External Research Report

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Alternative Tenure Models and their Potential Applicability in a New Zealand Context

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1.1: Introduction

Access to affordable good quality housing has been declining in a significant proportion of housing markets around the world. Some countries have responded to pressures within their housing systems to provide a range of intermediate/shared equity (alternative tenure structures) and these responses have varied between countries. These intermediate/shared equity tenures have characteristics which fall between pure rental and traditional ownership models. A number of terms have been used to describe these intermediate tenures and they are loosely defined as shared equity models.

This research investigates whether intermediate/shared equity tenure models used overseas are applicable in a New Zealand context and whether they could provide opportunities to improve access to affordable good quality housing with long term security of tenure so that we can better meet our legal obligations under the United Nation conventions[1]. The research also investigates the potential application of different models to meet households needs as they age and at the different pressure points along the housing continuum.

1.2: Literature review

A number of different types of intermediate/shared equity have been developed. These models all aim to lower entry cost to different hybrid structures and reduce risks by reconfiguring the ways in which the rights and responsibilities and, in particular, the value of the home is shared between the occupant/purchaser and the provider. Tenure models include:

- Rental, limited equity, and market cooperatives;
- Community land trusts/ground lease models;
- Shared equity co-ownership;
- Shared equity mortgages; and
- Deed restricted housing.

The benefits associated with these tenures include improved housing affordability, providing occupants with increased stability, which leads to increased community participation and a range of other ”ownership like benefits”[2].

[1] Under the International Covenant on Economic, Social, and Cultural Rights.

[2] The range of home ownership economic costs and benefits is summarised in Provan et. al. (2017)

Theodos et al (2017) suggested shared equity programmes in the United States of America (USA) typically have three important features:

- They lower the cost of the initial purchase price to the purchaser;
- They limit the gain a home owner can receive on resale, thus generating a relatively affordable price for a subsequent buyer; and
- They frequently provide stewardship to maintain community values and help owners retain and maintain their homes.

Whitehead and Yates (2010) suggested three main attributes differentiate these hybrid tenures and these are: how they are funded; the value of each parties' interest and how any change in value is allocated; and the nature of the property rights (including transfer rights) between the primary and secondary owners. The distinguishing features of the different tenures relates to the different way in which these rights are grouped together. Whitehead and Yates (2010) and Bright and Hopkins (2012) identified the following advantages of intermediate/shared equity models:

- For the occupiers/purchasers, they provide a new source of funding with typically lower repayment costs. This gives purchasers access to higher valued, larger or better located property than otherwise would have been the case. In some cases, it provides the only opportunity they have of becoming owner occupiers. Throughout the contract period it can reduce the occupier's exposure to variations in interest rates and prices. It also has the potential to add to the household's wealth if asset prices increase;
- For the occupiers/purchasers they provide a sense they have arrived and achieved their dream with a home with the security of place and a sense of control over their housing environment which refers to the non-financial benefit as improved sense of reliability of things and place including security of tenure;
- For the equity partner, they enable greater diversification through access to the investment in residential house prices which have the potential to be made tradeable and divisible;
- For mortgage providers, working in partnership with shared equity investors or by offering products themselves, they provide an opportunity to expand into new markets and access to different asset class; and
- For Government, they help leverage private finance, philanthropic funding, and provide only a shallow subsidy to households who would benefit from becoming owner occupiers but face cash flow constraints. Increasing the number of households into owner occupation, potentially reduces the number of households needing rental assistance.

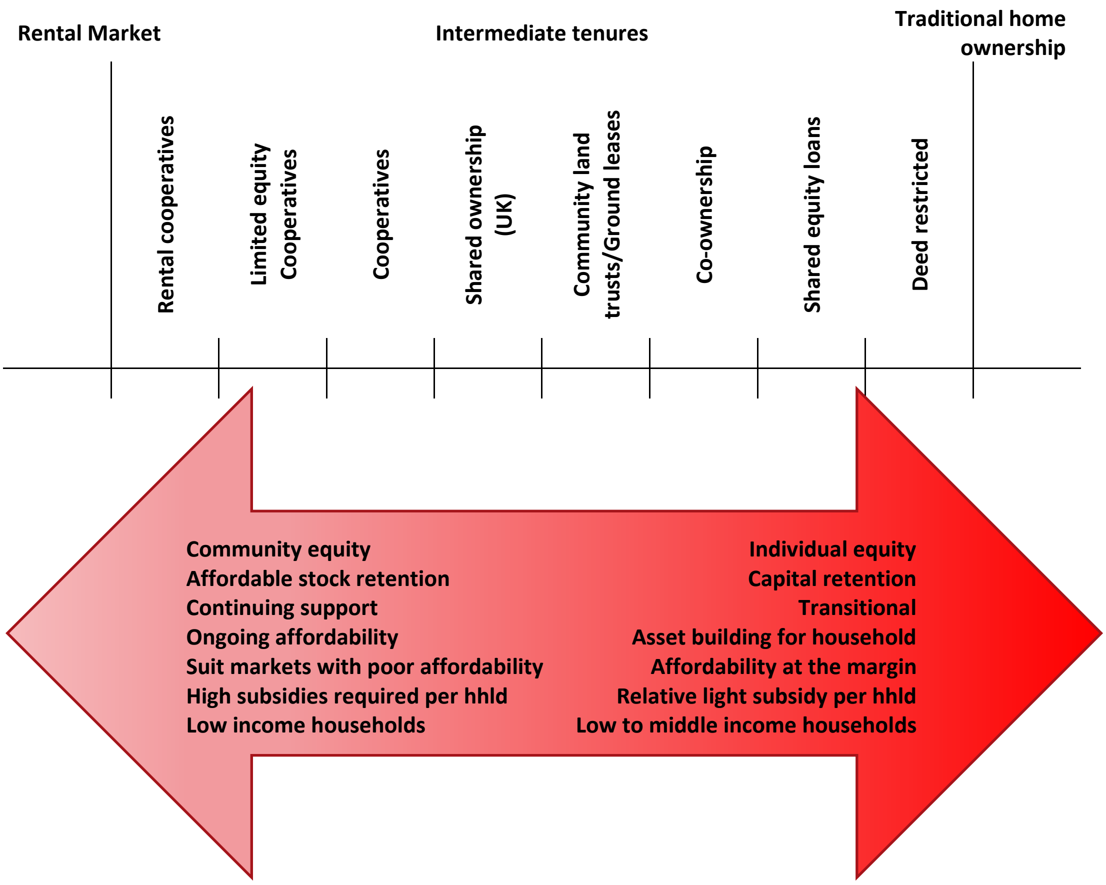
The ability of intermediate/shared equity programmes to deliver benefits are generally supported in evaluations by Davis (2006), Jacobs (2005), Davis and Demetrowitz (2003) and Temkin et al (2013).

Bright and Hopkins (2012) suggests the community benefits associated with shared equity ownership include:

- Creating sustainable mixed communities which provide a range of household profiles. The range includes variations in tenure, household incomes, household composition and ethnicity; and
- Creating sustainable mixed tenure communities means the tenure mix must be maintained in the longer term. This is easier in models which recycle houses rather than capital.

Figure 1.1 presents an overview of the range of main alternative tenure models available along the housing continuum considering their underlying tenure and a number of other key characteristics.

Figure 1.1: Alternative intermediate/shared equity tenures and the housing continuum



Source: Adapted from Jacobus and Lubell (2007)

The intermediate tenures on the left of the spectrum typically retain the community's equity contribution by the retention of affordable housing stock which allows for the ongoing support for low to moderate households by recycling the dwellings across multiple households. These tenures typically suit markets with severely poor affordability and require high levels of subsidy per household and are able to assist households on low incomes relative to the area's median household income.

The intermediate tenures to the right of the continuum help create equity for individual households and provide ongoing support for affordable housing by recycling the community's capital across multiple dwellings (post resale of units). These tenures tend to be more transitional in nature with households moving on to full ownership over time partly as a result of the asset/wealth building opportunities they provide. They best suit housing markets where affordability is poor but not severe. Compared to other intermediate tenures they require a relatively light subsidy per household and can assist households on low to middle incomes depending on the market's affordability profile.

Pinnegar et al (2009) and Whitehead and Yates (2010) suggest that there were a number of obstacles which are likely to limit the market share of an intermediate/shared equity product these included inconsistent government policy, limited ongoing access to affordable capital to subsidise development, the targeted nature of some programmes, the complex structure of some tenure products, and an unequal risk sharing in poorly designed products.

Whitehead (2010) suggested shared ownership and shared equity products had untapped potential and recommended a number of strategies to achieve higher levels of market penetration. Her suggestions included:

- A simplified standardised product enabling shared equity on existing and new dwellings, more transparent regulation and subsidy;
- The development of a better resale market for shared ownership and shared equity products; and
- The need for a transparent shared equity product that concentrates on risk sharing and sustainability and has the potential for scale.

Intermediate/shared equity models from a policy perspective

Bright and Hopkins (2012) suggest it is important from a policy perspective when designing intermediate/shared equity programmes to take into account the tensions that exist between seeking to deliver both individual and community benefits of owner occupation. They suggest this can be described as a "conflict of competing goods". This expression captures the different housing goals that provide outcomes which meet social and moral objectives. The issue being it is impossible to maximise each competing goal with the tensions that exist between the individual goals relative to community benefits.

Table 1.1 presents a summary of the relative advantages and disadvantages of a range of schemes promoting owner occupation from a British perspective.

Table 1.1: Advantages and disadvantages of owner occupation schemes

	Community impact	Individual impact

	Mixed communities	Sustain tenure mix	Sustains access to equity growth	Wealth creation	Mainstreaming	Security of place
Cash incentives	Not achieved	Not achieved	Not achieved	Achieved	Achieved	Achieved
Shared ownership	Achieved	Achieved	Achieved	Achieved with risks	Limited	Achieved with risks
Shared equity	Achieved	Limited	Achieved	Achieved	Limited	Achieved
Cooperatives	Limited dependant on rules	Achieved for non-market mix	Achieved	Limited	Not achieved	Limited dependant on rules

Source: Adapted from Bright and Hopkins (2012)

Wallace (2012) suggested that subsidised shared ownership schemes are more acceptable to purchasers the closer the models fit with purchasers' expectations of what home ownership means. Thus, from a policy perspective it is important to take these factors into account if part of the objective is to allow households to accumulate ownership like benefits from an intermediate /shared equity programme.

