Habitat for Humanity® Australia

EQUITY ECONOMICS

Rediscovering the Great Australian Dream:

Addressing intergenerational poverty through social home ownership

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Executive Summary

For many Australians the prospect of home ownership is well beyond their reach. At the same time the number of families facing insecure housing, waiting lists for social housing, and unaffordable rents continues to rise.

With over 173,000 Australians on public housing waiting lists[1] and estimated housing shortages of around 553,000 affordable properties for low-income renters[2] there is an urgent need to find new solutions to the housing challenge.

Appropriate housing is a basic need that provides the foundation for families to fulfill their potential. While affordable rental accommodation can provide this foundation and needs to be expanded, the benefits of home ownership can go beyond simply accommodating families.

Home ownership is a source of not only greater housing security but also potential wealth creation. Excluding Australia's most disadvantaged families from the opportunity of home ownership inhibits their ability to improve their circumstances for future generations.

For many families, affordable rental accommodation may be preferable given the capital risk of house price fluctuations and the need to be able to afford mortgage costs as circumstances for families change over time.

But for other low-income families, social home ownership could provide an opportunity for them to share in the benefits of home ownership.

It is a chance to change the uncertainty many low-income families face in access to suitable and secure housing, reduce public housing waiting lists and give low-income families access to the many advantages that come with home ownership.

Various programs for social home ownership exist across Australia, in Western Australia, South Australia, and the Northern Territory, however major states currently lack equivalent programs.

This research reveals that the provision of land to the value of $20 million over 5 years by federal and state governments for a social home ownership pilot could see at least 200 low-income families reap the benefit of secure home ownership.

Social home ownership programs delivered internationally and involving "sweat equity", volunteers, and financial service and corporate partners, have been found to have the potential to unlock activity worth 7 times the $20 million invested.[3] This would see a $20 million program unlock the equivalent of $140 million through private sector, community sector and voluntary contributions, at the same time as reducing pressure on public housing waiting lists and CRA.

This would deliver a $3 million saving on the cost of Commonwealth Rental Assistance (CRA) alone for these households over the life of the mortgages.[*]

Habitat for Humanity delivers social home ownership in Australia in partnership with the private sector, volunteers, local and state governments, and low-income families who contribute valuable 'sweat equity'. While currently small in scale, this approach presents an exciting opportunity to pilot a major public-private partnership in social home ownership for low-income families.

A new approach that opens the opportunity to home ownership for low-income families is needed to address housing needs today and reduce intergenerational poverty into the future. Social home ownership has a role to play in the national discussion of the broad ranging reform required to increase affordable housing, particularly for low-income families in Australia.

This report considers the argument for social home ownership, reviews international examples of social home ownership programs and recommends a national pilot, involving federal and state governments, the community and private sectors, to give low-income Australian families the chance to achieve the Great Australian Dream.

Low-income households and access to housing in Australia

The current housing supply shortage in Australia particularly affects low-income earners. There is a shortage of around 553,000 affordable properties for low-income renters[4]. There are 173,000 Australians on public housing waiting lists[5]. In 2009-10, 58 per cent of people seeking accommodation were turned away because services were unable to meet demand[6].

The number of lower-income households in housing stress is projected to increase by 84 per cent (or 13,500 households per year)[7]. The number of households in Australia is projected to increase from 7.8 million to 11.6 million by 2031, an increase of almost 49 per cent[8].

As public expenditure on public housing continues to increase and governments continue to transfer public housing assets to the balance sheets of Community Housing Providers, new approaches and funding sources are needed to support the supply of affordable houses.

The scale of unmet demand for housing amongst low-income earners necessitates new and innovative approaches to affordable housing. This paper proposes a national social home ownership pilot as an innovative approach to contribute to the challenge of increasing the affordable housing stock.

[*] The equivalent cost over the life of a 30 year mortgage in avoided CRA is $114,782 per household based on the current maximum rate for a single person with three dependent children (assumed ages of 2, 5 and 8 years), conservatively assuming no increase in CRA over that period. For 200 households the CRA costs would total expenditure of $22.96 million over 30 years. Deducting the $20 million cost of the proposed social home ownership pilot produces a saving of $2.96 million over the same period as the mortgages.

The role of social home ownership – A means to address intergenerational poverty?

Social home ownership is the provision of housing for purchase to low socioeconomic groups, excluding welfare recipients. It promotes homeownership as a viable option for low-income earners. In working towards specific, targeted outcomes, social home ownership not only provides a permanent solution but also alleviates pressure on other affordability mechanisms, such as public housing.

What is Social Home Ownership?

Social home ownership programs typically involve the following elements[9]:

- Grant funding to non-profit organisations to purchase home sites and develop or improve infrastructure.
- They target households with incomes below 80 per cent of the area median income and sell the homes below market price.
- Key program requirements include contribution of significant amounts of “sweat equity” by homebuyers toward the construction or rehabilitation of their homes.
- Non-profit organisations involve community participation where volunteers assist in the construction or rehabilitation of dwellings.
- The non-profit organisations leverage other resources, including public or private contributions to support the self-help program. Leveraged resources include donated land, supplies and services as well as cash funding.
- This “seed money” in combination with reliance on volunteers increases the ability of non-profit organisations to leverage funds from other sources, providing substantial return on government contributions.

