2018 Churchill Fellowship to investigate how Shared Equity can become a mainstream solution to housing affordability in Australia

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Declaration

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Report by Samantha Evans, Churchill Fellow

2018 Churchill Fellowship to investigate how Shared Equity can become a mainstream solution to housing affordability in Australia.

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2 August 2019
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Thanks also to Heather Browne and Goslik Schepers for giving up your valuable time to review my work and rub off the rough edges to the report.

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Executive Summary

The well-trodden path to homeownership that our forebears travelled has become more challenging to current and future generations in overheated housing markets both in Australia and overseas. With the transition from rental to home ownership becoming more challenging, a suite of alternative finance models, loosely known as 'shared equity' have sought to bridge the divide and create a stepping-stone into home ownership for home buyers. Our counterparts in the USA and UK have created an array of schemes to suit market conditions, legislative and regulatory requirements, and political priorities to meet the ever-growing demand for assistance into homeownership. Key to the success of each of these schemes has been securing funding from varying sources including government, private finance and philanthropy.

In the UK, bi-partisan political support of housing assistance has seen a long history spanning 40 years in the provision of shared equity (known as shared ownership) to over 270,000 households since its inception. More recently, shared ownership has been complemented by the Help to Buy: Equity Loan scheme that has assisted a further 220,000 households into home ownership in England (Scotland and Wales run separate, but similar, equity loan schemes). In addition, the USA has utilised its inclusionary zoning legislation to create shared equity provision, and given the comparatively low level of government funding towards this asset class, has explored the role of philanthropy to assist in the 'proof of concept' needed to attract private investment.

While shared equity is likely to remain niche in the context of the overall housing market, the proven international models of shared equity provision remain relevant in the Australian context. Given the competing demands on the public purse, it is proposed that shared equity provision in Australia align high subsidy schemes to targeted households (e.g. low-moderate income households) and encourage the market through private finance to provide lower subsidy models to a broader cohort of home buyers.

Mainstreaming shared equity as a solution to homeownership affordability will require a multi-industry response with government taking a leadership role. The newly appointed Commonwealth Housing Minister is well placed to champion shared equity by enabling opportunities to engage both the financial services and property development industries to support ways to facilitate shared equity provision. Understanding the commercial requirements of private finance in investing in a newly created, stable asset class is critical as well as working with the development industry and State Planning Ministers to explore appropriate and standardised inclusionary zoning, are fundamental to scalable success. The National Housing Finance and Investment Corporation (NHFIC) is an existing mechanism well placed to pursue shared equity provision alongside their new deposit assistance scheme being launched in 2020.

Australia is positioned to benefit from the expertise and learnings in shared equity provision with UK and USA experts and practitioners poised to work with Australia to ensure more Australians can turn the dream of homeownership into reality.

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Definitions and Keywords

Community Land Trust (CLT) - is a form of shared ownership of a property, where the land component of a residential property is owned by a community based, not-for-profit legal entity and the building is owned (or leased long-term) by an individual household.[1]

Deed Restricted Mortgage - is a common way to secure long-term affordability requirements on a property and is the preferred method for inclusionary zoning programs across the USA.

FICO Score - is a type of credit score created by the Fair Isaac Corporation in the USA. Lenders use borrowers' FICO scores along with other details on borrowers' credit reports to assess credit risk and determine whether to extend credit. FICO scores consider various factors in five areas to determine credit worthiness: payment history, current level of indebtedness, types of credit used, length of credit history and new credit accounts.

Help to Buy – HM Government (UK) run scheme with the following product offerings:

- **Help to Buy: Shared Ownership** offers home buyers the chance to buy a share of their home (between 25% and 75% of the home's value) and pay rent on the remaining share. Later on, the home buyer could buy bigger shares of their property when they can afford to;
- **Help to Buy: Equity Loan** in England sees the Government lend home buyers up to 20% of the cost of their newly built home (up to 40% in London), so the home buyer only needs a 5% cash deposit and a 75% capital mortgage (from a standard mortgage lender) to make up the rest. The home buyer is not charged interest fees on the equity loan for the first five years of owning their home. (Scotland and Wales run separate, but similar, equity loan schemes.)
- **Help to Buy: Individual Savings Account (ISA)** sees the Government boost the prospective first-time home buyer's deposit savings by 25%. For every £200 the prospective home buyer saves, they receive a government bonus of £50. The maximum government bonus the prospective home buyer can receive is £3,000. The similar **Lifetime ISA** provides a 25% bonus to a first-time buyer, with the option of saving up to £4,000 each year between the ages of 18 and 50. The bonus can also be used as a retirement fund after age 60.

Inclusionary Zoning - a land use planning intervention by government that either mandates or creates incentives so that a proportion of a residential development includes a number of affordable housing dwellings (also see Kate Breen, 2014 AV Jennings Churchill Fellowship to investigate the use of inclusionary zoning requirements to support the delivery of affordable housing).[2]

Mission-Related Investment (MRI) – are market-rate investments that support the mission of the foundation by generating a positive social or environmental impact, while generating reasonably competitive rates of financial return. An MRI is fundamentally a financial investment, and must meet applicable prudent investor standards like more conventional investments.

Program-Related Investment (PRI) – similar to grants, foundations use them to give money for charitable activities. When foundations give PRIs, they expect to get the money back by a specified time, usually at below-market interest. PRIs can help foundations make low-cost financing available for other charitable entities such as social enterprises. PRIs include financing methods commonly associated with banks or other private investors, such as loans and loan guarantees. Funders make equity investments in charitable organisations or in commercial ventures for charitable purposes.

Real Estate Investment Trust (REIT) - provide investors exposure to the property market through their stock portfolio. Similar to managed funds, REITs are actively managed and pool together investors' money to invest in properties. REITs typically invest in commercial and residential properties such as offices and apartment buildings, shopping centres and hotels.

Registered Providers - include local authority landlords and registered providers such as not-for-profit housing associations and for-profit organisations regulated under the *Housing and Regeneration Act 2008 (UK)*.

Shared Appreciation Loans – second mortgages that home buyers repay in full at the time of resale along with a percentage of the capital gain. These funds are then reinvested to make homeownership affordable to another low-income home buyer.

Shared Equity - whereby the home buyer shares the capital cost of purchasing a home with an equity partner, allowing lower income home buyers to purchase sooner as they need a lower initial deposit and have lower ongoing housing costs. However, having some equity in the property means homebuyers also share in the capital gain with the equity partner when they sell.

Shared Ownership - a cross between buying and renting; aimed mainly at first-time buyers. The home buyer owns a share and they pay rent on the part that they don't own at a reduced rate. All shared ownership homes in England are offered on a leasehold only basis.

Subsidy Retention Programs – applies resale price restrictions on a property to ensure the subsidy remains with the home. Widely implemented subsidy retention programs in the USA include Community Land Trusts, Deed-Restricted Housing Programs, and Limited Equity Housing Co-operatives.

Itinerary

The four-week Fellowship program was spent in San Francisco, Boston, Washington D.C and London. Some time in Boston was spent attending the Women's Leadership Forum at the Harvard Business School.

Location	Dates
San Francisco, USA	23 – 27 April 2019
Boston, USA	28 April – 4 May 2019
Washington D.C, USA	5 – 9 May 2019
London, UK	10 – 24 May 2019

Introduction

The aspiration of home ownership has been a key driver to achieve financial security for Australians over generations. Unsurprisingly, this trend is closely aligned to similar home ownership aspirations and market outcomes experienced in both the USA and UK. The benefits of long-term wealth creation and tenure stability are known drivers for home ownership however other social and economic benefits including stimulating economic growth and neighbourhood cohesion are also resultant outcomes.[3]

Paradoxically, the dream of owning your own home is becoming out of reach for many Australians due in part by home buyers lured by wealth creation through rising house prices. This is particularly prevalent in the urban areas along the eastern seaboard. Between 1994 and 2014, the proportion of owners without a mortgage declined from 41.8 per cent to just 31.4 per cent, while the proportion of owners with a mortgage increased from 29.6 per cent to 35.8 per cent during the same period.[4] Aspiring home buyers have had to contend with the inevitable challenge of accumulating the requisite deposit which is now considerably larger not only due to consistent growth in the purchase price of the home, but also the change in lending practices since the Global Financial Crisis in 2008 (and more recently the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry), that has seen the removal of 95% (loan to value) mortgage loans with 80% (loan to value) mortgage loans the new norm for home buyers.

With the conditions for Australians seeking to transition from rental to home ownership becoming more challenging, a suite of alternative finance models, loosely known as 'shared equity' have sought to bridge the divide and create a stepping-stone into home ownership for some home buyers. In simple terms, shared equity is the arrangement whereby the home buyer purchases their home alongside an equity partner (e.g. government, non-profit, private finance) to ensure the total investment by the home buyer is achievable and affordable.

In return, depending on the drivers for the equity partner, a share in the capital appreciation of the home is returned to the equity partner. In the case of non-profits, the capital appreciation is redistributed to future shared equity home buyers as community benefit (subsidy retention models), or provided as an investment return to the equity partner (shared equity loans) with the benefits shared with the individual home buyer. There are a wide variety of models operating in both the USA and UK reflecting variances in individual benefit and community benefit, the level of subsidy provided predominantly by government but also philanthropy, and the variable proportion of the capital appreciation retained by the home buyer and equity partner.

In the UK, shared ownership (where the home buyer sources a conventional mortgage loan and pays rent on the proportion of their home that they do not own) has been available in the housing market for 40 years. During this time, it has delivered over 270,000 homes, and currently represents around 0.4% of the English housing stock; 1.3% of all mortgages currently held and around 0.7% of the total value of mortgages held.[5] In addition, since 2013 around 220,000 homes have been purchased through the Help to Buy: Equity Loan scheme which provides home buyers with equity loans with no to low interest requirements on their deposit while sourcing a standard mortgage on the remainder.

While shared equity/shared ownership does not reflect a material proportion of the overall housing market, the number of homes being delivered through these mechanisms is growing particularly in overheated housing markets (when traditionally first home purchasers are not active). The availability of government subsidised schemes and the adoption of inclusionary zoning have supported the growth of what is seen in the UK as the 'fourth tenure'.

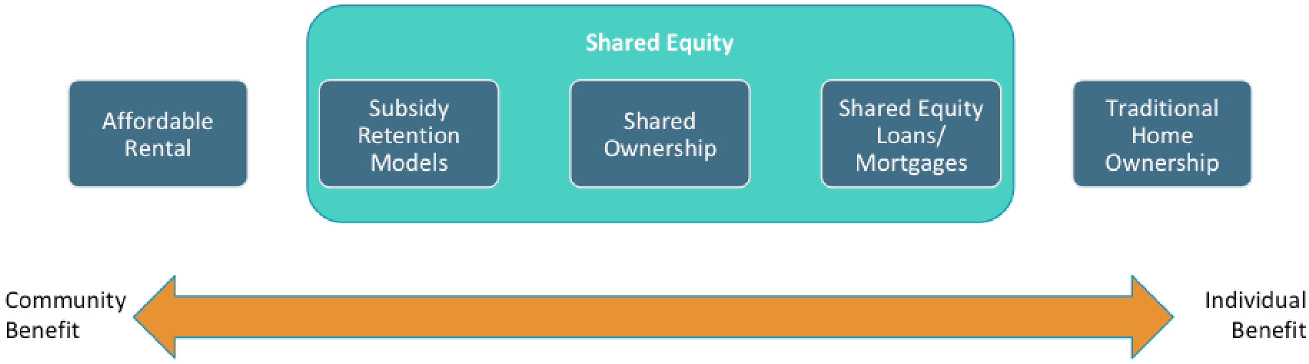
Australia has dabbled in shared equity however the majority of the schemes have been government run and highly targeted to existing public and community housing tenants, first-home buyers, or indigenous Australians. These schemes have not been marketed widely and, given the relatively low incomes of the targeted home buyers, has had little take-up due to on-going debt servicing requirements. A handful of private players have attempted to enter the market however they are targeting niche home purchase models such as group purchasing by friends/families as an investment strategy rather than a home ownership outcome. To date there is no mainstream shared equity scheme in Australia.

