

Shared Equity Schemes for Older Women in Queensland

- Gold Star Project



By
Patricia Pascuzzo
Principal, Inclusive Economics
17 December 2021



mercy foundation®



This publication is available for your use under a [Creative Commons Attribution 3.0 Australia](#) licence, with the exception of the Inclusive Economics logo.



The full licence terms are available from
<http://creativecommons.org/licenses/by/3.0/au/legalcode>.

Use of Inclusive Economics (IE) material under a [Creative Commons Attribution 3.0 Australia](#) licence requires you to attribute the work (but not in any way that suggests that IE endorses you or your use of the work).

Provided you have not modified or transformed IE material in any way then IE prefers the following attribution:

Source: Patricia Pascuzzo (2021), *Housing Finance Products for Older Women in Queensland, Consultation Paper*, Prepared for Q Shelter by Inclusive Economics.

ACKNOWLEDGEMENT OF COUNTRY

Inclusive Economics acknowledges Aboriginal and Torres Strait Islander peoples as the Traditional Owners of Country throughout Australia and their continuing connection to both their land and seas. We also pay our respects to Elders – past, present and emerging – and generations of Aboriginal and Torres Strait Islander peoples now and into the future.

Contents

1. What is the problem we are trying to solve?	4
What is shared equity?.....	4
Types of shared equity schemes	5
Project methodology	6
2. Defining target women.....	7
3. Shared equity scheme design.....	8
Government perspective.....	8
Loan providers' perspective	8
Proposed shared equity scheme parameters.....	8
4. Preliminary conclusions and way forward.....	11
5. Individual equity share financial modelling.....	13
Cameos	13
Key modelling assumptions.....	13
Modelling scenarios.....	14
Modelling results - affordability	15
Interpretation of results	18
Final equity ownership results.....	19
Bibliography.....	20
Terms and definitions.....	21
Attachment A: Types of shared equity models	22
Individual and community equity share	22
Barnett Model	23
Commonwealth Rent Assistance shared equity proposal	24
Comparison of the alternative shared equity models	25
Authorship and acknowledgements.....	27

1. What is the problem we are trying to solve?

The Gold Star Project is aimed at stimulating the development of innovative financial products that would enable people of limited means to achieve housing security through building equity in their home. The focus is on shared equity products that can be accessed by women who are unable to access commercially provided standard home loans. The cohort of particular concern is women over 55 years living in Queensland given the rising numbers experiencing financial stress and at risk of homelessness. The economics of housing for single older women are particularly challenging, for reasons outlined below, so inclusion of other cohorts may have to be considered to improve scheme viability.

Housing policy is enhanced through the recognition of the importance of housing for human welfare and the severe detrimental effects of homelessness. The benefits of housing go well beyond physical shelter – the Australian Centre for Social Impact has distilled the three critical functions of home as acquiring agency, connection with others and expression of identity.¹

The gulf between renting and home ownership is enormous and the number and diversity of people occupying this space are growing. Beyond the current focus in the policy debate on supply and affordability of housing, greater diversity of options is needed when it comes to buildings, financing, tenure and ownership types to reflect the diversity of the population. Innovation is needed that places people rather than buildings at the heart of the process to provide greater diversity of options. Shared equity has an important role to play in enabling innovation, allowing people to move from insecure rental to homeownership, and unlocking the benefits of secure housing for a diverse group.

What is shared equity?

Shared equity refers to a range of initiatives that enable the division of the value of a dwelling between more than one legal entity. It can make housing costs more affordable and improve housing security for residents by responding to two key barriers impacting low-income households in Australia: high deposit requirements and an inability to qualify for and service a loan large enough to afford a home in a suitable location.

Most shared equity schemes operate by allowing the resident to purchase only a portion of the property (in the range of 50% to 75% of the value) with the co-owner (potentially a government, benefactor or Community Housing Provider) taking a silent equity stake for the remainder.² In many cases, these schemes do not require the purchaser to pay the co-owner rent on their equity stake although the co-owner captures the price appreciation on its equity stake when the property is eventually sold.

Some form of government backed shared equity scheme targeted at low-income earners is offered in all States and territories except NSW. The schemes in Queensland and ACT are limited to public housing tenants purchasing the house they live in. These are referred to as individual shared equity schemes as the equity and capital appreciation are retained by the co-owners in proportion to their ownership shares. The effective subsidy benefits the purchaser enabling them to bridge the gap between renting and home ownership.

An alternative type of shared equity, referred to as community equity, involves purchasers retaining their equity contribution plus interest based on a predetermined formula. Given the intention under community equity schemes is to retain the dwellings as affordable for the benefit of current and

¹ De Campo et al (2021).

² SharedStart WA - Housing Authority will fund up to maximum 30%. Occupier must finance at least 70%.

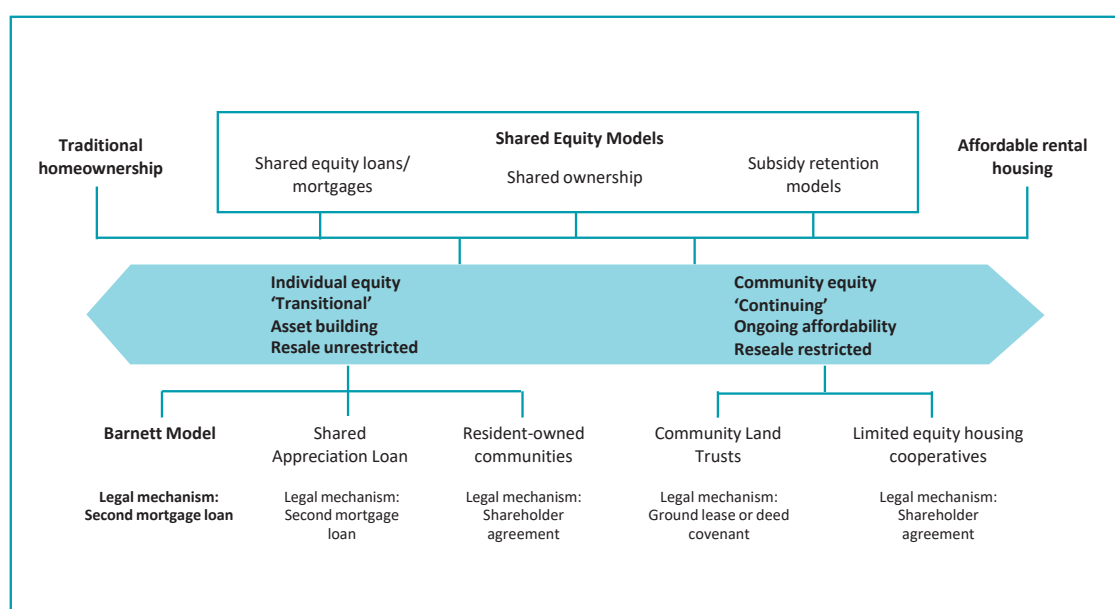
future residents through restrictions on the resale of the property, the purchasers' retention of capital growth is limited.³

Types of shared equity schemes

There are many different types of shared-equity schemes that have been used in Australia and around the world. Figure 1 shows the spectrum of shared equity and where they fit on the housing continuum.

An important first step in the Goldstar Project was to determine the most appropriate type of shared equity scheme to address the needs of older women. Financial modelling was conducted to enable comparison of the workings and benefits of four alternative types of shared equity schemes - individual shared equity, community shared equity, the Barnett Advance and a scheme designed specifically for pensioners referred to as the Commonwealth Rent Assistance (CRA) Shared Equity Scheme (provided in Attachment A). Based on the comparison, individual equity was selected for the purpose of designing a shared equity scheme for the target group of women.

