faced by low–moderate income families. A range of interventions in both North America and Europe have proven effective in lessening the housing cost-burden on such households:

- → *Reducing property taxes and mortgage costs.* This may include legislative measures to limit property tax rises to a lower maximum percentage per annum, allowing tax deductibility of mortgage interest payments (as in the US), and targeting of tax reduction interventions to specific, needy groups to ensure that they don't favour higher income groups (pp.260–261).
- → *Shared appreciation mortgage*. In exchange for a share of appreciation of the property at the eventual sale, some lenders will provide more flexible loan terms or lower interest requirements. This approach is most popular in parts of the US, although the Bank of Scotland also has one such program (p.261).
- → *Promoting property improvement and renovation*. In the UK and Sweden, there have been a range of programs over the past 30 years aimed at providing grants to lower income home owners to assist them with maintenance and improvement. The benefit of this also extends beyond the individual recipient to maintaining better quality neighbourhoods for the wider community. In turn, this upholds and even improves house values (pp.262–263).
- → *Assisting home purchasers in stress*. Mortgage insurance is one common way of assisting home purchasers who may fall into stress, due to unexpected illness or loss of job. In the UK, a government subsidised mortgage insurance program has demonstrated the ability to meet the needs of lower income home owners far more effectively than privately-run programs.

5.4 Selling one's home

Households may elect to purchase a home partly as a consumption decision (i.e. because they desire to for a range of reasons) and partly as an investment decision (i.e. as the primary means of building family wealth) (Atterhög & Han-Suck 2009, p.265). The latter approach may mean that lower-income home buyers have very unbalanced investment portfolios, leaving them vulnerable to depreciation in market downturns.

Several studies have suggested that financial investment instruments which allow for greater hedging or diversification may better protect the investments of households on limited incomes (p.265). One instrument currently being trialled in the US is *Home equity Protection*: a form of put option which pegs the value of the home to the median for the area. Should the value of the individual house drop, the owner can exercise the put option and receive money from the insurer. If home prices have increased, the owner does not exercise the option (p.266).

5.5 Summary

Not all low–moderate income households are able or desirous of home ownership. However, for those who are, Atterhög & Han-Suck's study suggests that there is no one intervention which is sufficient to assist low–moderate income earners to achieve sustainable home ownership. Rather, a range of interventions are needed throughout the life cycle of ownership to support such households to purchase and then preserve their home.

6 HYBRID MODELS

In this next chapter, we will examine a range of forms of shared equity housing that are proving highly valuable, both in Australia and internationally, in both providing stable, affordable housing and building greater social capital.

As a response to the gap between low–moderate household incomes and housing prices, intermediate housing options are provided to these groups as a more affordable alternative to the mainstream housing market. These models are often government-backed or private sector-led initiatives that aim to assist low–moderate income earners to get a 'foothold on the property ladder' (Pinnegar et al. 2009, p.3).

Shared equity models exist on a continuum and there are three main formats these models can take:

- Shared equity loans/ mortgages which act as transitional asset builders.
- Shared ownership.
- Subsidy retention models which act as facilitators of continuing affordability (Pinnegar et al. 2009).

6.1 Shared equity models in Australia

In Australia, shared equity models primarily take the form of shared equity loans/mortgages. Essentially, shared equity loans (traditionally mortgages) consist of a first mortgage taken out by the purchaser for a proportion of the housing cost and a second loan taken out by the partner who then holds an equity share in the property for the duration of the housing loan (e.g. Western Australia's First Start Loan).The purpose of this model is to promote asset building on behalf of the lower income household. The different shared equity models offered in Australia are demonstrated in Figure 5.

Figure 5: Government shared equity loan products/schemes, Australia

State	Provider	Shared equity products	Website
Western Australia	Keystart Home Loans	Good Start[4] First Start Restart Access Aboriginal Home Ownership	www.keystart.com.au
South Australia	HomeStart Finance	Breakthrough Equity Start	www.homestart.com.au
Northern Territory	Territory Housing	HOMESTART NT (also called HomeNorth)	www.nt.gov.au/ntt/revenue/home_assist/homestartNT.shtml
Victoria	VicUrban/ Burbank Homes	Ownhome	www.burbank.com.au/ownhome/about.php

[4] Since 2009 First Start has been withdrawn and the Step Up Scheme 2010 has consolidated Goodstart Access and Aboriginal Home Ownership schemes.

State	Provider	Shared equity products	Website
Queensland	Queensland Housing and Homelessness Services	Pathways	www.housing.qld.gov.au/loans/home/loans/shared/index.htm
Tasmania	Housing Tasmania	Homeshare	www.dhhs.tas.gov.au/services/channels/abouthousing/housing_options/homeshare
ACT	The ACT Affordable Housing Action Plan 2007 signalled a role for shared equity		
NSW	No current schemes		

Source: modified from Pinnegar et al. 2009 20 extracted from State/territory housing, Burbank, HomeStart and Keystart websites

Of these schemes Western Australia and South Australia provide the most diverse shared equity products:

- *First Start* is targeted to first-time buyers who are low–moderate income working households. No rent or interest is charged on the loan but upon sale the index loan amount as well as a proportional share of capital gains needs to be paid back to the government.
- *Good Start* is targeted to people in public housing or on the public housing waiting list.
- *Restart* provides support to those who are at risk of losing an already mortgaged homed due to a change in internal of external circumstances (like sudden loss of income or divorce).
- *Access* provides assistance to people with disabilities for need stability
- *Aboriginal Home Ownership,* which specifically targets those of Aboriginal or Torres Strait Islander descent.

South Australia provides two targeted products:

- *Breakthrough* targets first-time buyers who are low to moderate-income working households and those who are at risk of losing an already mortgaged homed due to a change in circumstance (divorce etc). No rent or interest is charged but original capital plus a disproportionate capital gain share is repayable when the property is sold.
- *Equity Start* is targeted to those in public housing or on the public housing waiting list.

The Northern Territory provides one product for various target groups:

- *HomeNorth* is targeted to first-time buyers who are low to moderate-income working households and those in public housing or on the public housing waiting list. No rent or interest is charged on the loan but upon sale the index loan amount as well as a proportional share of capital gains needs to be paid back to the government.

Victoria provides one targeted product:

- *Ownhome,* which is targeted to first-time buyers who are low to moderate-income working households.

6.2 Eligibility for Shared Equity Models

Presently five states and territories operate shared equity schemes in Australia. It is important to note here that each state and territory except for NSW has some form of shared equity model.

These models are not uniform approaches and offer services to different cohorts of people, specifically with respect to eligibility.

- Western Australia's *First Start* program stipulates that shared equity consumers are eligible if their household income does not exceed $70 000 (Pinnegar et al. 2009).
- Northern Territory's *HomeStart* and Tasmania's *HomeShare* programs both use income levels and household equity as a measure of eligibility; requiring consumers to have a net worth of less than $105 000 and $95 316 respectively (Pinnegar et al. 2009).
- Victoria's *Ownhome* program maintains that clients cannot have household incomes exceeding $66 000.
- South Australia's *Breakthrough* program and Queensland's *Pathways* program have no set income eligibility criteria (Pinnegar et al. 2009).

Figure 6: Eligibility criteria for state/territory schemes, 2009

	Max. equity 'grant'	*Max. household income*	*Max. property value*
Western Australia: First Start	25%	Sliding scale up to $70,000	$355,000 in metro areas
Northern Territory: HOMESTART NT	30%	Up to $105,000 plus asset limit	Regional variation, max. of $420,000 in Darwin
South Australia: Breakthrough	35%	Not set	Not set
Tasmania: HomeShare	25%	Up to $95,316 plus asset limit	Determined by 25% held by Housing Tasmania being no more than $50,000
Victoria: Ownhome	25%	Up to $66,000	Tied to product
Queensland: Pathways	40%	No income/property value limits: restricted to tenants purchasing the home they're renting	

Source: Pinnegar et al. 2009 49 extracted from State/territory housing, Burbank, HomeStart and Keystart websites

Collectively the scale of these shared equity models is small. Northern Territory's 'HOMESTART' scheme engaged roughly 1000 arrangements in 2007 (Pinnegar et al. 200, p.22). Similarly, Western Australia scheme 'First Start' plans to offer only 3000 loans between 2007 and 2010 and 500 loans will be offered by South Australian scheme 'Breakthrough after 2008. Currently 10 dwellings have been made available in Victoria under its Ownhome scheme (p.22). Tasmania's scheme while still in developmental stages plans to delivery housing on a small scale as well.

6.3 Current shared equity consumer perspectives

Pinnegar et al. (2009) conducted 19 interviews with homeowners who were *Keystart* (WA), *HomeStart* (SA) and *Homenorth* (NT) clients in order to identify key issues of the schemes and customer perceptions. Sample groups comprised of longer term shared equity clients, in order to monitor how their experience of shared equity schemes had changed over time and recent shared equity clients. Key findings from these interviews demonstrate that:

- New *Keystart* (WA) and *HomeStart* (SA) clients demonstrated satisfaction with their shared equity schemes
- Longer term *Homenorth* (NT) clients experiences of shared equity were positive although their praise was more tempered than newer clients
- Participants indicated that the shared equity models provided appropriate housing; however, a large number of participants had to move into areas where housing was more affordable.
- The majority of participants indicated that without shared equity they would not have been able to afford to buy a house.
- Key concerns shared by participants were:
  - That the complexity of the shared equity model acts as a barrier to consumer interest and involvement.
  - The future uncertainty of their equity share. Participants were focused on the part-share of the property owned by the housing partner rather than their equity gains.

Overall, results from these interviews demonstrated that shared equity schemes are both an appealing option to people in low–moderate income groups and are proven to be an integral first step into the home ownership market. Without these shared equity products some low–moderate households would have been unable to enter the housing market. (Pinnegar et al. 2009)

6.4 Consumer perspectives of potential shared equity homebuyers

In order to gauge wider public interest in shared equity models, Pinnegar et al. (2009) conducted 10 focus groups in low–moderate housing locations in major housing areas. Eight participants were allocated to each focus group and were selected on the basis that they lived in major metropolitan areas like Sydney, Melbourne and Brisbane. This selection criterion was used in order to gain perspectives from areas where shared equity models are currently unavailable.

Participants had incomes ranging from $40 000–$55 000 and $55 000–$80 000, were living in inner/middle gentrifying suburbs and middle/outer areas and the majority were first home buyers aged 25–39 years old (minority were older people re-entering the housing market). Participants were presented with two shared equity models based on *First Start* (WA: Individual Equity) and an American model *Jacobus Subsidy Retention* (referred to in the US as *Community Equity*) and asked to contribute their views on these specific schemes.

Evidence from the focus groups indicated that while current shared equity consumers identified the complex nature of these schemes to be a barrier to consumer interest and involvement, potential consumers understood the schemes once they were comprehensively explained and only rated the complexity as a limiting factor rather than a barrier (Pinnegar et al. 2009).