This report outlines the shared equity models available in both the USA and UK, and explores the comparative roles of government, philanthropy and private finance to support the provision of schemes in these markets. The market response to both housing development and housing finance are also considered along with an understanding of the home buyer's perspective as they review the benefits and limitations of a shared equity solution. Finally, a suite of recommendations has been proposed to support shared equity as a mainstream solution to housing affordability for Australian households. A coordinated approach by government, non-profits and the finance industry is essential to ensure the great Aussie dream of home ownership is attainable to a greater number within the community.

Shared Equity Models Explained

The concept of shared equity can be applied to a range of home ownership models with varying implementation approaches and applied terminology. Jacobus and Lubell (2007) coined a useful diagram to better understand where in the housing continuum between community benefit and individual benefit, each of the shared equity models are applied. As adapted from their work, Figure 1 provides a simplified overview of the varying models of shared equity applied both within Australia and overseas.

Figure 1: Approaches to Shared Equity in the Housing Continuum



Source: Adapted from Jacobus, R. and Lubell, J. (2007).[6]

Shared equity occupies the space between affordable (and private) rental housing and traditional home ownership along the housing continuum, with varying degrees of benefit to the community and the individual home buyer.

Subsidy Retention Models

There are three main approaches to subsidy retention models traditionally delivered in the USA:

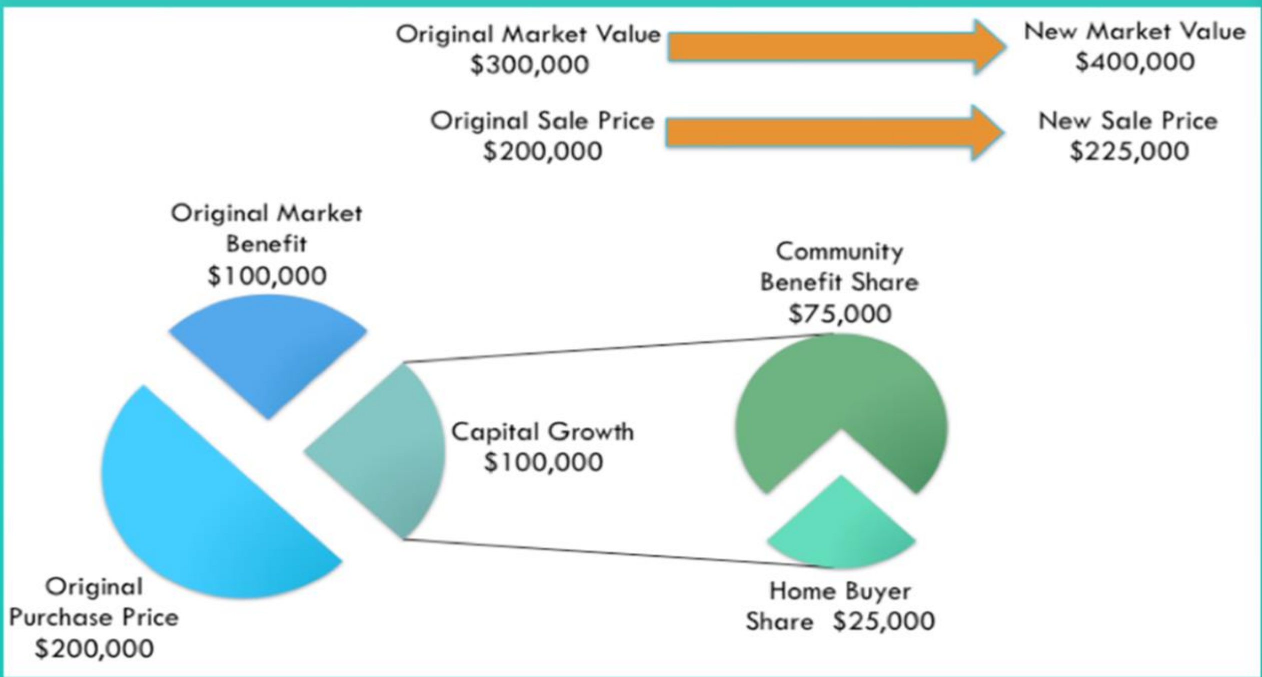
- Deed Restricted Mortgages;
- Limited Equity Housing Cooperatives; and
- Community Land Trusts.

Deed Restricted Mortgages

Deed restricted mortgages represent the simplest mechanism for providing affordable homeownership in the USA, with affordability conditions attached to the ownership deed restricting the use, occupancy and resale of affordable homes. These programs require prospective buyers to pass an eligibility assessment, which can include attending and passing an educational program on the characteristics and responsibilities of homeownership. A key weakness faced by this model has been the loss of affordability conditions by banks offering financing to mortgagees on the basis of a market, rather than a restricted, valuation of the property. A secondary weakness has been the response time of government, as the government often has the first right of purchase when a deed restricted home is being sold. If there is no government response within a certain time (usually 30-60 days), the resident is only then free to sell on the open market.[7]

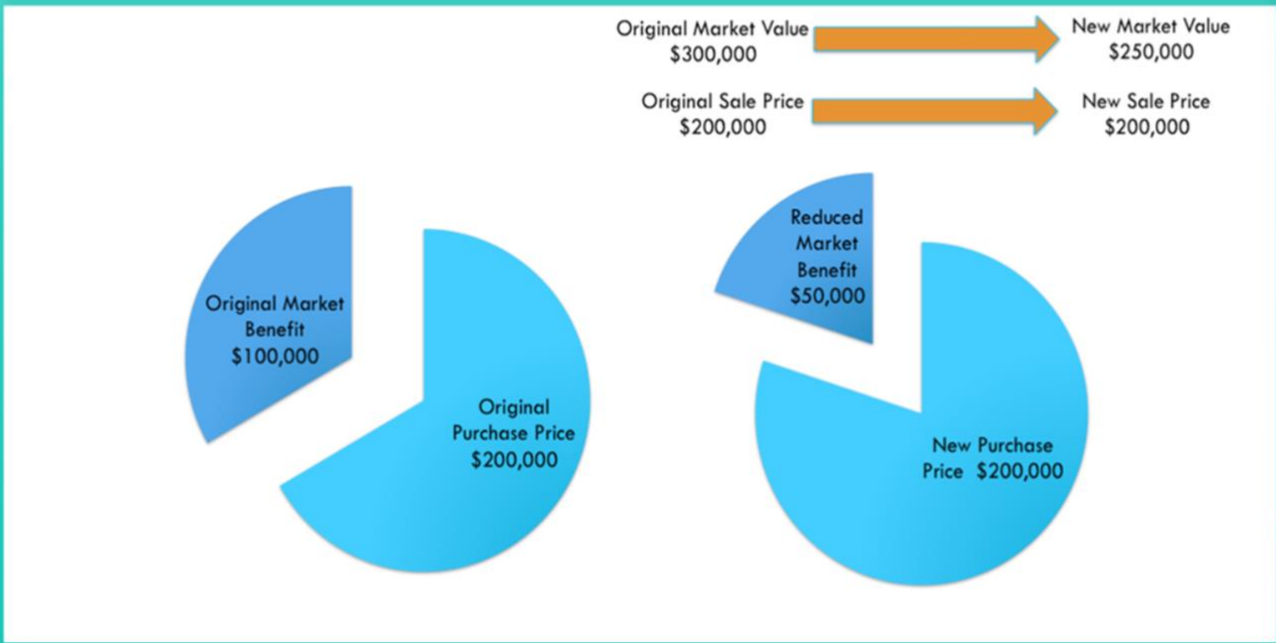
Subsidy Retention Shared Equity Example - Capital Growth

The home buyer purchases the home for below market value (e.g. $200,000) with the market benefit ($100,000) derived from receiving the property for nil consideration through inclusionary zoning. Assuming the home appreciates by $100,000 (from $300,000 to $400,000), the home owner benefits from 25% of the capital appreciation and the original purchase price reflecting the new sale price of $225,000. The remaining equity share ($75,000 + $100,000) is retained as community benefit for future home buyers.



Subsidy Retention Shared Equity Example - Negative Capital Growth

In the context of negative capital growth (e.g. $50,000 price reduction), the market benefit absorbs the capital loss and the new sale price is unaffected. Only in the context where negative capital growth is in excess of the market benefit, will the home buyer experience the value loss.



Limited Equity Housing Cooperatives (LEHC)

There are three main types of housing cooperatives: market-rate, limited-equity and zero- equity, with limited-equity representing a compromise point between total return of profit to the resident (market-rate) and no return of profit to the resident (zero-equity). For limited-equity cooperatives, residents do not own their individual housing unit; rather, they own a share in the cooperative housing corporation that owns a portfolio of homes. The owner's share facilitates the right to reside in a cooperative home for the shareholder with additional monthly charges to cover the cooperative's responsibilities to land taxes, insurance and a contribution to the loan the co-operative took to cover construction, purchase or refurbishment.

Shares can be sold, with each LEHC linking the rate of appreciation in the transfer value of its shares to the Consumer Price Index, the change in Area Median Income, or changes in some other agreed-upon index. Unlike the subsidy retention model, share values are not protected against downturns in housing markets.

Community Land Trusts (CLT)

CLTs are non-profit organisations holding title to land in perpetuity, conveying the land to a resident via a ground lease. The property holder (lessee) can be an individual renter or homeowner, a business, a charity or a cooperative (usually LEHCs).

The ground lease between the CLT and the property holder sets out the affordability criteria and the permissible uses of the properties, and carries a monthly fee charged to the resident. Most ground leases have a 99-year term and carry provisions for the land to be conveyed to a public authority or to another non-profit organisation, should the CLT fold. Similar to LEHCs, CLTs utilise a number of resale formulae, with the defining objective of balancing a degree of homeowner equity gain with the ongoing affordability of the housing stock. The CLTs retain any public subsidies and the public component of land appreciation for community benefit and preserving affordability tied to the homes, while generating a degree of equity gain to the home owner in the event of resale.[7]

In conclusion, in all subsidy retention models the legal instruments applied (ground lease for CLT's and covenants/deed restricted mortgages) are familiar in the USA however the application of their use to protect the affordability outcomes is less known. As an example, lenders may have policies on deed restrictions but they may not have applied one that reflects affordable housing. Regardless of legal instrument, the document has to state that the home buyer understands the property discount and they agree to sell the property at a formula driven price, the home buyer agrees to occupy it, and the home buyer that purchases the home in the future must meet certain eligibility requirements.