Monk and Whitehead (2010) contend that governments typically respond to the potential for reducing public costs and improving value from public money not in an optimal manner but in the easiest and most politically acceptable way in a highly constrained world. In this context the strongest political rationale for intermediate tenure may well be simply that it can avoid higher government outlays in the short term and that the social investment today will lower future public spending.

In summary, intermediate/shared equity tenure models provide capacity to create an opportunity for households with insufficient incomes to buy dwellings outright with an affordable housing solution which provides some ownership like benefits. Different models suit households at different points of the housing continuum. From a policy perspective, decisions are required about how best to deploy the time and resources required to achieve these outcomes and which group of households are most in need of assistance. Any policies also need to consider the trade-off between accumulation of individual benefits relative to community wide benefits.

1.3: New Zealand intermediate/shared equity models

New Zealand has a number of providers that have provided intermediate/shared equity products. However, they have received limited and intermittent support from central and local government which has constraint their ability to grow. The following organisations have offered shared equity products the New Zealand Housing Foundation (shared equity co-ownership), Queenstown Lakes Community Housing Trust (used to provide shared equity co-ownership product and how shifting to a "secure home" which is similar to the community land trust model), Dwell Housing Trust (share equity co-ownership) and Marlborough Sustainable Housing Trust (share equity co-ownership). Although these organisations provide valuable support to the households they assist, none are operating at the scale required to have a significant impact on the market. Limited access to low cost patient capital including government grants and changing government policy have all limited their ability to grow and operate at scale.

1.4: Viability of alternative tenure formats in New Zealand

Four case studies were developed to test the viability of intermediate/shared equity models in a New Zealand context. The case studies were developed with organisations interested in testing the opportunity for intermediate/shared equity tenure models in their housing markets. The case studies are based on low rise walk up multi unit developments and targeted at low income key worker families located in Auckland, Tauranga and Western Bay of Plenty; and Christchurch. In addition, a development targeting low income households with people aged 65 years and over was analysed. The objective was to examine the viability of intermediate shared equity tenure models in different locations and income levels.

Table 1.2 presents the level of returns generated by a rental cooperative on the patient capital required (development cost less the members' initial contributions) by the development for a range of household incomes. Typically, a rental cooperative would be expected to target lower income households, for example those with incomes 80% or less than median household income.

Table 1.2: Rental cooperative returns[3]

Household incomes	Median Household incomes[4]	$50,000	$60,000	$70,000	$80,000
Tauranga - Low income key worker family	$66,000	1.0%	1.5%	2.1%	2.6%
Auckland - Low income key worker family	$90,000	1.1%	1.5%	2.0%	2.5%
Christchurch Inner city low income key worker	$77,500	1.7%	2.5%	3.2%	4.0%
Household incomes		***$25,000***	***$30,000***	***$40,000***	***$45,000***
Tauranga - aged renter units[5]		-0.1%	0.3%	1.1%	1.5%

Note the median household incomes vary between cities.

The case studies demonstrate the rental cooperative models produce low returns. Any value escalation in a market is effectively locked away as the model is based on the improvements being used by the cooperative over the development's functional life. Given the low level of returns the most likely source of patient capital ranges from philanthropic investors with a social conscience, and local and central government. Consequently, the potential of these models to grow are likely to be determined by Government's willingness to invest.

An alternative to a rental cooperative is to encourage households into owner occupation using either shared equity co-ownership or a shared equity mortgage. Table 1.3 presents the proportion a dwelling household can afford to purchase[6] under a shared equity models assuming households incomes of 60%, 80%, 100% and 120% of the estimated 2018 median household income for each of the three case studies[7].

[3] These returns assume occupiers pay an annual cooperative fee set at 30% of their gross household income and an initial joining fee of $25,000. Building operating costs are deducted from the annual fee. The surplus after costs is then used to calculate the annual yield.

[4] 2018 median household incomes for the housing market estimated using 2013 census data and assuming annual growth of 3.5% per annum.

[5] The annual income of a one person households relying predominately on superannuation is approximately $25,000 and for a couple $40,000.

[6] Assumes a 25 year mortgage, a 5% interest rate, a 10% deposit and no more than 30% of gross household income is spent on housing costs. Housing costs includes a share of the building's operating expenses.

[7] Purchased price in Tauranga is assumed to be $660,000, $700,000 in Auckland, and 600,000 in Christchurch. These align with the values in each case study presented in Section 5.

Table 1.3: Shared equity model outcomes

% of median household income	Tauranga case study		Auckland case study		Christchurch case study	
	Equity partner's share	Occupier's share	Equity partner's share	Occupier's share	Equity partner's share	Occupier's share
60%	62%	38%	78%	22%	60%	40%
80%	53%	47%	66%	34%	48%	52%
100%	43%	57%	54%	46%	36%	64%
120%	33%	67%	42%	58%	24%	76%

The case study outcomes presents the challenge for shared equity co-ownership/ mortgage models in a policy context. Overseas experience suggest occupiers should purchase an minimum of 60% of the value of their dwelling. In our case studies this implies households in Tauranga would need to be earning 120% of median household income. In Auckland they would need to earn more than 120% of median household income whereas in Christchurch. They would need to earn slightly less than 100% of median household income. From a public policy perspective should tax payers money be used to subsidise households earning more than the median household income into owner occupation.

1.5: Summary

A number of alternative tenure models operate overseas. These models provide an opportunity to assist households at different points in the housing continuum. Typically, the goals have been to:

- Improve affordability for renters and first home buyers;
- Improve security of tenure;
- Maintain the diversity of households living within an area undergoing urban regeneration;
- Provide accommodation for key workers and their families; and
- Provide home ownership like outcomes.

The case studies demonstrate a number of outcomes and these include as housing affordability declines the level of household income required under a shared equity model can easily exceed 120% of median household income and the need to provide significant quantities of low cost capital if these tenures are to operate at scale. Overseas experience suggests shared equity programmes become more problematic as affordability declines.

If house price grow faster than incomes the income threshold for households to affordably buy a dwelling with shared equity programme also increases. Ultimately the income levels required can easily exceed the market's median household income. Once this occurs, governments find it less politically acceptable to commit publicly subsidised funds to assist households.

The levels of subsidy required are significant. For example, shared equity models with the occupier purchasing 70% of the dwelling would require a patient capital contribution of the remaining 30% which on a $600,000 dwelling would equate to $244,000 and require gross household income of $88,000 per annum. Over time the occupiers typically staircase up their share to 100% ownership repaying the patient capital. Another benefit of a shared equity development (assuming a new dwelling is purchased) is they free up existing dwellings for another household.

Rental cooperative developments provide an opportunity to provide households with secure tenure and based on overseas research home ownership like outcomes. However, the level of patient capital required per household is typically significantly higher than for a shared equity programme albeit shared equity typically targets households with higher incomes than a subsidised rental programme such as a cooperative. For example, under case study one patient capital of $565,000 is required per household. This falls to $500,000 under the community land trust/rental cooperative hybrid model.

From a policy perspective the challenge is if a wider range of tenure options are not offered (using publicly subsidised capital) there are only limited alternatives for households earning median household incomes or less. Unless there is a significant correction in housing affordability for both first home buyers and renter households it will be more of the same, so households earning less than 80% of median household income will continue to pay in excess of 30% of their income in housing costs, rates of owner occupation are likely to continue to fall and demand will continue to grow for both private and social rental units.

Ultimately there are no free lunches. If the objective of developing alternative tenures is to improve housing affordability, significant quantities of low cost patient capital is required on an ongoing basis to allow providers to operate at scale. The costs are high so with limited availability of patient capital it is likely that at best, these tenures will operate as a niche within the market.

2. Introduction

"Housing is a fundamental to our economic and social wellbeing. It plays a central role in individual and community health outcomes, family stability, and social cohesion. A responsive housing market facilitates labour market mobility, allowing people to move to take up job opportunities and enhancing the productivity of the economy."[8] Unfortunately, housing markets around the world, including in New Zealand, have struggled to provide adequate good quality affordable housing with long term security of tenure to meet their populations' need. Some housing markets have responded to pressures within their housing systems to provide a range of alternative tenure structures and these responses have varied between countries. New Zealand is also a signatory to a number of United Nation conventions that state households' ability to access good quality housing at an affordable price is considered as a human right.

This research investigates whether intermediate/shared equity tenure models used overseas are applicable in a New Zealand context and whether they could provide opportunities to improve access to affordable good quality housing with long term security of tenure so that we can better meet our legal obligations under the United Nation conventions. The project also investigates the potential application of different models to meet households needs as they age and at the different pressure points along the housing continuum.

This research is presented in a number of stages including:

- A rapid review of the literature and publications on intermediate/shared equity tenure models including barriers limiting their growth, the performance of the models and their implications in a policy context;
- Discussion on whether intermediate/shared equity tenure models used overseas are applicable in a New Zealand context;
- The potential application of the different intermediate/shared equity models to meet households' needs in New Zealand at the different pressure points along the housing continuum; and
- The viability of alternative tenure models with social and community housing providers, developers and urban development entities business models.

[8] New Zealand Productivity Commission (2015) Using land for housing. Page 1.

3. Literature Review

3.1: Introduction

Interest in alternative (intermediate/shared equity) tenure models has increased as housing costs rise faster relative to household incomes. These "intermediate/shared equity" tenures have characteristics which fall between pure rental and traditional ownership models. A number of terms have been used to describe these intermediate tenures and they are loosely defined as shared equity models.

A number of countries have developed a range of intermediate/shared equity tenure models operated by a variety of organisations including private sector, private/public partnerships, community not for profit schemes, and public sector initiatives to meet the needs of lower to middle income households that have been priced out of the local market. Typically, the enduring schemes are operated by community based not for profit organisations and state agencies.

This section of the report includes:

- A discussion about the logic associated with intermediate/shared equity tenure formats;
- An overview of the main intermediate/shared equity tenures and the housing continuum;
- A discussion of the key features of the main intermediate/shared equity tenures – cooperatives, English shared ownership model, community land trusts, co-ownership models, shared equity loans/mortgages and deed restrict housing;
- An evaluation of the performance of intermediate/shared equity tenure models
- Barriers limiting market share of intermediate shared equity tenures; and
- Intermediate/shared equity tenure models in a policy context.