Participants viewed the government as a safe equity partner and the trade-offs involved in shared equity schemes as fair. However, participants were also concerned about the stability of the government as an equity partner with respect to changing policy priorities. Minor concerns were intimated about consumers having 100 per cent responsibility with the house (rates, bills and maintenance) without having full ownership.

Participants' views of the individual equity scheme based on *First Start* (WA) understood this scheme to be a stepping stone into full ownership. However many participants were concerned over the reality of moving on into the mainstream market after participating in a shared equity scheme. If housing affordability prices continued to rise participants were concerned they would become 'trapped' in a shared equity environment (Pinnegar et al. 2009).

The findings from these focus groups of potential shared equity consumers indicate that there was more support for Australian individual equity model than the U.S community equity model. The latter was interpreted as a rent based model that had few monetary incentives and restricted clients in terms of housing market choices.

Overall, key themes that were identified by both current shared equity clients and potential shared equity clients were the appeal of shared equity products, particularly those offering individual equity opportunities. Concerns indicated by current shared equity clients about their proportion of their housing partners share in the property, regardless of their own equity gains, demonstrated the fact the people in this income bracket are focused on eventually obtaining full property ownership.

6.5 International shared equity: limited equity housing cooperatives

The next two sections present shared equity models in operation in Europe, the UK and North America. This first section offers a brief overview of Limited Equity Housing Cooperatives, which are detailed in Saegert & Benitez (2005). A more detailed summary of this article can be found in the appendix.

One form of shared equity which has been used in Norway and Sweden for many decades, and is now gaining traction in the US and Canada, is called Limited Equity Housing Cooperatives (LECs). While there are a range of specific local structures, and legal entities used to establish and operate these cooperatives, they are all centred around the ideas of collective ownership and limitations on share prices (Saegert & Benítez 2005, p.428).

The collective entity purchases the property with the combined deposit funds of all members, who individually obtain mortgages to pay out the remainder of the purchase price. They are then individually responsible to pay the mortgage costs, whilst there is a small additional fee payable on a regular basis to assist with joint maintenance and operation costs.

The operation principles used to run these cooperatives include:

1. 'Voluntary and open membership.
2. Democratic member control.
3. Member economic participation.
4. Authority and independence of each cooperative.
5. Education, training, and information.
6. Cooperation among cooperatives.
7. Concern for community' (Saegert & Benítez 2005, p.428).

Should a member need to sell the property, the sale price is limited in some way—at a pre-agreed rate—to ensure the dwelling remains at an affordable price for the future occupants. There may also be limitations on the type of demographic which is eligible to purchase the property – such as groups within a particular intermediate income range (p.428). The residents also retain the right to pass on the property to heirs.

Initial seed funding is generally required from some outside source—often governments—to assist with the initial purchase. However, once established they have mostly been shown to be highly self-sustainable. Several studies have also demonstrated that this is a more cost-effective way of meeting the housing needs of intermediate income earners compared to a range of other interventions (p.437).

LECs offer a range of social and economic benefits to residents and the surrounding communities in which they are located. Social benefits include increased security of tenure, stability of affordable housing stock (particularly in high cost housing markets), higher levels of maintenance (which in turn lead to reduced rates of crime, vandalism and littering), increased resident satisfaction and a far greater sense of community (Saegert & Benítez 2005, pp.429–431). Economic benefits include reduced cost burdens of home ownership to individuals through spreading the costs, and collective bargaining for more cost-effective services (e.g. maintenance services) (Saegert & Benítez 2005, p.429).

Shared equity housing is most beneficial in areas with hot housing markets and high cost regions. They benefit a range of low–moderate income households who may otherwise be displaced from these areas as prices become prohibitive. Those who benefit include people with a disability, the income-constrained elderly, households headed by a single female, young adults struggling to establish a new household, central city residents, and indigenous families (Saegert & Benítez 2005, p.432–434). People across a range of occupations also benefit:

> Artists, actors, musicians, teachers, and public agency employees make up a sizable proportion of residents. Many say they would have to change occupations and get higher paying jobs to remain in [their current location] (p.432).

While this type of housing may not be suitable for all households, for those who opt for this type of housing, it offers a more supportive, community environment as well as access to stable, affordable home ownership.

6.6 Shared equity and community land trusts

Community land trusts have been in use for some time in Europe and North America. In the past few years a small number of trusts have formed in Australia and this model is currently being trialed here. The evidence in this section comes from international examples.

Community land trusts (CLTs) are another form of cooperative where an organisation (often a not-for-profit association) owns the land, but individual residents own the homes that sit upon the land[5]. Like LECs, they allow the risks of home ownership to be spread across multiple households, making home purchase more achievable for those on low–moderate incomes (Saegert & Benítez 2005, p.428).

CLTs have their origins in the southern US, but are now being established in the UK. Some Australian academics and community organisations are also exploring their establishment here (Phibbs & Crabtree 24–27 November 2009).

The typical CLT structure features land held in perpetuity by a not-for-profit organisation, with ground leases being issued to individual residents. These residents then hold title (either ownership, rental or cooperative) to any improvements on the dwelling. The governing board of a CLT includes residents, representatives of the not-for-profit organisation and members of the surrounding community. They usually have

[5] Further information on CLTs can be found at http://www.cltnetwork.org/ and http://groups.google.com.au/group/Australian-clt-network/.

a pre-agreed rate of return payable on resale for any renovations made. Resale formulae also ensure that this housing stock continues to be made available to lower income groups.

Two evaluations of the Champlain Housing Trust (formerly Burlington Community Land Trust) in the US demonstrate that CLTs deliver expanded home ownership, increased individual wealth for disadvantaged members of the community, and enhanced residential stability. They also preserve affordable housing stock in otherwise unaffordable housing markets, enable residential mobility (mostly upwards to market-priced homes) and retain the initial community investment (usually government subsidies for start-up costs) (Davis & Demetrowitz 2003; Davis & Stokes 2009).

6.7 Summary

This chapter has demonstrated that where outright home ownership may not be feasible, shared equity options are an attractive and highly effective means of assisting low–moderate income households into more stable housing. Shared equity housing has most of the advantages of home ownership—e.g. stable housing, a place of one's own—at a more affordable price.

7 FINAL SUMMARY AND RECOMMENDATIONS

7.1 The problem

Part 1 of this study demonstrated that a range of structural housing market issues converge with highly constrained incomes and net worth to create critical housing affordability problems for low–moderate income households. These include the following issues:

- Increases in wages have not kept pace with rising house prices (both purchase and rental). This has fuelled greater deposit gaps and concomitant difficulties in saving for this deposit.
  - Furthermore, higher house prices mean bigger mortgages. Those on low–moderate incomes may find themselves ineligible for the size loans they may need to purchase even a modest home. This is particularly acute in high-cost housing markets, such as that of Sydney.
- A chronic shortage of private rental is locking those in low–moderate incomes out of much of the previously affordable housing stock: as higher income groups seek to save costs by accessing cheaper rental properties, less and less become available for those on lower incomes.
- Tightened eligibility criteria for social housing means that moderate-income households are unable to access this type of tenure. This further reduces the options available to them.

The synthesis has demonstrated there is a broad range of people on low–moderate incomes who experience different kinds of housing affordability issues. This suggests that there is no one-size-fits-all approach to solving the housing affordability difficulties faced by this group of Australians.

7.2 A range of ready solutions

Part 2 has therefore covered three broad areas for intervention, within which a variety of mechanisms could be used to provide these people with more reasonable housing options.

7.2.1 Affordable rental

For some low–moderate income households, home ownership may either be undesirable for a range of reasons, or it may be unattainable given their individual circumstances. Therefore, it is imperative that a supply of affordable rental be maintained, and indeed increased. This housing needs to be earmarked specifically for this income bracket to ensure that higher income groups do not crowd lower groups out of these dwellings.

7.2.2 Support for outright home ownership

Not all low–moderate income households are able or desirous of home ownership. However, for those who are, there is no one intervention which is sufficient to assist low–moderate income earners to achieve sustainable home ownership. Rather, a range of interventions are needed throughout the life cycle of ownership to support such households to purchase and then preserve their home:

- Waiving or reducing stamp duty and other transaction costs of home purchase.
- Homebuyer education and financial literacy programs to build potential moderate-income homebuyer’s awareness of the rights and responsibilities of home purchase.
- Government-subsidised mortgage protection insurance, as these are found to meet the needs of lower-income groups more effectively than privately-run insurance schemes.

- Mortgage brokers with a specific mandate to find the most cost-effective and appropriate mortgage products for low–moderate income households.
- Grants for home maintenance and renovation. These assist households on modest means to maintain and improve the value of their home, which in turn can contribute to maintaining property prices across the local neighbourhood.

7.2.3 Hybrid models: shared equity

Hybrid ownership models appear to provide the greatest potential for ownership for low–moderate income households. The studies utilised in this report suggest a number of recommendations for implementing shared equity at sufficient scale in New South Wales:

- In order for the effects of the shared equity model to be analysed, evaluations of all Australian shared equity clients and their subsequent interaction with the housing market need to be undertaken. Particularly with respect to paying off their part mortgages and moving onto full home ownership after participating in shared equity schemes.
- Pinnegar et al. (2009) recommend that these models should be a key element in a strategic whole-of-housing approach to easing the burden of home ownership for low–moderate income groups. This recommendation not only aims to ease the burdens of low–moderate income purchasers but to consequently ease the pressure of private rental housing.
- In the interest of catering to the specific needs of this low–moderate income group, shared equity schemes should remain relatively small scaled so their services can attend to this portion of the housing market that is under pressure from unaffordable housing prices and high income groups moving into their affordable rental areas (Pinnegar et al. 2009).
- Two international models of shared equity could also provide useful ways of assisting low–moderate income households into home ownership:
  - Limited equity cooperatives are a means for a group of low–moderate income households to support each other in achieving home ownership. They require a small amount of subsidy for establishment costs, but are found to be mostly self-sustaining thereafter.
  - Studies of the Community Land Trust model suggest that it is highly effective in providing both ownership and affordable rental opportunities. This model should therefore be given serious consideration and support in the New South Wales context.

7.2.4 Ongoing structural housing market interventions

Finally, there are a range of structural problems with the Australian housing market which place unrealistic demands on low–moderate income earners to provide their own housing. These include the expectation that property prices will continually increase. Comprehensive and coordinated whole-of-government interventions will be required to address this problem, in order to reduce the pressure on low–moderate income earners. Examples include changes to the tax treatment of private housing and securing long-term financing mechanisms for public housing.

Whilst these types of interventions have been outside the scope of this study, they nonetheless deserve careful consideration and action if Australian society broadly and New South Wales in particular are to genuinely address the housing affordability problems faced by those on constrained incomes.

APPENDIX: SUMMARIES OF KEY RESEARCH

Atterhög, M., & Han-Suck, S. (2009) A Survey of Policies that may Increase Access to Home Ownership for Low-Income Households. *Housing, Theory & Society,* 26(4), 248-270.

This article reviews housing policies across a range of OECD countries to show the types of policy instruments that are most useful in making home ownership accessible and affordable to low-income households (Atterhög & Han-Suck 2009).