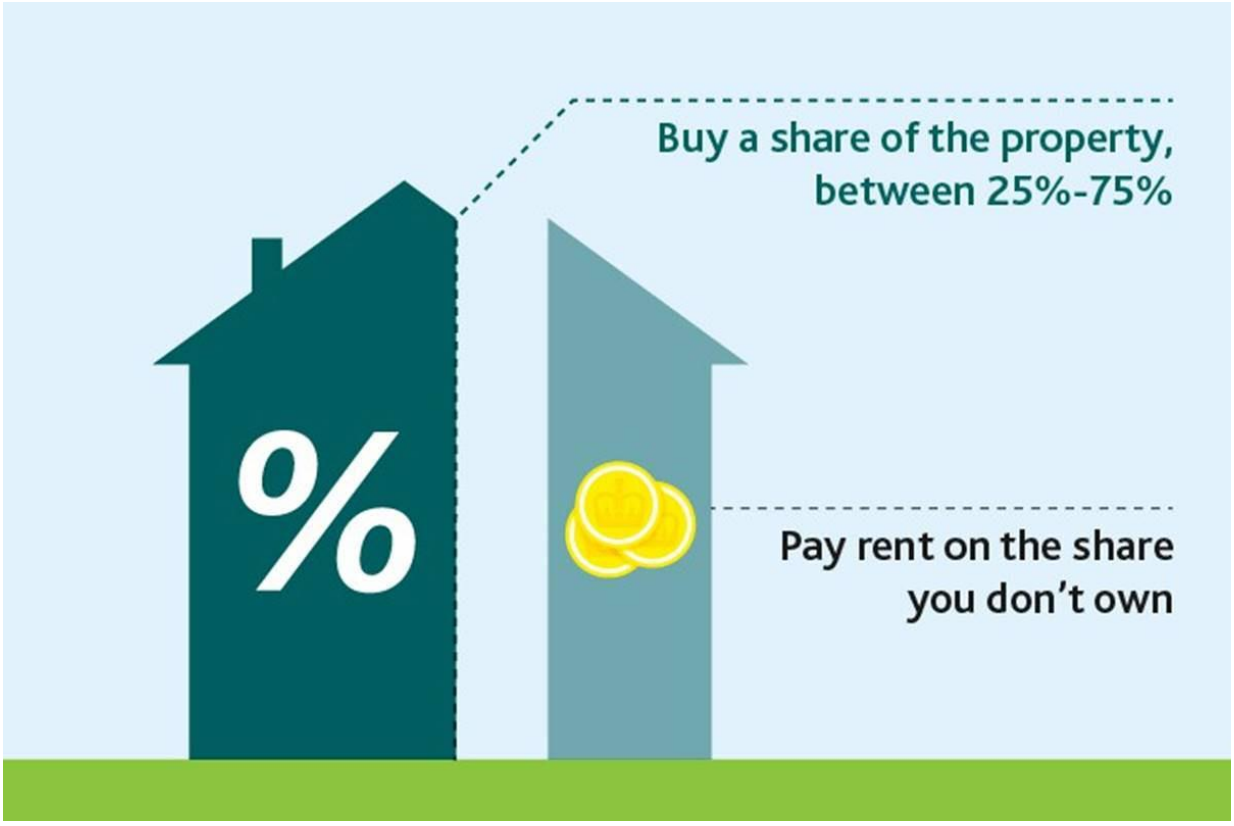
Shared Ownership

> **"[Shared Ownership] is seen as the fourth tenure. Definitely operating in a niche in the market" – Helen Collins, Savills UK**

Shared ownership is an established minority asset class which is a highly defined (home-buyer targeting) and an overly prescribed model. In the UK, Section 106 of the *Town and Country Planning Act 1990* is a planning obligation for the delivery of affordable housing in new development schemes – essentially the legal instrument to support inclusionary zoning which was introduced almost 30 years ago and provides a natural source of affordable housing to registered providers. Historical and significant investment as well as land accessibility has created over 270,000 shared ownership homes over 40 years.

Under shared ownership, the home buyer can purchase a home (only on a leasehold basis) that they would otherwise be unable to afford by buying between 25% and 75% of the home and paying rent on the rest (see Figure 2 below). Homes are traditionally purchased from housing associations and there are different rules governing this asset class in Northern Ireland, Scotland and England.

Figure 2: Shared Ownership Overview



In terms of eligibility, the home buyer must earn £80,000 a year or less (or £90,000 a year or less in London) and any one of the following must apply to the home buyer:

- a first-time buyer;
- once owned a home, but can't afford to buy one now; and
- an existing shared owner.

There are other targeted shared ownership schemes for older people and people with a disability that have variances to the eligibility requirements.

The home buyer can buy more of the home after they become the home owner which is known as 'staircasing'. The cost of the new share will depend on how much the home is worth (determined by a re-valuation of the property) and the timing of when the home owner wants to buy the share to match market trends.

Shared Equity Loans / Mortgages

A shared equity loan is where a party other than the home buyer has a share in the property, although the buyer often retains full home ownership. In return, the equity partner takes a share of the capital gains when the property is sold or the loan is refinanced. For example, if the home is purchased for $500,000, the home buyer may have a home loan of $400,000. Of this $100,000 (or 20%), the home buyer may be charged an interest fee by the equity partner. When the property is sold, the equity partner will take a proportion (say 40%) of the capital appreciation. If the homeowner then sold the home for $600,000, the equity partner would receive $40,000 (40% of the $100,000 gain).

The benefit to the home buyer is there are no or low repayment requirements on the shared equity portion so they have the ability to borrow more than they traditionally could secure with a standard home loan. The shared equity loan is also useful if the home buyer anticipates that capital gains will be minimal in the short to medium term.

Government-backed shared equity schemes are usually targeted towards low-moderate income households who can sustain a reasonable level of assured, long-term financial capacity. In essence, the shared equity schemes provide a ‘helping hand’ for those unlikely to be eligible for other forms of assistance. These households likely have incomes below, but not significantly below, median incomes and purchase properties in the lower quartile to median price range.[8]

Government-backed shared equity schemes have been traditionally a niche solution targeted towards households with incomes that are high enough to pay the low mortgage but not so high that they could afford a standard home loan. The maximum house price the schemes can pay for need to be kept low so as not to adversely stimulate demand in the housing market and push up house prices.

The UK Government’s Help to Buy: Equity Loan scheme in England is the largest scheme to deliver shared equity loans. For details of the specific design of the scheme, which differs in some respects from the above, see the case study below (see page 21).

Inclusionary Zoning

Inclusionary zoning is a land use planning mechanism to either require or incentivise the provision of affordable housing (rental or home ownership) within new development schemes often with planning relaxations offered to the developers to assist with scheme viability.

A large share of subsidy retention homes (and shared ownership homes to some extent) are created through Inclusionary Zoning, which generates hundreds of homes for CLT's and deed restricted homes throughout the USA. In terms of the latter, there are around 2,000 to 3,000 homes across the San Francisco Bay area and in a few larger cities e.g. Boston.

Inclusionary zoning has been a key driver in creating the supply of shared equity homes regardless of the legal instrument applied (ground lease, covenant etc.). However, the case of Denver City was reflective of the general lack of visibility of these homes as part of the inclusionary zoning transaction. Denver created over 3,000 shared equity homes through inclusionary zoning with only one staff member responsible for developing and monitoring the portfolio including all policies associated with portfolio oversight.[9] Due to limited capacity, the City was unable to contact residents regularly or step in if an issue was emerging (e.g. foreclosure). As such, the City lost a number of homes to foreclosures because they allowed the developer to provide the mortgages to the home buyers instead of traditional lenders. The developer prepared agreements in favour of their rights and the City did not have the resources to adequately check that the agreements were reasonable.

Not only did this create reputational damage to the City, it was followed by a second issue where the City sold a number of shared equity homes that were fairly close to market price (minimal or no discount) which was compounded by the home buyers of those units not being properly informed about the price. The original home buyers then sold the homes without notifying the new buyers. The City could enforce the price restriction on the new buyers however this would cost the new buyers hundreds of thousands of dollars. It is unlikely the City will enforce this requirement (due to legal and reputational impact) however this will result in leakage of hundreds of shared equity homes out of the scheme.

Issues are not limited to Denver as there have been instances where the City/council did not know where their inclusionary zoning properties were located as there was no clear process to induct new properties once a development had been completed. The term of the legal controls (protected as shared equity or affordable rental) can range from 10 to 30 years and renewed at time of sale (i.e. in perpetuity).

"Shared Equity is a partnership. You have to have two partners. The Cities [city councils] tend to treat it like a legal document that you record and then they consider it done" – Rick Jacobus, Street Level Advisors

While there are various approaches to shared equity – deed restricted, community land trusts, inclusionary zoning – from a home buyer's perspective, there is little variation except the legal instrument that is applied (ground lease, covenant, shared equity mortgage) however the home buyer needs to understand the household income targeting and re-sale formula on their future sale transaction. It is the requirement of the home buyer to understand the approach required at re-sale that continues to cause issues from an implementation perspective.

Role of Government

The role of government in supporting housing outcomes for low-moderate income households has had a long, stable and predominantly bipartisan approach for almost 50 years in the UK. As such, housing associations (and more recently registered providers which includes private players such as Heylo) are seen as the most professionalised and scaled housing sector in the world. As part of the suite of housing assistance options made available with government subsidy, there have been a number of home buyer assistance schemes over the years culminating in the current mainstream offerings of shared ownership and the Help to Buy: Equity Loan.

While Help to Buy: Equity Loan is a relatively new scheme (since 2013), it has achieved significant traction in the market with consumer visibility and delivery surpassing all other home buyer schemes. In contrast, shared ownership achieved its 40th anniversary this year and has been a staple in the housing association toolkit of housing solutions when delivering mixed tenure developments. In essence, Help to Buy: Equity Loan is seen as financial assistance (as it is an equity loan) while shared ownership is seen as housing assistance (as it is a completed home earmarked in a development for shared ownership).

Homes England is the entity tasked with overseeing the distribution of HM Government grant funding to registered providers across England and they disperse approximately £4B annually on affordable rental, social rental, rent to buy, and shared ownership housing outcomes. Homes England act as a funder for any opportunity and they work with registered providers to explore housing options at a development site and portfolio level. The challenge for both registered providers and Homes England is the varying funding streams are often provided from different sources and as such have varying policy obligations on how they can be applied. Some grants may have restrictions in application, particularly in circumstances where there is other funding applied to avoid the potential for double counting housing outcomes. In each circumstance, Homes England consider if they are intervening where the market cannot assist and assessing if the provision of grants will create an unfair advantage to registered providers compared to other players in the market.

Greater London Authority (GLA) provide the same outcomes as Homes England (albeit with some variances in policy and approach), however they are tasked with supporting Greater London (while Homes England covers the rest of England). The GLA manage their budgets differently as they have an innovation fund which leverages private investment into the fund. There are similar policies between GLA and Homes England and they use the Homes England model leases and Capital Funding Guide.

Housing Associations and now private registered providers are able to receive grant funding from Homes England and the GLA. Once grants have been issued, a compliance check is undertaken to ensure the property meets standards and then they have no on-going involvement. The only time Homes England/GLA become involved is when the shared ownership property is sold or ceases to be used for shared ownership. In this context, grants are returned and recycled into the Recycled Capital Grant Fund for future affordable housing provision. If the grant is returned by a non-profit, there is no indexing applied however for for-profit registered providers, the return of grant includes an indexed component linked to capital growth.

For-profit companies can access affordable housing grants but must be regulated whereas they don't need to be regulated to access shared ownership grants. However, most for-profit companies become registered providers as lenders usually only lend to registered providers given the application of the Homes England model lease. The lending industry are reluctant to issues loans to those not regulated and there are no additional regulations for for-profits.

Since 2016, Homes England moved to a notification regime that only requires the registered provider to notify Homes England of a change in the shared ownership property. Prior to that time, registered providers were required to seek approval from Homes England to change the tenure of a property, which was considerably slow and effected commercial efficiency for the registered provider.

Shared ownership has the lowest level of subsidy with registered providers reviewing their business plans and looking at schemes holistically including level of grant and rent revenues. In the context of shared ownership, the registered providers use the first tranche sale to subsidise other scheme elements. Homes England looks at each development scheme as a package to ensure value for money compared to scheme costs.

Older persons shared ownership has a critical role to play particularly outside London. Many older persons that are downsizing need to protect their limited capital to cover the costs of on-going care and therefore are drawn to shared ownership. In this instance, the older person purchases their home at 75% and does not pay rent on the 25%, with the registered provider accepting the reduced revenue and holding the 25% share of the home on the registered provider’s balance sheet. In this context, more grant is applied by Homes England but it is mainly larger organisations that access the grant funding. At the passing of the resident (known as the ‘roll-over event’), the shares are reflective of the respective proportions except if they are a for-profit registered provider where the indexing once again applies.

Homes England apply the obligations of shared ownership through contractual management rather than on title. A breach of contractual obligations attracts financial penalties (mainly interest) but there have been minimal instances of breaches as registered providers want to maintain a strong reputation and relationship with the investor (and regulator).