There are various approaches being adopted throughout the world to deliver social home ownership. The lessons and considerations involved in these programs are briefly considered below.

Economic and Social Payoff of Homeownership for low-income families

A key preliminary question is whether home ownership is preferable to renting for low-income families, given ongoing cost of home ownership such as maintenance and cost of finance?

In some cases low-moderate income purchasers would be better off financially in affordable rental accommodation (assuming its available), rather than attempting to buy to ensure they are not caught in a financial situation that is not sustainable for them.

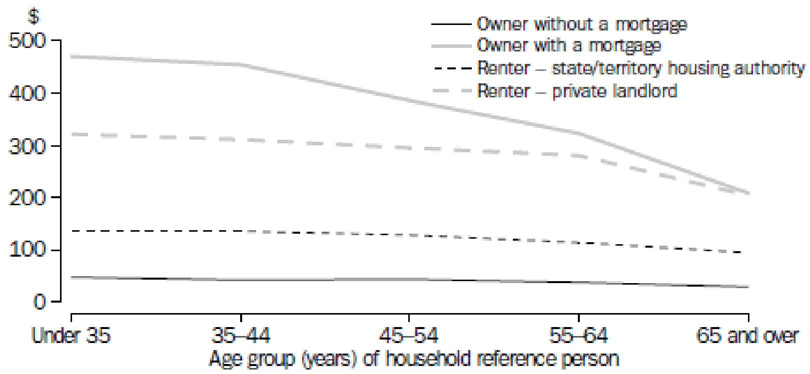
However many families are able to meet the financial costs of home ownership, in the right circumstances and with the right support to keep the mortgage within their budget.

In a Melbourne Case Study conducted in 2010[10], it was found that a household is generally better off buying than renting, even if any initial savings from renting rather than purchasing are invested. The study found that renting is only better than purchasing in the very short term. Furthermore, where there is a factoring of yields (net capital gain) into this analysis, purchasing a home is still found to be the favourable option.

Against this study we need to factor in rising house prices and rental costs in many areas, as well as a family's capacity to re-pay a mortgage. But the potential economic and social benefits of home ownership still necessitate consideration of policies that would support low-income families into home ownership.

The long-term benefits of home ownership are derived from the lower costs associated with owning a home outright and the investment that a home represents over time. Based on the 2009-10 Survey of Income and Housing, those with the lowest average weekly housing cost across all age brackets were those without a mortgage, followed by those in public housing. The gap between average weekly costs to rent privately and own with a mortgage reduces as households approach retirement, reflecting the paying down of mortgages (see chart below).

10.23 AVERAGE WEEKLY HOUSING COSTS, By tenure—2009–10



Source: ABS data available on request, Survey of Income and Housing.

The higher cost associated with mortgage financed home ownership clearly present a challenge to low-income households access home ownership. This is discussed further below in the proposed social home ownership model that involves partnering with corporates, volunteers, financial service providers and government to reduce the overall cost of housing for low-income households.

The abovementioned Melbourne case study and housing data below reveal the potential economic benefit of home ownership over the longer-term. This experience will clearly vary depending on movements in housing and rental prices, as well as the treatment of capital gains and level of rental assistance.

Home ownership can assist households to build wealth over time. As the family home can be used as collateral to borrow at lower interest rates, home owners are better able to achieve higher returns from debt-financed investments than non-home owners. This combined with current tax arrangements around negative gearing and capital gains tax gives investors in housing and home owners opportunities to accumulate wealth that renters are unable to access.

Looking at wealth appreciation over a loan period of 25 years and geographic areas that are similar to other housing sub-markets in Australia, the Melbourne Case study[11] also found that there was no evidence that low-moderate income purchasers buying in lower price areas had lower percentage increases in wealth than middle-higher income households who bought in more expensive areas in 1981[12]. Rather, four of the six areas with the largest increments in wealth from 1981 to 2006 were lower price areas in 1981.

Homeownership also provides non-financial benefits including stability, with security of tenure offering psycho-social benefits including independence and freedom[13]. In a 2010 survey, it was found that 83 per cent of renters had moved at least once in the previous 5 years, compared to 28 per cent of homeowners[14].

Similarly, owner-occupiers are likely to have stronger incentives than renters for civic involvement, and the reduced frequency of relocation minimises disruption of children's education[15].

It has been found that assets are related to lower mortality and that these effects are partially independent of other socio-economic resources[16]. Greater perceived control over one's home also leads to greater psychological health[17].

Social home ownership programs are important in moving low-income households along the housing continuum. For instance, parental homeownership in low-income census tracts has been found to have a more positive effect on high-school graduation than it does on high-income census tracts[18].

While further work on the financial and social benefits of home ownership would be beneficial, there is sufficient evidence available to support a program of investment in social home-ownership, involving a long-term evaluation of the impact of home ownership on low-income households.

Homeownership and Intergenerational Disadvantage

Housing is an important source of wealth accumulation in Australia. Consequently, disparities between homeowners and non-homeowners will create a large intergenerational wealth gap.