The authors show that all Housing Acts passed in OECD countries since World War II have some form of the goal 'a decent home for every family at a price within their means' (250). Furthermore, they suggest that housing outcomes have been determined by more than just the individual acts of suppliers and consumers of housing – public sector interventions have also impacted on the types, costs and locations of housing available (250-1). During the period 1980-2000, the housing market was largely deregulated across the OECD. However, in recent years, most governments have felt it necessary to intervene to address the shortcomings of deregulated markets (251). These have taken a wide variety of forms, depending on local cultural and economic contexts, as well as international trends.

In this paper, the authors describe 16 common policy instruments used in a variety of ways to increase the access and affordability of home ownership for low-income households. These were selected for:

> (i) their commonness; (ii) their perceived importance for home ownership rates and scope as a means of increasing home ownership rates for low-income households; and (iii) the availability of material (251).

They are also arranged into four time periods (or phases):

- 'the period when the household accumulates the resources necessary
- the period when the transaction is carried out and the house is bought
- the period when the house is owned and maintained
- the period when the house is sold' (p.250).

Before buying

In the first phase, there are policies aimed at assisting renters to alter their expenditure behaviour in order to save the necessary deposit for a home. Policies that assist in this area include:

- Programs that help overcome the deposit barrier, through subsidising savings.
  - For example, in Canada in the 1970s, the *Registered Home Ownership Savings Plan* provided dollar-for-dollar tax deductions up to a set amount for renters looking to purchase. Interest earned on savings was tax free. Evaluations suggest that this program increased the annual rate of transition from renting to purchase by about 20 per cent (pp.252–253).
  - In France, the *Epargne Logement* (EL Plan) allowed renters to convert savings to an option to borrow at a later date at a pre-specified mortgage rate. The interest earned on savings is tax free, and the interest rate on both savings and mortgage is fixed at the time the savings plan commences. These rates are set by the government and adapted over time to reflect the current economic context (p.253). Bonuses are paid, depending on the amount paid, and in later iterations of the program, savers have been able to withdraw funds at any time. This provides great flexibility. The program has been shown to be a valuable part of financing housing in France.
  - In Germany, the high deposit rate required by the banks of about 25–30 per cent of purchase price prevents many lower income families from purchasing a

home. To overcome this, many building societies run a program—*Bausparkassen*—to encourage greater saving. Households save a specified amount every month, often for as long as 3–5 years. They are then rewarded with access to a mortgage at a low interest rate (253–254).

  - *Rent to buy* has been a popular program in both the US and Sweden. This is usually useful for those who may have bad credit ratings, or who hesitate to purchase immediately due to insecure employment. Usually, a part of the rent is applied to the deposit, and the rent is forfeited is the purchase does not proceed (p.254).

- the provision of counselling and education to potential buyers to alert them to some of the risks associated with home purchase, as well as helping them address 'risky' behaviours which may give lending institutions the perception that they cannot handle credit adequately (p.251).

  - In the US, there are a range of non-profit organisations and financial brokers who provide financial counselling for those on low incomes who are seeking to purchase a home. Many financial institutions now require such counselling prior to granting access affordable housing mortgage products. One example of such counselling programs is the *Home ownership Education and Learning Program* (HELP), sponsored by the US Department of Housing and Urban Development (pp.254–255). Those who participate in this program prior to buying their first home also receive a discount of their mortgage insurance premium. Counselling is shown to reduce the rates of mortgage default (p.254), and the HELP program in particular is estimated to have assisted an additional 50 000 people into home ownership.

Whilst buying

The second phase includes programs to assist with the deposit at the time of purchase, such as the Australian *First Home Owners Grant*. Ireland and Germany also have similar programs, where financial assistance is given either as a lump sum or as payments spread over several years.

More flexible mortgage products may also allow greater access to home ownership market for those who do not qualify for regular mortgages. One approach to providing flexible loan products is to increase the maximum loan-to-value ratio for mortgages, to reduce the deposit needed. The latter is the broad strategy applied across a wide range of instruments offered by the US institutions Fannie Mae and Freddie Mac (p.255). There is evidence that these institutions have increased the numbers of moderate income families able to access home ownership (p.257).

However, the recent global financial crisis has exposed some problems with predatory lending. There have also been issues with mortgage default due to loans being extended to low-income families with low initial repayments, with repayment rates rising steeply as the loan term progresses – based on the assumption that there will be a steady rise in house values. The latter scenario has not eventuated in the US, leaving many lower income families vulnerable to unsustainably high payment rates (p.267).

Other instruments for assisting with the purchase of a home include:

- *More objective loan assessment tools*. These help to improve the credit rating of prospective homebuyers and reduce risk for lenders (p.257). One example is Freddie Mac's *Loan Prospector* (pp.257–8), a mortgage processing system that allows for more efficient processing and issuing of loans. (Fannie Mae also has similar system but it is not described in this paper). This automatic underwriting system is based on a set of statistics used to evaluate both borrower and property. This more objective assessment system reduces the subjective side of human decision-making that may lead to discrimination against ethnic minorities and renters. However, given the recent fortunes of Freddie Mac and Fannie Mae, this tool should perhaps be treated with caution.

→ *Reduced transaction costs*. These costs include capital gains tax, stamp duty and brokerage fees. Stamp duty appears to be the biggest issue for low-income home buyers across the OECD countries included in this study. Some countries have a flat rate of stamp duty which particularly disadvantages how-income families. Others have a sliding scale of duties payable, with low-cost housing attracting little or no taxation. Sliding scales such as that in effect in the UK should benefit low-income households who are usually looking for more affordable (i.e. lower cost) housing (pp.258–259).

→ *Mortgage brokers*. These services may be useful for low-income households, facing a complex market and large amounts of complex information. They can help these households find the most affordable and appropriate loan product (p.259).

During home ownership phase

A range of mechanisms are used in several OECD countries to support low-income families in maintaining home ownership:

→ *Reducing property taxes and mortgage costs*. Several countries have property tax relief schemes for low-income families, by which the tax is limited to a certain proportion of the household income unless the property exceeds a certain value (p.260).

  → In the US, some states have *legislation limiting the amount by which property tax may rise* in a given year, to allow low income families to plan for increased expenses.

  → *Mortgage interest tax deduction.* A large number of OECD countries allow for interest paid on a mortgage to be tax deductible. However, this is viewed as a fiscal burden by many (p.260), and it is seen to favour wealthier households more than low income ones. In Iceland, the government refunds to the household any mortgage interest costs over 6 per cent of the household income (p.260).

  → In some countries, taxation policy instruments *target specific groups for higher deductions* (p.261). These groups include those who have purchased a home within the past 5 years, the elderly and those with a disability.

→ *Shared appreciation mortgage* (261). With this type of loan, the buyer will receive reduced loan costs in exchange for giving the lender some of the appreciation on the property. These loans provide flexible terms for low-income households. However, the lender may not share in any depreciation costs, so it is therefore not exposed to any downturns in the market (p.262). These arrangements are more common in the US than in Europe, although the paper does outline one program run by the Bank of Scotland.

  → Despite the potential of these programs to assist low-income homeowners to maintain their home, the uptake has been slow. The authors suggest that this may be due to either or both of two factors: the 'moral hazard problem' (i.e. the lack of incentive to maintain/increase the property's value) and the reluctance of families to give up one of the chief drivers of home ownership (i.e. creation of family wealth).

→ *Promoting property improvement and renovation.* In the past, the UK and Sweden have run *improvement and renovation grant programs* to assist low-income households with renovation costs, although available funds for these grants have been steadily diminishing since the 1980s. Research suggests that the condition of housing may be strongly correlated with household income. Households on low income are often limited to purchasing houses which are affordable because they are in relatively poor condition. They may also have little capacity to make improvements to their house. Therefore, where policy makers are looking to attract low-income households into home ownership, some form of assistance with maintenance and improvement may be of benefit (pp.262–263).

- *Assisting home purchasers in stress*. The authors discuss a range of studies showing increasing insecurity of income amongst those with a mortgage, suggesting that this is contributing to rising rates of default and repossession. The loss of a home can contribute to major ill health and ongoing poverty, so measures that prevent this loss can have a range of benefits beyond housing alone. Mortgage insurance is one way in which greater security can be provided, as well as giving borrowers access to higher loans than they may have otherwise obtained. In particular, the UK has two types of mortgage insurance, which are aimed at keeping home owners in stable ownership:

  > 'Mortgage Payment Protection Insurance (MPPI) is a private insurance system while Income Support for Mortgage Interest (ISMI) is provided by the state. Whereas MPPI covers both interest payments and amortization, ISMI covers only interest payments … ' (p.264).

  - In an effort to shift greater responsibility for mortgage protection onto home buyers, recent reforms to insurance legislation in the UK have placed greater restrictions on eligibility and have introduced longer waiting periods for payments. However, the authors cite number of studies which suggest that a privately run mortgage insurance system is insufficient to protect low-income homebuyers. The state-run insurance was found to be a more effective way of providing such protection (p.265).

The selling phase

Purchasing a home is partly a consumption decision and partly an investment one (p.265). For low-income households, the purchase of a family home may constitute the main way in which wealth is built – thereby creating a very unbalanced investment portfolio. When selling a home, the homeowner is vulnerable to the vagaries of the housing market and may lose wealth from decreasing property values, particularly if selling during an economic downturn.

Several studies have therefore suggested that one way of protecting low-income homeowners from losing out should they need to sell is to create financial investment instruments such as put options and futures, which allow them to hedge or diversify their portfolio. However, none of the proposed instruments have been implemented successfully, partly due to the lack of investment sophistication of the majority of homeowners (p.265).

One insurance instrument currently being tested in the US is the Syracuse-based *Home Equity Protection*—a type of put option, with a 30-year life:

> The basic idea is that when a home owner signs up for the HEP, he or she actually buys a put option. The put option gives the owner the right to sell a futures contract at a price pegged to average home prices in his or her ZIP-code.5 When the house owner sells the home, and if the house prices then have dropped in the home owner's ZIP-code, the owner will exercise the put option and receive money from the insurer, no matter what the actual selling price is. The owner will not exercise the option if home prices have increased (p.266).

One advantage of pegging the protected value to post-code-level house price indexes is that it addresses the 'moral hazard problem' of de-incentivising investment in home maintenance. Under this scheme, it remains advantageous for the homeowner to maintain and even increase the value of their home as much as possible.

The authors conclude that the evidence about the effectiveness of particular measures is weak. They therefore recommend that policymakers adopt a broad range of measures, aimed at both assisting low-income households into home ownership and then supporting the maintenance of owner-occupation. Further, they recommend policies which are aimed at increasing the ability of the market to function fairly and increasing reasonably-priced access to insurance for all home-purchasers.

This study presents a system of policy mechanisms across the life cycle of owning a home, which could assist low-income families into sustainable and affordable home ownership. However, the evidence base appears to be a rather weak in evaluating the effectiveness of most of the initiatives outlined here.

Collins, J. M., & Dylla, D. (2001) *Mind the Gap: Issues In Overcoming the Information, Income, Wealth, and Supply Gaps Facing Potential Buyers of Affordable Homes.* US: The LISC Centre for Home Ownership.