3.2: Alternative tenure (intermediate/shared equity) formats

Various intermediate housing models all aim to lower entry cost to different hybrid home ownership structures and reduce risks by reconfiguring the ways in which the rights and responsibilities and, in particular, the value of the home is shared between the occupant/purchaser and the provider.

Whitehead and Yates (2010) contend the rationale behind hybrid tenure structures is to try and improve housing affordability during times when house prices have been increasing much faster than household incomes. Hybrid tenure structures can reduce households' initial outgoings and so enable lower income households to enter the housing market. This enables the use of a shallow subsidy to help additional households into home ownership. Thus, affordability issues rather than market efficiency has been the primary reason for the development of these products internationally. For governments, shared equity products have been a cost effective way of leveraging a given amount of government funding to meet their housing policy goals.

Typically, the benefits associated with these tenures include improved housing affordability, provide occupants with increased stability, which leads to increased community participation and a range of other "ownership like benefits".

Theodos et al (2017) suggested shared equity programmes in the United States of America (USA) typically have three important features:

- They lower the cost of the initial purchase price to the purchaser;
- They limit the gain a home owner can receive on resale, thus generating a relatively affordable price for a subsequent buyer; and
- They frequently provide stewardship to maintain community values and help owners retain and maintain their homes.

Examples of American shared equity structures include community land trusts (CLTs), limited equity cooperatives, and deed restricted housing and each of these approaches all share the common goal of providing a hybrid form of affordable and sustainable home ownership to households on low to medium incomes and contain mechanisms to preserve affordability over time.

Whitehead and Yates (2010) identified the following advantages of intermediate/shared equity models:

- For purchasers they provide a new source of funding with typically lower repayment costs. This gives purchasers access to higher valued, larger or better located property than otherwise would have been the case. In some cases, it provides the only opportunity they have of becoming owner occupiers. Throughout the contract period it can reduce the occupier's exposure to variations in interest rates and prices. It also has the potential to add to the household's wealth if asset prices increase;
- For the equity partner, they enable greater diversification through access to the investment in residential house prices which have the potential to be made tradeable and divisible;
- For mortgage providers, working in partnership with shared equity investors or by offering products themselves, they provide an opportunity to expand into new markets and access to different asset class; and
- For Government, they help leverage private finance, philanthropic funding, and provide only a shallow subsidy to households who would benefit from becoming owner occupiers but face cash flow constraints. Increasing the number of households into owner occupation, potentially reduces the number of households needing rental assistance.

Bright and Hopkins (2012) identified the following individual benefits of shared equity home ownership:

- Wealth creation together with home ownership's advantages and risks;
- Mainstreaming provides the owner occupier with a sense they have arrived and achieved their dream with a home; and
- Security of place which refers to the non-financial benefit as improved sense of reliability of things and place including security of tenure.

Bright and Hopkins (2012) suggests the community benefits associated with shared equity ownership include:

- Creating sustainable mixed communities which provide a range of household profiles. The range includes variations in tenure, household incomes, household composition and ethnicity; and
- Creating sustainable mixed tenure communities means the tenure mix must be maintained in the longer term. This is easier in models which recycle houses rather than capital.

In summary, the logic underlying the development of different intermediate tenures is to improve access to sustainable and affordable housing with owner occupier like benefits for both the individual households and the wider community. Provan et al (2017) summarises the economic costs and benefits of home ownership as:

- A vehicle for asset/wealth accumulation;
- Better outcomes for children;
- Higher levels of community engagement and voting behaviour; and
- Home ownership may adversely affect labour mobility

In addition, other cited benefits include owner occupiers take better care of their properties, are more content (happier), healthier and feel in more control over their living arrangements. Provan et al (2017) note that the causality of these claims is unclear and often have not be quantitatively established. They suggest the veracity of these claims may hinge on the policy settings and circumstances within each individual country.

The research summarised in Section 3 of the report suggests:

- Intermediate/shared equity tenures can achieve these outcomes provided the right policies are stabilised;
- Central government needs to provide appropriate leadership assisting with the establishment of industry standard documentation and providing access to appropriate subsidies and publicly owned land;
- Generally, not for profit community organisations or social landlords administer these schemes. The stewardship they provide to their occupiers is an important component of achieving the desired household outcomes; and
- Different tenure models suit households at different parts of the income spectrum. Shared equity loans and ownership models suit households with higher incomes whilst households on lower incomes are better suited to cooperative type models.

3.3: Intermediate/shared equity tenure models and the housing continuum

The objective of this section of the report is to provide an overview of alternative tenure models used in different countries and where they fall along the housing continuum. Common forms of alternative tenure models include:

- Cooperatives – rental, limited equity and market priced cooperatives
- English shared ownership model;
- Community land trusts (CLT) / ground lease model;
- Co-ownership model;
- Shared equity loans/mortgages; and
- Deed restricted housing.

Whitehead and Yates (2010) suggested three main attributes differentiate these hybrid tenures and these are:

- How they are funded;
- The value of each parties' interest and how any change in value is allocated; and
- The nature of the property rights (including transfer rights) between the primary and secondary owners.

The distinguishing features of the different tenures relates to the different way in which these rights are grouped together.

Table 3.1 summarises the key attributes of each of these tenures.

Table 3.1: Summary of the main alternative intermediate/shared equity tenures

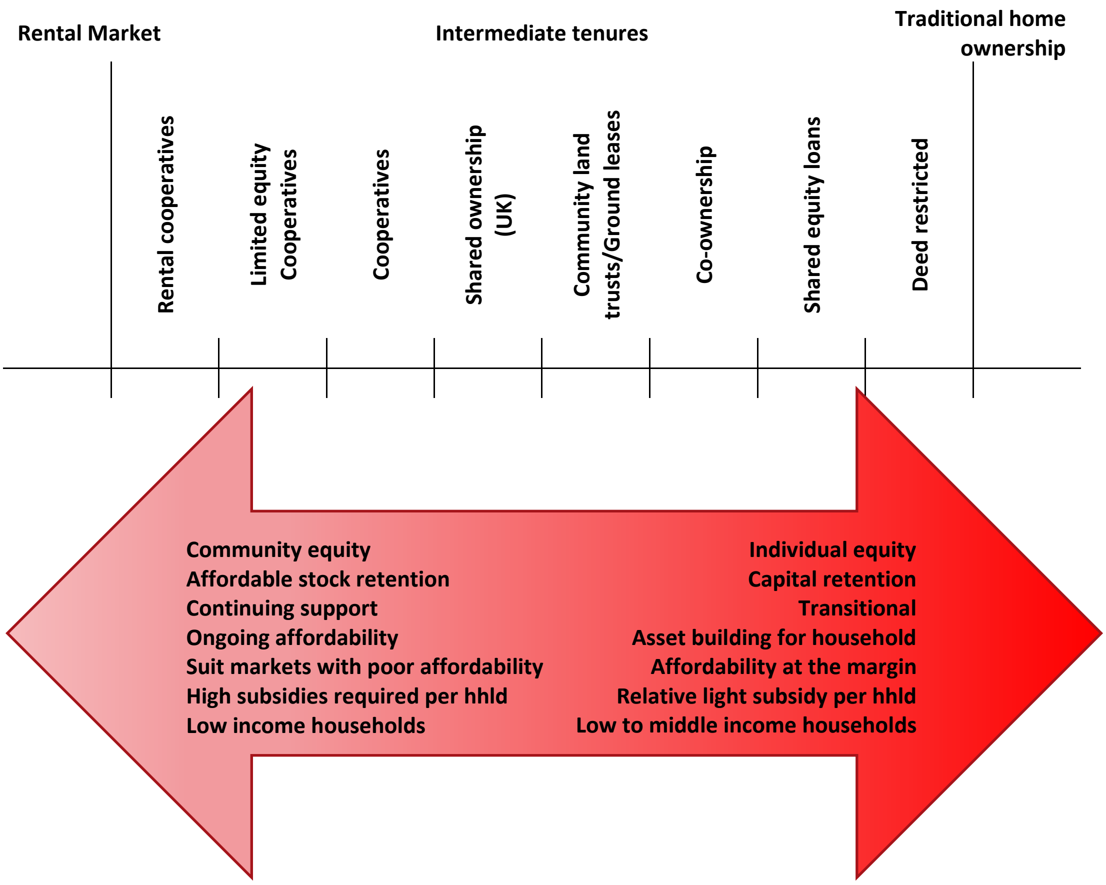
	Typical funding	Property right	How interest is valued	Comments/ Resales
Cooperatives				
-Rental	Heavy subsidy required	Lease	No equity interest	100% owned by the cooperative – stock retained as affordable. Examples exist in Europe and USA.
-Limited equity	Subsidy required	Lease	Formula based approach	Cooperative managed sale to eligible occupiers. Stock retained as affordable. Examples exist in Europe and USA.
-Market	Market funded	Lease	Market prices	Open market sales in accordance with cooperatives rules. Examples exist in Europe and USA.
Community land trusts (CLT)	Subsidised / community funded	Ground lease with individual partial or full ownership of units	Varies formula or marked to market	Varies, some sales managed by CLT to eligible occupiers and others are market sales. Stock retained as affordable. Used in USA.
English shared ownership model	Crown funded via the provision of equity	Lease	Marked to market	Registered social landlord (RSL) typically has first right of refusal or sold on the open market.
Shared equity - co-ownership	Subsidised equity required	Joint owners - partial ownership	Marked to market	Open market sales with equity partners typically recycling capital. Examples in UK, Australia and New Zealand.
Shared equity mortgages	Subsidised equity required although some market examples exist	Full ownership	Marked to market	Open market sales with equity partners typically recycling capital. Examples exist in Australia, USA, and Europe.
Deed restricted	Typically, a cost imposed on developers	Full ownership	Formula based	Sold to other eligible occupiers. Stock retained as affordable. Cost to the developer potentially offset by increased development rights.

The majority of these models have developed as means of delivering affordable housing to low to medium income households, the key exception being full market cooperatives. The majority rely on some form of subsidy or land use regulation.