Figure 1: Spectrum of Shared Equity Models



Source: Raynor et al adapted from Pinnegar et al 2009 and Jacobus and Lubell 2007.

³ Australian governments have yet to apply any form of resale restrictions to their shared equity schemes apart from requiring the equity to be sold back to Government.

Project methodology

1. A survey of target older women was conducted to better understand their needs and determined their financial means to service a mortgage.
2. Based on the survey results, various cameos were developed to represent the target cohort women, in terms of ages, incomes and savings, for modelling purposes.
3. Research and financial modelling were conducted to compare four alternative types of shared equity schemes comprising individual shared equity, community shared equity, Barnett Advance, and the Commonwealth Rent Assistance (CRA) Shared Equity (outlined in Attachment A). Based on the comparison, individual shared equity was selected for the purpose of designing a shared equity scheme for the target group of women.
4. Based on an individual shared equity and using various parameters, including shared equity ratios, house prices, share of maintenance costs and CRA eligibility, ten scenarios were developed to represent alternative scheme designs.
5. Based on various assumptions, including for interest rates, loan period, deposit amount, financial modelling was conducted on each of the ten scenarios to determine the thresholds of affordability for each cameo under various shared equity designs.
6. Based on the results of the modelling, options for shared equity scheme designs were developed.
7. Exploratory consultations were conducted with shared equity loan providers to discuss the feasibility of shared equity design options.

2. Defining target women

Threshold issues for this project are who are the target cohort of women and what scale of impact is it seeking, project size or systemic change. The answer to these questions affects the shared equity models and design.

Women at risk in Queensland are not a homogenous group as can be seen from the following segmentation:

- Women who present as homeless to the service system with complex needs, who would qualify for social housing but need more support than can be provided by social housing, projected at over 2000 in 2020 (*homeless women*);
- Women living in social housing and receiving some form of statutory payment as their main source of income (*social housing women*);
- Women living in private rental accommodation who could be on a social housing waiting list, receiving some form of government support on top of modest private income. This includes women in marginal accommodation numbering almost 1800 in 2020 (*marginal women*);⁴
- Emerging group of women over 55 years whose income or assets are too high to qualify for social housing, but not high enough to be able to buy their own home outright. While difficult to say with any precision, this group has been estimated at 100,000 in Queensland, of which 20,000 are living in private rental accommodation (*middle women*).

Q Shelter survey conducted in August/September 2021 with 166 respondents, 60% of whom were single without dependents. The key results for 106 single respondents were as follows:

- 99% were non indigenous.
- 45% were between 65 years and 74 years, and 32% were between 55 years and 64 years.
- 60% were renters of whom 80% are in private rental,
- 33% have applied for social housing, 55% of whom are on social housing waiting lists.
- 40% have housing costs below \$200 a week, 25% have housing costs of \$200-\$300 a week and 35% have housing costs over \$300 a week.
- 46% have gross weekly incomes of \$300-\$500 a week and 24% have gross weekly incomes of \$500-\$750 a week
- 60% were government income support recipients, of whom 60% were age pension recipients.
- 19% have no savings, 57% had savings of less than \$5,000 and 19% had savings of between \$5,000 and \$25,000.
- 26% had no superannuation savings, 19% had less than \$25,000 and 12% had between \$25,000 and \$50,000.
- Their top two concerns with their living arrangements were security of tenure and affordability. When asked “where do you expect to be in 5-10 years, 33% were not sure and 20% responded with ‘homeless’.

The factors that make the economics of shared equity schemes more challenging for single older women include lower earning capacity if they are working at all, shorter period of employment in which to repay a loan, single incomes and higher housing costs on a per person basis as they live alone. The viability of a shared equity scheme for older women would be enhanced through: superannuation or other savings; availability of lower cost housing, cost-effective housing models such as community housing and land lease developments or mixed tenure developments that enable some degree of cross subsidisation or planning approvals that allow for value capture to be retained for social and affordable housing.

⁴ Breakdown of waiting list information by gender, age and state not available.

3. Shared equity scheme design

A successful shared equity scheme must strike a balance between the needs of women, the government's policy objectives and the requirements of loan providers. Program design elements include the maximum equity contribution from the co-owner; the purchasers' maximum income level and minimum deposit; maximum dwelling price; maximum term of the loan; allocation of ongoing housing costs between the co-owners; the level of rent payable (of any) and associated CRA entitlement (if any). Collectively, choices among these design parameters determines the cohort of women that can potentially benefit from the scheme. The appropriateness of these parameters must be considered both individually and collectively to strike the right balance between potentially conflicting objectives.

Government perspective

Shared equity is not suitable for everyone. It needs to be appropriately designed to target those who would otherwise not be able to access home ownership and who can afford shared equity so as not to create housing stress. The size of the required co-equity contribution is lower for women who have the means to contribute a higher deposit amount or who are on incomes higher and able to service a mortgage loan. However, setting income limits too high could potentially benefit those who could have accessed a home loan commercially. In determining the scheme design, the benefits of transitioning single women out of social and community housing and freeing up housing for families and others in need should be taken into consideration.

Loan providers' perspective

From a loan providers' perspective, considerations include:

- That the purchaser can service the loan over the entire term which raises considerations of the purchaser's age, income and ability to maintain their income for the term of the loan. The risk that the purchaser will be unable to work and will experience a fall in their income would need to be taken into consideration in the loan assessment process. A mortgage servicing rate consistent with current banking requirements has been included in the financial modelling conducted for this project. Commonly used affordability benchmarks include cost of living (including housing costs) of less than 80% of gross income and housing costs of less than 30% of gross income.
- Some form of assurance that the co-owner or equity provider (whether it be a government, benefactor or CHP) will not withdraw their equity at the end of the term to enable the purchaser to continue living in the dwelling for as long as they need to.
- That arrangements are in place to ensure the support of the purchaser should she become unable to service the loan.

Proposed shared equity scheme parameters

In designing the shared equity program, the aim was to provide access to women with the greatest need who could afford to participate in a shared equity scheme. The financial modelling conducted for this project has demonstrated that it is only possible to design a shared equity scheme that is affordable for single older women within strict parameters relating to dwelling prices, equity shares, deposit contributions and the sharing of ongoing housing costs.

In particular, equity shares of 50% - 50% are more suited to this cohort given their age and modest income levels rather than the more common 70% - 30% shares of other schemes. If on-going housing costs were able to be reduced, then a 70% - 30% shared equity would be affordable at lower house prices (ie around \$250,000 including upfront costs).

The results indicate that shared equity is more suited to the younger age range of this cohort (45-55 years) on moderate incomes (\$55,000 to \$80,000). Shared equity can be suitable for women on the age pension or those who would likely become dependent on the age pension for their primary income provided they are able to put down a substantial deposit (minimum \$120,000) or are able to find suitable low-cost housing options or a combination of the two.

Based on the analysis carried out for this project, three possible shared equity scheme eligibility options are put forward for discussion in terms of:

- Maximum equity contribution from the government;
- Maximum annual income of the purchaser;
- Minimum deposit from the purchaser;
- Maximum property value;
- Maximum term of the mortgage loan;
- Minimum age of the purchaser; and
- Proportion of housing costs borne by the purchaser.

The design options (summarised in Table 1).