Interestingly, Homes England avoid the negative impact of capital depreciation as the home buyer accepts their share of the loss based on their percentage of ownership. As the registered provider is liable to pay back the full grant to Homes England, there is no write-down accepted by the government (unless the registered provider can provide financial hardship which is unlikely). The registered provider can convert the tenure of the property (to social rental) with permission from Homes England but the shared ownership grant remains with the property.

In comparison to the shared equity schemes in the USA, the UK's equivalent, 'discounted market sale schemes' is not supported by most lenders and as such there is limited availability in the market.

"£36.1B have gone onto registered provider's balance sheets from grants (2018). How they can leverage this investment without subsidy would challenge their ability to grow, professionalise the sector, and gain confidence of lenders" – Shahi Islam, Homes England

There is a role for private finance in the provision of shared ownership/shared equity that was included in the consultation paper for the Green Paper – A New Deal for Social Housing, issued by HM Government (UK).[10] The Green Paper tasks the regulator '.. *to ensure a viable sector that is well-governed and efficient to command lender confidence and support delivery of new housing through a combination of private finance and public funding*'. Building consumer and lender/market confidence is inherent in the future drivers for housing delivery in the UK.

Continuous funding is essential in any housing sector, and with the former May Government committing to 10-year, long term funding now extended to 2029, there is an opportunity to give continuity to registered providers and avoid the usual delivery lags between funding rounds. Shared ownership is anticipating future growth with registered providers being asked to do more with the benefit of long-term funding and use the investment as a way to support the housing market and operate in a counter-cyclical manner to smooth market volatility.

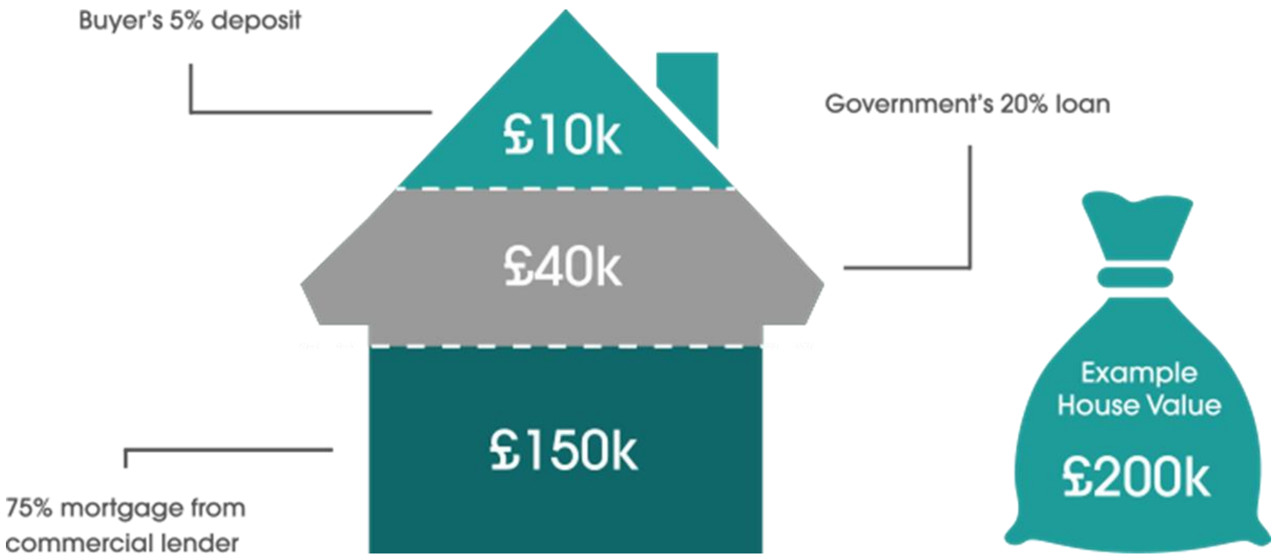
Despite varying perceptions among experts, there has been no reduction in grant funding issued by Homes England as a result of the introduction of the Help to Buy scheme. With capital grants increasing alongside the subsidy gap reducing as more homes are charged affordable rents (higher than social rents), the grant level is down to 15-20% of scheme costs due to enhanced rent revenues.

Case Study

With the slow recovery of both house-building and the mortgage markets following the Global Financial Crisis in 2008, the Help to Buy: Equity Loan scheme was launched in April 2013 as part of a broader range of measures that aimed to increase the supply of low-deposit mortgages for credit-worthy households. The policy initiatives were aimed to offset some of the negative impact of the low number of higher loan to value (above 70/75%) mortgage products which had significantly decreased since the downturn and had particularly impacted on first-time buyers. Since its launch, funding has been increased from £3.5 billion to £29 billion and extended from 3 to 10 years.[11]

As well as addressing deposit and affordability issues, the Help to Buy: Equity Loan scheme also provides a stimulus to the house-building industry and the housing market by encouraging developers to build more new homes.

Figure 3: Help to Buy: Equity Loan Scheme Overview



Source: Help to Buy website, https://www.helptobuy.gov.uk

The Help to Buy: Equity Loan scheme is funded to a value of £29 billion until 2023 and is expected to support up to 470,000 home buyers. The scheme applies in England and is administered by Homes England who work with regional Help to Buy Agents to manage the sales process and the post-sales administration. Scotland and Wales operate separate but similar schemes with lower price limits on homes (see https://www.mygov.scot/help-to-buy/ for Scotland and https://gov.wales/help-buy-wales for Wales).

The Help to Buy: Equity Loan scheme has been open to all those who wanted to buy a new build home. The scheme grants an equity loan worth up to 20 per cent of the value of the new build home. The buyer has to provide the cash deposit of at least five per cent and obtain a capital mortgage from a mortgage lender: the buyer must cover at least 80% of the home price, through deposit and mortgages (see Figure 3 on the previous page). There are only a few restrictions around eligibility for the scheme - it applies only to property worth up to a value of £600k and the property must be the primary residence for the home buyer. Until 2021, there is no income limit and it is open to both first-time buyers and current homeowners however, from 2021 to 2023, a new Help to Buy: Equity Loan scheme will be restricted to first-time buyers only and will have regional price caps. The UK government has said it intends not to continue Help to Buy: Equity Loan in England after 2023.

The equity loan is fully repayable when the owner sells their home or at the end of their mortgage, whichever comes first; and can be re-paid at any time before then. The equity loan has a planned term of 25 years and is always longer than the main mortgage. A minimum of 10% of the total property value can be part repaid at any time. If the property has increased in value since purchase, then the homeowner will pay back a greater sum than borrowed to cover the equity loan; conversely if the property decreases in value the homeowner will pay back a lesser amount. The percentage of the government share is always the same as the initial equity loan, such as 20%. This means the government shares in any capital gain or loss.

If, after five years, the equity loan has not been repaid, an annual charge of 1.75% of the market value of the property is applied. This increases annually by a percentage of the fee equivalent to the retail price index plus one per cent, if this is positive. The aim of this charge is to encourage borrowers to pay off the equity loan.

The independent evaluation of the Help to Buy: Equity Loan scheme[11] (covering 2015 to 2017) estimated that 37% of the homes built through the scheme would not otherwise have been built, which is equivalent to contributing 14.5% to total new build output between 2015 and 2017. The scheme has made consumer demand more effective which in turn has fed through into an increase in housing supply backed by an expanded and more supportive mortgage market.

Help to Buy: Equity Loan is the most significant contemporary scheme helping increase access to home ownership in the UK. Based on the survey of home buyers that accessed Help to Buy: Equity Loan as part of the evaluation, 75% stated that it helped them enter the market while three in five indicated it sped up their purchase by a year or more.

Role of Philanthropy

The role of philanthropy to support the equity requirements of shared equity schemes is an innovative way of raising capital that Landed in the USA has applied. In this context, philanthropic capital investors are willing to take a lower return on the basis that it meets other mission outcomes while the investment grade of the assets is comparatively secure. A key strategy for raising philanthropic capital is ensuring clear messaging on who is being assisted, which naturally maintains clarity on how they make operational decisions.

One of the challenges associated with attracting private investment into any new asset class is the expectation of a proven track record as a risk mitigation for institutional private investors. In the context of shared equity, governments have traditionally created schemes (usually with highly targeted eligibility) to test market demand and industry acceptance, while government funding (and regulation) provides confidence to private investors. However, pressure on government funding is consistently high (regardless of jurisdiction) and is often targeted at low socio-economic cohorts.

Philanthropy can play a clear role in supporting 'proof of concept' through pilot schemes which creates market intelligence that can underpin private investment business cases particularly as schemes look to scale. Philanthropic capital investor's expectations on returns are generally either nil or well below market and as such they have a comparatively high risk appetite as long as the progressed activities are consistent with the intent of the original investment. Social impact investments often apply a similar methodology acknowledging their return expectations are materially higher than philanthropic capital investors.

"The volume of capital necessary to meet need is well beyond what philanthropy can provide" – Alex Lofton, Landed

While philanthropy can play a key role in shared equity provision, these funds are just as difficult to source as government funding although they often have 'less strings attached'. In reality, philanthropy cannot meet market demand however it can create market presence and provide private investors' confidence in the asset class. Philanthropic funds can also be used to leverage government investment and provide a catalyst role to attract large scale private investment which has a greater likelihood of responding to the significant housing need when aggregated with other funding sources.

Case Study

Landed

After meeting at Stanford University with expertise in housing policy and political/social impact, the co-founders created Landed in 2015 to assist educators access home ownership through shared equity assistance underpinned by philanthropic financing.

A key driver for Landed was the importance of wealth creation and diversification strategies to grow and maintain wealth for households. They noticed there was limited consideration of wealth creation amongst millennials as many focus on their home as the one asset class for investment. Landed considered what could exist besides debt that would assist households to own their home, exploring the co-buying option. While co-operatives achieve similar outcomes, they are seen as an outlier instead of a pathway for homeownership for younger generations. Landed were aware of bespoke strategies by some educational institutions (e.g. Stanford) to assist their educators to secure affordable homes close to their place of work. Most households are attempting to secure the down payment, which is a great place to introduce the concept of risk sharing and ownership sharing.

> **"There should be something that relates to sharing risk that is inserted in the average person's experience of ownership" – Alex Lofton, Landed**

As part of the Landed evolution, they started to consider how they move from philanthropic financing to private finance (e.g. pension funds). The challenge was to attract new capital given their limited track record in the market. The investors were ultimately interested in the end-user of the assistance. Landed identified those households that have the ability to service debt but need assistance to overcome the hurdle of the down payment. The typical target group included middle-class, counter-cyclical roles such as teachers, nurses, fire-fighters (in the USA this workforce is known as 'essential professionals' compared to the Australian terminology of 'key workers') etc. given most government programs are more targeted at low income households. Also, there is a lot of community connection to this workforce with investors connected to the outcomes (i.e. who is being assisted), not the product (i.e. shared equity).

It was a strategic decision to pursue philanthropic capital in the first instance. Given the limited resources available through government funding, Landed apply philanthropic funding to create a track record of delivery before seeking private sector financing in the future. They offer reasonable terms acknowledging that it is not a grant nor is it a loan - a real focus on sharing risk.

"We looked at the sharing economy space (Uber, Airbnb, Lyft) and the concept of not needing to fully own your assets outright but having the choice and lifestyle you want to have. We wanted to apply that to homeownership" – Alex Lofton, Landed

Landed is licenced as a real estate brokerage and the shared equity offer is presented as an 'Options Contract' with securities laws applied to the contract. Landed is not a lender so does not fall into the same regulatory requirements as traditional lenders. Landed partners with banks as first lenders which underwrite the agreements. Financial advice provided by Landed does not include offering particular financial products but more general budget advice.

Shared equity is still considered a niche product in the USA with Landed assisting 200 households over the past 4 years. The biggest challenge is sourcing capital without a historical track record. Pension funds are supportive of the model however their risk appetite is not aligned to the asset class so Landed uses the philanthropic funds to offset risk.