While the proportion of home owners has been stable at 70% over the period 1981 to 2006, moderate declines to 69% in 2025 and 66% in 2045 are projected[19].

Further, home ownership has declined amongst young people, with affordability being a growing challenge for younger Australians on lower incomes. As recent research by the Grattan Institute revealed, "In 1981, more than 60 per cent of 25 to 34 year 2011 only 48 per cent did so. The decline over the same period was 10 percentage points for those aged 35 to 44… An increasing proportion of those born after 1970 will never get on the property ladder"[20].

The Grattan Institute report goes on to state that:

"Lower levels of home ownership among today's young compounds their future vulnerability as home ownership provides significant protection against poverty for people as they get older"[21].

Social home ownership provides one avenue to contribute to the challenge of addressing intergenerational disadvantage makes it an important piece in the affordable housing puzzle.

Although governments provide benefits to homeowners worth $36 billion a year[22], in the form of a number of tax exemptions including the CGT and net imputed rent exemptions, currently, as low-income buyers are unable to break into the market, they are unable to reap the benefits of government housing policy. The enjoyment of these benefits is concentrated amongst existing owner-occupiers, predominantly higher-income earners.

Analysis by the Australian Council for Social Services found that:

'While a significant proportion of investors with income of less than $80,000 a year access negative gearing, households in the top income quintile receive ten and a half times the benefits of those in the bottom quintile - $3,800 per year compared to $364 per year respectively'[23].

This is inequitable and programs to redress this situation for low-income earners are needed. While public housing is critical to addressing immediate and growing demand for housing, the social homeownership model is important in mitigating entrenched intergenerational disadvantage. Through access to affordable homes either through an interest free loan or shared equity, partner families can start to create intergenerational wealth.

A case study of the Self-Help Homeownership Opportunity Program (SHOP) in the USA

SHOP is an affordable housing program of the US Department of Housing and Development established in 1996 that awards grant funds to nonprofit organisations to purchase home sites and develop or improve infrastructure.

Consistent with the above features of a social home ownership program, SHOP specifically targets households with incomes below 80% of the area median income, and sells these homes below market price.

Both the hours of sweat equity and volunteer labour are mandatory outputs that must be addressed by the applicant organisation.

SHOP also supports homebuyers who team up with other buyers to work on each other's homes in what is a mutual self-help model[24]. The community participation requirement cannot be satisfied by using volunteers who undertake non-construction activities, however does count towards the SHOP requirement to leverage other resources.

SHOP invests on average around $15,000 per property and leveraging this grant is crucial for a successful application and ultimate completion of the project.

SHOP's success in the United States is evident from its longevity and the consistent appropriation of federal funds since 1996. The program has served over 28,000 households.[25]

Non-profit organisations receiving SHOP grants have submitted evidence that for every SHOP dollar, at least $7 in resources from other sources is leveraged, excluding the value of sweat equity contributed by homebuyers[26].

The program is a good example of an innovative financing measure to promote homeownership where the government maximises its resources by partnering with community organisations and the provide sector.

SHOP also provides evidence of the effectiveness of using a community development model to address housing affordability and homeownership.

The role of Social Homeownership

Social homeownership aids those on the fringes by addressing access affordability and transitioning households along the housing continuum. In particular, it assists low-income purchasers to obtain equity in their home and supports people to achieve home ownership.

In doing so social home ownership programs will help reduce pressure on the private rental market as well as reliance on government rental subsidies and public housing.

In being a targeted scheme, the model does not add to stimulatory demand-side pressures. Furthermore, in the cases where new homes are constructed, funding is explicitly tied to new supply.

Social homeownership also addresses gaps in current government programs as well as issues arising from the fiscal sustainability of these programs.

Currently, First Home Owner Grants are available and are intended to support home ownership amongst first time buyers. The modest levels of funding available through the First Home Owner Grant (FHOG) means that few of those who lack the finance to buy on their own are unlikely to be enabled to do so. As such, the FHOG is arguably inadequate in providing intergenerational equity or sufficiently targeting low-income earners.

Given the evidence suggesting assistance to first homebuyers largely only brings forward spending decisions rather than raising ownership rates in the long run[27], social home ownership can be an important supplement or replacement for the FHOG.

The Commonwealth government's decision in the 2014 Budget not to proceed with the final round of the National Rental Affordability Scheme (NRAS) places further uncertainty and pressure on the availability of affordable housing market[28]. While NRAS provided incentives for affordable rental properties, arguably one benefit of the program was the focus on increasing supply and the long-term nature of the program that was designed to increase institutional investment in affordable housing. In the absence of this program, other innovative approaches will be required.

A new approach is necessary to meet current needs for affordable housing, but also address the growing pressures projected into the future. The social home ownership model described above is well placed to alleviate some of the pressure on the Commonwealth Rent Assistance (CRA) in that it provides a 100 per cent reduction in government housing support given that households transition from public to private housing.

A national social home ownership pilot could boost home ownership and reduce government expenditure over time

A social home ownership program involves an initial government grant to kick-start the investment of "sweat equity", volunteers, corporate and financial service partnership.

In Australia the release and contribution of land is particularly critical to enable social home ownership.