Table 1: Potential shared equity scheme design parameters

	Cameo D	Cameo E	Cameo F
	Employed	Pensioner	Pensioner*
Program Design Features:			
Maximum Government Equity %	50%	50%	50%
Maximum property value \$	300,000	300,000	300,000
Maximum Loan Term, years	15	15	15
Purchaser's share of home ownership costs %	100%	100%	100%
Purchaser's Mortgage minimum \$	120,000	nil	60,000
Purchasers' eligibility requirements:			
Maximum Income \$ pa	80,000	na	na
Minimum Income \$ pa	55,000	30,000	37,000
Minimum Deposit \$	0	150,000	90,000
Maximum Age, years **	55	75	75
Minimum Age, years	45	Age pension age	Age pension age

Source: Author, based on modelling contained in this report. * Total income represents the full age pension rate plus the work bonus and the age pension income test free area. ** Life expectancy for a 75-year-old-women is 90 years of age.

Cameo D represents younger women with moderate incomes and low to no deposit amounts. Cameo E represents a full rate pensioner with \$5,000 a year additional income with savings of \$150,000 who can purchase her 50% share of the dwelling outright without the need for a loan. Cameo F represents a full rate pensioner with a lower but still sizable deposit (\$90,000 to \$100,000) requiring a modest loan (\$50,000 to \$60,000), who can earn supplementary income up to the tax-free income and pension income test free area.

Table 2 provides estimates of two measures of affordability for each of the three cameos for both the high-and low-income thresholds based on the parameter assumptions of Scenario 5 (50-50% shared equity, \$300,000 house price including upfront costs, \$200 per fortnight home ownership costs and 15-year term). It shows that Cameo D easily meet both measures of affordability (housing costs and cost of living benchmarks).

The results also show that Cameo E and Cameo F representing pensioners meet the first measure of affordability ie. housing costs as a proportion of gross income at both the high- and low-income thresholds. It is the second affordability measure, cost of living as a proportion of gross income, that poses the greatest difficulty for pensioners.

For both Cameos E and F, the cost of homeownership (assumed at \$200/fortnight) push their living costs above the 80% threshold commonly applied by banks in assessing loan affordability. Only 10 percent pensioners who participated in the Q Shelter survey had savings over \$90,000.

These results highlight the difficulty pensioners face in qualifying for even a modest home loan. A few points should be noted in interpreting these results. First, there is considerable debate about the appropriateness of the Association of Superannuation Funds of Australia (ASFA) Retirement Standard as a benchmark for cost of living in retirement with many critics (including ACOSS) claiming it overstates a modest cost of living in retirement. Second, the cost of servicing a modest loan may be below the average housing costs for pensioners in the private rental market. The survey conducted by Q Shelter shows that over 60% of target women have rental costs of over \$200 per week compared with housing costs of \$100 per week for Cameo E and below \$200 per week for Cameo F under a shared equity arrangement. The point is that these women already live with financial stress coupled with housing insecurity. Third, a blanket cost of living benchmark does not allow for differences in personal preferences. Some women may be prepared to make significant sacrifices in their consumption to be able to purchase a share of their home given the importance they place on housing security and the wealth accumulation potential of home ownership.

These results suggest that the main targets for a shared equity scheme for older women should be women of between 45 years and 55 years on earnings of \$55,000 and \$80,000 a year. Targeting those who are living in social housing whose circumstances have improved and are paying market rents should be the priority. This would free up social housing for households in greater need. Providing a shared equity scheme targeted at women in their mid-fifties would have the additional benefit of establishing a track record that would provide performance data to enable financial institutions to better estimate risk.

Table 2: Shared equity scheme design affordability results (Scenario 5)

	Scenario 5					
Equity shares	50% to 50%					
House price	\$293,870					
House price plus upfront costs \$	\$300,000					
Maintenance costs per fortnight \$	200					
Term years	15					
	Cameo D1	Cameo D2	Cameo E1	Cameo E2	Cameo F1	Cameo F2
Age (years)	55		68		68	
Status	Employed		Pensioner		Pensioner	
Income after tax annual	55,000	80,000	25,000	30,000	32,000	37,000
Income fortnightly	2,115	3,077	962	1,154	1,231	1,423
Purchaser's deposit	30,000	Nil	150,000	150,000	100,000	90,000
Sponsor's contribution	150,000	150,000	150,000	150,000	150,000	150,000
Mortgage loan	120,000	150,000	Nil	Nil	50,000	60,000
Housing costs/income %	31%	25%	21%	17%	31%	30%
Cost of living/gross income %	73%	54%	115%	96%	105%	93%

Source: Authors own analysis. Replacing homeownership costs with rent could reduce cost of living results by up to 3 percentage points.

4. Preliminary conclusions and way forward

Appropriately designed and targeted, shared equity schemes can be an effective vehicle for the Queensland government to assist people facing housing stress and insecurity. Given the right circumstances, it can be more cost effective than providing social housing as the purchaser in a shared equity loan makes a major financial contribution to the purchase of the property. The original capital and equity growth are returned to the co-owner on the sale of the property allowing it to be reinvested and retained in perpetuity.

These schemes are more suited to helping people bridge the gap between renting and homeownership and to remain in homeownership rather than preventing homelessness. They may also have a role in providing an exit route for social housing tenants who are able to improve their financial situation and thereby freeing up scarce social housing for more urgent needs.

In deciding whether to provide capital for shared equity, governments should consider the alternative cost of providing social and community housing, and the savings to the government, in terms of health, welfare, justice, and aged care, of averting homelessness either directly or indirectly through freeing up social and community housing for people in more urgent need.

Shared equity schemes can be structured to require minimal subsidies, as they have been in South Australia and Western Australia, provided they can respond to changing market conditions by adapting their customer profiles to remain viable. To do this, they are best provided by an independent government agency able to balance the commercial and social objectives. Financial institutions can play a partnering role cobranded with a trusted name such as Q Shelter.

An increasing number of older women are living in insecure private rental accommodation with the prospect of depleting their personal savings on rent and eventually being at risk of homelessness in old age. A suitably designed shared equity scheme would enable many of these women to build equity in their home before they deplete their resources and provide secure housing throughout their old age. Such a scheme would be suitable for single older women who are working or have savings to purchase a share of a dwelling.

This study indicates that shared equity would be affordable for single women over 45-55 years within specified parameters relating to dwelling prices, equity shares, deposit contributions and the sharing of ongoing housing costs. The analysis further demonstrates that shared equity is only suitable for older women on the age pension, or who are likely to become dependent on the age pension, if they have sufficient capital relative to the cost of purchasing the dwelling. Even though the costs of servicing a shared equity loan could be more affordable for a pensioner than their current rental costs, it is difficult for loan providers to provide even modest loans to pensioners due to the requirements of responsible lending conduct obligations.⁵ For pensioners without sufficient savings, social and community housing and co-housing remain more suitable housing options.

This study has highlighted the potential for shared equity to address rising housing precarity and prevent homelessness among women over 55. There is the opportunity for the Queensland Government to establish a shared equity scheme to provide the proof of concept and a model that could be replicated and broadened throughout Queensland. Such a pilot, conducted by the government in partnership with a community housing provider would demonstrate feasibility and give loan providers a stronger basis on which to base their credit risk assessment.

Homeownership costs, including council rates, utilities, and maintenance costs, are a significant expense for low-income earners that can make the difference between an affordable shared equity loan and housing stress. Current Queensland pensioner discounts for council rates of 20% are

⁵ Chapter 3 of the *National Consumer Credit Protection Act 2009*.

insufficient to make an appreciable difference for this cohort.⁶ Increasing the discount to say 50%, while reducing the maximum discount to \$100 instead of \$200 would better target the subsidy to people facing housing stress seeking to enter shared equity ownership. This change would make the shared equity scheme more affordable to more age pensioners. Queensland does not offer a seniors-specific stamp duty concession while first homeowners receive a concessional rate of stamp duty on homes worth up to \$550,000. This means they effectively pay no stamp duty when buying a first home worth less than \$500,000. Extending this concession to age pensioners purchasing properties under \$350,000 would assist in making shared equity affordable for the single pensioner cohort.