In this paper, the authors explore the barriers to low-income ownership and specific programs in the US which attempt to overcome them (Collins & Dylla 2001). The evaluative evidence around these programs is weak. However, this paper does provide concrete examples of policies and programs designed to increase low-income households' access to home ownership in the US. Some of these may be applicable in the Australian context.

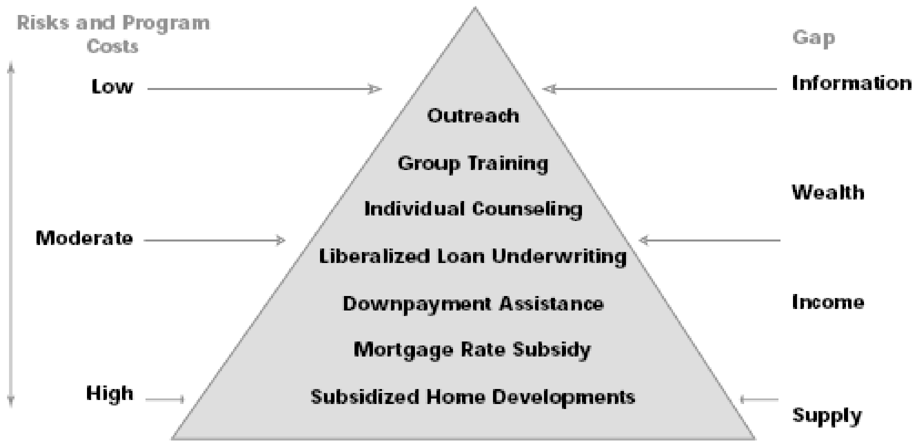
In particular, Collins & Dylla find the following barriers:

- ***Information gaps*** – counselling and homeownership education have anecdotally been found to reduce credit risk for both home buyer and lending institution and have also reduced loan defaults. Some counselling services also suggest they help broaden the reach of home ownership programs to households who may have self-selected out of home ownership due to credit problems or a perception that they are not eligible, and may also prevent some predatory lending practices by increasing consumer understanding of appropriate behaviours (2-4).
- ***Income and wealth gaps*** – a wealth gap is defined as insufficient savings to cover a deposit and closing costs on purchasing a home. An income gap is where a potential home purchaser has insufficient regular income to service ongoing mortgage repayments. Whilst a number of potential home purchasers may be constrained in either one of these areas, the majority of renters who are locked out of home purchase face a combination of the two. That is, they are *both* income and wealth constrained.
    - A range of products are used in the US to overcome these gaps (6-9): *Income gaps* can be alleviated somewhat with tax concessions (such as mortgage interest tax deductions). *Wealth gaps* can be eased by *down-payment assistance programs*, *direct mortgage subsidies* such as the application of section 8 vouchers to mortgage repayments, and *second mortgages* to fund a deposit. *Second mortgages* may become costly if accessed at commercial rates, so a range of non-profit organisations in the US access grants from a range of government sources to provide below-commercial interest rates for this additional loan.
- ***Supply gaps*** – there are three ways in which supply of affordable homes for purchase occurs in the US: construction of new units, decline in stock quality and value ('filter down') and the conversion of rental units into affordable ownership stock. There are a range of interventions used in the US for increasing the supply of such stock: *development subsidies*, *tax credits* to encourage private and community investment, *sweat and shared equity*, *regulatory relief*, *revitalisation zones* and the use of *manufactured homes* (11-13). *Sweat equity schemes* such as Habitat for Humanity have been largely successful in helping low-income families to attain home ownership by contributing their own labour to reduce construction costs. However, their success has been hampered due to limited scale and high administrative costs (12). Land trusts and limited equity cooperatives have also been useful in assisting some low-income units into home

ownership. They also maintain a supply of affordable ownership units in high cost markets. However, they are again limited in their reach due to the scale of the affordable housing need.

The following tables show a range of interventions which can assist in overcoming the barriers and gaps described above:

STRATEGIES TO BRIDGE GAPS FACING POTENTIAL HOME OWNERS



Source: Collins & Dylla 2001, p.13

STRATEGIES TO FILL GAPS FRUSTRATING LOW-INCOME POTENTIAL HOME BUYERS

Stategy	Policy/Program	Constraint Addressed
Below-Market Rate Mortgages	Mortgage Revenue Bonds	Income
Amortizing Piggyback Second Mortgages	Revolving Loan Fund	Wealth
Direct Housing Payment Subsidy	Section 8 Vouchers for Home Ownership	Income
Housing Payment Subsidy Through Tax Code	Mortgage Interest Deduction	Income
Downpayment Grants and Gifts	Individual Development Accounts (IDAs)	Wealth
Relaxed Underwriting Standards	Fannie Mae Community Lending Freddie Mac Affordable Gold	Wealth/Income
Home Buyer Education	NeighborWorks® Full-Cycle Lending U.S. Department of Housing and Urban Development Housing Counseling	Information
Mortgage Insurance	FHA or private mortgage insurance	Wealth
Construction/ Development Subsidy	Low Income Housing Tax Credit; HOME, CDBG	Supply
Substantial Rehabilitation Subsidy	203k rehab loan insurance; HOME CDBG	Supply

Source: Collins & Dylla 2001, p.14

This paper shows that there are a range of practical ways in which low-income families may be assisted into home ownership. However, the sheer size of the need for this type of assistance hampers the efforts of even the most successful programs to achieve a wide enough reach.

Fopp, R., Carson, E., & Parker, S. (2003) Paying off the landlord's house: entering and sustaining home ownership among South Australians on low incomes. Final Report. Adelaide: University of South Australia.

This document is the final report of the *Sustainable Home Ownership for Low Income South Australians* project, which aimed to identify the barriers to home ownership for low-income South Australians and analyse ways to improve home ownership for this group within policy parameters. Identification of home ownership programs available to low income people and issues of housing demand and sustainability are also covered in this report.

This report combines information from secondary data analysis and focus groups to create its evidence base. Focus groups were organised by the Home Start program and consisted of 15 people who had contacted HomeStart but were unsuccessful in their loan application. Unsuccessful HomeStart applicants were selected for this study so that housing experiences of housing difficulties and perceptions of the HomeStart services could be demonstrated.

In South Australia the most prominent programs that assist people with low incomes into home ownership are the Aboriginal Housing Authority (AHA), Home Start, the South Australian Community Housing Authority (SACHA) and the South Australian Trust (SAHT).

Although there are numerous definitions of low income, this research project utilises HomeStart’s income definitions. HomeStart’s criterion stipulates that a person with a low income has either a maximum single annual income of $31,720 ($610 per week) or a dual annual income of $60,000 ($1,000-$1,199). In accordance with these figures, the 2001 Census found that there were 364,523 low income households in South Australia (SA) with 117,218 renting and 72,858 purchasing their home.

This report notes that 44,000 households in SA were experiencing housing stress by dedicating large portions of their annual income to housing.

Key findings surrounding housing stress noted that despite low inflation, high interest rates and the subsequent increase in home mortgage debt the amount of home owning Australians has not changed as debt increases.

The focus group evidence base indicated that participant’s reasons for pursuing home ownership were centred on security and equity. Providing stability and privacy to their families was also important as was investing in the future. However, focus groups noted that the barriers to this perceived level of security occurred at every level of applying for home ownership. They experienced difficulty saving for a deposit, finding banks who tailored home loans to low incomes and difficulty meeting the terms of their loans all of which related to the underlying problem that increasing housing prices had made it difficult for low incomes to enter the housing market.

Evidence indicated that once low income earners had achieved home ownership, the nature of their financial situations meant that they were still vulnerable and insecure even when housed. Loss of income through illness, accidents, divorce or separation posed a great threat to this group. Therefore, despite the fact that security was one of the main reasons for gaining home ownership, insecurity and vulnerability could continue once this goal was achieved. This vulnerability was demonstrated by a higher debt-to-income ratio for low-income home purchases.

Part of this project was to outline the current programs that address the needs of low income earners transition into home ownership. As aforementioned, the main strategies are HomeStart, AHA, SACHA and SAHT. The HomeStart program is the main lending institution for low income earners and requires a small deposit ($500-$1000) and guarantees a maximum 25 per cent of the borrower's income as mortgage repayments. This report notes that if HomeStart were subsidised this would make a considerable difference to low income earners. As it is, HomeStart finances its loans by borrowing from the South Australian Finance Authority (SAFA).

HomeStart's financial services are linked to applicant's annual incomes. People with an income of $37,000 are able to borrow up to $115,000 (87% of all HomeStart clients); those who earn less than $31,000 annual can borrow up to $93,000 (67 % of all HomeStart clients) and those who earn less than $22,000 annual can borrow up to $82,000 (51% of all HomeStart clients).

Although, this program benefits low income individuals unable to enter into mainstream home ownership, Fopp et al. (2003) found that there are peripheral benefits to this kind of assistance. The most pertinent of which is the ability of HomeStart to reduce dependency on public housing support, after funding 12 per cent of South Australian Housing Trust Homes in the 2000-01 period HomeStart has facilitated movement from the public rental sphere to home ownership. Fopp et al. (2007) also note, while initiatives like the first home owners grant (FHOG) offer assistance, the rapid increase of housing prices mean that despite this bonus low-income earners are still unable to afford to buy in the mainstream market.

Using evaluations of secondary literature and primary evidence from focus groups this report offers peripheral suggestions for improving home ownership for low income earners. Particularly, means testing stamp duties, utilising superannuation for mortgage repayments, increasing rent-to-buy initiatives and educating low income earners on the realities and options for home ownership.

Hulse, K., & Burke, T. (2009) *The benefits and risks of home ownership: disaggregating the effects of household income.* AHURI Positioning Paper No. 120. Melbourne: Australian Housing and Urban Research Institute, Swinburne-Monash Research Centre.

This study aims to address gaps in housing literature on the issues of *sustaining* home ownership rather than *obtaining* it. This study covers three major gaps in housing sustainment literature firstly, the adjacent costs of homeownership. Council and water rates, body corporate fees, insurance and maintenance, Hulse & Burke (2009) note that housing literature traditionally focuses on mortgage repayments as a financial burden but does not take into account the other costs of ownership. Secondly, this study analyses whether the financial benefits and security of home ownership is the same across low, middle and high income households. The third aspect of this study is an analysis of the stress and insecurity lower income households experience while trying to sustain home ownership, in particular whether this stress counters the purported psycho-social benefits of owning a home. This study aims to explore the different experiences of home ownership occurring across every Australia income group paying particular attention to the differences between the lower income earners to middle high income earners. This study utilises both quantitative and qualitative research methods for a four stage analysis which encompasses housing profiles of lower income purchasers and owners, ongoing housing costs, home ownership and building wealth and non-financial benefits.

Hulse, K., & Saugeres, L. (2008) *Housing insecurity and precarious living: an Australian exploration.* AHURI Final Report No. 124. Melbourne: Australian Housing and Urban Research Institute, Swinburne-Monash Research Centre.