The provision of land to the value of $20 million over 5 years by federal and state governments for a social home ownership pilot could see at least 200 low-income families reap the benefit of secure home ownership (with the average land being purchased by Habitat for Humanity for current social home ownership programs being approximately $100,000 in value).

Existing programs delivered internationally through SHOP (see case study above) find that a social home ownership model involving "sweat equity", volunteers, and financial service and corporate partners, has the potential to unlock activity worth 7 times the $20 million invested.

This would see a $20 million program unlock the equivalent of $140 million through private sector, community sector and voluntary contributions, at the same time as reducing pressure on public housing waiting lists and CRA.

Based on the equivalent cost over the life of a 30 year mortgage, this program would not only deliver increased social housing and the opportunity for low-income families to have the security of home ownership, but also deliver a $3 million saving to government from reduced Commonwealth Rental Assistance.

The current maximum rate of CRA for a single with three dependent children is $168.98 per fortnight (assuming the childrens current ages of 2, 5 and 8 years)[29]. This equates to $114,782 in government expenditure over the equivalent of a 30 year mortgage period.

For the 200 households that could benefit from the $20 million government investment in a social home ownership pilot, CRA would otherwise cost $22.96 million over the 30 years. Deducting the $20 million cost of the proposed social home ownership pilot and a saving of $2.96 million from government expenditure is achieved over the same period.

This savings is conservative as it not only assumes CRA does not increase over the 30 year period, it ignores other costs incurred by government from managing tenancies and public housing waiting lists, while also providing the certainty of a secure home to low-income households.

There is significant potential to adopt a social home ownership pilot in Australia.

Habitat for Humanity has been a grantee of the SHOP program discussed above since its inception. They are also the sixth largest homebuilder in the United States, and the largest private homebuilder[30]. Habitat for Humanity has existed in Australia for 25 years and is positioned to delivered a social home ownership pilot supporting low-income households in Australia.

The potential breadth of a social homeownership program that utilises public-private partnerships and a community development model is evident through Habitat for Humanity's expanded set of services.

Another program delivered by Habitat for Humanity internationally is the Neighbourhood Revitalisation Initiative (NRL). NRL centres around renewal of entire communities house by house, block by block, neighbourhood by neighbourhood. It is inspired by the idea that the best way to end poverty in housing is to transform entire communities.

Now in its fourth year, NRL is coming together through over 200 Affiliates across the United States. Whilst new construction continues to play a vital role, other housing solutions, including critical home repair, rehabilitation and weatherisation, allow Habitat to serve more families. NRL accounted for 53 per cent of the families Habitat for Humanity US served in 2013, engaging communities in more than 1,800 projects.

Home owner aspirations drive revitalisation of the community. It is not uncommon to see families joining together to rebuild playgrounds, construct community gardens and form neighbourhood watch groups.

In some of Australia's most depressed suburbs where government-owned rental stocks are left derelict and vacant, such a revitalisation initiative could bring back online, much needed public housing accommodation.

Habitat for Humanity Australia is already working with disadvantaged communities through programs like Playford Alive in northern suburbs of Adelaide – a 10 to 15 year joint venture between Local and State Governments rejuvenating existing dilapidated housing stock and building new homes, providing homes for approximately 10,000 families.31

Habitat for Humanity Australia, as a not-for-profit Christian faith based organisation, deals directly with Australia's affordable housing crisis, specifically the moving of disadvantaged families out of social housing dependency and into home ownership. Habitat does this through the construction of safe, decent and affordable houses in areas where land is affordable and, importantly where education, health and transport infrastructure either exist or are planned.

Over 25 years of operating in Australia, Habitat has identified that families, specifically female single parent families, show themselves to have a high ability to "help themselves" improve their life situation. By providing a "hand-up" as opposed to a "hand-out" Habitat has worked with over 140 families achieve their goal of home ownership.

Habitat constructs quality homes through partnerships with financial institutions prepared to lend to disadvantaged families (within their means) to help fund the purchase of a Habitat home –"Shared Finance" (discussed below). It also partners with corporations who contribute both, financially and with materials and equipment (sometimes discounted and often donated), helping to keep construction costs to a minimum. Habitat also works with with local organisations, groups and churches who participate through volunteer programs, providing the necessary skills to help finish a home and importantly, working alongside the partner family, help build the social support framework, families need as they establish themselves in the community.

What is needed to make social home ownership in Australia a reality?

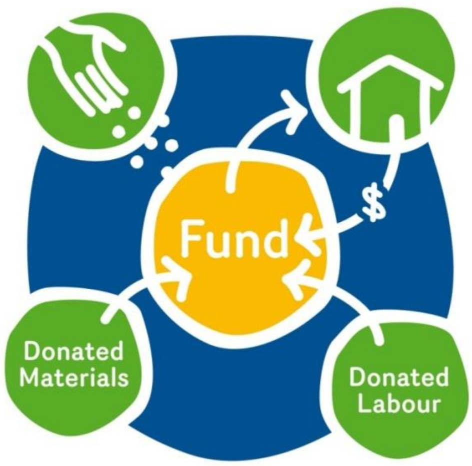
Habitat for Humanity has developed a model for housing that provides sustainable home ownership opportunities for low-income families. The key components of a sustainable social home ownership model are set out in the diagram below:

<u>Contributions</u>

- Government support provided in the form of suitable land or grants
- Public donations
- Gifts in kind
- Philanthropic grants
- Beneficial settlement terms
- Training income

<u>Purchaser & House Sale</u>

- Habitat is able to sell to partner family at below valuation due to low cost of build
- Purchasers tend to have household incomes around $40K-$50K
- Purchaser secures loan finance through financial services partners
- A "windfall gains" instrument secures Habitat contribution & prevents profiteering
- Any proceeds from sale applied to future



<u>Material Sources</u>

- Discounted and donated material from business
- Materials sourced as part of training contracts
- Materials funded/provided through National and State based sponsorships.

