What are alternative tenure models?

Rising house prices have made it difficult or impossible for some people to buy a home of their own. Alternative tenure models - sometimes called shared equity models - are a way for lower-income households to move into a home with some of the benefits of ownership.

Housing affordability has fallen significantly in recent decades. Lower-quartile house prices in Auckland, for example, are estimated to have increased by 540% between 1991 and 2018, while median household incomes increased by just 150%.

There are now over 210,000 New Zealand households that are renting, have at least one person in paid employment but cannot afford to buy a house under bank lending rules. That represents over a third of all renting households.

Shared equity models, with a mix of characteristics of owning and renting a house, can help. They require a provider, such as a trust or a private company, to help with funding. A potential owner therefore needs less money than they otherwise would.

What are the benefits?

Shared equity schemes have benefits for the individuals who gain access to housing and to the wider communities.

Benefits for individuals

- Housing is more affordable. These schemes lower the cost of the initial purchase price and typically require lower repayment costs from buyers. In some cases, it may be the only chance they have of becoming homeowners.
- Potential owners may get access to property that is higher value, larger or better located than they could otherwise afford.
- Homeowners may face fewer risks around fluctuating interest rates.
- If house prices increase, depending on the type of scheme, homeowners may have the chance to share in the capital gain, increasing their wealth.
- Homeowners may get support or guidance around home maintenance.
- Ownership provides occupants with greater security. They feel they have more control over their lives and are more likely to be engaged with their community.
- The stability families gain can mean better health and education results for children.

Benefits for communities

- Housing stability may lead to greater community participation.
- Schemes that limit the gain a homeowner gets when they sell mean the houses are more affordable for subsequent buyers.
- If a shared equity scheme involves a new home, an existing dwelling is freed up for another household.
- These schemes can provide accommodation for key workers (such as nurses or police) and their families.
- Household diversity in areas of urban regeneration can be broadened in a sustainable way in tenure, household incomes, household composition and ethnicity.

For local and/or central government, the schemes help leverage private finance and philanthropic funding and provide only a shallow subsidy to lower-income households who would benefit from becoming owner-occupiers. The more households that move into owner-occupation, the fewer households needing rental assistance. Some researchers have found that less government money is required to help a household buy a share in their dwelling than to assist a household to affordably rent one over time.

Equity partners gain a new form of access to investment in residential houses, and mortgage providers gain new business opportunities.

What are the different models?

Key features of the different models of alternative tenure include:

- how they are funded
- the value of each party's share and how capital growth/loss is shared
- how risks are shared - some schemes guarantee the provider a minimum return on investment, while in others, the sole benefit is capital gain
- the nature of the property rights (including transfer rights) between the parties
- whether the purchaser can eventually own all of their home or not.

Most models rely on some form of subsidy or land use regulation. Some are closer to renting, while some are closer to home ownership (Figure 1).

Common forms of alternative tenure include:

- cooperatives
- community land trusts
- shared equity ownership
- co-ownership
- shared equity loans
- deed-restricted housing.

Cooperatives

Cooperatives typically involve multi-unit housing. The cooperative owns the building, and households have a lease or rental agreement. Membership of the cooperative provides a right to occupy a dwelling and participate in governance. Cooperatives keep affordable housing for the use of multiple households.

Community land trusts

Community land trusts are typically private non-profit organisations. The trust owns the land while occupiers own all or part of the improvements. The trust retains some control over the structures - for example, to ensure necessary maintenance is carried out. Trust rules and regulations typically set out how the initial purchase and resale price of units is set.

Shared equity ownership

In shared equity ownership, the occupiers hold a lease. They purchase a share of the property and pay rent on the partner's equity. Tenants usually have the right to increase their share to 100% ownership over time.

Co-ownership

Co-ownership models have both the occupier and the equity partner registered on the title. The occupier typically has the right to increase their share up to 100% at market value. They may or may not:

- be compensated for any improvements to the property
- receive a proportional share of any change in market values
- have to pay a return on the equity partner's capital.