The aim of this report was to understand the ways in which 'housing insecurity' and other insecurities can create a 'precarious living' environment in lower income renters in Australia. This study was undertaken at two stages, the first stage was creating a conceptual understanding of housing security/insecurity for renters, with respect to topics like, insecurity and security, surveillance by landlords, inability to plan ahead and social expectations. The second stage of this report was able to explore these topics and themes by using qualitative data from two prior AHURI research projects. While the first stage of this research project used pre-existing literature, the evidence base for the second stage was built on two different data sets; the first was life history interviews with 105 participants (71 women and 32 men). These participants were recruited in Victoria and NSW via local community organisations, support agencies, advertisements in community newspapers and local radio stations. Sixty-four participants were renting privately while receiving Rent Assistance and 41 were renting in public and community housing sectors. The second data set for the second stage of this report was a qualitative study comprising of interviews from 40 participants, 20 of which had various disabilities and the other twenty were carers of people with disabilities. Participants in this sample group were all from Victoria, 11 the disability participants were renting public or community housing, 1 was living in a private rental, 7 participants owned or were purchasing their house and 1 was participant was living with their parents. Of the carers sample, the majority (16) owned or were buying their properties, 2 were renting public housing and 2 were living with family. Key themes explored with these two groups were family history, education, employment, housing histories, housing insecurities and constraints on housing choice for people with disabilities.

This report provides conceptual qualifications for their measure of 'housing insecurity'. Unlike Yates et al.'s (2007) 'housing stress' measure which is based on a quantitative evaluation of the interaction between income and housing costs. Hulse & Saugeres' (2008) 'housing insecurity' is based on the theoretical concept of 'ontological security' which essential describes the individual's need for:

> A sense of continuity and constancy in everyday life (ontological security) to enable a stable mental state (Hulse & Saugeres 2008 12).[6]

Recognising that there is a gap in Australian literature on the differences between ontological security in home purchasers and renters, Hulse and Saugeres (2008) reviewed international literature and found that a sense of ontological security was not limited to home owners. In relation to maintaining ontological security in a housing context the most important factors are:

> Having a safe place of one's own in which the routines of daily life can be established, privacy can be negotiated, and where there is a secure base from which to engage in social interactions based on trust which enable self-esteem to be enhanced and self-identity to be maintained (Hulse & Saugeres 2008 13).

Unlike the quantitative term 'housing stress', the interaction between ontological security and housing notes that that housing insecurity is characterised by psycho-social factors, physical conditions and relationships. In summation it gives voice to the qualitative experience of housing insecurity that is not captured by the term 'housing stress'. Drawing on the ontological concept Hulse & Saugeres (2008) identify six key factors of housing insecurity used as a measure for their qualitative analysis. These key factors are mobility, housing instability, lack of privacy (within, between and outside the dwelling), feeling unsafe (both inside and outside the dwelling), lack of belonging and lack of physical comfort.

Participants in this study were low-income renters, therefore, all findings relate back to rental tenure. Hulse and Saugeres (2008) preface their research by noting that the rental market in Australia provides only short term leases (6-12 months in Victoria and NSW), therefore, inherently renting has little security for the renter, this is exacerbated by renters in low–moderate income brackets who are unable to purchase a house and unable to enter into public housing. The control they have over their housing is small, this is reflected by Yates et al.'s (2007) study of Australian housing which identifies

[6] This concept was developed by Scottish psychiatrist R.D. Laing in 1960 and furthered by Giddens in 1984 (Hulse & Saugeres 2008).

low income renters as the most housing stressed Australians. One participant in this present study articulates the insecurity of experienced by low income earners renting privately and the power that landlords have over rental prices:

> So they sold it [the house], put up $300 and I was out. Then I moved to another place where I am now – same thing happen, and the agents come to me and say, 'All the houses in the area are having rental at $300 a week, so yours must go up too'. Never mind that my toiletries are outside, the roof leaks in three rooms, but the rent must go up, and there's no law to secure that for me (Hulse & Saugeres 2008 20)

The first indicator of housing insecurity *mobility* was experienced by the vast majority of interview participants, those who had high levels of mobility due to reasons beyond their control explained high mobility as a housing security. Changes in housing situation which are beyond the control of the renter are deemed by Hulse and Saugeres (2008) to be *housing instability.* The majority of participants also reported experiencing housing instability, this was particularly rent tenure specific, as participants did not feel secure with the knowledge that landlords could increase their rents or sell their houses at their leisure. For this reason evidence indicated that participants saw a level of stability in public housing as the rent was secure and there was no landlord. However, this is not always an option for those in the low–moderate income range.

The third indicator of housing insecurity *feeling unsafe* was mostly reported by people who were living in public housing and those who had left abusive relationships and were in fear of their former partners. The fourth indicator *lack of belonging* was often characterised by a lack of connectedness to the local community and a lack of family in the area. *Lack of belonging* was also heightened in areas outside of metropolitan Victoria and NSW particularly where there was little public transport. This lack of belonging needs to be taken into account as a consequence rising housing prices and the subsequent move to cheaper outer city suburbs. *Lack of comfort* due to low incomes was also experienced by participants with their home environments often being of poor quality due to the cost of repairs and maintenance as was *Lack of Privacy* in public housing areas and shared houses.

Overall, analysis of participant interviews demonstrated that all six indicators of housing insecurity: mobility, instability, lack of privacy, lack of safety, lack or belonging and lack of comfort were experienced by this group. While each of these indicators was experienced at different levels there were often relationships between them. The common structural reasons for housing insecurity were highlighted by participants as: gaps in the low income rental market, low incomes, large waiting lists for public housing and short term leases in the private sector.

Hulse and Saugeres (2008) outline four major policy implications as a result of the evidence on the characteristics of renting for low income earners. Firstly, they note that the policies need to address housing security for low income renters by implementing policies which address housing affordability *and* security. Increased legislative and policy focus on the social inclusion impacts of insecure housing, those who are vulnerable at home and particularly overall housing insecurities faced by low income earners.

Milligan, V., Gurran, N., Lawson, J., Phibbs, P., & Phillips, R. (2009) *Innovation in affordable housing in Australia: Bringing policy and practice for not-for-profit housing organisations together*. AHURI Final Report No. 134.

This research focuses on policy and practice to support growth of not-for-profit housing organisations as a key strategy for addressing the gap in supply of affordable rental accommodation.

The authors also consider the likely effectiveness of NRAS as a mechanism for securing the volume of public and private funds which they find are required to address supply shortages (151). They propose a number of amendments which could improve the effectiveness of NRAS for supporting the not-for-profit housing sector.

Based on their analysis of the Australian housing context and the international financing mechanisms, Milligan et al. (Milligan et al. 2009) find that the most significant issue facing community housing associations is their ability to secure long-term finance. Not-for-profit housing associations need secure and long-term access to finance in order to grow and be viable.

Milligan et al. (2009) judge that NRAS goes some way to providing a flexible funding source, as funds can be allocated as a one off capital grant or as an ongoing subsidy for up to 10 years. A negative characteristic is that NRAS has a short life span (10 years) and is available to the broader market (152).

First, the authors suggest that a certain percentage of NRAS should be set aside for the not-for-profit sector as this will capitalise on the capacity building already taking place, deliver cost-effectiveness and is the most reliable way to secure affordable housing beyond the 10 year life of the scheme, given that the sector will retain some if not all of its stock (152). NRAS also provides an opportunity for states to strategically tie not-for-profit finance to the grants (already occurring in NSW and SA) and achieve greater economies of scale.

Secondly, the authors recommend that governments facilitate wholesale private fund raising on behalf of not-for-profits (either through NRAS incentives, bond financing or government guarantees), which would prove more cost-effective than individual organisations leveraging their own funds (152).

However the authors warn that leveraging private funds using the present NRAS structure will undermine the viability of affordable housing as dwellings may need to be sold after the 10 year lifespan of the scheme to service debt. This loss of a significant amount of supply will work against community housing providers as they will lose capital that could be used to leverage more funds as well as housing that could be used to meet affordable housing needs (152-153).

Pinnegar, S., Easthope, H., Randolph, B., Williams, P., and Yates, J. (2009) Innovative financing for homeownership: the potential for shared equity initiatives in Australia. AHURI Final Report No. 137.

This two-part research project aimed to appraise the future potential of Australian shared equity arrangements (Pinnegar et al. 2009 ; Pinnegar et al. 2008). In particular, it presented the strengths and weaknesses of a range of national and international shared equity models from the perspective of consumers; investigated how aware consumers and mortgage institutes are of shared equity models; assessed the viability and constraints of shared equity models; and identified the policy and regulatory frameworks that support the viability of shared equity models.

Definition of shared equity schemes

Shared equity schemes are broadly defined as initiatives where the value of a dwelling can be divided between more than one legal entity (Pinnegar et al. 2008 10). Their characteristics vary greatly and they can be operated by government or the private sector, subsidised or unsubsidised. Agreements between the participating parties can vary greatly (Pinnegar et al. 2008 10-11).

In most shared equity schemes the primary owner reserves ‘first rights’ to the property, retains the right to incrementally buy out the secondary interest and is responsible for full maintenance and other related costs (14). Often the secondary interest is referred to as the ‘passive’ or ‘silent’ partner. This structure differs from ‘shared ownership’ schemes, which divide all responsibilities and risks according to each entity’s share of ownership (Pinnegar et al. 2008 12-13).

Shared equity in Australia

Australia has a long history of public policy promoting homeownership. There are currently five Australian states and territories which operate shared equity schemes. All are modest in scale. The following table outlines the shared equity products available:

Jurisdiction	***Shared equity product(s)***	***No of dwellings in scheme***[7]
Western Australia	First Start – This is targeted to first-time buyers who are low to moderate-income working households. No rent or interest is charged on the loan but upon sale, the indexed loan amount plus a proportional share of capital gains must be paid back to the government. Good Start – This is targeted to public housing tenants or people on the public housing waiting list. Access – This program provides assistance to people with disabilities for whom stability is particularly important. Restart – This provides support to those who are at risk of losing an already mortgaged homed due to a change in circumstance (divorce etc). Aboriginal Home Ownership – This program specifically targets those of Aboriginal or Torres Strait Islander descent.	3,000
South Australia	→ *Breakthrough* – This is targeted to first-time buyers who are low to moderate-income working households, as well as people at risk of losing an already mortgaged homed due to a change in circumstance (divorce etc). No rent or interest is charged but original capital plus a disproportionate capital gain share is repayable when the property is sold. → *Equity Start* – This is targeted to people in public housing or on the public housing waiting list.	→ *500*
Northern Territory	→ *HomeNorth* – This is targeted to first-time buyers who are low to moderate-income working households, as well as people in public housing or on the public housing waiting list. No rent or interest is charged on the loan but upon sale the index loan amount as well as a proportional share of capital gains needs to be paid back to the government.	→ *1,000*
Victoria	Ownhome – This is targeted to first-time buyers who are low to moderate-income working households.	10

In all schemes the equity partner shares proportionally if the owner makes a loss on the property (Pinnegar et al. 2008 25). The following table details eligibility requirements of select schemes as reproduced from Pinnegar et al. (2008 26).