<u>Labour Sources</u>

- Sweat Equity
- Volunteers
- Corporate Groups
- Schools - "At Risk" students
- Training groups
- Job Network Providers
- Habitat staff
- Specialist contractors

Innovative financing models to support social home ownership

In addition to government support, sweat equity, volunteers, a role for the non-profit organisation and corporate partnerships, ensuring finance is available to both fund construction but also provide mortgages to families is necessary for a sustainable social home ownership model. Habitat for Humanity has developed and adopted various approaches to addressing this challenge.

Shared Finance Model

A shared finance model can take many forms, but typically involves tenants holding a share of the property with government, community housing providers or other partnership retaining a share. The share may transfer for the tenants over time and as payments are made. The finance may be provided at a subsidised rate and with risk being shared amongst the partners.

The shared finance model has emerged as a key strategy in facilitating entry to homeownership among low-income earners. It provides a stepping-stone to mainstream finance.

Shared finance can also be a lifeline against an owner losing their home, with buyback and rent/buy schemes operating as potential means of enabling households to avoid repossession.

Shared finance places the burden of the risks tied to repayment of the mortgage on the equity partner, while the risks tied to capital gains are shared between the beneficiary household and the equity partner.

There has been significant uptake of the shared finance model, with products being introduced in South Australia, Western Australia, Northern Territory (discontinued) by government-backed agencies (see Attachment A for a summary of these programs).

Low failure rates can be attributed to safety net provisions that enable purchasers struggling to make repayments receive various concessions and supports from partnering agencies. However, a continued stretch between house prices and incomes may place constraints on the future viability of social home ownership scheme, and these risks need to be carefully managed.

The trends in the housing market and wider economy can have a significant impact on the effectiveness of shared finance schemes. While shared finance has been successful in rising markets, the Economic Regulation Authority points out that in the case of Western Australia, Keystart has not been tested by negative growth since the 1990s. While only 3.9% of clients sold their homes for less than the outstanding balance on their mortgages in the 1990s[32], future downturns may see the experience of losses. Again, it is necessary that careful consideration be given to the financial circumstances of families involved in social home ownership and shared finance schemes. Careful assessment processes for eligible families and additional supports such as financial services advice and an ongoing relationship between households and partners is an important part of the Social Home Ownership Pilot..

Currently, shared finance schemes are too small to affect demand in the broader market, and these affordability concerns present a strong argument for the scheme to continue to operate in a very targeted way.

Overall, the existing state based programs have been effective, with the South Australian and Western Australian programs respectively assisting over 64, 500[33] and 80,000[34] households into home ownership.

The success of government-backed agencies provides a sound basis for a partnership with private lenders and investors. Therefore, a relevant goal for shared finance initiatives in the future is bringing together public and private sector interests in sharing the risk-return balance.

The relationship between Housing Tasmania and Bendigo and Adelaide Bank may be instructive as to the viability of these arrangements. There is also scope for establishing a NSW or Victoria equivalent of HomeStart and opportunity to build a niche role in their jurisdictions.

See Attachment A for a summary of existing state based social home ownership schemes, including the outcomes achieved.

A Public-Private Partnership Model

A Public Private Partnership (PPP) model would enable more efficient redevelopment of run-down housing stock and finance new stock through capitalisation.

Benefits of a PPP stem from the output-based contracts that specify project results in terms of quality delivered and encourage innovation in project delivery, to meet requirements at lower costs[35].

The Bonnyrigg Living Communities Project in NSW is an illustration of a public private partnership model that engages in not only the design and construction of new social housing dwellings, but also private owned dwellings. Within the 81 hectare housing estate, 2330 dwellings will be constructed, including cottages, units and townhouses. Social housing homes will comprise 699 of these, while the balance of 1531 homes will be sold to home buyers[36].

From the UK experience, if governments in Australia were to favour provision by non-profit housing organisations, then private investors would be less hesitant in committing to large-scale private investment and the sector's role could grow progressively over the medium term. Political risks associated with changing housing policy – such as the recent reduction in federal support for the National Rental Affordability Scheme – also need to be minimised to encourage private and institutional investors.

The Enterprise Nehemiah Development Corporation in the United States is an example of where a PPP has been successfully leveraged. The partnership involved the Baltimoreans United in Leadership Development (a non-profit organisation), the City of Baltimore, local religious institutions, the state government, the federal department of Housing and Urban Development, the Enterprise Foundation (a technical services agency) and a private utility company. The non-profit corporation accumulated $21 million in public, private and philanthropic financing to build 283 new three-bedroom townhouses and rehabilitate another 17, and ultimately sell them at an affordable price to low-income area families[37]. Over 70 per cent of the buyers had incomes of less than 45 per cent of the Baltimore area median income[38].