Initially Landed received funding from high net worth individuals with current investors including non-profit organisations that have created special purpose vehicles (Program Related Investment (PRI's) or Mission Related Investment (MRI's)) with stipulations on how the money should be used and any profits to be reinvested into the same activities. A lot of the capital is seen as donated, some is PRI debt that can be sold to other investors, and some investors expect a financial return. For those seeking a return on investment, Landed does not warrant or guarantee any returns, they provide market information and the investor makes their assessment of the housing market in that area and the likely returns.

The term of the option contract to educators is 30 years (at which point the option must be exercised) aligned to a conventional mortgage term, and it is anticipated an average 6-10 years for re-financing. Liquidity remains the biggest challenge. While the support to educators is offered for 30 years, Landed advises investors to retain their investment for a minimum of 7-10 years. Investors mainly expect re-investment of the capital rather than returns – these organisations are seeking long-term average returns.

Landed are currently only targeting educators (all levels) but do have an aspiration to broaden their focus to other key workers in the long-term although there is plenty of unmet demand for educators at this time. Landed are broadening their geographical footprint which is also a diversification strategy to offset market forces. Promotion of the Landed shared equity offer is promoted to school administrators who then promote to their staff with no payments made to secure their assistance.

Role of Private Finance

The role of private finance has been relatively limited in the provision of shared equity in both the USA and UK, with government investment the critical driver to date. However, it is expected that the involvement of private finance (either directly or indirectly) will increase over time particularly in jurisdictions where housing supply fails to meet demand and affordability challenges prevail. Private finance is evolving as a complementary investment approach alongside the critical role of government and non-profits in supporting the homeownership pathways for home buyers.

A clear distinction between the Australian and USA context is that mortgages are held on bank balance sheets in Australia whereas there is a considerable securitised mortgage market in the USA. The USA securitised mortgage market is large and liquid which squeezes out niche lending products such as shared equity. A number of shared equity providers have accessed the Fannie Mae Community Second Mortgage Program to support their activities.

There are a number of privately funded shared equity products and philanthropically funded products across the USA with different targeted beneficiary households. The majority of schemes are publicly funded which has its limitations due to pressures on the public purse. In high cost areas, schemes now require in excess of $US100,000-$US200,000 subsidy for each home buyer due to cost drivers. In Alameda County in California, the council committed to $US50M funding to progress shared equity however it was anticipated to help around 300 home buyers. The level of subsidy for shared equity is sizeable and is reliant on government/philanthropic contribution. For Alameda County, they received 2,000 applications in the first week the scheme was launched. While the level of subsidy is high, the model ensures the benefit remains in perpetuity with the subsidy recycled for future home buyers. Unfortunately, there are no clear alternatives to deliver workforce housing or a pathway to homeownership for low-moderate income households.

Some shared equity schemes have used Wall Street capital that is not concessionary. They set up a fund, sharing appreciation with the home buyer however many funds have been set up but none have been scaled-up. In essence, the reason behind the lack of growth in the asset class relates to both the disproportionate share of the capital appreciation taken by the fund and the challenges of liquidity of capital for investors.

As an example, the shared equity scheme might offer $250,000 towards the home purchase and in return take 75% of the capital appreciation. For many, without the $250,000 the home buyer is a long way off accessing homeownership due to challenges in accumulating the deposit and as such is more willing to accept the terms. However, for those that are seeking a smaller amount (e.g. $50,000), those terms are less attractive as the home buyer is giving away a large proportion of the capital appreciation for a relatively small amount up front.

Repayment timeframes is the other critical issue. Some offer a reasonable return to home buyers and a lower return for investors however given the term can be up to 30 years, crystallising the financial return is challenging for the shorter-term requirements of private finance compared to public funding. In general, there is a ten-year time horizon for private finance and as such the home buyer is required to sell or refinance. In this context, the scheme (and Investor backing) has to underwrite the likelihood of the homeowner being able to do either strategy at the point where the investors seek the return of their working capital. If the home buyer's income is low, the scheme cannot rely on their ability to refinance and equally it is unlikely the scheme will evict the home buyer due to reputational backlash. However, if investment was done at scale, then fund managers could create a market for investors to opt-in and opt-out however as this has not been done to scale, it has been difficult to achieve flexibility for investors thereby making it a less attractive asset class.

To create a shared equity asset class, government involvement either as a funder or regulator is critical to mitigate the risk/exposure for investors. The cycle of interest rates pushes homeowners to function en masse at the same time. When interest rates are high, there are increased sellers and foreclosures and when interest rates are low, there are increased buyers and refinancing. The role of government would assist to smooth out these impacts with government backing.

It makes sense to attract private capital but discourage a private only shared equity system. Government involvement in the funding and/or regulatory oversight is needed to mitigate the risk of abuse, with unintended consequence significant. Private equity funds principally have been involved to date funding pilot funds and it is anticipated that in ten to twenty years, shared equity provision is likely to be the same in the USA however there may be change in how public funds are distributed acknowledging there will always be a limit on public funds available. In the USA, there are a number of shared equity schemes including Unison, Point, and Patch however there has not been a material number of shared equity homes delivered as the initial focus (at least in the case of Unison and Point) has been mainly in debt consolidation.

Federal Housing Administration (FHA) programs are an important source of financing for first time home buyers however in overheated housing markets which are well above FHA lending limits, this is the optimal niche where investor-driven shared equity schemes are growing. There is a narrow market for those home buyers that can accumulate the 10% deposit but still require the other 10% from the investor driven shared equity (and willing to forego 25% of the capital appreciation). For the non-profit driven shared equity, the home buyer forgoes 75% of the capital appreciation but they receive a much larger up-front subsidy. For non-profits, they retain the community benefit of the subsidy whereas for the investor-driven models, both parties are seeking to maximise the upside and there is no generational/community benefit. The price reverts to a market price at the point of sale rather than assisting new home buyers.

"Each model has its place and serves different needs. They don't target the same types of buyers nor achieve the same societal outcomes" – Brett Theodos, Urban Institute

Whether the home buyer accesses an investor driven shared equity product or a non-profit shared equity product, given the proportion of capital appreciation apportioned to the equity partner, only home buyers who need to use the schemes will progress to homeownership in this way.

The seed capital to start up shared equity particularly for CLT's is sourced from public funds principally through grants and occasionally through land contributions. The city/council or another intermediary offers a loan to the housing provider as construction finance with a grant to provide the seed capital once completed. The other mechanism is Inclusionary Zoning (somewhere between 10-20% of the new development depending on location), with the completed homes handed over by the developer on completion. Cash payments by developers in lieu of property is allowed in certain circumstances. When the developer has the opportunity to pay cash, they prefer this approach even if the total quantum is greater than the costs associated with completing the units to be transferred to avoid the headache of bureaucratic red tape.

UK Perspective

As an investment, shared ownership is considered a 'triple net investment', with all costs covered, no outgoings as they are covered by a service charge, and all repairs/maintenance covered by the home buyer. Income from shared ownership is incredibly reliable and considered a 'super-investment' grade particularly in contrast to retail and office asset classes, which have contracted significantly in recent times.

"Is shared ownership investable? The answer is absolutely Yes!" – Robert Grundy, Savills UK

In the standard shared ownership lease, the rental payment on the non-equity is indexed. In addition, the scheme is incredibly investable, low delinquency, and includes a mortgagee protection clause. The downside issue is timing and whether prices have fallen since purchasing, creating negative equity.

Voids and bad debt rates are miniscule, and they are naturally hedged against inflation as they are broadly aligned to wage growth. If there are problems with the asset, the fund can sell individual homes to enhance liquidity, and it does not require complex skills to manage residential property. All these factors drive a more modest yield shift as the investor should expect a lower capital return for the investment. Pricing of the shared ownership asset class reflects a premium above government bonds but a discount due to the reasons just detailed to be below standard infrastructure fund returns.

For the shared ownership home buyer, they secure a shared ownership mortgage from the lender with the non-equity covered by a grant from the registered provider, which is held on the registered provider's balance sheet. Inflation then grows the value of the asset on their balance sheet, which they can gear for new investment. Gearing has proven itself to be a critical part of the registered provider's capacity and success. Being regulated does improve credit worthiness for registered providers compared with the Real Estate Investment Trust (REIT) structure which is challenged by timing, sourcing assets and investors at the same time with the gap needing to be plugged by government subsidy.

The key is finding the niche for shared ownership as it is not needed in affordable markets, and in high value markets where the income threshold (£90,000) covers a high proportion of the population. There is a lot of massaging the system by home buyers to get into the market and many then re-finance within a year. The sweet spot is assisting with deposit affordability for households that can service on-going debt.

Shared ownership has been marketed as buying a whole house, but in reality, this is not the case. For Help to Buy, fees start being charged after 5 years, which at a portfolio level, materially starts in 2018. Fees go up in line with inflation regardless of house prices. Government expenditure in Help to Buy has been significant in achieving both housing and economic development outcomes and also meeting political (and voter) priorities. Help to Buy: Equity Loans do not go on the registered provider's balance sheet and as such do not assist the leverage strategies commonly undertaken by registered providers.

In the UK, around 100,000 new households per year are joining the market holding secure employment but generally modest incomes, which is the prime cohort for shared ownership and shared equity loans. Ultimately, with the low number of 90%- 95% loan to value mortgages, the deposit gap remains too large which is a key driver for anticipated growth in the shared ownership market particularly as the Help to Buy: Equity Loan scheme draws to a conclusion in 2023. As Savills UK highlighted[12], 150% increase in shared ownership supply is required to meet demand after Help to Buy ends in 2023. In response, the Ministry for Housing, Communities and Local Government anticipate that private finance (through traditional banking and superannuation funds) will bridge the gap and take a greater market share in the provision of similar equity loans schemes given the market (lenders, registered providers etc.) have been primed through the resourcing of the Help to Buy: Equity Loan scheme and shared ownership.

Case Study

Big Society Capital (BSC) was created in 2012 in the UK as a social impact investment organisation. An act of parliament forms the basis of the organisation, which allowed access to approximately £400M that came from dormant bank accounts across the country. The funds were ring-fenced by Treasury to be applied for social impact investment. A further £200M was contributed from the four main banks as a positive response to the government financial support following the global economic crisis as well as their way to contribute to society and maintain a strong relationship with government.

BSC are an independent financial institution operating as a wholesale social impact investor (no direct investments) with all investments undertaken through fund managers and other intermediaries. BSC also undertake a range of market building activities and focus on convening idea generation, market knowledge etc. Initially, BSC anticipated they would be inundated with investment opportunities however this did not eventuate so they have been proactively driving market capacity and working with partners to better understand investment drivers.

Through investments with intermediaries, fund managers, and social impact advisers, they have committed £500M to date, with half already drawn down. A key expectation of the investment is to leverage mainly institutional investors e.g. pension funds (corporate or local authority) as well as trusts, foundations, and social banks (provide secured loans and money from depositors). To date, they have leveraged £1.7B although limited success with co-investments with corporates as yet.

BSC have undertaken 88 investments through 50 intermediaries with some bringing their own proposals (inbound) which accounts for 60-70%, and 80% with first time fund managers. BSC are cornerstone investors with a patient approach to capital returns and the provision of advisory support.

BSC have been consciously narrowing priorities to housing, place, and early action, and investing in activities that demonstrate social impact but also financial return. They look for opportunities where their financing can leverage other forms of assistance including philanthropy. BSC have also invested 10% in venture funds in activities such as technology-enabled solutions.

They are currently looking to use the remaining funds as seed investment into housing for households with complex needs and working with charities and social enterprises. Also, there is a recognition of scale in the sector and the position of influence including the ability to interact with institutional players.

In terms of returns, there is an overall portfolio return expectation of around 5-6%. Applying a simple formula, once stock has been acquired they rely on 3-4% from capital growth and 2-3% from rental yield, less 1-2% fund management costs. Offering a 7 to 10-year term for investors is achievable as long as the fund has the capacity to cycle through new investors.