European models have often concentrated on development public/private partnerships mainly involving new built and/or regeneration. The majority of these approaches have used publicly owned or highly regulated land as a means of subsidising new dwellings and are often strongly based on planning law. Other models have aimed to expand the role the private sector in taking on risk and sharing in potential future returns.

Figure 3.1 presents an overview of the range of main alternative tenure models available along the housing continuum considering their underlying tenure and a number of other key characteristics.

Figure 3.1: Alternative intermediate/shared equity tenures and the housing continuum



Source: Adapted from Jacobus and Lubell (2007)

The intermediate tenures on the left of the spectrum typically retain the community's equity contribution by the retention of affordable housing stock which allows for the ongoing support for low to moderate households by recycling dwellings across multiple households. These tenures typically suit markets with severely poor affordability and require high levels of subsidy per household and are able to assist households on low incomes relative to the area's median household income.

The intermediate tenures to the right of the continuum help create equity for individual households and provide ongoing support for affordable housing by recycling the community's capital across multiple dwellings (post resale of units). These tenures tend to be more transitional in nature with households moving on to full ownership over time partly as a result of the asset/wealth building opportunities they provide. They best suit housing markets where affordability is poor but not severe. Compared to other intermediate tenures they require a relatively light subsidy per household and can assist households on low to middle incomes depending on the market's affordability profile.

Australian Housing and Urban Research Institute[9] (2013) identified the following groups typically targeted by shared equity schemes:

- Younger first home buyers;
- Previous owners who aspire to re-enter home ownership;
- Those seeking to buy for the first time at a later stage of life;
- Existing social housing tenants and eligible applicants who are unlikely to be allocated social housing;
- Indigenous people who desire home ownership; and
- Key workers such as police and nurses.

AHURI (2013) suggested that the main features differentiate shared equity models are:

- How the rights and responsibilities are shared between the primary and secondary owners;
- How the costs are allocated between the primary and secondary owners. For example, it is common for the primary owner to pay for all repairs, maintenance and property tax associated with the dwelling;
- How the risks are shared between the two owners. For example, under some schemes the secondary owner is guaranteed a minimum return on their equity investment whilst in others all the benefits relate to capital appreciation;
- The way in which the returns from capital growth is shared between the parties can also vary. For example, a significant proportion of schemes allocate any change in value in proportion to their relative equity shares; in other schemes the secondary owner only benefits from capital appreciation and takes no downside risk, and those where there is a built in investor (secondary owner) return so that the proportion of capital owned by the secondary owner increases over time to provide a near guaranteed return on their investment;
- Whether the schemes are focused on particular developments, only new builds or allow the purchase of existing dwellings;

[9] Australian Housing and Urban Research Institute (AHURI)

- Is the scheme private, third sector or public sector led and if non-government what if any subsidy is involved;
- Stewardship arrangements also vary, and these can have a direct impact on the sustainability of the owner occupier equity partners outcome;
- Is staircasing the primary owners interest up to 100% allowed;
- How are the schemes structured, for example, are they focused as a transitional/individual model or is their focus on providing continuing support and retaining the affordable assets within the overall community; and
- If the primary owner undertakes improvements to the dwelling is this expenditure recognised if and when their occupancy ceases.

In summary, it is important that these differences are considered when the performance and potential application of these different models is being assessed.

3.4: Housing cooperatives

The objective of this section of the report is to provide an overview of the cooperative housing models used in different countries and identify their key characteristics. Cooperatives housing models are found throughout Europe and in the United States of America. There are three common forms of cooperatives and these include:

- Rental or zero equity cooperatives;
- Limited equity cooperatives; and
- Market cooperatives.

The common feature of cooperatives is they are a form of collective where the occupying households are members of the cooperative and have a say in the governance of the cooperative. Typically occupying households lease their units from the cooperative and may or may not pay a fee to become a member.

Countries with a significant number of cooperative housing units have achieve these levels of market penetration as a result of public subsidies and land being provided to the cooperatives, as a result of reconstruction of urban areas post conflicts/wars, restructuring or privatisation of social housing stock (as in a number of east European countries), or as a result of a legislative or legal advantage over other tenure formats.

Table 3.2 presents a summary of the number of cooperative housing units by country relative to the country's total housing stock.

Table 3.2: Summary of cooperatives by country

Country	Total housing stock	Number of coop units	Coop market share	Comments
Austria	4,200,000	363,000	8.6%	Not for profit sector with regulated rents. Significant public subsidies & grants available
Belgium	5,043,000	11,000	0.2%	Focus on social housing supply, mostly funded by regional government
Canada	12,437,470	96,742	0.8%	Permanent rental not for profit cooperatives. Finance via low interest state loans and grants
Czech Rep	3,900,000	432,000	11.1%	Rental not for profit organisations. Direct state support for construction and a subsidised housing saving scheme based on German model
Estonia	651,000	392,000	60.2%	Cooperatives grew rapidly after Perestroika as housing stock was privatised and was main form of ownership.
France	31,264,000	330,000	1.1%	Historic roots with worker accommodation in early 20th century and post-World War 2 developments.
Germany	40,136,000	2,180,000	5.4%	Bulk of cooperative activity occurred post World War 2. Historically rental coops and funded by the state. Little assistance now available.
Hungary	4,303,000	300,000	7.0%	Cooperatives grew strongly in the 1950s and 60s under communist rule. No new cooperatives have been developed post 1990.
India	330,800,000	2,500,000	0.8%	Cooperatives originally introduced by the British in the 19th century further developed as an affordable housing policy in the 1960s.
Ireland	1,940,000	5,400	0.3%	Developed during the 1960s local self-help home ownership for their members. Rental coops used as a strategy for families exiting social housing.
Italy	30,038,000	672,000	2.2%	Cooperative movement grew from reconstruction post World War 2 and benefited from tax exempt status and access to subsidised funding.
Norway	2,400,000	261,250	10.9%	Coop movement grew from reconstruction post World War 2 and benefited by being the only tenure for multi-unit developments until 1980s.
Poland	13,302,500	2,583,000	19.4%	Cooperative movement grew from reconstruction post World War 2 and are ownership orientated.
Portugal	5,880,000	180,000	3.1%	Both rental and ownership cooperatives with past state support focused on ownership cooperatives.
Spain	25,129,000	1,439,104	5.7%	Grew from the post-civil war reconstruction and to cope with housing shortages during rapid industrialisation of urban centres in 1970s and 1980s with significant state subsidies.
Sweden	4,508,000	997,969	22.1%	Sector grew as a response to the extreme housing shortages and speculation post World War 2. Only multi unit tenure available the until the 1970s
Switzerland	4,000,000	172,000	4.3%	Cooperative housing grew strongly after each World War with limited activity post 1970.
Turkey	19,638,200	1,601,300	8.2%	Developed in response to the severe housing shortages in the 1950s driven by rapid urbanisation. Funded by state subsidises and provided with state owned land.
Britain	27,108,000	35,000	0.1%	Small sector within the housing market
USA	130,600,000	120,000	0.4%	Limited or zero equity cooperatives account for 450,000 units typically funded by state and federal subsidies.

Source: Housing Europe and ICA Housing (2012)

The Enterprise Foundation (2003) suggested rental (also called zero equity cooperatives) cooperatives in the USA differs from standard affordable rental developments in a number of ways including:

- A member's lease cannot be terminated unless they fail to abide by the lease's terms and conditions;
- Members can transfer their rights to family members at their discretion;
- Typically, members retain their rights even when their circumstances change and would no longer qualify for subsidised membership. For example, if their incomes increase to over the cooperative's criteria they can remain as members and still occupy their unit;
- There are multiple formulae used to set the rent paid by a member. These include multiples of household income, or may have a fixed rental for the unit;
- Rental cooperatives require a deep subsidy to enhance their feasibility. The level of subsidy needs to reflect the cost of the development, the income generated by the members, and the ongoing operating costs of the cooperative;
- Rental cooperatives are typically non-profit, democratic membership organisations controlled by an elected board that draws on the whole community as well as their membership;
- Members have no equity stake in their units. They provide a low cost housing alternative which allows members to accumulate non-housing assets rather than wealth creation; and
- Members rights are restricted by the lease agreement between the cooperative and each occupier member.

Although the Enterprise Foundation's analysis was focussed on USA cooperatives these comments are also generally correct in other countries as well. There are some differences in the detail about cooperatives' structures. For example, Mietshauser Synidikat (German Tenement Trusts) is a nationwide tenement trust that is at the same time a form of ownership and network of self-organised housing projects. The majority of properties are urban tenement buildings with 10 to 20 units managed by their residents whose motives in joining the trust include a desire to have a degree of self-determination in how the property is managed, means of protection against gentrification and rising rents.

The residents of each housing project do not hold title to the property, instead the property is owned by a limited liability company (LLC) which is formed specifically for that purpose. The LLC has two partners, the association of tenants living in the building, and another LLC representing the overall national tenement trust. The overall tenement trust is comprised of all the individual housing projects of their housing association.

The structure ensures an individual property neither directly belongs to the tenants or the overall housing trust. The tenants (as partner 1) hold normal rental contracts with the property's LLC and are responsible for all project related matters including financing, over building management and the change of tenants. The overall tenement trust (as partner 2) holds a significant control function and has a right of veto in all questions associated with ownership. The selling of a house or the privatization of a unit can only occur with agreement by both partners.

The cost of cooperative membership varies depending on its nature, rules and regulations. Resale of memberships is governed by the cooperatives rules and regulations. Typically, these were associated with the redevelopment of existing buildings and are designed to retain the units within an urban area's pool of affordable housing.

Ongoing stewardship by community housing organisation to assist with management, governance, household stewardship, and dispute resolution is important in ensuring their longevity and achieving the wider community benefits as well as the individual occupier's benefits.

Increased interest in cooperatives has in part been driven by declining housing affordability particularly in cities such as Berlin. While some new cooperatives are clearly dedicated to social inclusion and diversity of members, the greater majority of projects are, although not speculative in nature, ownership oriented, Droste (2015). To some extent these developments have relied on the provision of municipal land at leasehold or below market prices.

Droste (2015) suggested the cooperative housing sector in Germany which includes self-organised middle class co-ownership groups to community oriented housing projects can enhance the sustainability of existing and emerging neighbourhoods under near market conditions and with limited demand on municipal governance and resources. However, their capacity to house weaker social groups is usually limited. Deeper subsidies are required if they require a low income focus. One of the advantages cooperative housing offers is security against speculative development by the private sector and ensures any benefits flows to the community.