The potential success of public private partnership models makes it all the more important for governments to create conditions to encourage private participation, by ensuring fair and consistent market conditions.

It is also important to ensure that the overarching focus is not on the parties to the public-private partnership (i.e. cost reduction) but in the end users of the services provided.

Reluctance of the private sector and institutions to invest in affordable housing is in part due to an unattractive risk-return ratio. The government could raise net returns to investors above those existing at prevailing market rents, for example, through a subsidy (as occurred under NRAS). Alternatively it could lower the risks to investors, so that the required rate of return falls towards the market rent. The burden of the risk-transfer is likely to fall on the government. Given governments currently bear the financial burden of public housing, CRA and homelessness, the suggestion that government bear some of the risk of financing social home ownership is not out of step with where the burden currently falls in any case.

Given significant investments being made by government in negative gearing and CGT discounts, largely benefiting higher income earners, the proposal to reallocate this funding to programs which target social home ownership, as one innovative approach, are critical to achieve greater equity and better affordable housing outcomes.

<u>Other International Examples</u>

Community Land Trusts (CLTs) are nonprofit organisations that hold title to land in perpetuity and convey the land to a resident body via a ground lease. The lessee can be an individual renter or a homeowner.

Evidence from the United States has shown that CLTs are effective in enhancing affordability over time and expanding homeownership into lower income brackets[39].

It is also seen as a successful mechanism for community input into housing development. Burlington Community Land Trust (BCLT) in Burlington, Vermont is one such example, where over the study period from 1984-2002, the BCLT home on re-sale became affordable to households on 57 percent of the Area Median Income (AMI). Initially the BCLT home was only affordable to households on 62 per cent of AMI. Furthermore, individual wealth was created with BCLT homeowners experiencing an annual rate of return of 17 per cent[40].

In the UK, a number of schemes are in place to allow tenants to purchase the home they rent. The Right to Buy (RTB) scheme, through which existing local authority tenants can buy their homes at a discount, has been successful in assisting over 2 million tenants in buying their homes[41].

The "Do it yourself Shared Ownership" (DIYSO) scheme is a part buy, part rent scheme, that allows purchasers to buy a share between 35 per cent and 75 per cent of a property bought on the open housing market, while paying rent on the share of the property they do not own. From 1991-2003, over 25,000 homes had been bought through DIYSO[42].

There are many examples and ways to approach Social Home Ownership. What is required is the political will to deliver social home ownership to low-income families in Australia and an agreement to work together to achieve an effective pilot program.

Social home ownership alone will not address the broader challenges facing the Australian housing market, but combined with land, zoning and tax reform it can help support low-income families share in the Great Australian Dream.

Is social home ownership the answer to Australia's housing challenge?

Importantly, Habitat for Humanity is mindful that social home ownership will only ever be part of the solution to the significant housing challenge facing low-income families in Australia. In addition to the proposed social home ownership pilot, national reform is required across a range of challenging areas.

Land Planning Reform

Currently, the land allocation and development approval processes are not working optimally to maintain an adequate supply of housing development opportunities. Land planning reform particularly in the areas of development processes and policies, development charges, and cost of construction is necessary to ensure the viability of social homeownership, but also address housing affordability in Australia more generally.

In a survey of NFPs, it was found that planning policies that support the provision of affordable housing was highly rated as a driver of business opportunities[43].

Infrastructure charges is a key example of the "front loading" of costs onto the new home buyer. The Productivity Commission (2008a) calculated local infrastructure charges at the aggregate level increasing at around 1 per cent, per annum in real terms in NSW between 2000-06[44]. The Housing Industry Association showed local infrastructure charges in Sydney more than doubling in real terms to $50,000 from the mid-1990s to 2007[45]. In particular, planning development charges for Greenfield housing developments in Sydney have increased from 3.5 per cent of the median house price in 1980s, to 16.9 per cent of the median house price in 2007[46].

While there have been efforts to cap infrastructure costs in Sydney and Brisbane, these caps do not cover all possible charges for infrastructure. For councils to continue to provide a full range of services to the local area, alternative financing arrangements are necessary. NSW in particular exhibits a non-competitive cost structure in comparison to other states, discouraging new investment by developers and creating a large disparity between prices for existing homes and new housing stock[47].

Mandatory developer contribution requirements have been found to be an effective approach to securing new affordable housing stock through the planning process in the United States[48]. A state mandated target is critical to developing a steady supply of affordable housing over time. South Australia has effectively used inclusionary zoning, delivering 2,248 affordable units out of a total of 13,790 by October 2011[49].

Slow land release (restrictive zoning) policies are also significant barriers to a social homeownership model as it contributes to the lack of land supply. In 2007, it was estimated that land release policies could create a land supply shortfall of 185,000 over the next 25 years[50].

By fast-tracking land release in growth centers and auditing surplus government lands, affordable housing providers will gain access to the land needed for their projects.