While this study has focussed on older women, there is considerable potential in Queensland to broaden access to shared equity to other groups facing housing stress such as essential workers, low-income families and first home buyers.

⁶ Eligible pensioners can receive a subsidy of 20 per cent (up to a maximum amount of \$200 each year) of the gross rates and charges levied by your local council. To receive the subsidy, pensioners must hold one of the following cards: Concession cards Queensland Pensioner Concession Card (issued by [Centrelink](#) or [Department of Veterans' Affairs](#)), or Department of Veterans' Affairs Health Card for all conditions ([Gold Card](#)).

5. Individual equity share financial modelling

Cameos

Taking into consideration the survey results, the following cameos were developed to represent the target women.

- Cameo A is a 68-year-old full rate pensioner receiving \$24,770 a year.
- Cameo B is a 55-year-old who is employed part time earning \$35,000 a year.
- Cameo C is a 65-year-old working full time with an annual post tax income of \$55,000. Given her age, there is the risk that she will not be able to continue to work for the entire term of the mortgage. The modelling thus assumes that Cameo C will continue working for five years until she reaches 70 years of age when she will be eligible for the age pension. After age 70, her income reverts to the full age pension income level.

Table 3 summarises the cameos selected for the purpose of determining affordability thresholds.

Table 3: Modelled Cameos

	Cameo A	Cameo B	Cameo C
Age (years)	68	55	65
Employment Status	Pensioner	Employed	Employed
Income after tax annual \$	\$ 24,770	\$ 35,000	\$ 55,000
Income after tax fortnightly	\$ 953	\$ 1,346	\$ 2,115

Source: Author

Key modelling assumptions

The main modelling assumptions are outlined in Table 4.

A key assumption is a mortgage servicing requirement of 5.25% based on APRA's 5 October 2021 announcement that it would increase the serviceability buffer by 0.5 percentage points.⁷

The real growth in unit prices has been conservatively estimated to average 3% per annum over the term of the loan given record housing price growth experienced in 2021. Wages growth is assumed to grow in line with inflation.

A 30% affordability threshold is adopted based on the 30/40 Rule (households in the lowest 40% of the income distribution spending 30% or more of income on housing costs), a commonly applied measure of housing affordability stress.⁸

Affordable cost of living is defined as 80% of gross income based on common bank practice.

Cost of living for a single pensioner was assumed to be \$28,775 per year or \$1107 a fortnight based on the Association of Superannuation Funds of Australia (ASFA) Retirement Standard (Modest Lifestyle).⁹ Given the Standard assumes that retirees own their home, it includes homeownership costs but not mortgage costs. It should be noted that this standard is the subject of some contention, with groups representing low-income earners arguing that the standard is too high to

⁷ <https://www.afrc.com/companies/financial-services/apra-tightens-lending-rules-to-target-property-boom-20211006-p58x1h>

⁸ Lester et al (2020).

⁹ <https://www.superannuation.asn.au/resources/retirement-standard>

represent modest retirement income. For this analysis, mortgage servicing costs were added to the ASFA standard to determine the total cost of living for the cameos.

Home ownership costs, including council rates, utilities and maintenance costs, are assumed to be \$200 per fortnight.

Table 4: Modelling Assumptions

Assumption	Parameter 1	Parameter 2	Description
Shared Equity %	70%-30%	50%-30%	70% - 30% selected based on shared equity schemes operating in other States. 50% - 50% was modelled given lower incomes of the older women cohort.
Property values \$	\$293,870	\$244,555	Benchmarked against one-bedroom units within the greater Brisbane area.
Upfront costs \$	\$6,130	\$5,445	Based on Commonwealth Bank Mortgage calculator.
Cost inclusive price	\$300,000	\$250,000	Based on above house prices and costs.
Deposit levels \$	120,000	100,000	Minimum deposit levels that would achieve affordability across the greatest number of cameos and scenarios. Used consistently to enable comparison of effects of different scenarios.
Mortgage servicing rate	5.25%	na	Based on APRA's 5 October 2021 announcement that it would increase the serviceability buffer by 0.5 percentage points.
Term, Years	15	20	15 years is the maximum term most lenders allow for borrowers over 55 years. 20 years modelled to compare impact on affordability.
Homeownership Costs fortnightly	\$200	Nil	Includes council rates, utilities and maintenance costs.
House price growth	3%	na	House price growth in excess of income growth.
Income Growth	nil	na	In line with inflation consistent with wages growth over the past decade.
Rent net of CRA a fortnight	na	\$175	Purchaser pays no rent and receives no CRA (Scenarios 1 to 8) or they pay \$318 rent per fortnight and receive the maximum CRA of \$143 (Scenarios 9 and 10).
Cost of living a fortnight	\$1,107	na	Based on the Australian Superannuation Funds Association (ASFA) Retirement Standard (Modest Lifestyle).[1] Given the Standard assumes that retirees own their home, housing costs are added to determine total cost of living for the cameos. [1] https://www.superannuation.asn.au/resources/retirement-standard
Affordability ratio 30% of income	30%	na	Housing costs (including mortgage servicing, council rates and maintenance costs) as percentage of after-tax income.
Cost of living/gross income affordability threshold	80%	na	Based on bank practice

Source: Author

Modelling scenarios

In all scenarios, the share of capital gains is allocated between the purchaser and the sponsor in proportion to their share of ownership consistent with individual equity share model.

A purchaser to sponsor equity share ratio of 70% - 30% was adopted consistent with shared equity schemes operating in other States and territories.

An alternative ratio of 50% - 50% was also modelled given the much lower incomes of the older women compared with the younger households targeted in other shared equity schemes.

A mortgage term of 15 years was adopted as the maximum term most lenders would allow for borrowers over 55 years rather than the normal 30-year term for younger borrowers. An alternative term of 20 years was also modelled to compare impact on affordability.

Scenarios 1 to 8 did not include the requirement to pay rent and therefore were not entitled to CRA. Half the scenarios (Scenarios 1, 3, 5 and 7) included home ownership costs of \$200 per fortnight and the other half (Scenarios 2, 4, 6 and 8) included no homeownership costs.

The above core parameters were used to create eight scenarios for financial modelling purposes as summarised in Table 3. Broadly speaking, the scenarios have been ordered from least affordable to most affordable.

Two more scenarios were included to explore the impact on affordability of replacing homeownership costs with the requirement to pay rent on the co-owner's equity component for cameos A and C with entitlement to CRA. In these scenarios (Scenarios 9 and 10), the purchaser pays \$318 a fortnight and receives the maximum CRA amount of \$143 a fortnight. While their out-of-pocket rent is \$175 a fortnight, this is below the \$200 a fortnight homeownership costs it replaces, leaving them \$25 a fortnight better off.

Deposit levels were applied consistently across the cameos and each set of scenarios as the minimum level needed to achieve affordability across the greatest number of cameos and scenarios while enabling comparison of effects of different scenarios on each cameo.

Modelling scenarios are summarised in Table 5.