Limited equity cooperatives are a type of shared ownership arrangement typically used in association with multi unit housing. The majority of limited equity cooperatives are focused on providing affordable housing and trying to ensure the stock is retained as affordable across multiple occupiers. The key difference with a rental cooperative is the members pay a membership fee. There are numerous methods for establishing the membership fee and typically when a member leaves the cooperative they sell their membership on the same basis as when they joined the cooperative. This allows for a modest growth in household's equity. Other than the way in which members' equity/membership fees are calculated, limited equity cooperatives are typically structured and operate in a way which is similar to market or zero equity cooperatives.

Limited equity cooperatives have the same characteristics as market rate cooperatives. People living in a unit do not hold direct title to their dwelling rather they own shares in the cooperative which then leases the unit to the occupiers. The key difference with a market rate cooperative is the price of the shares is not determined by the real estate market rather they are set by a resale formula determined by the particular cooperatives' bylaws and subscription agreements. There are approximately 450,000 limited equity cooperative units in the USA or 0.4% of the housing stock, Hortlitz (2012).

Individuals purchase a share in the cooperative that gives them certain rights including:

- The right to occupy a designated unit though a lease or occupancy agreement;
- The right to use or sell the designated unit; and
- The right to participate on the governance of the complex.

Shareholders do not typically finance their individual units rather all the units are financed via a single blanket mortgage. Each shareholder pays a share of the operating costs and debt servicing for the whole complex.

There are restrictions on the sale of shares which are written into the cooperatives by laws and individual occupancy agreements. These typically include criteria for new members including household incomes and specify how the unit's resale prices will be calculated. Normally the cooperative has the first right of refusal when a unit is offered for sale. Although this form of ownership is relatively complicated and requires occupier shareholders to participate in governance they are not uncommon in high value/poor affordability cities such as New York and Washington DC.

Limited equity cooperatives are an affordable housing strategy used in the USA. This model is typically used in conjunction with medium to high density multi unit developments. Occupiers buy a membership/share in the cooperative and in return can lease a unit within the complex. Each member has the ability to rent one unit as well as vote on matters of community interest in running the complex. The price of memberships/shares is regulated under the cooperative's rules to ensure ongoing affordability outcomes. Typically, these targets low to middle income households and/or key workers. Usually the cooperative is subsidised in some way which may include the provision of land at no or below market cost, capital grants, or below market interest rates.

Market cooperatives operate in a similar fashion with the units priced by the market. In the past market cooperatives rules and regulations have been used to control / manage which types of families can occupy units within their complex particularly in high priced markets such as central New York.

Norway and Sweden standout as two countries where cooperatives have relatively high market shares. Sorvoll and Bengtsson (2018) reviewed trends in the cooperative housing markets in Norway and Sweden. They investigated the impact of different drivers of conflicting members' interests and the logic of competition and growth on housing cooperatives. The cooperative housing movement grew from the labour and tenants' movements in the 1920s and housing policies developed after 1945. Key findings from their study include:

- Cooperative housing has achieved market share significantly higher than other European countries (approximately 22% in Sweden and 14% in Norway);
- There are a large number of types of cooperatives however they all have the common feature of residents living in democratically organised, self-governed and collectively managed housing associations; and
- Cooperative housing in Norway and Sweden is a form of indirect ownership with members owning shares in the whole complex rather than individually owning their own unit, but have the right to live in the unit and participate in the democratically organised and membership owned housing association.

Sorvoll and Bengtsson (2018) suggested cooperatives were organised around the concept of civil society housing which has four ideal type criteria:

- Self-organising and autonomous from the state;
- Structured around participatory democracy;
- They are not only preoccupied with their own immediate concerns but also attempt to influence state housing policy; and
- Not for profit organisations.

Most cooperatives used cost based price regulation meaning the value of old cooperative apartments reflect historic costs which was intended to serve as a brake on prices in the housing market as a whole. They suggest that the relatively high market shares achieved reflect cooperative companies which thrived by extracting subsidies, legal privileges, and cheap municipal land from the state whilst at the same time taking advantage of their niche in the housing continuum (namely multifamily tenant owner units in urban areas). Note that owner occupied flats were not legalised before 1983 in Norway and 2009 in Sweden.

Price controls on the sale of shares were lifted in 1968 in Sweden and in the 1980s in Norway. From that time occupiers could sell their shares to the highest bidder. In the following period the interests of cooperative owner occupiers were given priority over non-resident members. Price increases of the shares (occupancy rights to the units) benefit individual member.

Sorvoll and Bengtsson (2018) concluded that the expansion of cooperative tenure since the 1990s has been a pyrrhic victory in that the cooperatives thrived in the market however moved on from the civil society goals of not for profit, political solidarity, and solidity between cooperative members (both resident and non-resident). They argue that the conflicts between members' interests erodes the solidarity of the cooperative over time. Owner occupier members revolt against price controls helped push cooperatives from civil society organisations espousing the ideals of solidarity and not for profit housing in the direction of market oriented business enterprises. Lost was the principle of solidarity which meant self-sacrifice for the greater good with the trade-off being increased personal rewards.

They conclude that the benefits of maintaining low regulated entry prices are spread across a large number of potential cooperative residents while they represent a visible and concrete draw back for cooperative owner occupiers. There exists a trade-off between the civil society principles and economic success.

Cooperative co-housing models

Another variation of the cooperative model is co-housing cooperatives. These are typically structured in a similar way to a limited equity cooperative with the key difference being under a co-housing model the development provides a range of common/member only resources. These can include communal spaces, kitchen and dining areas, and other facilities such as laundries.

Labit (2015) investigated the performance of intergenerational cooperative co-housing projects in Germany, Sweden and England. She reviewed a wide range of academic research studies. Her study demonstrated that senior residents were healthy and satisfied with their housing outcomes and would strongly recommend the option to other seniors. The importance of the option of having communal meals was noted as a way of strengthening social ties. All the research Labit reviewed highlighted the importance of a number of preconditions to achieving success with this housing model and they include the size of the complex, professional status of the members, diversity, apartment design and management of communal spaces and activities.

Labit (2015) identified that one of the key challenges associated with the long term sustainability of these housing projects is managing the change in membership over time. This is particularly relevant to projects were there is conflict between the original founding members who can be quite militant, and new comers who are less committed to collective life.

Labit (2015) concludes that co-housing/cooperative housing is an innovative niche opportunity which is likely to help people age well, given certain factors such as the composition of the group, architecture, financial and social factors are considered right from the conception stage. Over 1% of Danes aged 50 years and older live in cooperative co-housing complexes. The Danish model allows for the involvement of partner organisations alongside the ageing residents, who retain the lead role in development.

The Dutch have developed an alternative cooperative co-housing model which is rental property orientated within the public housing sector. Under this model partnerships of local authorities and social landlords work locally within a national policy framework to assist groups of older people develop cooperatives communities. Germany has also been active in this space with over 2,000 residents living in cooperative co-housing communities focused on older people.

Labit (2015) concludes that the right balance between proximity and diversity within a group of residents is a vital component of achieving the desired outcomes. Although intergenerational models provide some desired advantages the researchers noted that solidarity between generations does not come naturally and requires careful thought and management to be achieved. Mutual assistance and communal life aspects of a cooperative co-housing project are a second vital element. This also requires specialised management. The key aspects include appropriate communication, conflict resolution procedures, design and use of collective and private space, involvement in communal life which all need to be thought through at the beginning.

Scanlon and Arrigoitia (2015) examined the lessons learnt from the development of co-housing for people aged over 50 years in London. They concluded that the economics of developing cooperative co-housing models differ from the normal model and in particular the participatory nature of these developments increases the amount of time required. There are higher risks for both the resident/purchasers and the developer. Benefits of this style of housing include lower costs compared to traditional housing and living in a supportive community environment which might reduce or delay the need for residential care, the self-help. The reciprocal aid model of senior cooperative housing may foster mutuality and help participants avoid social, health and financial costs of isolation in old age.

The autonomous structure of cooperative co-housing models also appeals to central government policy which encourages individuals, communities, and councils to take more control of the outcomes they want to achieve. Scanlon and Arrigoitia (2015) identified three typical models for developing cooperative co-housing. These were:

- A separate developer works with a group of potential residents and builds a complex in line with their specifications. The developer funds the land purchase and construction. On completion they sell the units to the group members;
- Cooperative members fund the finance of the land and construction of the complex themselves. This is the model that operates in Denmark. This gives the cooperative members total control over the development process, design, costs and timing but they also bear all the risk and must make a substantial financial contribution well in advance of moving into the dwellings; and
- In the model that typically operates in the USA, a developer creates a project without any input from potential residents and sells units to anyone who might want to occupy them. The residents manage the complex and decide how to use the common areas. This frees the residents from the development risk but means they have no input into the design.

Scanlon and Arrigoitia (2015) identified a number of features that might reduce the costs of cooperative co-housing complexes relative to other residential buildings. These included smaller than average units, provision for shared facilities for example communal laundries, and contribution of residents' time and labour. Conversely there are some aspects that are likely to increase costs. These include the inclusion of common shared areas and the increased time associated with a development.

This style of development also carries additional risk. These risks arise from the increased time frames required, the unproven nature of the model in different markets and an uncertain legal status if the project fails either during the development or after construction. They conclude that the slowness of developing cooperative co-housing developments in the UK reflects the risks of this nascent tenure to developers. The additional risks appear to be offsetting the potential benefits in all but a few cases.

In summary, cooperatives provide an alternative tenure model which suits a range of households typically in markets with poor housing affordability targeting households with limited opportunity to transit to full ownership. This model is based on affordable housing stock retention for the use of multiple households rather than recycling the capital across multiple households in different dwellings over time.

3.5: Community land trusts (USA) and ground leases

Community land trusts (CLT) are typically private not for profit corporations established to obtain and develop properties for affordable housing. This is a dual ownership model where typically; a land trust will own the land and lease the right to develop the space above the land to potential owner occupiers. Typically, leases are for terms of 50 to 99 years with the lessee having multiple rights of renewal. The lessee's interest is also inheritable, gives an exclusive right to occupy the land, along with the right to resell their interest.