Improving the efficiency and certainty in rezoning and land development regulatory processes are responsibilities in the domain of state and local governments for influencing land supply.

Delay and uncertainty increase the cost of housing by increasing developers' holding costs and adding to the risk that businesses face in the development process[51]. The approval process also needs to be streamlined through use of code complying assessment. When trialed in Sydney, this has reportedly reduced development costs and increased housing supply[52].

Urban Policy Reform

In order for the benefits of social homeownership initiatives to be fully realised, inequalities in opportunities to generate housing wealth need to be addressed.

House prices in inner and middle suburbs have increased to a larger extent than in the outer suburbs, and consequently the metropolitan fringe is the most affordable area for low-income home buyers.

Due to the lower rate of capital gain growth in these suburbs, low-income purchasers build housing wealth at a rate that is significantly slower than purchasers in more expensive suburbs.

One of the drivers in this difference in house prices is the difference in valued amenities. By increasing public investment in outer suburbs in major facilities such as public transport, hospitals, and recreational areas, this can contribute to increasing the equity of low-income purchasers[53].

The risk of slower and even declining value of homes in areas where land may be available for low-income household is a risk for social home ownership. Ensuring social homeownership opportunities are delivered in areas located close to employment opportunities and amenities, and suits the households needs is critical. Employment and amenities are necessary for all households and making sure all housing developments are proximate to infrastructure to meet these needs is critical across all affordable housing projects.

Tax Reform

Reforms to the tax system are important in addressing both current inequity and intergenerational equity.

While the abolition of negative gearing or a reduction in capital gains tax (CGT) discounts are clearly politically challenging and require careful consideration to ensure unintended consequences, it is important to acknowledge the distortionary effect of the current tax regime on the housing market.

By encouraging investors to buy properties, current taxation arrangements are contributing to upward pressure on the prices of established dwellings and thus reducing housing affordability for low-income buyers. This is without necessarily increasing the supply of affordable homes or rentals.

Beyond the negative impacts of negative gearing on affordability for low-income buyers, the loss of revenue could have been channeled into government programs such as the CRA or invested into other housing affordability programs.

The taxation revenue foregone from negative gearing is approximately $2 billion annually. When combined with capital gains tax exemptions, housing investors went from claiming a collective income of $700 million in 1998-1999 to a collective loss of $6.5 billion in 2008-09[54].

Stamp duty is another major disincentive to residential mobility that especially affects low-income earners. The removal of stamp duty will remove a disincentive to transition housing to suit changing family needs. Removing stamp duties, however, will require broader consideration of state revenue.

There are also possible efficiency gains available through implementing a uniformly applied broad-based land tax. One such gain is that the binding liquidity constraints on developers will speed development of vacant sites by encouraging them to accelerate construction plans.

Land planning reforms, urban development and infrastructure policies, and tax reform are necessary areas for further work to address the housing challenge.

Recommendations

1. That housing policy in Australia at the federal, state and local level give priority to increasing access to affordable housing, both rental and ownership, particularly for low-income families.

   This is necessary to address the current inequity in the provision of support for housing in Australia, address intergenerational inequity and over time will help reduce waiting lists for public housing.

2. That a national social home ownership pilot be undertaken. The pilot would draw on the experience of the Self-Help Home Ownership Opportunity Program in the United States and other state based programs underway in Australia.

   The pilot would involve:

   a. The federal and state governments working together to contribute $20 million in funding (in the form of suitable land and/or grants) over five years. Through the social home ownership model this initial investment would unlock significant additional finance from sweat equity, volunteers, corporate and private donations.

   b. Innovative financing models, including public-private partnerships and 'sweat equity', to broaden the finance available to increase the supply of housing for low-income families.

   c. A community development model that engages communities in addressing the housing challenge. This includes drawing on the willingness of Australians to volunteer to be part of meeting the housing needs of low-income Australians.

   d. Monitoring and evaluation to ensure the social home ownership pilot delivers outcomes for low-income families over time.

3. Acknowledging that a social home ownership pilot is only a small part of a broader solution to the housing challenge facing Australia, it is also recommended that governments at all levels work together to address issues of land release, mandated targets for affordable housing in urban developments, and tax reform.

   Reform in these areas is critical to improve affordability and home ownership outcomes for all Australians, and particularly for low-income families.

Attachment A – Summary of existing state based social home ownership schemes

State	Program	Duration	Partners	Key Features	Eligibility	Financing	Outcomes
SA	**Homestart**	1989-Present	Wyatt Benevolent Institution	Offers affordable housing solutions through innovative loan products Introduced shared equity initiatives in 2007.	No general eligibility criteria specified – each product has its own set of eligibility criteria.	Set up as statutory corporation; building on $50m provided by SA to establish lending activity HS borrows money and issues debt in the financial markets through South Australian Financing Authority (SAFA) SAFA provides the credit rating and guarantee of government. Short-term variable rates offered. HomeStart has the authority to set its own interest rates without requiring approval from the Department for Families and Communities or Minister (with the exception of one legacy product). Treasury/SAFA arrangements and requirements also ensure that HomeStart maintains a conservative asset to liability ratio. Operates to return of equity (ROE) target. Quarterly lending caps used to spread settlements over a period (about 5 years) to spread out risks over the property cycle	Since 1989, assisted over 64,500 South Australian households into home ownership