"Matching the right type of capital with the right type of opportunities" – Karen Ng, Big Society Capital

It is critical to ensure returns and liabilities match investor's requirements (trusts and foundations operate around 7-10 years). It is possible to create an open-ended structure for the private fund that runs in perpetuity with prices quoted every quarter and after the first three years (no ability to withdraw capital by investors for the first three years). Investors can withdraw capital with limits on how much capital can be withdrawn at the quoted prices, with the fund manager ensuring they have a process to find replacement investors.

CHECKLIST - What informs Investment decision-making?

Financial Returns	✓
Counterparty Risks	✓
Liquidity (ability to exit the investment)	✓
Duration of Investment	✓
Scale of Impact	✓
Deployment Timeframes	✓
Social Impact	✓
Proven Track Record (seed portfolios to trial models)	✓
Capacity/Capability of Partner	✓
Systems Change	✓
Willing, Capable, Credible Partner (difficult to quantify)	✓
Leverage of other Investment	✓
Likelihood to influence market players	✓
Ability to catalyse impact on Partner’s broader investment and operational processes	✓

Market Response – Housing Development

While shared ownership celebrates its 40th birthday in the UK this year, it is still considered a niche product in the context of the overall housing market. Mortgage lenders support the model and understand how it works and registered providers use the model to cross-subsidise their activities and boost their balance sheets. However, shared ownership has not had the marketing and awareness campaign that the Help to Buy scheme received. Any promotion of the Help to Buy scheme benefits the sector because it is visible, at the forefront of the community's minds, and the community hear the Prime Minister discuss the initiative in parliament which enhances consumer confidence.

As part of a project initiated in 2018 by the National Housing Federation (NHF), a steering group was established with members (funded by NHF but roll-out to be funded by members) which commissioned a London creative agency/design studio to undertake focus groups and develop a marketing campaign to promote shared ownership. The campaign explains what shared ownership is (and isn't) as there is a lot of confusion in the marketplace, while raising awareness of what housing associations do and the income limits that apply.

The uncertainty in the market due to Brexit has been a challenge for housing development, which has been partially blamed for the slowdown in shared ownership rates in London (although this has not been seen anywhere else in England). However, the typical shared ownership home buyer varies compared to a standard home buyer as there is a level of pressure to move often triggered by a life event e.g. relationship breakdown etc.

Help to Buy home buyers are marginally different (more affluent) compared to shared ownership home buyers given they are mostly able to afford a mortgage of 75% or more while shared ownership supports less affluent households because the scheme allows the home buyer to start their homeownership journey with a 25% equity share. Pessimistically, some experts believe the properties that secured the Help to Buy equity loans were always going to be built and did not initially improve supply (the 2017 Help to Buy Evaluation does contradict this perception). However, there is consensus the scheme did increase the rate of construction (and promote economic growth).

Help to Buy has been successful at branding and publicity and created a clear product understanding across the country. Help to Buy is also promoted directly to the home buyer by the developers (in the press, on websites and on signage around new-build schemes) rather than through registered providers that is required for shared ownership. A Help to Buy home buyer will work with four parties during the purchase process: the developer, the lender, their solicitor and regional Help to Buy agent.

As Help to Buy: Equity Loan is seen as a finance product, the approach to working with prospective buyers is no different to standard market home sales just applying an alternate finance model. This is different compared to shared ownership with the added perception issue given housing associations predominantly offer shared ownership and are also seen as helping those in housing need. There are variances by housing associations on how they perceive and treat shared ownership home buyers – 'Consumer' versus 'Beneficiary' – which is driven by the dichotomy between housing associations' charitable philosophy and the market driven sales regime.

> **"Housing associations market schemes similar to a private developer. It is important to treat the consumers the same as everyone else and focus on what they are buying not how they are buying it" – Amy Nettleton, Aster Group/National Sales Group**

To secure a shared ownership home, the home buyer might start with approaching the registered provider (predominantly housing associations). The home buyer must then go to a Help to Buy scheme agent where they are offered other shared ownership properties, before returning to the registered provider for additional affordability assessments. The experience for the home buyer varies for each registered provider based on their processes, which means the consumer experience is not consistent across the sector. Government endorsement is key but it needs to be made simple and transparent for the home buyer. Negative publicity is usually around the management of shared ownership with statements such as home buyers being 'trapped in their home' when it could just be the market, not the product. Education of shared ownership home buyers is essential to ensure they understand the market and the associated risks and returns regardless of whether it is a shared ownership property.

Sales teams in registered providers are equivalent to conventional developers by being available 7 days a week with live chat available until 11pm every night for the home buyer however once in management, the service often reverts to a 9am-5pm model. In the case of the Aster Group, they also offer instant messaging for early communications before formal processes, which is a unique selling point for the registered provider. In housing associations, the cultural adjustment can cause some issues in service delivery. Significant improvement is needed in the housing association sector to better engage home buyers once they have bought their home.

Once the home buyer has purchased their shared ownership home, they move from the Sales Team to the Housing Management Team and if they sell or staircase, they revert back to the Sales Team. Registered providers such as the Aster Group look at segment data and target some of their affordable renters for potential shared ownership. The Aster Group have seen an increase in pathways from affordable rental to shared ownership and also people moving from one shared ownership property to another given there are no longer bedroom restrictions. It also means that current shared ownership owners are clearly also future home buyers so need to be treated accordingly.

On large development sites, new shared ownership homes may also be competing with shared ownership re-sales which becomes an issue for the registered provider. Registered providers prefer mixed tenure developments which supports shared ownership provision. Working with private developers through joint ventures, pricing on a development site is also done jointly to avoid direct competition given profits are shared so both parties are invested in each other's success. Shared ownership may be the inferior product (amenity driven only) on a development site but it is not discounted just because it is shared ownership.

"Many housing associations separate themselves from developments due to the perception issue but Aster Group is proud to highlight their housing association heritage. People who are buying into what we are offering align to what we stand for" – Amy Nettleton, Aster Group/National Sales Group

Housing associations have to maximise affordability while also maximising the proportion the home buyer is securing to stretch the subsidy. As an example, Aster Group have an annual budget target to ensure staircasing by home buyers is achieved. The Group also looks at shared ownership in the context of their asset disposal strategy to ensure it aligns.

Standardisation of documentation including leases is seen as a positive with lenders and by using the Homes England standard lease, it makes the transaction easier and builds consumer confidence. The challenge is the legacy processing ('we have always done it this way') and having to apply the Homes England Capital Funding Guide. There is a drive to ensure the process is seamless for the home buyer however the current process is laborious with copious amounts of paperwork. A home buyer has to be registered with the Help to Buy network before they can be offered a shared ownership property.

Registered providers will market new developments however for sites delivering inclusionary zoning (Section 106 properties), they provide a complementary, subdued approach to marketing to support the developer. The registered provider is able to promote through marketing the reduced price point and deposit requirements along with other benefits such as retaining pets, ability to decorate their home and community connectivity. Registered providers generally achieve 85-90% off plan sales rates and commence marketing 3-6 months before handover, promoting the homes through social media and securing external agencies to assist with creative development, competitor analysis, rental yield/demand analysis, mystery shopper (particularly relating to Section 106), public messaging, market testing and analysis.

Market Response – Housing Finance

British attitudes to home ownership are about wealth creation and security of tenure. For mortgage lenders, their role is to invest in the supply of affordable housing and provide the mortgages to home buyers. The political, social, and economic requirements need to align to support the outcomes of shared ownership. The UK has an established market in shared ownership so it is easier to transact in the market. However, there are still a high proportion of prospective home buyers that don't understand the product offering so concerted focus on home buyer education by registered providers is critical.

"All of the UK's national governments understand the importance of housing in improving people's lives and there is considerable backing for shared ownership " – Matthew Jupp, UK Finance

One of the critical elements of shared ownership is the 'model lease' which sets out the legal basis of the relationship between the home buyer, registered provider and lender. Any standardisation assists mortgage lenders as they don't have to invest resources to understand the various agreements. The model lease also explains how arrears are managed and the 'customer approach' - a clear alignment with housing associations given their charitable missions and ethos.

The model lease includes the Mortgagee Protection Clause (MPC) which helps protect the lender's interests in the event of a sale following repossession. If the sale price does not cover the value of the mortgage and the registered provider's share, the lender is repaid first and the registered provider only receives what is remaining.

The importance of the relationship between lenders and registered providers is critical in circumstances where the home buyer falls into difficulties and agrees to capitalise rent or service charge arrears. In these cases, the lender will pay the registered provider the rent for an agreed period of time however as it is capitalised against the registered provider's assets, if the home owner defaults, this increases the call on those assets as a result of the MPC.

A good relationship exists between registered providers and mortgage lenders to manage issues with the home buyer and maintain strong communication channels. Mortgage lenders also undertake due diligence on the registered providers. The introduction of for-profit shared ownership providers has brought a mixed response from mortgage lenders. With standardisation a critical requirement for mortgage lenders, this may create an issue for the private sector given they are looking for product differentiation in the market.

Normal checks by the mortgage lender include an affordability test and the registered provider will also undertake an affordability test to ensure the home buyer can afford the property and meet government eligibility. Registered providers continue to encourage home buyers to secure the maximum share that is affordable to recognise the limited staircasing opportunities and also stretch government grant further.

The resale process for shared ownership can be complex and potentially riskier compared to standard re-sale arrangements. This may arise as a consequence of a condition of planning permission (Section 106 agreements) and can include limits on buyers' incomes, previous tenure, local connections or housing need.[5] Clauses added in rural areas to prevent staircasing to 100% (in order to preserve the property in perpetuity for those unable to afford market housing) often include restricting resales to people with a local connection in the first instance e.g. Lake District and Cornwall. The restrictions last in perpetuity with a covenant on title. Lenders see that it reduces the asset value and often have to take possession of the property which is problematic.

The issue of a lease being ended because of rent arrears on the unsold share has raised concern for mortgage lenders particularly if organisations other than non-profit housing associations enter the shared ownership market. Housing associations are keen to avoid such a situation and the resultant damage to the sector, so will ensure that home lenders are given the opportunity to pay off rent arrears by increasing the size of the mortgage debt. However, mortgage lenders are concerned at opening the market to other private players, about whom lenders may not feel as confident.

The size of the shared ownership market has been a factor in deterring lender involvement as the number of transactions per year is insufficient to attract their interest or support the investment needed to build capability in this market segment. Lenders also seek to avoid risk of over-exposure on lending on multiple properties on one site, usually no more than 20% of a development site would apply shared ownership. This particularly affects shared ownership because of the relatively small number of lenders and the fact that most new shared ownership mortgages will be on new-build properties.[5]

"Shared ownership is an established approach although not as big a market as it potentially could be" – Matthew Jupp, UK Finance

Brexit is placing considerable impact on consumer confidence and uncertainty by mortgage lenders which has seen a clear contraction in the credit market as a result. Pension funds provide capital to housing associations and also directly into housing e.g. Legal and General who see housing provision as a direct connection to meeting their member obligations.

USA Perspective

Fannie Mae are a leading source of financing for mortgage lenders, providing access to affordable mortgage financing in all markets and they explore how they can create finance structures that better leverage private investment opportunities. In the USA, shared equity policy (and housing policy for that matter) is highly fragmented and reflects a 'patchwork' of policies, regulations and financial instruments. Like other large-scale lenders, Fannie Mae has difficulty in delivering housing finance as there are no nationally-based standards and as such they are working with thousands of niche providers, which creates considerable challenges in terms of compliance management.

"The dog has many tails when it comes to shared equity in the USA" – Joe Weisbord, Fannie Mae

Given shared equity has been locally driven, it has been challenging to deliver at scale and as such the variances can be significant. Variances in models is a key reason why conventional mortgage lenders struggle with lending for shared equity. There needs to be a move to standardisation of approach to ensure it is complementary to the mortgage market as seen in the UK.