CLTs are a niche tenure and account for approximately 0.1% of the USA's total housing stock. Typically, CLTs in the USA target low to moderate income households who need affordable housing. In addition, in some circumstances, CLTs also offer rental housing to people who cannot afford to purchase a CLT unit.

Typically, a community land trust operates within a defined geographical location and is governed by the people living in that area. CLTs are a community based organisation with membership open to any adult who lives within their defined geographical area. All of the CLTs lessees/ homeowners are also members. Typically, the board consists of three groups of directors:

- One third are elected by the home owners;
- One third are elected by the members of the CLT who are not CLT home owners; and
- The remaining third are nominated and appointed by the other directors and these typically include local government officials, private lenders, and people from other community based organisations.

The land component associated with the development is normally acquired though a non-market process at little or no cost. The ownership of the land is retained within the CLT while the ownership of the structures on the land is separate. The ground lease arrangement provides the CLT with control over the structures built on the land enabling it to intervene and force repairs if required, or in the event of default to correct any problems and avert foreclosure.

CLTs have been used as a mechanism to provide a continuing supply of affordable housing and although there are multiple exceptions they tend to target households with incomes less than 80% of medium household income. The ground lease fees paid by the individual ground lessees cover the organisation's operating costs rather than a return on the land. The ground lease provides a contractual means to preserve the affordability of the residential dwellings. Embedded in the ground lease is a pre-emptive option setting forth a formula for determining the resale price of any dwelling on the CLT land and granting the CLT the first right of purchase. Thus, either the CLT can purchase a dwelling from a seller and resell it immediately to an income eligible occupier or allow the occupier to sell directly to an income eligible purchaser at a price based on the predetermined formula. The responsibility for monitoring any resales falls on the CLT.

Generally, CLTs sell dwellings to income qualified households, only on a ground lease tenure, often with a 99 year lease, and within the context of the USA enable buyers to obtain leasehold mortgages insured by the Federal Housing Administration (FHA). The owner occupiers must sell their property if they intend to no longer occupy it. On sale the CLT normally has first right of refusal to purchase the dwelling. Then the CLT can resell the dwelling to another income qualified household.

At the point of sale, the owner occupier realises any profits based on the resale of the unit and typically some return on cash investment using a predetermined equity sharing formula. Although there is significant variation of ground lease arrangements they typically allow the occupier security of tenure, privacy/quiet enjoyment of the premises, inheritance rights, and the ability to acquire some equity while ensuring the land and structures will be used for affordable housing in perpetuity.

Obtaining land for housing and funding for operating costs are the key issues that have limited the growth in CLTs. In addition, the dual ownership structure of the entity is challenging when trying to educate and recruit potential owner occupiers.

The resale formulas vary significantly across different locations. However, in urban areas with poor housing affordability and high dwelling values CLT goals typically focus on providing enduring housing affordability to working families. Consequently, their resale formulas do not allow for much equity capture. This can be limited to as low as 1% per annum of occupation. In locations with more affordable housing markets occupiers can capture as much as 50% of any equity growth associated with the improvements. A key goal is to keep the resale formulas simple and easy to understand.

The community land trusts model incorporates dwelling price restrictions which are incorporated into a long term ground lease. Typically, a not for profit owns the land and leases the land (for a minimal amount) to a buyer who owns the improvements (dwelling) developed on the site. As long as the ground lessor owns the land the ground lessee must abide by the sale restrictions and other obligations (subletting not allowed/owner occupation) contained in the ground lease.

Gray (2008) suggested there are 11 benefits associated with CLTs and these include:

- Expand access to owner occupation especially for low to moderate income households;
- Preserve access to owner occupation by maintaining affordability over time;
- Enhance security of tenure by lowing housing costs;
- Stabilise neighbourhoods by stabilising property values reducing absentee landlords, and combating gentrification;
- Create personal wealth albeit at a limited rate;
- Preserve community wealth by attracting public subsidies and preventing privatisation;
- Build social capital;

- Act as a spring board to expand civic engagement by beginning to build or building upon existing strong bases for community action;
- Enable personal mobility to better employment and better neighbourhoods;
- Promote community development and diversity; and
- Offer local autotomy.

Gray (2008) also cites a number of disadvantages and these include the conflicting ideologies of what is best for the community versus individuals' interests and the concept that home ownership without the ownership of the land makes CLT marketability difficult in the USA. Sustainability is also an issue for CLTs with the need to resource support for their ongoing management and operation. CLTs limit the ability of households to accumulate wealth in a rising housing market.

A small proportion of UK's housing stock is based on cooperative models and this is nearly all focused on rental housing for low income groups. There are a number of structures used, which are all based on a cooperative model. In essence, they are typically a locally based entity (usually a community land trust) which would own the land on which dwellings are built. There is usually an element of public subsidy which includes the inclusion of land at no or low cost. Typically, the value of the land is never passed through the scheme to the individuals buying into the cooperative.

Homes are built on the land owned by the community land trust by a cooperative which is controlled by its members who will also be the occupiers of the dwellings. Key features typically include:

- Purchaser is given a medium term lease of 20 years (they cannot be longer in the UK because of the impact of enfranchisement laws);
- Occupation payment is paid by the purchaser which is linked to their household income; and
- Potential for equity purchase through a share in the cooperative.

The Dutch also operate a form of community land trust call the Koop Goedkoop. This model also incorporates a ground lease. The tenant buys the dwelling (improvements) and leases the land under it. The value of the land is assumed to be 30% of the total value. The purchaser pays 70% of the full market value on purchase and a ground rent on the land component. This model has been used by social housing providers to sell down their housing stock to suitable tenants. The ground rent is discounted for the first ten years after sale. Table 3.3 presents the discount percentages.

Table 3.3: Koop Goedkoop – Ground rent discounted percentages

Year	Discount on ground rent
1st year	100%
2nd year	90%
3rd year	80%
4th year	70%
5th year	60%
6th year	50%
7th year	40%
8th year	30%
9th year	20%
10th year	10%

Source: Karmer (2008)

The ground rent is set at 5% of the land value (or 1.5% of the property's market value at purchase). The ground rent is indexed with price inflation and is paid monthly. Both the ground rent and mortgage interest payments are tax deductible. On resale the purchaser must offer the property back to the original seller. The original seller is not obligated to buy the property back. If the original seller does not buy the property back it can be sold on the open market. The second and subsequent purchasers will continue to lease the land from the original seller. There are two different models. Under model A, new purchasers receive a discount on ground rents and under model B only the original purchaser is entitled to the discount. If the original seller buys the property back, they can sell it without any restrictions. This strategy has been used to assist in the disposal of community owned social housing stock.

3.6: English shared ownership

The distinguishing characteristics of the English shared ownership model is owners buy their share of the equity and typically pay the partner rent on their portion. This model represents an early approach to shared equity which evolved from the public housing sector to allow existing tenants the opportunity to buy a portion of their dwelling. The characteristics of England's shared ownership model include:

- The purchaser buys a share of the house value with a minimum share set at 25%;
- The purchaser acquires a long term lease of usually 99 years;
- The purchaser pays rent on the non-purchased share which is typically no more than 3% of the unpurchased value;
- The purchaser is responsible for maintaining the property and all property related taxes;
- The purchaser can staircase up to full ownership;
- Purchaser has to offer the property back to the housing provider at a price determined by an independent valuation, even if they have staircase to 100%, before they can sell the dwelling. This right of pre-emption lasts for 21 years; and
- The housing provider retains the freehold title.

Source: Bright and Hopkins (2012)

Under the most common UK model the purchaser buys the right to occupy a dwelling and share in any change in value relative to their portion of the equity provided. However, the underlying tenure is a long term lease which remains in place under the purchaser/occupier staircases their share to 100%. Staircasing is allowed with the price set to market values at the time each additional portion of equity is purchased. If the purchaser has not reach 100% ownership at the time of sale most contracts have a first right of refusal for the original seller. If this option is not exercised the seller will need to try and sell their part share of the property on the open market, Pinnegar et al (2007). Research has also suggested that less than a quarter of all households manage to staircase up to 100% ownership.

The model has not attracted positive feedback from all participants as it can, in some circumstances, be seen as favouring the equity partner over the occupier partners. For example, Richardson v Midland Heart established important case law. Richardson entered a shared ownership agreement with Midland Heart (including a 99 year lease) and purchased a 50% share. A third party mortgage was not taken out. Richardson's circumstances changed, and she fell into default on her rental payments on the unpurchased 50% share. Midland Heart used her rental arrears to cancel the underlying lease under what is known as ground number 8. This provision gives mandatory grounds for repossession. The Judge in the case supported Midland Heart and concluded that Richardson was not entitled to her 50% of the property she originally contributed or any subsequent uplift in value.

3.7: Shared equity mortgages (SEM) and co-ownership

Shared equity models are used in a number of countries around the world including England, Wales, Australia, and the Netherlands. The essential feature of shared equity models is that the home purchaser shares the capital cost of purchasing a dwelling with an equity partner. This allows them to buy into a dwelling with a lower level of income or equity than would otherwise have been required. Thus, this model makes the transaction more affordable allowing the purchaser to buy a dwelling more suited to their needs, in a more desirable location, and/or become a first home buyer when they had insufficient income to purchase a dwelling on their own.

There are two main types of shared equity models and these are co-ownership strategies and equity mortgages. Under co-ownership models both the purchaser and the equity partner have a direct equity interest in the property which is typically recorded on the deed or title for the property. The legal interest held by each party varies with the detail used in different countries.

The equity mortgage model effectively involves an institution (private or public) lending the equity share to the purchaser as a second or subsequent mortgage. Typically, the purchaser does not pay any interest on the debt, rather when the debt is repaid in full or part the sum repaid reflects the original mortgage amount plus a share in any capital appreciation or depreciation since purchase. The share of gain or loss varies depending on the nature of the lender. Social or community based organisations typically take a prorata share. For example, if the equity loan represented 20% of the purchase price they would typically receive 20% of the gain or loss. Private sector equity loans vary greatly in their nature. Typically, they receive a larger share in any uplift in value whilst capping the down side more aligned with their pro-rata share of the purchase of the property.