State	Program	Duration	Partners	Key Features	Eligibility	Financing	Outcomes
WA	**KeyStart**	1989-Present		Offers home loan options [Perth Metro, Country, Shared Ownership] for low deposit for homebuyers who are unable to secure financing from the private sector. Underwritten by State Government. Requires minimum deposit of 2% of purchase price. Requires a minimum of 1% of the purchase price in genuine savings. Does not charge Lenders Mortgage Insurance. Does not charge ongoing monthly account keeping fees.	Maximum income of $95,000 for singles or $135,000 for couples and families for homes up to $480,000 in Metro areas; $110,000 singles and $135,000 couples for purchases not exceeding $500,000 in regional areas excluding the Kimberley and Pilbara; $120,000 single and $150,000 couples for homes up to $700,000 in the Kimberley; and $150,000 singles and $180,000 couples for homes not exceeding $850,000 in the Pilbara. Do not have existing debt repayments that exceed 10% of gross income.	Since the late 1990s, Keystart have borrowed funds from the Treasury Corporation. Provides access to funds at favourable rates. Keystart started issuing paper (selling-on their debt) into the markets. There are risks attached if investor demand is limited or they demand a high price, since the agency is then unable to on-lend at low enough rates. Issue term fixed rate funds, and then swap these into floating arrangements, which enables them to take advantage of spreads against the bank base rate. A Treasury Committee makes sure it covers funding and operation costs and provides competitive interest. Any shared equity profits go into servicing debts against the $300m funding allocated for 2007-2010. Other profits may be used to help fund other Keystart products, but can also be used to fund other housing outcomes such as affordable rental schemes. Keystart is bounded by the extent to which Treasury is willing to respond to demand and lift borrowing limits.	Since its inception, assisted more than 80,000 Western Australians into home ownership.

State	Program	Duration	Partners	Key Features	Eligibility	Financing	Outcomes
NT	**Home Start**	Replaced in 2013 (by program below)		Two loan products: Standard variable loan which enables you to buy 100% of your home and Shared equity loan where a person's share of the property must be between 70% and 99%.	Loans are available for first home buyers or non first home buyers who do not currently own a property or currently live in public housing. Must have a minimum deposit of 2% of the purchase price for 100% ownership or of the value of your share for shared equity. Must not exceed assessable income and asset limits that range from \$60,000 and \$60,029 respectively for a 1 person household, to \$105,00 and \$135,0000 for a household with 6 or more persons.	Home Start NT loans are administered by TIO, a government-owned entity, providing a form of guarantee from the NT government. When a successful application is made, TIO do not use their money to cover the loan. They submit a loan schedule to Territory Housing, outlining the required amount by year. Territory Housing borrows from Treasury and that money gets passed on to TIO The reverse process happens when the loan is settled by TIO, with Territory Housing's share of the sale is returned to Territory Housing. Funds are retained within the division to repay loans from Treasury and to continue lending operations. Introduction of price caps due to concerns of over exposure to onward risk if prices were to fall as well as a broader debate regarding the extent to which government should intervene, and constrained product viability in current market conditions.	

State	Program	Duration	Partners	Key Features	Eligibility	Financing	Outcomes
NT	**Home Build Access** (replaced Home Start, above, as at 1 January 2013)	1 January 2013 – Present		HomeBuild Access loan packages are focused on the construction of new dwellings up to a maximum land and construction price or purchase price of $475,000 (1-2 bedrooms) and $550 000 (3 or more bedrooms). Two loan types: NT Government Low deposit loan assistance and Subsidized interest rate loan means tested for low to moderate income households.	Low Deposit Loan assistance: No income or assets eligibility criteria. Subsidised interest rate loan: annual gross income limit and asset limit range from $80,000 and $60,029 for a 1 person household, to $127,500 and $135, 855 for household for 6 or more persons.		

State	Program	Duration	Partners	Key Features	Eligibility	Financing	Outcomes
TAS	**HomeShare**	2008-Present	Bendigo Bank Adelaide Bank	Restricted to new supply (new build or house and land packages) or existing Housing Tasmania Properties Available to low income buyers and public housing tenants able to afford a loan.	Maximum equity grant: 30% Income Limits determined by household type: for dual parent families with no children up to 4 children, the income limit ranges from \$68,670 to \$111,486. For single parent families, with no children up to 4 children, the income limit ranges from \$61,881 to \$104,697. Financial assets must be no more than \$62,708. Bank's eligibility criteria must also be met, including sources of income.	Tasmanian government works with mainstream lenders, such that loans from Homeshare are taken out through Bendigo and Adelaide Bank. However, the book and debt risks involved in holding that debt remain with the government.	

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This report was prepared by Equity Economics & Development Partners Pty Ltd in consultation with Habitat for Humanity Australia.

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Equity Economics is a Sydney based consultancy established to provide quality economic analysis and policy advice to the not for profit, corporate and government sectors.

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Photos:

Cover photo-
Top left - Bonnie Laird and family
Top right – David Lucas and family
Bottom left - Krystal Evans and family
Bottom right - Yvonne Butler and family

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