Fannie Mae does not lend direct to home buyers - their client base includes bank, non-profits etc. where they securitise the mortgage portfolios. Fannie Mae set credit parameters, property requirements and other criteria to ensure the portfolio can be securitised. In the past, Fannie Mae purchased more private capital including shared equity loans however in recent times they have a new directive on shared equity which now requires other hurdles including duration prior to re-sale, right of first refusal, re-purchase obligations including household type and income. As such, re-sale restrictions can be particularly challenging for shared equity however they can be overcome.

Fannie Mae have also purchased debt from Community Land Trusts which creates challenges for new CLT's that struggle to meet these requirements (outlined above) as they do not have a proven track record. Fannie Mae services loans that are valued between $400K-$600K depending on the housing market while conventional lenders also operate in 'jumbo loans' which are valued over $600K. These values are set by Federal regulators. Also, Fannie Mae has deeper liquidity compared to conventional lenders due to the perceived alignment with government and the security associated with their lending practices. This is more implicit than explicit but does give Fannie Mae a competitive advantage and enhances investor confidence.

Similar to the UK, housing affordability and the lack of supply of affordable housing create challenges however these issues are largely identified in coastal communities, with considerably less issues through inland USA. The geographical variances in housing affordability creates challenges for policy makers to ensure lending policies appropriately respond to this dichotomy.

Case Study – Just One

Just One was developed by a small group of industry professionals selected by the National Housing Federation's Greenhouse Project focusing on 'Transforming Tenure: rethinking homeownership for the next generation'. The industry professionals worked solely on the project for 4-5 months to explore strategies to bridge the gap between renting and shared ownership.

Just One allows the home buyer to own a home with a minimum initial purchase of just 1% of the home purchase price. Over 10 years, the home buyer automatically purchases further percentages of their home using a portion of their rent. It is anticipated that after 10 years, the home buyer has secured 25% ownership thereby making them eligible for a shared ownership financing arrangement (the minimum proportion prescribed by the scheme). Initially, Just One are only targeting new construction to minimise the maintenance burden by both the home buyer and housing association.

Significant market research was commissioned which showed that two thirds of families with children currently in private rental wish to move into home ownership and would pay less in mortgage payments than they currently pay in rent. The research also determined that it would take respondents 19 years to save the required deposit.

The market research identified the following problem areas for potential home buyers:

- Tenure Security – no tenure security within the private rental market which is particularly concerning for families with children;
- Wealth Creation – people want to invest their money in their home;
- Cost of Buying – the up-front cost of buying particularly accumulating the deposit can be cost prohibitive;
- Mortgage isn't an option – the credit squeeze has made securing a mortgage challenging despite maintaining an income that can service the requisite debt; and
- Home ownership perception – young households had essentially given up on home ownership and had not made any attempt to explore housing solutions in the market.

Just One undertook considerable market research to test market appetite, understand market comprehension of existing schemes and the proposed housing solution, and assess the suitability of the proposed housing solution to respond to demand and household needs.

The Just One journey is still in its infancy but reflects the innovative approaches being explored to bridge the gap between renting and home ownership by responding to the impediments still in play for aspiring home buyers despite considerable investment in shared equity/ownership in the UK.

Home Buyer Perspective

For the home buyer, the complexity of understanding how a shared equity or shared ownership housing product works (including both the short- and long-term implications on their household) in comparison to a conventional home mortgage is an on-going challenge. Scheme providers and governments alike in both the USA and UK invest considerable staff resources, marketing and communications, and regulatory guidance to ensure home buyers are given the best possible opportunity to sustain homeownership.

The biggest challenge in overcoming the complexity of the arrangements is the considerable variation in models, legal instruments, financing arrangements, and fee structures that home buyers must navigate. While there are benefits in standardisation as has been seen with the model lease in the UK, there is a delicate balance between creating a consistent framework for home buyers while ensuring product differentiation (and home buyer choice) in the market.

Mortgage Sustainability

There are significantly less foreclosures in shared equity than mainstream mortgages given the payments are usually reasonable and achievable alongside step-in strategies by the City/CLT/registered provider to sustain the housing for the homeowner. A study by Emily Thaden[13] examined mortgage delinquency and foreclosure rates among the owner-occupants of resale-restricted houses and condominiums in community land trusts (CLTs) across the United States and compared CLT results to rates of delinquency and foreclosure among the owner-occupants of conventional market-rate housing reported by the Mortgage Bankers Association's National Delinquency Survey. The study concluded the proportion of mortgage loans that were seriously delinquent (defined as loans at least 90 days delinquent or in foreclosure proceedings) or were in foreclosure proceedings were materially lower for CLT homeowners compared to the conventional market. This was despite CLT homeowners reflecting low-moderate household incomes compared to the conventional market which were held by owners across all incomes. While the affordability offered by the CLT model to low-moderate income households who enter home ownership helps to explain the low rates of delinquency and foreclosure in CLTs, the stewardship activities and policies of CLTs also contribute to these outcomes.

Similar mortgage sustainability is seen in shared ownership in the UK. As an example, the Radian Group with over 1,800 shared ownership homes has experienced only 7 repossessions in 4 years. Like many other registered providers, the Radian Group offer 'flexible tenure' in these circumstances including the offer of 'down staircasing' which essentially sees the registered provider purchasing additional equity in the home to release funds to the homeowner.

Homeowner Assistance

In terms of support to the homeowner in the USA, there is often a Home Owner's Association (HOA) in place and they have an oversight role (either City or CLT). The HOA assists when a new buyer is being sought however in a strong market like San Francisco, there is a regular flow of buyers (usually 500-600 buyers for each home for sale) so limited requirement for marketing. The HOA will ensure they are working with partners that support households with limited English skills to ensure prospective buyers are reflective of the community profile. In a less extreme market, the City or CLT will actively target cohorts likely to be eligible for the home (e.g. teachers etc.) particularly in suburban areas. Ultimately, the seller has the responsibility to market the home and may hire a realtor to work with the City/CLT to identify and screen suitable buyers. The two paths eventually have to meet. Finally, the purchaser needs to secure financing and acknowledge the shared equity arrangement. This can be challenging in new communities where financiers are not familiar with the shared equity model. The City/CLT works closely with lenders to enhance their understanding so when a buyer is ready, the sale is ready to proceed.

Purchase Experience

The process to purchase a shared ownership home is unique for the home buyer as they must endure the process of completing significant paperwork and an affordability assessment well before they have identified their new home. In all other instances including the conventional home purchase experience, the home buyer chooses their home first and the process to secure finance follows (acknowledging that pre-approvals do occur however the paperwork requirements are comparatively less).

The shared ownership home buyer experience is generally poor with home buyers overwhelmed with ‘too many moving parts’. Shared ownership home buyers must be registered with the Help to Buy agent in the first instance before they explore housing options with registered providers. The variability in approach by the registered providers along the home purchase experience can make it difficult to compare housing options offered by other registered providers. Many registered providers undertake education for home buyers to ensure they understand the way the product works while also encouraging the home buyer to maximise the proportion of their ownership to reduce the on-going rental charge on the proportion that they do not own.

Many staff working for registered providers have also purchased shared ownership homes which reflects well on the product offering and provides operational insights to the organisation to identify process improvements for future shared ownership home buyers.

In 2016, The Urban Institute published a blog which posed a series of 11 questions that a home buyer should utilise to inform themselves on how the shared equity model being explored operates and the long-term considerations of entering into the arrangement. The questions (adapted below) provide the home buyer with a framework to interrogate the shared equity model and consider how the product offering will respond to their household's requirements both up-front and in the long term. Ensuring home buyer education includes a framework of information to adequately respond to these questions is critical to maintain consumer confidence of the shared equity model in the market (regardless of the organisation providing the shared equity product).

Theodos, Seidman and Goodman from The Urban Institute highlighted 11 key questions a home buyer should consider before embarking on the shared equity journey.[14]

Upfront Considerations

1. **How well are the features of the shared equity approach explained? Are home buyers sufficiently educated about the terms of equity sharing and homeownership?**
2. **Who is eligible to participate in these models, in terms of assets, income, credit score, and cost of the home?**
3. **What is the all-in cost of participation, including up-front fees, servicing fees, and third-party fees?**
4. **How good a deal are these models under various conditions, such as home price appreciation or depreciation, whether the homeowner uses this approach to buy more house or to save money, and how long the homeowner lives in the home?**
5. **How does the interest rate and all-in interest cost over time differ from what would be available from a conventional lender?**

On-going Considerations

6. **How long does the equity sharing last? If it ends before the homeowner wants to sell, how are the investors repaid?**
7. **Are there restrictions on the homeowner's ability to, for example, obtain a home equity line of credit?**
8. **What happens to the shared equity relationship if a homeowner defaults on the first mortgage or fails to pay property taxes?**
9. **What consumer protections will apply to the relationship between the homeowner and the investor? Must disputes be settled by arbitration?**

Exit Considerations

10. **How are capital improvements fully paid by the homeowner taken into account in determining the investor's share? How is deferred maintenance dealt with?**
11. **How can a homeowner terminate the shared equity relationship, and how is the home's value at termination determined, especially if the homeowner wants to end the relationship without selling the home?**

Conclusions and Recommendations

In the Australian context, there are four key conclusions taking into account the breadth of experience and knowledge of shared equity provision in the USA and UK:

- Subsidy Alignment;
- Issue of Scale;
- Industry Alignment; and
- Evidence / Data Capture.

Subsidy Alignment

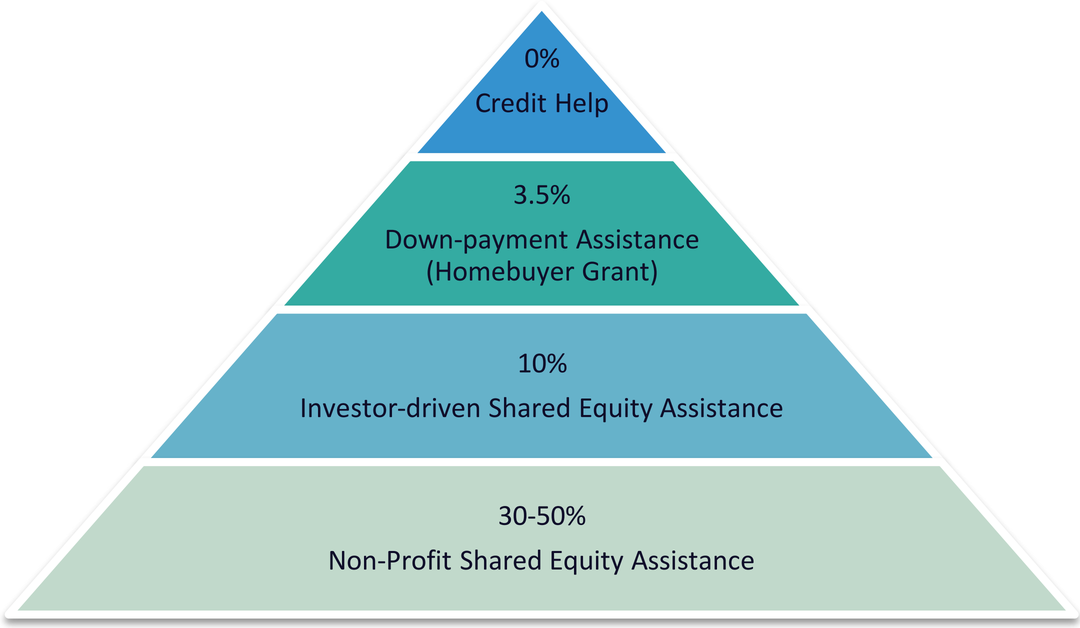
The UK experience where shared equity and shared ownership have benefited from long-term stable bi-partisan political support and policy, including significant government investment and subsidy is unlikely to be easily replicated in Australia due to the considerable pressure it would place on the public purse. As such, the role of private finance will be critical to fill this gap. However, without some level of government backing and opportunities to establish a track record delivering these schemes in the Australian housing finance market, the ability for private finance to step into this gap will be limited.

