AHURI BRIEF

What is a shared equity scheme?

Sharing the costs of purchasing a home can help lower income homebuyers

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The Treasurer has suggested shared equity schemes could be part of the solution for making Australia's housing affordable for lower income homebuyers. Indeed, the Victorian Government has recently announced it will offer Government-backed shared equity arrangements and similar schemes are already operating in Western Australia, South Australia, Tasmania and the ACT.

Shared equity schemes, whereby the home buyer shares the capital cost of purchasing a home with an equity partner, allow **lower income homebuyers to buy sooner (https://www.ahuri.edu.au/research/final-reports/137)** as they need a lower initial deposit and have lower ongoing housing costs. However, having reduced equity in the property means homebuyers also make a reduced capital gain when they sell.

How do shared equity schemes work?

Shared equity models can take a number of different forms, but they essentially operate in one of two ways.

In the 'individual equity' model, which is most prevalent in Australia and is operated by Australian state governments, the homebuyer takes out a loan on a proportion (typically 70% or more) of the full cost of the property, while the equity partner provides the rest of the capital. During the loan period the homebuyer can buy more equity in the property (if and when they can afford it) as a stepping stone to 'normal', full ownership. At the time of sale (or refinancing), the partner recoups their equity loan plus a share of capital gains.

In the **'community equity' model (https://www.ahuri.edu.au/research/final-reports/137)**, the homebuyer buys a proportion of a property with a subsidy from the equity partner, usually a form of 'not-for-profit' trust or housing association. The equity partner retains a large proportion of ownership and has an ongoing interest in the property. **Community Land Trusts (CLTs) (https://www.ahuri.edu.au/research/research-papers/principles-and-practices-of-an-affordable-housing-community-land-trust-model)**, which exist in the USA and the UK, are examples of this model.

When the householder decides to sell, any increases in the value of the property are limited through the use of predetermined price formulae instead of being based upon open market values. For example, in the USA 55 per cent of CLTs operate with the simple formula that they retain the majority of equity such that householders are **only entitled to 25 per cent of the property's appreciated value on resale (http://www.ahuri.edu.au/research/research-papers/principles-and-practices-of-an-affordable-housing-community-land-trust-model)**. The intention is that, rather than the initial subsidy dissipating when the household sells, the equity partner's ongoing interest ensures the home will remain affordable for future households.

Who benefits from shared equity schemes?

Government-backed shared equity initiatives are targeted towards lower and moderate income households who **can sustain a reasonable level of assured, long-term financial capacity (https://www.ahuri.edu.au/research/final-reports/137)**. In essence, the shared equity initiatives 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.

Other advantages for homebuyers include if they have trouble with repayments (e.g. if they become unemployed) a committed equity partner can offer a safety net such as proposing a payment holiday, extending the loan or buying back a share of the property's equity.

For governments, the benefits in assisting lower income households through shared equity schemes are that they relieve the strain on assisted housing programs, may reduce reliance on welfare (e.g. reduce demand for Commonwealth Rent Assistance) and, where the home owner's mortgage is tied in with a government lender, can return modest profits from mortgage interest repayments.

Government-backed shared equity arrangements are a niche solution for a select clientele of lower income householders, and need to balance commercial sensibilities with social policy objectives in order to be viable. They have to be targeted towards households with incomes that are high enough to pay the low mortgage but not so high that they could afford a commercial housing loan. The maximum house prices the schemes can pay for need to be kept low so as **not to adversely stimulate demand in the housing market (https://www.ahuri.edu.au/research/final-reports/137)** and push up house prices.

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