Shared equity loans are provided as a mortgage on a dwelling's title or deed. In some circumstances the shared equity loan may take the form of a covenant deed (Western Australia's First home start programme is an example of this). The most common SEM model typically charges no interest on the partner's equity contribution. The return on their investment is generated by receiving a share of any change in the property's value on sale or repayment of the loan. The relative proportion of any gain or loss is specified in the loan agreement.

In an alternative model the equity partner receives an interest payment (typically at a below market rate) on their investment and a smaller proportion of any change in value.

The expectation under these mortgages is that the purchaser will staircase their share of the debt by buying tranches of the equity over time to reach 100% ownership, (Pinnegar et al, 2007). Other characteristics of SEMs include:

- The primary mortgage holder has first call on the asset;
- The ability to recycle capital/grants into subsidised schemes rather than retain physical housing stock as affordable;
- Allow households to build equity and share in any value growth; and
- Can be used under a number of scenarios including on existing housing stock as well as within new developments.

The difference between a social shared equity and a private sector shared appreciation loan/mortgages is the latter term is typically associated with unsubsidised private sector led models where a disproportionate share of the capital gain is attributed to the equity partner. For example, the shared appreciation loan may represent 20% of the purchase price however the equity part is allocated 40% of any gain in value. In some cases, the downside risk to the equity partner is also capped at their pro-rata share of the purchase price, (Caplin et al, 2007) and (Pinnegar et al, 2008).

Analysis by Caplin et al (2007) suggests that the early versions of SEMs used in the 1980s in the UK and USA during a period of rapid growth in house values resulted in excessive returns to investors and reputational risk for the equity partners. Current private sector SEM providers are not in the market motivated by affordability objectives rather they are there to achieve their institutional objectives. Consequently, they have different goals, risk profiles in an institutional and market context, (Pinnegar et al, 2008).

Co-ownership models are similar and are sometimes referred to as tenants in common models. Under these models both parties are recorded on the title as joint owners with their relative equity shares specified at the time of purchase. Staircasing is typically allowed and the cost reflects the market value at the date each additional portion of equity is purchased. If the occupier has not stair cased to 100% when the property is sold they receive their pro-rata share of the sale price. Occupiers are liable for all property taxes and maintenance costs. In return, typically there is no charge or a nominal charge on the use of the partner's equity. Although they are similar in nature co-ownership models align the equity partner's interest in the property more closely than a SEM partners.

Rent to buy is another variation. Under this model a lease/purchase agreement allows the occupier to rent the dwelling while having a contract/option in place to buy the property at a predetermined time in the future. There are a large number of variations of rent to buy contracts depending in part whether there is an element of subsidy involved. Under the subsidised model typically a tenant will need to meet a number of predetermined conditions before they can exercise the option to buy the property. For example, these can include completing a first home buyer information programme, undertaking a financial management/budgeting course, paying down any short term debts and saving a predetermined deposit.

The rent charged also varies depending on whether there is subsidy provided. Under the subsidised model typically the rent is set at an affordable level reflecting the household's income, for example 30% of gross household income. Theoretically the rent will be set so that the occupiers can achieve their other goals, pay down short term debt and save a deposit. Under more commercial models the rent paid may exceed market rents and reflect the value of the option to buy the property in the future at a predetermined price.

If the occupier defaults they can lose all rights associated with the property including the right to buy the property and any interest in the difference between market value and the predetermined purchase price. Rather than provide a sustainable affordable housing option, they reflect a transitional solution which may allow a household into a long term solution providing they meet a defined set of obligations.

Reverse equity mortgages are another variation of a hybrid tenure structure. This is a shared equity tenure with the occupier selling down their stake in the property over time rather than staircasing to 100%. These structures have typically been offered to asset rich income poor households, typically post retirement, to realise some of their capital gains while remaining in their homes. The occupiers retain ownership in the property with the reserve equity structure is registered as a mortgage on the property's title. Little or no interest is paid on the outstanding equity contributions with the provider receiving a disproportionate share of the value of their equity on sale.

Shared equity models - Australia

A range of shared equity loans and shared equity co-ownership products have been utilised in Australia over the last four to five decades. Predominately they have been used as a policy tool to increase the level of owner occupation in low to middle income families whilst providing key worker accommodation. All have achieved low levels of market penetration. Their growth has been limited by the targeted nature of the products and the funds available to subsidise them. Typically, they have been administered by state owned entities.

In addition, there have been some not for profit shared ownership initiatives such as "Buy Assist" promoted by the National Affordable Housing Consortium. They offer a shared equity loan which is a reasonably standard shared equity product. Their features included:

- State sponsored programmes managed by a state controlled entity;
- No interest or rent on the shared equity component;
- Both equity partners receive a proportional share of any increase in value;
- The exception being South Australia's breakthrough shared equity loan which takes a disproportionate share of the value growth; and
- West Australia's scheme has a first right of refusal when the property is sold;

In West Australia and South Australia, the schemes focus on potential purchasers of public housing units. In addition, properties which are being sold on the open market are eligible, provided they met a range of other criteria.

In Victoria, the shared equity programme is tied to new supply within specific developments and restricted to small releases of dwellings in metro Melbourne. Queensland Pathways and Tasmania's scheme are tied to current and former public housing and in Tasmania the supply has to have been developed by Housing Tasmania (State operated entity). Purchaser criteria includes a range of factors such as household income limits, maximum property value, and limits around the proportion of equity share. State and territorial initiatives typically limit households to paying no more than 30% of gross household income in mortgage repayments.

Table 3.4 summarises the key purchaser criteria for Australia's different shared equity programmes.

Table 3.4: Australia's shared equity loan criteria

Programme	Product	Minimum deposit	Maximum equity share	Maximum household income	Maximum property value
West Australia	Loan	$2,000 or 2%	40%	Up to $80,000	$375,000
Northern Territory	Loan	2%	30%	$71,000 plus asset test	$310,000
South Australia	Loan	$1,000	35%		$380,000
Victoria	Loan		25%	$60,000	Tied to a particular product
Tasmania	Equity/co-ownership		25%	$67,500 plus asset test	$245,000

Source: Pinnegar (2007)

Overall there is increasing government and state interest in expanding the availability of new build shared ownership products in Australia and finding ways of using public sector land to support the provision of affordable housing. Charitable operators are also involved in schemes aimed at enabling them to use their own equity to expand supply through a range of shared equity products. All these schemes aim to leverage in private finance in order to stretch available public funding and to sweat public and charitably owned assets, (Whitehead and Yates 2010).

Shared Equity United Kingdom

Shared equity loan models (Homebuy) have also been used in the United Kingdom as a vehicle for assisting defined public sector "key workers" since the late 1990s. The assistance was targeted at these workers as they were seen as increasingly being priced out of the rising housing market. First, it was recognised that shared equity was a viable tool for assisting eligible lower to middle income groups into home ownership and as a means of retaining employees in high demand markets. It became apparent that it was important policy took into account ways of sharing the risks and benefits between parties.

In the context of the United Kingdom registered social landlords (RSLs) performed the primary role of being the equity partner, providing customer information and supplying product education. The policy has evolved and is now typically targeted at key workers, social housing tenants, and first home buyers.

These products are government funded where eligible purchasers choose their own dwelling on the market and obtain an interest free equity loan of up to 25% of the value of the dwelling. The purchaser has the right to pay back the mortgage at any time based on the current market value and staircase up to 100% ownership. These shared equity mortgages are designed to help the purchasers overcome deposit and initial cash flow problems as well as sharing any price related risk with the government.

These programmes have been active in the market for over a decade have achieved less that a 1% share of the total housing stock. Whitehead and Yates (2010) contend that the lack of success of these products may lie with the complex hybrid nature of the mortgage products used, the supply of capital is budget constrained, and that the target group of eligible purchasers, even with the shared equity product, have found it harder to buy dwellings because of house price increases.

Whitehead and Yates (2010) suggest evidence in the United Kingdom indicates that only government sponsored shared equity and shared ownership schemes are viable in the longer term over full property cycles. They conclude that there has been very limited appetite for market innovation from the private sector and no sign of a sustainable unsubsidised intermediate/shared equity model emerging which is directly based on a shared equity concept. Overall they conclude shared equity appears to be an idea whose time has not yet come although there is evidence of progress in terms of better government sponsored products particularly for first home buyers.

Monk and Whitehead (2010) identified eight major attributes of different tenures for an individual household available in England. These are presented in Table 3.5:

Table 3.5: Major attributes of different tenure models

	Traditional Tenures			Intermediate Tenures		
	Owned Occ	**Private Rental**	**Social rental**	**Rental Coop**	**Co-ownership**	**Deed Restricted**
1: Control	High	Low	Low	Medium	High	High
2: Security /stability	High	Low	High	High	High	High
3: Wealth accumulation	High	Low	Low	Low	High	Medium
4: Choice	High	Medium	Low	Low	Medium	Medium
5: Protection from rent risk	High	Low	Low	Medium	High	High
6: Financial flexibility	Medium	Low	Low	Low	Medium	Medium
7: Ease of access and exit/mobility	Low	High	High	High	Low	Low
8: Protection from house price risk	Low	High	High	High	Low	Medium

Source: Adapted from Monk and Whitehead (2010)

Table 3.5 points to the attributes of the different tenure available in England, their various constraints and highlights the extent to which a range of intermediate tenures could reduce the risks associated with house prices while enabling some access to wealth accumulation. They conclude that whilst intermediate tenures provide an opportunity to provide support to low to moderate income households they require significant government support to ensure they viability.

Scotland has used intermediate/shared equity models to provide low cost housing over the last two decades. The two current schemes both are administered registered social landlords and the equity stake is held by the Scottish Government. Jointly these schemes are known as the low cost initiative for first home buyers (LIFT). Between 2005 and 2017 over 10,000[10] shared equity transactions were undertaken under the LIFT scheme, approximately 0.4% of the total housing stock. There are two main components of LIFT and these can be summarised as:

- New supply shared equity scheme (NSSE). The NSSE scheme allows registered social landlords (RSL) to sell properties using shared equity mortgages to purchasers where they developed new dwellings, purchased new dwellings from developers for on sale, and sell new dwellings to existing owner occupiers whose dwellings had been demolished for redevelopment; and
- Open market shared equity scheme (OMSE). The OMSE scheme allows eligible purchasers to acquire a property on the open market partly funded by a shared equity mortgage. The shared equity transaction is administered locally by RSLs.