The USA experience where innovation has had to breach the absence of large-scale government subsidy has seen the involvement of philanthropy and private investment in this space. That being said, particularly in the context of private investment, the benefit of wealth creation for the home buyer and community in general is heavily reduced as the investment return must be aligned to the requirements of the investor. As such, it is proposed that any shared equity model done at scale in Australia could apply a ‘buffet’ of options with varying levels of government subsidy to meet the homeownership needs and aspirations of Australians.

As Figure 4 on the following page proposes, there are a range of solutions with varying subsidy requirements that can be delivered into the market from high subsidy models traditionally delivered by non-profits through to credit help arrangements that require little or no government subsidy but can ensure homeownership is one step closer for some households. Alongside down-payment assistance similar to first-home buyer grants and the forthcoming First Home Loan Deposit Scheme to be launched in January 2020 by the National Housing Finance and Investment Corporation (NHFIC), there is a role for private finance to assist home buyers who have capacity to service conventional debt however require additional assistance (circa 10% of the purchase price) to secure the purchase of a home. This model works well in overheated markets where the benefit of purchasing sooner is offset by the disproportionate transfer of capital appreciation secured by the investor.

The private finance approach to shared equity provision would be seen as a complimentary (not replacement) model to the non-profit model where the subsidies are usually deeper (around 30-50%) however the benefit to the home buyer and the community is protected. In the context of heavily subsidised assistance, it would be expected that home buyer targeting and narrow eligibility requirements would be applied in addition to strategies to ensure any capital appreciation that resulted would be preserved for future home buyers and community benefit. In contrast, the investor-driven models require minimal government subsidy and as such may be allowed to operate in response to market conditions including demand, free of targeted eligibility requirements.

Figure 4: Subsidy Requirements for Shared Equity Provision



Surprisingly, one of the main issues impeding access to homeownership particularly in the USA is the methodology applied to calculating credit scores when determining mortgage approvals. Currently, most lenders use FICO credit scores as the basis for determining credit however rental payments are not counted as they are not reported to credit bureaus. Organisations such as Fannie Mae and FHA are reticent to not use the FICO score otherwise the home buyer pays significantly more for their mortgage. While credit repair requires little subsidy, it is viewed that these strategies assist home buyers who would have accessed home ownership eventually.

Both the USA (Down Payment Resource - https://downpaymentresource.com/) and UK (The Rental Exchange - https://www.experian.co.uk/business/consumer-information/consumer-credit-management/rental-exchange/) have on-line resources to assist home buyers and shared equity practitioners with information and advice about shared equity, credit repair and first home buyer assistance.

> **"Doing things to look at where you can expand credit determination using non-traditional sources to qualify borrowers will move renters into homeowners more than anything else" – Laurie Goodman, Urban Institute**

Issue of Scale

The most commonly applied term used to describe shared equity (and shared ownership) was 'niche'. Even in the UK, with over 220,000 equity loans issued through Help to Buy and over 270,000 homes delivered through shared ownership, combined these models still only account for less than 1% of the UK housing market.

But is big always better? As a niche product, the benefit accrues with the home buyer. However, if it was available at scale, potentially it would drive house prices up. This was seen with the Interest-only Adjustable Mortgages offered in California. Launched as a niche product, it took off in 2003. Initially it was a great way for low-to-moderate income households to enter the market and tilted the market in their favour. However, once it reached scale, with higher income households being out-bid by lower income households, there was a move by higher income households to re-finance to interest only mortgages so they could afford higher valued homes. In the course of four years, the number of households using interest-only loans expanded from less than 1% to over 80% and house prices increased rapidly. There were challenges in repaying the loans and when the market marginally dropped, as the homeowner had no equity, there was an increase in foreclosures.

> **"Shared equity needs to remain a niche product but it can be 100 times bigger and still remain niche" – Rick Jacobus, Street Level Advisors**

While scale is unlikely to be an issue for the Australian market anytime soon, the unintended consequences of new schemes such as shared equity do need to be considered. In addition, to attract private finance and eventually create a new investment asset class requires scale even if the overall proportion of the market remains niche. To do this, a coordinated approach working with government at all levels (especially town planning decision makers in State and local government), non-profits, private finance and philanthropy is required. Housing demand continues unabated particularly in Australian cities and exploring alternatives to assist Australians along the homeownership pathway not only achieves social benefits (e.g. removing pressure off an already stretched private rental market) but encourages household wealth creation and supports economic growth.

Industry Alignment

While the leadership role of government is essential as a subsidy provider, policy maker and regulator, it also provides confidence to the for-profit partners involved in the provision of shared equity namely the private financiers, mortgage lenders, valuers etc. The benefits of standardisation and alignment (where possible) to existing industry functions (e.g. standard leases, policies etc) assists investors and lenders with the adoption of new models without significant resources required to review an array of models and legal instruments. The growing role of the National Housing Finance and Investment Corporation (NHFIC) provides government with an existing mechanism that can be extended to the provision of shared equity as a complementary strategy to respond to housing needs.

The requirement for inclusionary zoning is not new in the Australian context with mixed application amongst the States. A national policy position for inclusionary zoning is critical to support the underlying asset creation for shared equity however this needs to be developed in partnership with the development industry to ensure policy measures are not punitive and do not stifle economic growth driven by property development.

The role of philanthropy as a mechanism to finance 'proof of concept' models and create a track record for future investment is worth pursuing as a catalyst for growth. Using philanthropic funds to leverage investment from both government and private finance, will provide an evidence base needed to support future, large-scale investment in shared equity provision.

Registered community housing providers across the country also have a vested interest in progressing shared equity by providing an alternative housing solution to the market (particularly in mixed tenure developments), but also offering their tenants an achievable pathway into homeownership. As tenants transition into home ownership, this will free up existing affordable rental properties to be made available to other households in housing need.

"Registered Providers … require sustained Government support in order for shared ownership delivery volumes to fulfil ambitions. Registered Providers understand it, know it works and are ready to ramp up supply. For the many aspiring homeowners feeling locked out of the market, it could not come soon enough." – David Jubb, JLL Residential Development Consultancy [15]

Australia is not alone on this path to shared equity provision. There are a number of experts and practitioners across the USA and UK poised to share their knowledge and create an international partnership network that can guide us through these formative stages and inform our approach across all relevant industries.

Evidence / Data Capture

It is clear that evidence and data capture needs to be one of the foundation requirements to establishing a shared equity investment asset class, to provide a basis for monitoring performance and outcomes to attract private finance, government funding and philanthropic assistance. Whether it is through the creation of a central registry that records all shared equity homes to ensure no leakage from the sector or an alternative approach, understanding the scale and nature of the portfolio is essential.

As highlighted by the former Council of Mortgage Lenders (now UK Finance) report launched in 2016[5], without a consistent methodology for collecting information about the home buyer, their shared equity home, and the housing market in which they reside, it is difficult to monitor the success of the model from both a consumer and market perspective. In Australia, we have the benefit of the Australian Housing and Urban Research Institute (AHURI), which has proven experience in empirically reviewing shared equity and other alternate housing models to inform policy and investment decisions. Their involvement alongside shared equity policy makers and practitioners is essential to creating and maintaining the evidence needed to fuel on-going investment into shared equity provision in Australia.

Recommendations
Commonwealth Policy Response - The newly appointed Commonwealth Housing Minister to develop a policy response to the creation of a shared equity asset class, underpinned by Government (through the NHFIC) to attract private investment particularly superannuation funds seeking long-term, stable asset investments.
National Shared Equity Loan Scheme - The National Housing Finance and Investment Corporation (NHFIC) to explore a shared equity loan scheme similar to Help to Buy alongside the forthcoming First Home Loan Deposit Scheme to be launched in January 2020.
Inclusionary Zoning Policy Response - Continue to lobby and engage State Government Planning Departments and property development peak bodies (e.g. Urban Development Institute of Australia and Property Council of Australia) to explore how inclusionary zoning can be incorporated into planning legislation while not creating a punitive response against the property development industry.
Philanthropy Engagement - Work with Philanthropy Australia, social impact investors and other relevant non-profits to explore how philanthropy can be captured to support pilots/trials of shared equity models to create a track record for future investment from a range of sources (government, private sector etc).
Financial Services Engagement - Seek the support of the Commonwealth Housing Minister to establish a working party with senior representatives from the financial services industry including superannuation funds to capture industry perspective for the development of a shared equity asset investment class.
Standardised Document Suite Creation - Work with mortgage lenders and industry peak bodies to develop a suite of standardised documents (including leases, contracts, policies, guidelines) to be reviewed and adopted by the industry to underpin the development of shared equity schemes by non-profit and for-profit organisations.
Shared Equity Property Registry - Ensure the creation of a central registry of shared equity homes (particularly those created through inclusionary zoning) to avoid leakage from the market and maintain a suitable source of data to inform policy and research by all relevant industries.
International Partnership - Create an International Partnership Group inviting shared equity experts and practitioners in the USA and UK to share best practice and inform the development of shared equity in Australia.
Shared Equity Online Resource - Create an online resource (for the Australian context) to assist shared equity practitioners and home buyers to access resources to enhance understanding of, and access to available programs, and facilitate improved access to credit.

Dissemination and Implementation

The findings from the Fellowship underpin a presentation at the biennial National Housing Conference 2019 held in Darwin, Northern Territory. The presentation will reach a national audience of community housing providers, government officials, academics, and housing practitioners both domestically and internationally.

In addition, presentations and workshops with financial institutions and peak bodies including Macquarie Bank and Social Ventures Australia are anticipated alongside Commonwealth and State Government lobbying strategies through National Affordable Housing Providers Ltd and the Australasian Housing Institute. The report will also be shared with the National Housing Finance and Investment Corporation.

Finally, continued work with the development industry including peak bodies such as the Urban Development Institute of Australia (UDIA) and Property Council of Australia (PCA) to proactively highlight the commercial opportunities associated with shared equity housing solutions and break down any barriers to product delivery into the market.

Given the diversity of relevant sectors in the Australian context, change to the broader system to mainstream shared equity provision in Australia is a marathon rather than a sprint and as such opportunities to promote the findings from the Fellowship will continue to be sought and opportunities to engage in the outcomes from the research always welcome.

Appendix A - Expert Advisors

Sincere thanks to the following shared equity experts across the USA and UK for sharing your knowledge and time to contribute to this report. I hope it may be the catalyst to explore more opportunities to share experiences and learnings to enhance our collective capacity to assist more households on their home ownership journey.

Meeting	Role	Organisation
Rick Jacobus	Principal	Street Level Advisors
Alex Lofton	Head of Growth & Co-Founder	Landed
Brett Theodos Laurie Goodman	Senior Fellow Vice President, Housing Finance Policy	Urban Institute
Joseph Weisbord	Director, Access to Credit & Affordable Housing	Fannie Mae
Anne Segrest McCullogh	President and Chief Executive Officer	Housing Partnership Equity Trust
Robert Grundy Helen Collins Chris Buckle	Head of Housing Head of Housing Consultancy Director, Residential Research	Savills UK
Karen Ng	Investment Director	Big Society Capital
Matthew Jupp	Principal, Mortgages Policy	UK Finance
Shahi Islam	Head of Programmes & Policy	Homes England
Kathryn Hopkins	Post Sales Manager	Radian Group
Amy Nettleton	Assistant Development Director – Sales and Marketing / NSG Chair	Aster Group / National Sales Group (NSG)
Rhys Moore	Head of Media, Campaigns and Public Affairs	National Housing Federation
Joseph Levitt Kenneth Cameron Deji Ishola Allan Stephen	Head of Homeownership Policy Policy Adviser - Help to Buy: Equity Loan Policy Adviser – Affordable Home Ownership Policy Adviser – Help to Buy: Equity Loan	Ministry for Housing, Communities and Local Government

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