Table 1: Eligibility requirements of select shared equity schemes operating in Australia

Initiative	***Minimum deposit***	***Equity 'grant' (maximum)***	***Maximum household income p.a.***	***Maximum property value***
Western Australia: *First Start*	$2000 or 2%	40%	Sliding scale up to $80,000	$375,000
Northern Territory: *HomeNorth*	2%	30%	Up to $71,000 plus asset limit	Regional variation, maximum of

[7] These numbers were correct at the time these reports were published.

				$310,000 in Darwin
South Australia: *Breakthrough*	$1000	35%		$380,000
Victoria: *Ownhome*		25%	Up to $60,000	Tied to particular product
Tasmania: Home Ownership Assistance Program		25%	Up to $67,500 plus asset limit	Up to $245,000

Two private sector-led shared equity models are also operating in Australia. The first is the *Rismark Adelaide Bank Equity Finance Mortgage (EFM),* which is not targeted. The bank operates as the traditional 'silent' partner, with the owner retaining full responsibility and rights to the property. Equity share loans are offered in well-performing suburbs, and rent and interest are not charged on the loan (Pinnegar et al. 2008 27). In lieu of rental or interest the bank is entitled to a greater share of capital gains, generally double that of the original share (i.e. a 20 per cent loan results in a 40 per cent share of capital gains).

This type of investment can assist households who many find themselves 'stressed' to meet the cost of day-to-day living on a traditional mortgage. It can also serve as a diversification strategy whereby purchasers invest what would be the additional mortgage payment elsewhere (Pinnegar et al. 2008 27). Thus, shared equity models can provide benefits beyond overcoming affordability barriers.

The second privately-operated model is *Aussie Equity ESP*, which operates as a mixed loan and equity arrangement (Pinnegar et al. 2008 28). The arrangement consists of 50 per cent loan and 50 per cent shared equity. No interest is paid on the equity component for five years, after which point the bank takes a 40 per cent stake of any capital gains and the owner can refinance or pay the bank out (28). Interest rates are determined on an individual basis depending on income and credit histories. The scheme is designed to assist those who would be unable to borrow a traditional mortgage (Pinnegar et al. 2008 28).

International shared equity programs

The United Kingdom

In recent year, interest in shared equity schemes has grown in the UK. A *Shared Equity Taskforce* was established in 2006 to assess the feasibility of government intervention and development of shared equity models, to encourage homeownership by social housing tenants, first-time buyers and key workers (Pinnegar et al. 2008 32). Two products were developed for implementation in England to encourage these groups to purchase homes in the open market (32).

→ *MyChoiceHomeBuy* - This provides equity loans to the value of 15 to 50 per cent of the purchase price. Housing Associations administer the loan with an interest rate is 1.75 per cent for the first year. This rate increases by the Retail Price Index plus 1 per cent annually (Pinnegar et al. 2008 32). It can be coupled with any retail loan.

→ *Ownhome* – This program provides an equity loan of between 20 and 40 per cent of purchase price and is administered through one housing association: *Places for People and Co-operative Financial Services*. The loan must be taken out in conjunction with a loan from the Co-operative Bank but no interest is charged on the equity loan for the first five years. Interest is charged at 1.75 per cent from years six to ten and then at 3.75 per cent every year thereafter (Pinnegar et al. 2008 33).

Two privately-led shared equity models also operate in England. Unlike such schemes in Australia they work within an affordability framework set by the government (Pinnegar et al. 2008 34).

The United States

In pre-subprime crisis days, the Clinton Administration attempted to address barriers to homeownership, particularly those faced by ethnic minorities (Pinnegar et al. 2008 34). This was primarily achieved via the deregulation of mortgage markets that allowed for the extension of financing to lower-income households. This partly led to the recent 'credit crunch'. However, there were also other initiatives that encouraged homeownership amongst these target groups that continue today (34).

Pinnegar et al. (2008) describe the following three models in the table reproduced below as 'subsidy retention' models as they use share equity models to facilitate the supply and preservation of affordable housing by reserving a regulatory role for government (35-36).

Table 2: Features of 'subsidy retention' shared equity models

Deed restricted homes	*Community land trusts*	*Cooperatives*
→ Encompass a range of types and tenures of housing, including detached houses, attached duplexes, row houses, townhouses, and apartments → Continuously affordable – sold and resold for prices that remain within the financial reach of the targeted group → Affordability maintained through a restrictive covenant appended to a property's deed or mortgage → Owners have exclusive use of their property, but they are prevented from using it for anything other than their primary residence → Resale is constrained to someone from a specified pool of income-eligible buyers for a specified, formula-determined price → Use and resale restrictions may be attached to the home owner's mortgage, covering the amount of a low-interest or no-interest loan provided by a public agency to enable a low-income household to purchase the home.	→ Housing created through a community land trust (CLT) bestows very similar rights of ownership to Deed-restricted housing (occupancy must be for primary residence, resale is restricted) → One party holds the deed to parcel of land; another holds the deed to the residential dwelling located upon that land → Ground lease ensures affordability over time – controls last as long as the lease, which binds all subsequent owners of the housing located on a CLT's land. It typically runs for 99 years, is renewable and inheritable, and gives home owners and their heirs an exclusive right to occupy the land on which their homes are located → Ground lease also regulates maintenance and mortgaging → When the owner wants to sell, either the CLT repurchases the property itself and resells it to an	→ Market-rate cooperatives: the transfer value of corporate shares, purchased and resold by individual home owners, is determined by a market appraisal → Limited equity cooperatives: home owner's are allowed a modest growth in equity between initial purchase and eventual resale of their corporate shares → Zero equity cooperative: no growth in the value of home owner's shares. → Cooperative housing is operated and governed by state-chartered corporations whose shareholders are drawn exclusively from those who occupy the housing → The corporation owns the deed, holds the mortgage, and pays all municipal taxes and fees on the real estate → Home owners in the co-op do not hold title to their individual homes, but rather own shares in the corporation that owns their home → Owners are voters of that corporation, with ultimate

Deed restricted homes	Community land trusts	Cooperatives
	eligible purchaser → Responsibility for monitoring and enforcing all of these restrictions on the use and resale of owner-occupied housing rests with the CLT	control over its assets, its operations, and its enforcement or any restrictions on the use of individual apartments and the resale of shares

The Community Land Trust model appears to be particularly effective, because it works with local authorities to purchase land via inclusionary planning policies (37). However, the model's viability relies on the organisation being able to buy land at below market price, which generally only occurs via philanthropic donations (Pinnegar et al. 2008 37).

These examples highlight the success of shared equity schemes and the potential for their further operation in Australia (Pinnegar et al. 2008 39). However, they do indicate that administrative complexities and the sometimes conflicting interests of governments, consumers and private business continue to undermine the viability of such schemes, which suggests that schemes of this nature may take time to evolve and grow (Pinnegar et al. 2008 39).

Risks

Pinnegar et al. (2008) identify several externalities that policy makers need to consider before engaging in shared equity schemes (47). Firstly, shared equity models rely on the assumption that house prices will increase (49). The private sector will not be interested in financing equity loans in a falling or stagnant market, or in low-performing areas, which may work to exclude those in the lower-income brackets (50).

Secondly, shared equity schemes are a demand-side intervention and as such may stimulate demand to such an extent that supply is constrained and prices are pushed up, which may effectively negate any affordability gains (47). Nonetheless, the UK's Shared Equity Taskforce claimed in 2006 that the effect would be small given the size of the greater housing market and the many other factors that impact upon it (48). In the US, covenant measures on housing deeds is one supply-side measure used to retain affordable housing in areas experiencing rapid increases in house prices (Pinnegar et al. 2008 49).

Institutional and investor considerations

Many lenders interviewed in this research project noted the growing popularity and potential of shared equity loans. A couple are actively researching the topic, but many also noted that following on from the recent financial crisis they may prove unpopular and are a higher risk loan for lenders (52 – 53). These risks for lenders include:

- The target group of lower-income households are perceived by lenders to be a higher risk as they have less income to buffer changes in interest rates or other macro-environmental effects. This increased exposure increases insurance premiums for lenders (Pinnegar et al. 2008 53).
- Shared equity loans are a relatively new financial product in Australia. The lack of professional expertise in the country, or established record of how they perform, both result in uncertainty and a reluctance by lenders to take on these arrangements (Pinnegar et al. 2008 53).
- Some equity loans have an unknown life span (as lenders generally must wait until the owner sells to realise any returns), adding uncertainty to the arrangement and therefore greater risk (Pinnegar et al. 2008 53).
- Some lenders are concerned about the owner's mobility capability, and thus how easily it is for the lender to realise returns. Mobility may be restricted because

lower-income households may find it difficult to ‘move up’ in the housing ladder (Pinnegar et al. 2008 53).

The interface between government and lenders is likewise important. This research suggested that governments need to take an active role in mitigating some of these risks (54). However, too much government interference could restrict and negatively impact product development (54).

In this study, two equity models were explored in focus groups. The first – the *individual* model – seeks to maximise individual ownership, with households graduating their stake and *staircasing* to full ownership. The second – the *community* model – is designed to maintain housing affordability more generally. Usually in the latter, a community housing association retains a greater share of equity so that they can pass on affordability outcomes to subsequent owners. This resembles the community land trust models that operate in the US (Pinnegar et al. 2009 26). The study found that once shared equity schemes were explained, participants understood what they were, could explain them to other people and understood the advantages and tradeoffs they would be engaging with as they entered such a financing arrangement (43).

However, participants did distinguish between the two models, understanding the *individual* scheme as a stepping stone or ‘helping hand’ toward homeownership whereas the *community* model was understood as being a vehicle to achieve secure and affordable housing. The latter was seen by many as ‘a good idea but not for me’ (44). Participants, regardless of their income bracket, demonstrated a preference for the *individual* model as it was understood to be a *normal* vehicle to *full ownership* (47) rather than an initiative tied to a not-for-profit status that may ‘other’ them in the wider housing market (Pinnegar et al. 2009 46).

The two schemes interact with the market differently. The *community* scheme aims to preserve affordability and as such a distinct sub-market would emerge that is linked to that supply (46). However, the scheme is still linked to the wider market because when households move house they will need to negotiate with the market. Their ability to do so may be adversely affected by their involvement in the scheme as they have less equity and thus less bargaining power (47). In contrast, *individual* schemes have a more explicit link with the market, working within the parameters of the market values and assisting households in achieving those values (Pinnegar et al. 2009 47).

Given that the schemes (particularly the *individual* schemes) are shaped by market conditions, the study finds that flexibility in a scheme’s terms and conditions, and eligibility criteria are important to its success (49). Schemes also need to be localised enough to recognise spatial differentiation within and across cities and regional areas (54-55). Additionally, shared equity schemes are a demand-side intervention and therefore have the potential to inflate house prices and distort the market. However, they currently operate on such a small scale in Australia that they have not sufficiently stimulated demand to this degree (61). Furthermore strong regulatory frameworks and tight eligibility criteria can prevent this from occurring even if the sector grows (Pinnegar et al. 2009 61).