Table 5: Modelling Scenarios

	SCENARIO 1	SCENARIO 2	SCENARIO 3	SCENARIO 4	SCENARIO 5
Equity shares (purchaser- sponsor)	70% - 30%	70% - 30%	70% - 30%	70% - 30%	50% - 50%
Deposit \$	\$ 120,000	\$ 120,000	\$ 120,000	\$ 120,000	\$ 100,000
House price \$	\$293,870	\$293,870	\$243,870	\$243,870	\$293,870
House price plus upfront costs \$	\$ 300,000	\$ 300,000	\$ 250,000	\$ 250,000	\$ 300,000
Other homeownership costs, fortnightly \$	\$ 200	nil	\$ 200	nil	\$ 200
Term Years	15 and 20	15 and 20	15 and 20	15 and 20	15 and 20
Mortgage loan	\$ 90,000	\$ 90,000	\$ 55,000	\$ 55,000	\$ 50,000
Rent	Nil	Nil	Nil	Nil	Nil
Rent Assistance	Nil	Nil	Nil	Nil	Nil
Out of pocket rent expense	Nil	Nil	Nil	Nil	Nil

	SCENARIO 6	SCENARIO 7	SCENARIO 8	SCENARIO 9	SCENARIO 10
Equity shares (purchaser- sponsor)	50% - 50%	50% - 50%	50% - 50%	50% - 50%	50% - 50%
Deposit \$	\$ 100,000	\$ 100,000	\$ 100,000	\$100,000	\$100,000
House price \$	\$293,870	\$243,870	\$243,870	\$293,870	\$243,870
House price plus upfront costs \$	\$ 300,000	\$ 250,000	\$ 250,000	\$300,000	\$250,000
Other homeownership costs, fortnightly \$	nil	\$ 200	nil	nil	nil
Term Years	15 and 20	15 and 20	15 and 20	15 and 20	15 and 20
Mortgage loan	\$ 50,000	\$ 25,000	\$ 25,000	\$50,000	\$25,000
Rent	Nil	Nil	Nil	\$318	\$318
Rent Assistance	Nil	Nil	Nil	\$143	\$143
Out of pocket rent expense	Nil	Nil	Nil	\$175	\$175

Source: Author. *Includes allowance for transfer duty, conveyancing and other upfront costs based on Commonwealth Bank Mortgage Calculator. **Includes an allowance for council rates, utilities and house maintenance or body corporate fees.

Modelling results - affordability

70% - 30% Equity share scenarios -

The results for Scenarios ONE to FOUR based on 70% - 30% equity shares are provided in Table 6.

Using an affordability threshold of housing costs of 30% of after-tax income, housing costs in Scenario ONE are not affordable for any of the cameos.

Housing costs in Scenario TWO and Scenario THREE are affordable only for Cameo B due to her younger age (55 years) allowing her to maintain her higher income for the term of the loan.

Scenario Two is also affordable for Cameo A but only with the longer 20-year term. This is the only case in which extending the term of the loan from 15 years to 20 years shift an unaffordable result to affordable.

Only Scenario FOUR (70% - 30%, \$120,000 deposit, \$250,000 dwelling and upfront costs and no homeownership costs) is affordable for all Cameos (A, B, C) and would still be affordable with a lower deposit amount.

For Cameo B, housing costs are affordable in all scenarios except Scenario ONE.

Even though 65-year-old Cameo C starts the loan on a substantially higher income than 55-year-old Cameo B (\$55,000 versus \$35,000), her affordable housing costs are lower as she will stop working after five years and her income will drop to the age pension level of around \$25,000 a year.

50% - 50% Equity share scenarios -

To improve housing affordability for the purchaser Scenarios FIVE to EIGHT assume a 50% - 50% equity share. Table 7 shows that the results are affordable in all cases except for Cameos A and C in Scenario FIVE and Scenario SEVEN.

In a couple of these exceptions, the housing costs only exceed the affordability threshold marginally (31% instead of 30%), and in one case the result becomes affordable once the term is extended to 20 years.

The results are also so affordable in Scenario EIGHT that all cameos could even afford the housing costs with a higher loan amount or a lower deposit.

Scenarios SIX and SEVEN are also so affordable for Cameo B that she could even afford a higher loan amount or a lower deposit.

Table 6: Affordability Results for 70% - 30% Equity Shares (Scenarios ONE to FOUR).

	Cameo A	Cameo B	Cameo C	Cameo A	Cameo B	Cameo C
Age (years)	68	55	65	68	55	65
Status	Pensioner	Employed	Employed	Pensioner	Employed	Employed
Income after tax annual	24,770	35,000	55,000	24,770	35,000	55,000
Income fortnightly	953	1,346	2,115	953	1,346	2,115
	Scenario 1			Scenario 2		
Equity shares	70% to 30%			70% to 30%		
House price	\$293,870			\$293,870		
House price plus upfront costs \$	\$300,000			\$300,000		
Purchaser's deposit	\$120,000			\$120,000		
Mortgage loan	\$90,000			\$90,000		
Maintenance costs per fortnight \$		\$ 200		Nil		
Housing costs/income %	Cameo A	Cameo B	Cameo C	Cameo A	Cameo B	Cameo C
Term 15 years	56%	40%	56%	35%	25%	35%
Term 20 years	50%	36%	50%	29%	21%	29%
	Scenario 3			Scenario 4		
Equity shares	70% to 30%			70% to 30%		
House price	\$244,555			\$244,555		
House price plus upfront costs \$	\$250,000			\$250,000		
Purchaser's deposit	\$120,000			\$120,000		
Mortgage loan	\$55,000			\$55,000		
Maintenance costs per fortnight \$		\$ 200		Nil		
Housing costs/income %	Cameo A	Cameo B	Cameo C	Cameo A	Cameo B	Cameo C
Term 15 years	42%	30%	43%	21%	15%	22%
Term 20 years	39%	28%	39%	18%	13%	18%

Source: Authors own analysis.

Table 7: Affordability Results for 50% - 50% Equity Shares (Scenarios FIVE to EIGHT).

	Cameo A	Cameo B	Cameo C	Cameo A	Cameo B	Cameo C
Age (years)	68	55	65	68	55	65
Status	Pensioner	Employed	Employed	Pensioner	Employed	Employed
Income after tax annual	24,770	35,000	55,000	24,770	35,000	55,000
Income fortnightly	953	1,346	2,115	953	1,346	2,115
	Scenario 5			Scenario 6		
Equity shares	50% to 50%			50% to 50%		
House price	\$293,870			\$293,870		
House price plus upfront costs \$	\$300,000			\$300,000		
Purchaser's deposit	\$100,000			\$100,000		
Mortgage loan	\$50,000			\$50,000		
Maintenance costs per fortnight \$		\$ 200		Nil		
Housing costs/income %	Cameo A	Cameo B	Cameo C	Cameo A	Cameo B	Cameo C
Term 15 years	40%	29%	41%	19%	14%	20%
Term 20 years	37%	26%	37%	16%	12%	19%
	Scenario 7			Scenario 8		
Equity shares	50% to 50%			50% to 50%		
House price	\$244,555			\$244,555		
House price plus upfront costs \$	\$250,000			\$250,000		
Purchaser's deposit	\$100,000			\$100,000		
Mortgage loan	\$25,000			\$25,000		
Maintenance costs per fortnight \$		\$ 200		Nil		
Housing costs/income %	Cameo A	Cameo B	Cameo C	Cameo A	Cameo B	Cameo C
Term 15 years	31%	22%	31%	10%	7%	10%
Term 20 years	29%	21%	29%	8%	6%	8%

Source: Authors own analysis.

Scenarios including rent and CRA

Replacing homeownership costs with rent has the potential to marginally improve affordability for pensioners if they are entitled to receive CRA. This scenario is also beneficial to the co-owner because they would receive rent of \$318 per fortnight which more than offsets the additional homeownership costs they incur (assumed to be \$200 a fortnight). Including rent and CRA into the mix may also add further value to the extent that the co-owner is better placed than the purchaser to reduce homeownership costs through more cost-effective maintenance costs and by negotiating volume discounts from service providers.