Shared equity loans

Shared equity loans are similar to co-ownership models except that the equity partner's interest is registered on the title as a mortgage rather than as a shared owner.

In subsidised models operated by government agencies or community housing providers, any change in values is typically shared according to the proportional ownership.

In private sector models, the equity partner typically takes a higher proportion of any increase in value but a proportional share of any loss.

Deed-restricted housing

Units are sold to eligible households at a price determined by a formula designed to keep the housing affordable. On resale, dwellings must be sold to households meeting the eligibility criteria using the same formula. (The provider may have the first right of refusal to buy the property.)

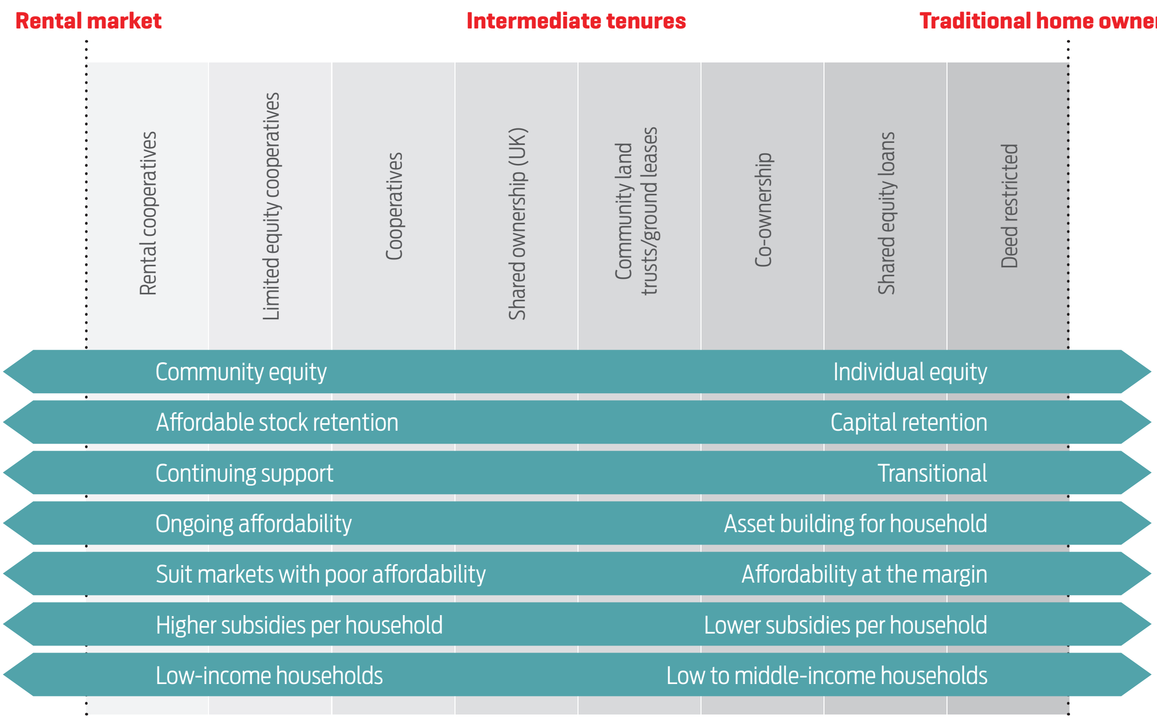

Figure 1. Shared equity models on the rental-ownership continuum.

Adapted from Jacobus, R. & Lubell, J. (2007). *Preservation of affordable home ownership: A continuum of strategies*. Washington, DC: Center for Housing Policy.

Tenures on the left of Figure 1 are like a much more secure form of renting. The affordable housing stock is not sold. This allows ongoing support for low-income households by recycling dwellings. These tenures typically suit markets with severely poor affordability and require high levels of subsidy per household.

Tenures on the right are closer to ordinary ownership. They help create equity for households, who often move on to full ownership. These models recycle capital across multiple dwellings after resale of units. They help low to middle-income households in markets where affordability is poor but not severe. They require a relatively light subsidy per household.