This study finds that targeted shared equity schemes can be useful in assisting low-income earners achieve homeownership (78). However, there are also substantive risks with homeownership and the authors warn that homeownership in itself is not a safeguard against other social problems (79). Regulation is also important and the authors point to the sub-prime crisis as an example of how a housing market can collapse when lending practices are unregulated (Pinnegar et al. 2009 79).

Saegert, S., & Benítez, L. (2005) Limited Equity Housing Cooperatives: Defining a Niche in the Low-Income Housing Market. ***Journal of Planning Literature,*** **19(4), 427-439.**

In this paper, the authors explore the usefulness of limited equity housing cooperatives (LECs) for providing increased access to home ownership for low- and moderate-income families (Saegert & Benítez 2005). The research draws on US and Canadian data to find that this model is valuable in providing access to home ownership and improving the quality of life for these families, as well as contributing to the physical and social quality of broader neighbourhoods and communities (427). Their chief findings are summarised in the article as follows:

- LECs provide high-quality, safe, affordable housing for low-income families.
- LECs contribute to stable, economically, and ethnically diverse neighbourhoods.
- LECs can fulfil some economic and social needs more successfully than rental housing, especially for groups that present special needs or in regions where housing is particularly expensive or distressed.
- LECs offer stable housing costs in hot real estate markets and resistance to default in down markets while requiring similar or lower subsidies than other comparable rental housing.
- LECs can be an attractive housing alternative for a substantial portion of renters and some homeowners who spend more than 50 per cent of their incomes on housing.
- The affordability and social stability of LECs mirror most of the benefits of market-rate home ownership but provide less opportunity for asset accumulation through home equity' (428).

Limited equity housing cooperatives are centred around the ideas of collective ownership and limitations on share prices. Whilst little is known in the US, they are a relatively large and well-established portion of the housing markets in countries such as Norway and Sweden (428).

Operation principles emphasise '(1) voluntary and open membership; (2) democratic member control; (3) member economic participation; (4) authority and independence of each cooperative; (5) education, training, and information; (6) cooperation among cooperatives; and (7) concern for community' (428). Community land trusts are another form of cooperative where the group owns the land, but individuals own the homes that sit upon the land. Both these forms of cooperative allow the risks to be spread across multiple households, which often make first home purchase more attainable for those on constrained incomes.

Whilst cooperative owners generally retain the right to pass on shares to heirs, either the maximum resale value is restricted or the home may only be sold to a particular type of demographic (e.g. within a certain income range) (428). Creative funding sources are often required to set up cooperatives, with significant government subsidy of construction costs often needed (428).

LECs offer a range of social and economic benefits both to residents and the broader community within which they are situated:

- *Economic benefits* – whilst financial gains may be limited, the cost burdens of home ownership are lowered because they are shared across the group (429). Individuals have access to limited borrowing against the shared equity of the group, and residents can corporately set regulations around operational issues and negotiate better, more cost-effective services (429). LECs also reduce a range of 'housing externalities' such as noise and disruptive tenant behaviour, and reduce some administrative costs through activities such as joint screening of prospective tenants. The shared burden of financial planning as a group also provides greater security to residents.

- *Resident satisfaction* – qualitative studies indicate that LECs provide much of the satisfaction and sense of control experienced by traditional home ownership. Residents also rate much higher on satisfaction surveys than do renters. They enjoy the security of tenure, higher standard of dwelling, participatory management practices and sense of community. Satisfaction levels depend largely upon the quality of social relationships within the cooperative. Whilst some studies detail less than satisfactory outcomes, the bulk of the studies that inform this paper document positive relationships and highly satisfied communities of residents (429).
- *Social benefits* – the authors indicate that evidence of social benefits of LECs is strong. These co-ops promote stability of tenure, increased participation in neighbourhood organisations and strong feelings of belonging to a community (429). Social networks built on cooperation also become a social capital asset for the neighbourhood. Studies of LECs in revitalised neighbourhoods in New York show that they consistently produce safer, higher quality buildings, with lower crime rates than other forms of tenure or investment. LECs are demonstrated to increase residents' ability to work as a group. This collective action often leads to a sense of empowerment and greater participation in civic activities (429).
- *Housing stock stability* – Residents of LECs have repeatedly demonstrated that they are far less likely to default on loans, even through very trying financial times (431). LECs are also shown to protect low–moderate income households against displacement through gentrification during buoyant economic periods. However, one caveat posited by the authors of this study is that if an LEC is sold to shareholders in poor condition, or with onerous taxation or other financial liabilities, they may not have the resources to cope and may be pressed into foreclosure (431).

  'Artists, actors, musicians, teachers, and public agency employees make up a sizable proportion of residents. Many say they would have to change occupations and get higher paying jobs to remain in [their current location]' (432).

These housing cooperatives offer a hybrid model of housing with some facets of ownership combined with some shared costs and responsibilities, and a greater sense of community. This hybridity suits some segments of the population far more than traditional home ownership or rental:

- *People with a disability* – LECs provide the opportunity for housing that is both low-cost and has the necessary accessibility features for people with disabilities. One Canadian research project showed that the greater physical and social integration of LECs allows disabled people to participate more fully in the life of the community (432).
- *Elderly people* – In the US, the elderly comprise 42 per cent of the lowest income households. There are also a large number of elderly with home mortgages, who are vulnerable to losing their homes should a major, unexpected expense occur. Elderly renters likewise often pay more than half their income in housing costs. LECs designed for the elderly in the US have been shown to provide more secure tenure, as well as providing benefits such as increased control over their lives and greater social integration (432).
- *Women* – Households headed by a female as well as single women often find that owning a traditional home is largely unattainable or unsustainable. These households are also the largest users of social housing in the US and Canada. LECs not only offer them safe, secure, affordable housing, but also allow these women to build skills that improve their quality of life and contribute to a stronger community (432).

- *Young adults (aged 25-34)* – Increasingly, young adults – particularly those on low incomes – are findings themselves priced out of rental markets and therefore need to delay the formation of new households. Whilst these young people may have never considered home ownership, high rental costs may make low-cost LECs more affordable and attractive. Not only do they have the benefit of stable, affordable housing and limited access to the wealth-creation benefits of home ownership, but the community of the LEC also provides opportunities to learn independent living and other skills in a supportive environment. Older residents can also benefit from the energy and access to new knowledge and technology younger residents bring. In some university campuses and towns in the US, student LECs offer low-cost, stable supplies of student accommodation. Student LECs offer both financial and social benefits for students (433).
- *Central city residents* – In high-cost central locations, many lower-income residents can be forced out due to high rental costs. In some US cities, central areas have also suffered landlord abandonment in recent years, leading to large amounts of dilapidated housing stock. This is often seized by the municipal authority in lieu of unpaid land taxes. Some of this housing has been redeveloped by groups of residents into LECs, with the support of community organisations and the provision of government grants. These cooperatives offer lower-income residents the chance to own a home. Other benefits cited in a range of studies include higher quality housing than other options available to lower-income households, greater social integration and participation leading to safer communities (434).
- *Indigenous people* – Canadian studies have shown that housing cooperatives allow Indigenous people access to stable, affordable housing which also fulfils collective action aspirations that resonate with traditional cultural values (434).

Whilst the majority of LECs appear to function well, there can be problems with a range of issues such as 'tenants' financial situations, democratic management of the building, and government policies and regulations' (434).

- Non-paying tenants can lead to debt-liability for the collective, as can legal disputes between a tenant and the managing committee.
- Ideological differences between residents can also be a source of conflict. One study cited in this paper suggests, however, that conflict should not be viewed as LEC failure. Rather, it should be viewed as an opportunity for residents to resolve differences democratically and build greater shared understanding of a range of viewpoints and values (435).
- The authors therefore stress the need for pre-entry and ongoing education of residents as to the nature of a cooperative and the rights and responsibilities they have. Clear, objective selection processes also remove some of the angst around requiring detailed financial and other information from potential residents.
- It is also crucial to have regulations in place to prevent residents from subletting their homes in hot housing markets to make a profit.

The report proffers a range of principles for running a healthy, functional housing cooperative (435):

- Those bodies who develop the LEC must offer a housing product (i.e. the home, as well as renovation/maintenance costs and taxation arrangements) that make the investment a prudent one for moderate income households.
- The property must be conveyed in good condition.
- Ongoing shareholder training and leadership development are crucial to the successful operation of a cooperative throughout its life.
- Regulatory and financial arrangements of the LEC must be tailored to suit the local housing market and economic conditions.

Many low- and moderate-income families in the US struggle to afford rental accommodation in high cost areas, and ownership is well out of reach. For example, in some areas a household with two full-time teachers could not afford a 2-bedroom apartment (436). Therefore, LECs offer a low-cost alternative to rental and ownership. They reduce some of the liabilities of full ownership, through the sharing of some expenses, whilst offering far greater stability of tenure than rental.

In most cases, some ongoing government subsidy is required to support decent affordable housing for low–moderate income households. Studies have shown that such support for LECs is more cost-effective than for other similar housing. This is due to the noncash investments of residents such as higher maintenance levels, as well as lower crime rates, less vandalism and litter (437).

The report concludes that LECs (including alternative forms such as community land trusts and cohousing) offer a niche market opportunity for those on constrained incomes to access home ownership as well as a range of benefits that ensue from communal living.

This study shows the huge potential for hybrid models of housing to benefit a range of households on low incomes. Benefits include access to some of the advantages of home ownership without some of the liabilities and prohibitive costs. There are also a range of social benefits such as greater control over one's housing and more supportive living environments.

Wood, G, Watson, R. and Flatau, P (2003) A microsimulation model of the Australian housing market with applications to Commonwealth and State policy initiatives. AHURI Final Report No. 33. Melbourne: Australian Housing and Urban Research Institute, Western Australia Research Centre.

This research report outlines the development of an econometric model for microsimulation of housing markets in Australia (Wood, Watson, & Flateau 2003). It tests the impacts of specific policy and other interventions on the behaviour of housing consumers – i.e. the types of tenure people will tend to choose, given a particular intervention. It particularly focuses on government fiscal interventions, as these are seen as having 'overriding' influence on all other inputs (3). The study focuses on the national level housing market. While it does not provide a picture of any one region, it does profile consumer behaviour that is relevant to this synthesis.

The study finds that there is an overall preference for home ownership in Australia (36) and considerable 'latent demand for homeownership' (61). However, two sets of constraints prevent many renters from achieving this dream: *wealth* and *income* constraints (vi). Wealth constraints refer to a household's ability to save a deposit required to obtain bank finance for home purchase. Income constraints refer to having (or lacking) sufficient income to service the mortgage. The authors find that:

- ‘Wealth constraints *alone* are binding for 27.2% of tenants.
- Income constraints *alone* are binding for 4.5% of tenants.
- Income and wealth constraints *together* are binding for 62.7% of tenants.’ (vi).

The inability to save an adequate deposit is the 'principle barrier to achieving' homeownership (36, 38). The First Home Owners'Grant (FHOG) was found to be highly successful in assisting those with wealth constraints only (vii).