Table 8: Comparison of Affordability Results with and without Commonwealth Rent Assistance 50% - 50% Equity Shares (Scenarios NINE and TEN compared with FIVE and SEVEN).

	Cameo A		Cameo C		Cameo A		Cameo C	
Age (years)	68		65		68		65	
Status	Pensioner		Employed/Pensioner		Pensioner		Employed/Pensioner	
Income after tax annual	\$24,770		\$55,000		\$24,770		\$55,000	
Income fortnightly	\$953		\$2,115		\$953		\$2,115	
	Scenario 5	Scenario 9	Scenario 5	Scenario 9	Scenario 7	Scenario 10	Scenario 7	Scenario 10
Equity shares	50% - 50%	50% - 50%	50% - 50%	50% - 50%	50% - 50%	50% - 50%	50% - 50%	50% - 50%
House price	\$293,870	\$293,870	\$293,870	\$293,870	\$244,555	\$243,870	\$244,555	\$243,870
House price plus upfront costs \$	\$300,000	\$300,000	\$300,000	\$300,000	\$250,000	\$250,000	\$250,000	\$250,000
Purchaser's deposit	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Mortgage loan	\$50,000	\$50,000	\$50,000	\$50,000	\$25,000	\$25,000	\$25,000	\$25,000
Maintenance costs per fortnight \$	\$200	nil	\$200	nil	\$200	nil	\$200	nil
Rent fortnightly	nil	\$318	nil	\$318	nil	\$318	nil	\$318
Rent Assistance fortnightly	nil	\$143	nil	\$143	nil	\$143	nil	\$143
Out of pocket rent expense, fortnightly	nil	\$175	nil	\$175	nil	\$175	nil	\$318
Housing costs/income %								
Term 15 years	40%	38%	41%	38%	31%	28%	31%	28%
Term 20 years	37%	35%	37%	35%	29%	27%	29%	27%

Source: Authors own analysis.

Interpretation of results

House prices, included in the analysis of \$300,000 and \$250,000 (including stamp duty and other upfront costs), are clearly the most important determinants of affordability. While an in-depth analysis of the market was beyond the scope of this project, a cursory review indicated that this price level would be sufficient to purchase a one-bedroom unit in and around Brisbane. This price level would also cover the cost of larger manufactured homes excluding the land component providing the purchaser does not require a loan.¹⁰

Deposit amounts - Other shared equity schemes operating in Australia can allow for little or no deposit as they are directed towards younger first home buyers with income growth potential over the term of the loan and households with more than one income. This compares with the target cohort of this study who are older, on low incomes, with few if any remaining years in the workforce and greater probability of involuntary retirement causing a sudden decline in income. Reflecting the above, all the modelling scenarios include relatively substantial deposits (\$120,000 for 70% - 30% scenarios and \$100,000 for the 50% - 50% scenarios) as needed to make the loans affordable and given that an older cohort will have accumulated some capital over their lifetime.

Mortgage term – Given these scenarios, only in a few cases was a term extension from 15 years to 20 years sufficient to make an unaffordable cameo/scenario become affordable. This is because the mortgage loan amounts are relatively low such that an extra five years makes little difference to the repayment amount. It bears noting that once the mortgage has been paid off, the owner will continue to incur the cost of council rates, home maintenance and other costs of homeownership.

Equity shares of 50% - 50% are more appropriate for this cohort given their age and modest income levels rather than the more common shares of around 70% - 30% in other schemes. This is particularly the case given that affordability is more important than equity growth for this cohort compared with younger cohorts. Having said that, if on-going housing costs were able to be reduced, then a 70% - 30% shared equity would be affordable at lower house prices (ie around \$250,000 including upfront costs).

Income levels – The analysis has focussed on low wage-earning women and pensioners. Women on incomes of \$35,000 a year or more and potentially 15 years remaining in the workforce (as characterised by Cameo B for whom all scenarios except Scenario ONE were affordable), may be able to maintain affordable housing costs with lower deposits than the amounts used in the modelling (around \$100,000). Alternatively, if they can have such high deposit amounts, they may afford commensurately higher priced dwellings. The amount of both the lower deposit and higher dwelling price will depend on the structure of the shared equity scheme (as represented by the scenarios). The results indicate that shared equity may not be highly suitable for women on the age pension or those who would likely become dependent on the age pension for their primary income with the exceptions of those with able to put down a minimum deposit of \$100,000. Community housing may provide pensioners with security of tenure at a more affordable cost than shared equity provided they are able to meet social housing eligibility criteria including the income means test and minimum independent income thresholds.

Home ownership costs - Rates and maintenance costs - Less obvious, but also a significant cost for low-income earners are the ongoing costs of home ownership including council rates, utilities, and maintenance costs. Whether these costs, which for the purpose of the analysis have been assumed

¹⁰ Most financiers will not loan for land lease. Manufactured dwellings in Queensland are exempt from transfer duty provided the purchaser does not own the land on which the manufactured home is, or will be, located.

at \$5,200 a year, are fully absorbed by purchasers or shared with the sponsor can make the difference between whether the house purchase is affordable or not.

Rent and Commonwealth Rent Assistance - The modelling of Scenarios 1 to 8 assumes a scheme where purchasers pay no rent on the shared equity component. Pensioner or Jobseeker recipients receiving Commonwealth Rent Assistance (CRA) lose their entitlement to CRA under these scenarios as they replace rental payments with mortgage payments. The alternative scenario (Scenarios 9 and 10) where homeownership costs (ie council rate, utilities, and maintenance) are fully met by the co-owner while the purchaser pays rent on the shared equity component has the effect of reducing costs and improving affordability for purchasers that are entitled to CRA. Incorporating rent however would increase costs and reduce affordability if applied to women who are not entitled to CRA as rent is higher than the homeownership costs it would replace.

Final equity ownership results

Unlike renting, purchasers in a shared equity scheme buy equity in a dwelling that will likely appreciate over a long period of time if purchased at the right price, even though there is the potential for short term declines. The amount of capital they accumulate will depend on a range of factors including their equity share of the dwelling, the initial price of the dwelling and house price growth that has been conservatively estimated at 3% per annum for the purpose of this analysis. Certain schemes allow participants to purchase additional equity shares of the property, referred to as staircasing although this has not been modelled in the analysis. Important to note that the government sponsor would also receive its capital contribution returned with equity appreciation in proportion to its equity stake on sale of the property. Estimates of the final equity for both purchasers and government sponsors for each of the scenarios is provided in Table 7.

Table 9: Purchasers' and Sponsors' final equity results – Scenarios ONE to TEN

	Scenarios 1 - 2	Scenarios 3 - 4	Scenarios 5 - 6	Scenarios 7 - 8	Scenarios 9	Scenarios 10
Equity shares	70% to 30%	70% to 30%	50% to 50%	50% to 50%	50% to 50%	50% to 50%
House price	\$ 293,870	\$ 244,555	\$ 293,870	\$ 244,555	\$ 293,870	\$ 244,555
House price plus upfront costs \$	\$ 300,000	\$ 250,000	\$ 300,000	\$ 250,000	\$ 300,000	\$ 250,000
Purchaser's deposit	\$ 120,000	\$ 120,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Mortgage loan	\$ 90,000	\$ 55,000	\$ 50,000	\$ 25,000	\$ 50,000	\$ 25,000
Rent	Nil	Nil	Nil	Nil	\$318	\$318
Rent Assistance	Nil	Nil	Nil	Nil	\$143	\$143
Out of pocket rent expense	Nil	Nil	Nil	Nil	\$175	\$175
Final Equity						
Term 15 years						
Purchaser's final equity	\$ 327,173	\$ 272,644	\$ 233,695	\$ 194,746	\$ 233,695	\$ 194,746
Sponsor's final equity	\$ 140,217	\$ 116,848	\$ 233,695	\$ 194,746	\$ 233,695	\$ 194,746
Term 20 years						
Purchaser's final equity	\$ 379,283	\$ 316,069	\$ 270,917	\$ 225,764	\$ 270,917	\$ 225,764
Sponsor's final equity	\$ 162,550	\$ 135,458	\$ 270,917	\$ 225,764	\$ 270,917	\$ 225,764

Source: Author's own analysis.