Drawbacks of shared equity schemes

- The schemes can be complicated with little standardisation. Consumers need to be very well informed.
- Significant quantities of low-cost (below market rate) 'patient' capital is required.
- Some schemes base returns on property price growth that is uncertain.
- Those in the finance sector are unfamiliar with the schemes.
- If house prices grow faster than incomes, the income households need to buy a dwelling under some shared equity programmes also increases. The income required can easily be above the median household income. Governments find it less politically acceptable to use taxpayers' money to assist these households into home ownership.
- The targeted nature of some schemes limits the scale they can achieve.
- Potential owners may prefer a helping hand in the mainstream market than being part of a permanent alternative option.
- There is unequal sharing of returns/risks in poorly designed products.

What is the New Zealand experience?

A few New Zealand organisations have provided shared equity products but not had a significant impact on the market:

- New Zealand Housing Foundation - shared equity co-ownership.
- Queenstown Lakes Community Housing Trust - used to provide shared equity co-ownership product but now moving to a 'secure home' similar to the community land trust model.
- Dwell Housing Trust - shared equity co-ownership.
- Marlborough Sustainable Housing Trust - shared equity co-ownership.

Under papakāinga housing initiatives, three or more homes are developed on Māori-titled land that is usually collectively owned. This style of development has some similarities to community land trusts. The shared land ownership means that papakāinga housing can be more affordable. Te Puni Kōkiri administers the programme. By the end of 2017, its Māori Housing Network had invested over $40 million in small-scale projects. Te Puni Kōkiri's Te Ara Mauwhare housing initiative aims to assist low to median-income whānau into owner-occupation. Te Ara Mauwhare will use $9 million over 3 years to trial the scheme.

Another model operating in New Zealand is the occupancy right agreement giving retirement village residents the right to occupy their units and access common areas. There are over 30,000 village units under these agreements. Typically, a unit occupier will receive around 65–75% of their initial purchase price back on exit. The balance is kept by the operator, typically a for-profit company, as a deferred management fee.

Viability of alternative tenure formats in New Zealand

Four case studies were modelled in Auckland, Tauranga, Western Bay of Plenty and Christchurch to examine the viability of shared equity models in New Zealand.

Modelling of a rental cooperative produced low returns - the potential for these to grow is likely to be determined by the government's willingness to invest.

Modelling shared equity co-ownership/mortgage models (assuming occupiers bought a minimum of 60% of the dwelling) found that households in Auckland and Tauranga would need to be earning 120% of the median household income.

Where to from here?

Overseas experience indicates that shared equity schemes work best when:

- households can purchase a minimum of 60% of the value of their dwelling
- households can eventually buy 100% of their homes
- households can choose their own home rather than being tied to a particular development
- households can benefit from capital gains and can sell on the open market
- central government leads in policy and regulation, enabling standardised, transparent products and an effective resale market
- scheme design takes account of differences in incomes and house price characteristics across different housing submarkets
- households have the long-term capacity to service debt - targeted eligibility criteria is important, and schemes should target households with incomes below, but not unsustainably below, median household incomes
- there is a good match between purchasers and models - different models suit households at different points of the housing continuum (see Alternative tenure models #2 *Which alternative tenure models suit which households?*)
- the initial unit pricing formula and resale formula are carefully set
- ongoing support is provided to households.

European models have often involved public-private partnerships for new build homes and/or regeneration, commonly using publicly owned or highly regulated land.

Some researchers suggest that shared equity is unlikely to become a mainstream product. Its most likely role is to allow governments to assist marginal home purchasers (but not those in greatest housing need) into owner-occupation.

If a wider range of tenure options are not offered using publicly subsidised capital, there are few alternatives for households earning median or below-median incomes to get into their own homes. Home ownership rates in New Zealand will most likely continue to fall.

More information

BRANZ Research Now: Alternative tenure models #2 *Which alternative tenure models suit which households?*

Mitchell, I. (2018). *Alternative tenure models and their potential applicability in a New Zealand context*. BRANZ Report ER35. Judgeford, New Zealand: BRANZ Ltd.