Some further findings relevant to this study are:

- A considerable number of older households 'who own their own homes outright, would be able to rent the equivalent amount of housing at a lower economic cost. These homeowners are either prevented from making a preferred choice, or have non-price related reasons for continuing to reside in their current homes as owner-occupiers such as a desire to pass on the family home as a bequest’ (37).

- A growing number of income units choose rental over ownership on relative price grounds rather than borrowing constraints (42).
- There are a number of market inefficiencies caused by mortgage lenders' borrowing criteria (44). These make renting more cost-efficient for some older home owners. They also prevent many from accessing home ownership due to insufficient income to meet underwriting requirements. Variable interest rates and capital gain rates also have a strong influence on housing costs for both renters and owner-occupiers.
- There is some discussion of *Home Partnerships* (shared equity) programs. They are most effective in assisting public tenants into home ownership (69). However, it appears there is some reluctance amongst financial institutions to provide high levels of equity for these projects (69).
  - The FHOG and Home Partnerships (HP) primarily assist those in shared living arrangements to form a new household. They therefore do not tend to significantly reduce pressure on rental supply (69).
  - Nonetheless, where some higher income renters are assisted into homeownership through the FHOG, there is a noticeable 'trickle down' effect for affordable rental supply, as they leave lower-cost rental properties (72).

This study demonstrates that homeownership is the prevailing preference amongst housing consumers. The principle barrier to homeownership is the inability to save an adequate deposit to meet bank requirements. The FHOG has been powerful in overcoming this obstacle to home purchase. However, for the vast majority of renters who are locked out of home purchase, the combination of both income and wealth constraints are in effect. Further findings indicate that government and other institutional interventions have a major impact on the ability of renters to access homeownership. Finally, a growing number of renters are choosing this tenure over home ownership despite their capacity for the latter tenure, based on cost efficiencies.

Yates, J., Milligan, V., with Berry M., Burke, T., Gabriel, M., Pinnegar, S., et al. (2007) *Housing affordability: a 21st century problem.* AHURI Final Report No. 105. Melbourne: Australian Housing and Urban Research Institute, Sydney Research Centre.

AHURI's third National Research Venture (NRV3) focused on analysing Housing Affordability for lower income Australians. This report presents the research findings and policy implications of this venture, specifically with relation to the characteristics of housing issues for lower income Australians. The content of this final report is an amalgamation of ten smaller research papers that covered: conceptualisation of housing affordability problems, stakeholder forums, housing affordability, the economy, financial stress, polarisation, surveys and focus groups, home ownership trends, intergenerational sustainability and evaluations.

In order to address key research questions based around these topics this report utilised literature reviews. So as to approach the problem of housing affordability holistically; quantitative analysis of national housing affordability data and quantitative and qualitative analysis of surveys of people experiencing housing difficulties were included.

The major findings from this report provide key definitional and conceptual foundations for understanding Australian housing affordability issues. This research venture defines housing affordability as:

> A tenure-neutral term that denotes the relationship between household income and household expenditure on housing costs. Typically, housing affordability indicators rely on a ratio measure that specifies the acceptable proportion of income to be spent on housing, or on a residual measure that refers to an

acceptable level of absolute residual income once housing costs have been met.

In 2003-04 Australians spent on average 15 per cent of their income on housing costs which represents an increase from 11 per cent in the 1970’s. Taking into account the average amount spent on housing, this research venture found that 15 per cent of Australian households were spending twice the national average on housing costs. This bracket of low income earners who spend 30 per cent or more of their income on housing characterise what this venture defines as ‘housing stress’. The term housing stress (30 per cent of income spent on housing costs by the lowest 40% of income earner) is used by this research as a tool to categorise people at-risk of housing affordability problems. This report found that in Australia, 860,000 people were within these parameters of housing stress and were therefore considered at risk of experiencing housing affordability problems.

Housing affordability problems as defined by this research are characterised by deprivation and occur as a by-product of the costs of housing. Examples of affordability problems include going without meals, inability to provide for children’s school activities or inability to afford proper medical and dental care. The proportion of people who are in housing stress and experience housing affordability problems is 25 per cent.

In their analysis of the Australian population who experienced housing stress and affordability problems certain sub-groups demonstrated that they had a higher propensity for these experiences. Evidence indicated that young people, single people, households with children, private renters, purchasers, working households and capital city households who were also in the low income bracket were more likely to be at risk of housing stress and affordability problems.

Of these groups the one considered most at risk due to their wide ranging and concentrated problems were low-income renters. The proportion of private renters in housing stress who also experience affordability problems is 50 per cent, in comparison to the 25 per cent of the general population.

In order to better qualify the different types and levels of housing stress and the transition into affordability problems Yates et al. (2007) allocate each participant in their surveys to one of seven household archetypes. Of the lower income households who rent, Yates et al. (2007) identify four subgroups in this population: strugglers, backsliders, pragmatists and aspirant purchasers.

Strugglers represent 30 per cent of the national population of low income renters (140,000 people). Their experience of renting is characterised by difficulties paying rent and large financial stress. The people in this category are predominantly single, lone parent households who are not in the workforce. Struggling low income renters will often pay upwards of 50-60 per cent of their income on housing costs and as such will often rent for long periods of time due to inability to save. Backsliders represent 10 per cent of the national population of low income renters (46,000 people). This group consists of people who have previously owned homes and due to severe decreases in income, health problems or loss of partners have lost their houses and slide back into renting.

Pragmatists represent equal amounts of people as Strugglers with 30 per cent or 140,000 people in this group. Pragmatists were paying high levels of income to housing costs; however, this was seen as a trade off for lifestyle and family choices.

Aspirant purchasers represented 30 per cent of the low income renting population (140,000) people. This group consisted mostly of full time workers and households with dual incomes who aimed to own a home in the short or medium term. This group also consisted of older renters who aspired to home ownership and had begun to realise that this was not feasible.

Yates et al. (2007) note that Australian home *purchasers* can also be separated into different categories, these groups are stretched, focused and ambivalent. People in the stretched category represent 40 per cent of the low income home purchasers (106,000 people). Surveys indicated that this group consisted predominantly of young families whose ability to pay their mortgages had been hampered by increasing interest rates. A result of these increases, people who belong to the stretched category are often taking on extra work be it second jobs or longer hours to contribute to their mortgage repayments. Of those surveyed Yates et al. (2007) found that large proportions were unable to continue repaying their mortgages in the previous year.

People in the Focused group were not having difficulty making repayments; however, a significant amount of their income (50-60%) was being directed towards their mortgages. Focused purchasers were driven to pay off their mortgages as quickly as possible, often working extended hours, living sparsely and jeopardizing family happiness.

The third group of low income home purchasers, Ambivalent purchasers, accounted for 40 per cent of the low income purchasers (106,000 people). This group did not share the drive to home ownership like their two counterparts; their decision to purchase a home was based on the cost benefits of home ownership in comparison to renting. This group was characterised by an appreciation of the positives and negatives of renting and home ownership.

Each of these seven groups were dedicating 30 per cent or more of their income towards their housing costs; according to Yates et al.'s (2007) definition each of these groups were experiencing housing stress. Participants in the Strugglers, Backsliders, Pragmatic, Stretched and Focused groups reported feeling subjectively stressed about their housing costs. The only groups who were not experiencing subjective housing stress were Aspirant purchasers and Ambivalent purchasers. Renters who were in the Strugglers and Backsliders group experienced long-term problems as a result of their housing stress and were the only groups to report being objectively and subjectively housing stressed and having long-term problems as a result of it. Yates et al. (2007) argue that this type of housing stress results in Strugglers and Backsliders "having no foreseeable way out of the affordability problems that arise from their being in housing stress" (Yates at al. 2007 28).

Of the 862,000 Australians with low incomes and housing stress approximately 25 per cent are classified by Yates el al. (2007) as 'coping but at risk', 50 per cent are classified as having housing affordability problems and 25 per cent have severe housing affordability problems. Trapped renters (Strugglers and Backsliders) and some stretched purchasers are the people who are experiencing severe housing affordability problems.

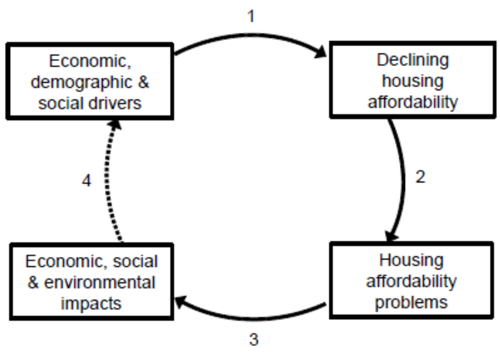
Having established the fact that lower income renters and purchasers experience housing stress and affordability problems Yates et al. (2007) discuss the impacts of these negative experiences, noting that the impacts exist across economic and social spheres. Key economic impacts of housing affordability issues occur on macro-economic levels and effect economic efficiency and distributional equity.

Key macro-economic impacts of housing affordability problems are the reduction of general consumption by households with high mortgages, the increased equity for existing home owners rather than the distribution of wealth to potential home owners and inflationary pressures. Yates et al. (2007) argue that the impact of housing affordability problems on the wider economy should be reason for economic policy makers to intervene. Another key impact of housing affordability problems is the increasing financial inaccessibility of housing in metropolitan areas. Rising house prices in inner cities have the potential to create a distance between labour markets and living situations. Yates et al. (2007) contend that this may encourage people to move away from high-cost high-employment locations into low-cost low-employment locations. At this point in the analysis the displacement of housing-to-labour remains a speculation.

If the wealth of existing home owners is supported by increasing housing prices then the potential for intergenerational equity to be compromised increases.

Summation of the risks of increased housing affordability problems is provided by Yates et al. (2007) in table form. This cycle represents how housing affordability problems feed into different areas of society and go beyond affecting individuals in the housing market.

Figure 4.1: The risk cycle



(Yates et al. 2007 35)

> "The findings of this extensive study make a compelling case for the need for governments to ameliorate the housing affordability stress currently being experienced by many low-income renters and, to a lesser extent, marginal home buyers, and to improve housing affordability' (Yates et al. 2007 40).

This report notes that housing policy principles should address the key findings of this report. The main and broad conclusions of this research venture are:

- Housing affordability problems are complex and widespread
- Causes of affordability problems are complex and diverse and emerge from within and without the housing system
- This problem is structural
- Housing Affordability problems are predicted to increase in the first half of the 21st century
- Affordability problems have spatial and cyclical dimensions
- Households most at risk of the impacts of housing affordability problems are lower-income households in the private rental market
- Experience of housing affordability problems are subjective
- There is a gap in the supply of adequate affordable housing to lower-income households
- Non-shelter impacts of housing affordability problems include: workforce participation, access to jobs and services, family stability and educational attainment.

In light of these key findings Yates at al. (2007) note that changes in policy need to be implemented, not only in housing policies but also, labour market policies, regional economic development, transport policy, population policy and settlement planning, sustainable communities and regions, urban and regional planning, income support & retirement incomes policies and fiscal & monetary policies.

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