Bibliography

Australian Superannuation Funds Association (ASFA) Retirement Standard, September Quarter 2021, <https://www.superannuation.asn.au/resources/retirement-standard>

Black, Chris and Liss Ralston, 'A Home of One's Own: Shared Equity Housing for Older Single Women' (Project Report, Women's Property Initiatives, 2015) 63.

BuyAssist, *Think You Can't Buy a Home? Think Again* (2017). At <http://www.buyassistaustralia.com.au/homebuyers/> (viewed 27 August 2018).

De Campo, J., Jones, K., McPhee, L., O'Brien, B., Vanstone, C., (2021), *The Future of Home*, The Australian Centre for Social Innovation.

Department of Communities, Housing and Digital Economies, *Social Housing Eligibility Criteria for Social Housing Delivered by Community Housing Providers*. Queensland Government.

Keystart Home Loans and Government of Western Australia Housing Authority, 'Shared Home Ownership Frequently Asked Questions' (Fact sheet, Government of Western Australia, Department of Communities, 2016) 5.

Lester L., and D Faulkner, (2020) *At Risk: Understanding the population size and demographics of older women at risk of homelessness in Australia*, Centre for Housing, Urban and Regional Planning, The University of Adelaide, August 2020. Based on HILDA (2018).

Pinnegar, Simon, Hazel Easthope, Bill Randolph, Peter Williams and Judith Yates, *Innovative financing for homeownership: the potential for shared equity initiatives in Australia for the Australian Housing and Urban Research Institute*

UNSW-UWS Research Centre, August 2009, AHURI Final Report No. 137

Raynor, K, Palm, M, O'Neil, M. 2018. *The Barnett Model: Evaluating the outcome and scalability of an affordable homeownership model*, Transforming Housing, The University of Melbourne: Melbourne

Thomson Melanie, et. al., 'A new approach to delivering shared equity opportunities in Western Australia: a case study evaluation' (Final Report, AHURI, 2013) 1-7.

Terms and definitions

Barnett Advance - a type of deferred second mortgage used in the Barnett model. This is an interest-free and no-fee loan granted by the developer equal to 37% of the market value of the dwelling. The Advance is not payable until the home purchaser sells their dwelling or after 99 years.

Community housing - secure, affordable, long term rental housing managed by not-for-profit organisations for people on low incomes or with special needs.

Co-owner - Government or other entity that takes a passive stake in the property on a shared equity basis.

Community housing provider - a not-for-profit organisation that delivers and/or manages community housing.

Deferred second mortgage - a financial instrument used to reduce upfront costs and ongoing interest payments for home purchasers. They are most commonly interest-free for 30 years and are usually financed by a government or not-for-profit organisation. They cover a portion of the market value of a home.

Public Benevolent Institution - a charity whose main purpose is to relieve poverty, sickness, suffering or disability.

Public housing - form of long-term rental housing managed by the State Government and targeted at people on low incomes or with special needs

Purchaser - the party in a shared equity arrangement that purchases a major share of the property to live in.

Shared appreciation loan - a mortgage arrangement that allows a borrower to receive a no-interest or low-interest loan in exchange for agreeing to pay the lender some of the profits when a property is sold.

Shared equity - An umbrella term that refers to a range of initiatives which enable the division of the value of a dwelling between more than one legal entity.

Social housing - An umbrella term that refers to public housing, delivered by the State Government, and community housing, delivered by community housing providers.

Attachment A: Types of shared equity models

This section looks at four different shared equity models with a view to determining the model/s most suitable to achieving the aims of this project particularly in their ability to address the needs of the cohort of women that are to be targeted for support.

The models reviewed are:

- Individual equity share.
- Community equity share
- Barnett Model
- KPMG Commonwealth Rent Assistance Shared Equity Scheme

Individual and community equity share

Conceptually, shared equity schemes fall into two main types (their hybrids):

- Individual equity – Equity and capital appreciation are retained by the owners in proportion to their ownership shares. Subsidies are provided for the benefit of purchasers to enable them to bridge the gap between renting and home ownership.
- Community equity – The intention is to retain the dwellings as affordable for the benefit of current and future residents. Purchasers retain their equity contribution plus some equity appreciation based on a predetermined formula. This is achieved through restrictions on the resale of the property.¹¹

Individual Equity – Shared equity schemes operate by allowing the resident to purchase only a portion of the property (in the range of 50% to 75% of the value of the property) with the government taking a silent equity stake for the remainder.¹² These schemes do not require the purchaser to pay the government rent on their equity stake, but the government captures the price appreciation on its equity stake when the property is eventually sold. Shared equity products are offered in many states, including SharedStart WA, HomesVic Victoria and HomeStart SA and HomeShare Tasmania. These Individual shared equity schemes are government backed and targeted at low-income earners through some form of means testing.

Community Equity – To reduce ‘subsidy leak’ the price of the home has to stay affordable into the future which means that the price needs to be controlled rather than opened up to market forces and house price inflation. A community shared equity approach would write a term into the deed which limits the equity gain to the purchaser upon exiting the scheme. This is referred to as a subsidy retention model because the subsidy has been made available to the purchaser and needs to be made available to future purchasers.

Table A.1 summarises the main differences between individual and community shared equity.

¹¹ Australian governments have yet to apply any form of resale restrictions to their shared equity schemes apart from requiring the equity to be sold back to Government.

¹² SharedStart WA - Housing Authority will fund up to maximum 30%. Occupier must finance at least 70%.

Table A.1: Comparison of individual and community equity share

	Individual equity share	Community equity share
Advantages	• Provides equity accumulation and security of tenure to people who otherwise would not afford homeownership. • Closely related to traditional home ownership and more acceptable to most purchasers. • Schemes can be designed to cover their costs or potentially be profitable through targeting to younger people and couples.	• Subsidy is retained in community to maintain the affordability of the dwellings. • More cost effective than individual equity in assisting a larger number of people. • Attractive to people with a communal philosophy. • May be more suited to women of limited means.
Disadvantages	• Difficult for people on statutory incomes to meet the affordability requirements without considerable public subsidy or benefactor contribution. • May not be as well suited to older women of limited means who are not looking to pass on capital to the next generation. • More difficult to retain the affordability of the dwellings over time.	• Far removed from traditional homeownership model makes it less attractive to many purchasers. • Prior focus group research of older women has shown a clear preference for individual equity over community schemes.

Barnett Model

Similar to shared equity, the Barnett Model supports social housing tenants to transition into homeownership through the provision of a deferred second mortgage. It is therefore not strictly speaking shared equity as 100% of ownership is maintained by the purchaser.

The Barnett Model has been applied at the Melbourne Apartment Project where participants were required to pay at least a \$25,000 deposit and source a loan to cover the remaining development costs of an apartment (together making up about 63% of market value). The remaining 37%, referred to as a 'Barnett Advance', does not attract interest or fees and is not payable until the homeowner sells their unit. The Barnett Advance decreases over time, reducing by \$15,000 every year for the first four years up to a minimum of \$90,000.

The model is managed by The Barnett Foundation, a Public Benevolent Institution (PBI) that reinvests funds in future Barnett developments and crisis accommodation. The Advance represents the developer's equity share in the development and is created by capturing value in the property through the development process. This value is captured through cost savings and foregone profit. When the homeowner sells their apartment, the Barnett Advance is reinvested in the Foundation and used to fund future Barnett projects or other crisis accommodation.

Table A.2 Barnett model compared with regular home loan

	Regular Home loan	Barnett Model		
		Scenario 1	Scenario 2	Scenario 3
Market value of property	\$600,000	\$600,000	\$300,000	\$300,000
Deposit	\$60,000	\$25,000	\$25,000	\$100,000
Mortgage	\$540,000	\$353,000	\$164,000	\$89,000
Lenders Mortgage Insurance	\$10,000	-	-	-
MAP Advance (second mortgage)	-	\$222,000	\$111,000	\$111,000
Interest Rate (25 year loan)	5.20%	5.20%	5.20%	5.20%
Weekly mortgage repayments	\$743	\$486	\$226	\$122
Pension Income weekly	\$450	\$450	\$450	\$450

Commonwealth Rent Assistance shared equity proposal

Individual shared equity schemes are not well suited to pensioners as they do not allow recipients to continue to receive Commonwealth Rent assistance (CRA). The CRA option, by KPMG, is designed to enable the retention of CRA entitlement and assigning the future cashflow to a financial institution for a period of say 20 years in return for an upfront lump sum to be paid to the pensioner to acquire an equity stake in their own home.

- A financial institution would hold security over the purchaser's share of equity in case of early death of the purchaser. That security would diminish over time as the "loan" is in effect being paid off.
- An investor (benefactor, Government sponsored housing trust or impact investor) would acquire the balance of the property not funded by the purchaser's lump sum.
- The purchaser would pay rent to the investor with respect to the investor's share of the property.

Table A.3 shows how this model would work for three different cameos.

Table A.3 Capitalised Commonwealth Rent Assistance model scenario modelling results

Table A.3	Scenario A	Scenario B	Scenario C
Pension Income (weekly) \$	450	450	450
Rent (weekly) \$	200	230	250
Proposed CRA (weekly) \$	100	100	100
Net income after rent (weekly) \$	350	320	300
Property value \$	260,000	299,000	325,000
Term (years)	20	20	20
Payments to financiers (over term)	173,324	173,324	173,324
Resident's available deposit	129,307	129,307	129,307
Home equity share of resident	50%	43%	40%
New weekly rent	100	130	150
Resident's final equity at term	343,090	343,090	343,090
Rent as percentage of Income	22%	29%	33%

*Assumes 4% pa gross rental yield)

Comparison of the alternative shared equity models

This section compares the models using consistent assumptions for key parameters (including house price, income, mortgage rate and term). Given the survey results, the cameo used for this comparison is a 65-74 year-old single women on the full rate pension living alone. Future modelling would need to consider other cameos, housing prices, and sensitivity to key parameter assumptions.

All of the models/scenarios involve a significant sponsor contribution (from benefactor, government and/or impact investor) that can potentially be reduced through different assumptions (eg house prices, interest rates, etc) but cannot be totally eliminated for this particularly disadvantaged target cohort of women. If some form of subsidy was not required, we would not have the growing problem of homeless of older women that we have. The size of the subsidy needs to be compared against the alternative cost of providing social housing given that the majority of this cohort qualifies for social housing.

Another organisation within the shared equity market is looking to provide shared equity development for older women with benefactor contribution and no government subsidy. It is too early to say whether it will be able to include this target cohort (older women on full age pension) within their development.

Table A.4 shows the results for each type of shared equity model under a scenario where the purchaser (full rate pensioner) contributes no deposit. Based on these assumptions only the KPMG-CRA model achieves affordable housing costs. Alternative assumptions would need to be looked at to make the other three models affordable for single pensioners eg lower house costs.

Table A.4: Comparison of alternative models – no deposit

Model	Individual Equity Share	Community Equity Share	Barnett Advance	KPMG - CRA Model
House Price \$	\$ 300,000	\$ 300,000	\$ 300,000	\$ 292,500
Income weekly \$	\$ 450	\$ 450	\$ 450	\$ 450
Mortgage rate	4%	4%	4%	NA
Term years	20	20	20	20
Purchaser's share of ownership	50%	50%	100%	44%
Purchaser's share of equity	50%	25%	100%	44%
Sponsor's contribution (a)	\$ 150,000	\$ 150,000	\$ 111,000	\$ 129,307
Purchaser's Deposit	\$ -	\$ -	\$ -	nil
Mortgage	\$ 150,000	\$ 150,000	\$ 189,000	NA
Mortgage repayments	\$ 210	\$ 209	\$ 264	NA
Rent and other costs	(b)	(b)	(c)	\$ 113
Housing costs/Income	47%	46%	59%	25%
Purchaser's Final Equity	\$ 397,995	\$ 273,997	\$ 567,337	\$ 343,090
(a) Benefactors, government agency or impact investor.				
(b) Body corporate and property maintenance.				
(c) Rates, property maintenance.				

Table A.5 shows the results for a second scenario where a deposit is included to reduce housing costs to an affordable level for the purchaser.

Given that the target women are unlikely to have much by way of savings or super for a deposit, alternative assumptions would still need to be looked at to achieve affordable housing costs.

Table A.5: Comparison of shared equity models – including deposit

Model	Individual Equity Share	Community Equity Share	Barnett Advance	KPMG - CRA Model
House Price \$	\$ 300,000	\$ 300,000	\$ 300,000	\$ 260,000
Income weekly \$	\$ 450	\$ 450	\$ 450	\$ 450
Mortgage rate	4%	4%	4%	NA
Term	50%	50%	100%	50%
Purchaser's share of equity	50%	25%	100%	50%
Sponsor's contribution (a)	\$ 150,000	\$ 150,000	\$ 111,000	\$ 129,307
Purchaser's Deposit	\$ 50,000	\$ 50,000	\$ 100,000	nil
Mortgage	\$ 100,000	\$ 100,000	\$ 89,000	NA
Mortgage repayments	\$ 140	\$ 140	\$ 125	NA
Rent and other costs	(b)	(b)	(c)	\$ 100
Housing costs/Income	31%	31%	28%	22%
Purchaser's Final Equity	\$ 397,995	\$ 273,997	\$ 567,337	\$ 343,090
(a) Benefactors, government agency or impact investor.				
(b) Body corporate and property maintenance.				
(c) Rates, property maintenance.				

Authorship and acknowledgements

Inclusive Economics, Q Shelter and Zonta are grateful to the Mercy Foundation for providing the funding for this project through its Grants to End Homelessness Program.

This paper has been prepared for Q Shelter and Zonta and has benefited from discussions with shared equity loan providers however the views expressed in the paper reflect those of the author.

If you would like to discuss any matter or have questions or comments relating to this report, please contact me directly via my contact details below.

Patricia Pascuzzo
Principal Consultant

Phone: 0426 838 988
patricia.pascuzzo@csri.org.au

About Inclusive Economics

Boutique consultancy providing quality social impact solutions, economic analysis and policy advice to address complex economic and social policy challenges. With capabilities across strategy, economic analysis, investments, policy advice, research, and advocacy, Inclusive Economics analyses problems, identifies solutions, develops strategies and influences policy debates. Advising not for profit, corporate and government sectors on matters relating to housing affordability and homelessness, social impact, retirement incomes policy, superannuation, public finance, investments, and infrastructure, we contribute to furthering equality of opportunity, inclusive growth, and shared prosperity.