Scott et al (2011) undertook an evaluation of the Scottish NSSE and OMSE programme and concluded:

- The schemes generally supported people into sustainable positive housing solutions;
- OMSE in particular assisted households with disabilities into housing which met their needs;
- Most shared equity purchasers felt that their housing costs were affordable;
- Average purchase price was lower for OMSE properties than NSSE purchasers. This reflects the higher proportion of second hand dwellings and potentially lower quality houses purchased; and
- OMSE upfront subsidy was approximately a third lower than NSSE and its long term costs are estimated to be one half of an NSSE transaction. However, the impact on the overall supply of dwellings is less clear.

Carr (2015) undertook 71 in-depth interviews with households with shared ownership tenure in London, south east, and, east of England. Key findings included:

[10] Source Scottish government statistical publication.

- The shared ownership lease (basis of the tenure) is a complex document that is not well understood;
- Potential challenges exist with the occupants responsible for all repairs and maintenance and other charges;
- Occupiers did not appreciate having to pay fees to register any improvements made to the property during their tenure. Consequently, a significant proportion did not bother.
- Service charges were a large concern. Problems ranged from miscalculation, being charged for services that were not provided, and the lack of control they had over what services were delivered;
- Communication issues were prevalent between the equity partner (RSL) and the shared owner occupiers. Occupiers generally felt they were treated as tenants rather than as an equity partner;
- Staircasing was a significant selling point and buyers were savvy about staircasing and recognised that it would be harder to sell a larger share in the property. There were also disagreements and concerns over valuing practices and costs; and
- The majority of shared owner occupiers saw themselves as “owners” rather than “tenants”. However, a lack of contact with their equity partner combined with a feeling that they lacked control over some aspects of their dwelling, and they felt that their equity partner should take more, but not too much, of an interest in their capital investment.

3.8: Deed restricted housing

Variations of deed restricted housing are used in a wide range of countries. The two main circumstances in which they are used are:

- For the sale of social housing stock where restrictions on the unit's resale are included. For example, the Dutch have used this approach in their Koopgarant and Kopen naar Wens schemes**;** and

- As part of a developer's obligations to provide affordable housing under land use rules and regulations.

Deed restricted housing encompasses a range of types and tenures of houses including detached dwellings, duplexes, terraced housing and apartments. All the housing is owner occupied and is retained as continuously affordable. The dwellings are sold and resold at affordable prices determined by a formula based approach to ensure they stay within reach of low to moderate income households. The formula is imbedded within a covenant registered on the property's deed or title. Deed restricted housing is used as a planning tool (inclusionary zoning) to increase the supply of affordable housing typically in high housing cost markets.

The Dutch operate a form of deed restricted housing called Koopgarant (Dutch socially bound ownership). Tenants buy the dwelling they occupy at a discount to market value on condition that when they resell the property its offered back to the social landlord at the same discount to market value. The landlord is obligated to buy the dwelling back. The landlord and the tenant share any increase in value which varies depending on the level of discount at purchase. The discount and profit share vary between existing dwellings and new builds.

Table 3.6 presents the discounts and profit shares used.

Table 3.6: Discounts and profit shares with Koopgarant

Discount for buyer	**Share of value increase or decrease for the seller**	
	Existing dwellings	**New built dwellings**
15%	30%	22.5%
20%	40%	30%
25%	50%	37.5%
30%	50%	45%
35%	50%	50%

Source: Karmer (2008)

Typically, the price is usually reduced by 25%. Interest payments on mortgage payments are not tax deductible. The purchaser is compensated for value increases due to improvements to the property. Table 3.7 presents a worked example.

Table 3.7: Koopgarant – Worked example

	Koopgarant -Buy back price calculations	
	Example A	**Example B**
Initial value	160,000	160,000
Discount	25%	25%
Sale price (A)	120,000	120,000
Market value at turnover	200,000	150,000
Value increase due to improvements (B)	10,000	10,000
Value increase due to market (C)	30,000	-20,000
Buy back price (A + B + (50% x C)	145,000	120,000

Source: Karmer (2008)

After the landlord has brought the property back they are free to decide what they do with the dwelling.

A second variation of Dutch deed restricted housing is termed Kopen naar Wens – Dutch social sale model. Under this model the tenant buys the dwelling at a discount and repays the (indexed) discount at turnover. The size of the discount is determined by the purchaser and cannot exceed 65% of the property's value. The repayment of the discount at subsequent sale is not based on the actual resale price. It is based on a price index developed for the region and type of dwelling. Staircasing is allowed.

The purchaser is obliged to offer the dwelling back when they want to sell with the original owner under no obligation to buy it back. If the original owner does not want the property back, the purchaser is free to sell the property on the open market and receive the full value less the indexed discount.

Deed restricted housing is also used as an inclusionary zoning strategy in the USA. Under this scenario deed restricted housing provides price restricted dwellings with affordability covenants on the deed/title which regulates the purchase and resale price of a dwelling and in addition the criteria of purchasers who can buy and sell the property. For example, it may limit occupation to households with incomes that fall within specified multiples of median household incomes in the area. This approach is designed to retain housing stock within affordable housing programmes and inclusionary zoning programmes. Estimates range between 400,000 and 500,000 deed restricted housing units in the USA suggesting a market share of 0.3% of the total housing stock.

Resale formulas used in the USA are presented in Table 3.8:

Table 3.8: USA dwelling resale price formulas

Approach	Purchaser's initial affordable purchase price is determined by
1: Fixed rate	A fixed annual percentage which changes without regard to the movement in surrounding house prices. These are typically around 1% to 3% per annum.
2: Consumer prices	The movement in the consumer price index over the period of home ownership without regard to the movement in surrounding house prices.
3: Area incomes	The increase in family median incomes over the period of home ownership without regard to the movement in surrounding house prices.
4: Property prices	The increase in house prices in the surrounding area.
5: Appraisal based	The change in the home's value determined by the difference in appraisal at the start and end of the tenure. The seller is allowed to retain a fixed percentage of any vale growth, these are typically around 25% to 50% of the increase depending on the length of tenure.

Source: Theodos et al (2017)

Theodos et al (2017) suggested that one of the drawbacks of shared equity programmes is because the owners do not realise all of the capital gain there is less of an incentive for them to make capital improvements to the property. To counter this, some of the programmes allow owners to recover all or an agreed portion of any capital improvements at sale.

A large portion of shared equity programmes require potential purchasers to undertake a pre-purchase homebuyer counselling programme. The objective is to inform participants about their programmes and well as assisting them in develop the financial budgeting and other skills required to become successful home owners. Many programmes also provide stewardship post purchase to assist households transition from being renters to homeowners.

Theodos et al (2017) suggests that one of the key factors limiting the ability of providers to increase the scale of their operation is a lack of subsidised capital (and/or land). Inclusionary zoning was suggested as one strategy to improve the supply of affordable dwellings but by itself was likely to be insufficient and access to subsidised capital is also likely to be required.

3.9: Barriers to increasing market share

The objective of this section of the report is to describe barriers which have limited the ability of intermediate/shared equity models to increase their market share. Whitehead and Yates (2010) note that there have been a range of innovative shared equity products introduced around the world by both governments and the market, but none have become mainstream. Whitehead and Yates (2010) also note shared equity products are relatively new, are more complex and are more costly than standard transactions. They conclude the potential for these types of products depends on the extent to which benefits can be realised to offset the costs involved in these more complex products.

Whitehead and Yates (2010) concluded that it is unlikely that shared equity will evolve into a mainstream product and that its greatest prospect is to be used as a mechanism for government assistance to leverage marginal home purchasers into owner occupation. There may also be potential to develop these products to assist owner occupiers in financial difficulty.

Whitehead and Yates (2010) suggest that there are a number of obstacles which are likely to limit the market share of a shared equity product and these include:

- The products are complex, and consumers need to be well informed;
- The potential for mis-selling and of poor valuation processes is considerable;
- Long term investors are difficult to find in part due to scepticism about the possibility of continuing capital appreciation;
- Uncertainties around the tax treatment for particular instruments;
- Difficultly for organisations to grow to sufficient size to generate economies of scale to reduce costs;
- Consumers do not necessarily equate shared equity as full ownership even when compared with owner occupation households including mortgages of 80% to 100% of the property's value. This mindset is more prevalent where the equity partner is a financial institution; and
- The depth of demand (or appetite for shared equity products from these households) from the households on the marginal of owner occupation is also unknown.

Temkin et al (2013) noted that different models are likely to appeal to different types of organisations. For example, deed restricted housing is more likely to appeal to publicly funded programmes; not for profit housing providers are likely to use community land trusts; and limited equity cooperatives are likely to appeal to opportunities typically focused on a medium to high density developments.

Temkin et al (2013) questions why these schemes if so successful form such a small proportion of the overall market. They suggest the likely barriers include:

- Equity restrictions have limited appeal to buyers who can qualify for and afford market loans, so by design they focus on a niche segment of the market;
- Rather than a lack of demand there appears to be more constraints on the supply of units. All these schemes require the development of organisational capacity, ongoing stewardship, and have moderate administration costs; and
- A lack of understanding in the financial sector and their willingness to finance buyers entering shared equity programmes is also a limiting factor. They note that once lenders were familiar with the products they were eager to participate, and as they become aware of the satisfactory loan performance and the ongoing stewardship of the shared equity owner occupiers.

Limited government support in the USA via the Department of Housing and Urban Development (HUD) for shared equity programmes and the way in which any support is structured can also hinder expansion. For example, HUD funding limits the amount which can go towards administration costs. HUD funding seems to focus on short term outcomes rather than the ongoing costs savings that shared equity programmes provide to successive owner occupier households.

Targeting low income groups with these products can create a potential poverty trap. The risk of this needs to be offset by the benefits of independence, security of tenure, personal pride/well-being, and the means to accumulate and distribute wealth.

Eslinga et al (2015) notes that with the Dutch housing market in crisis social landlords are trying to sell part of their housing portfolios to low income households and have developed a range of shared equity products to make them more affordable. It is also important to note that interest paid on a mortgage is 100% deductible for income tax purposes. They note that one of the drawbacks of hybrid tenure structures is their complexity. This can make lenders and consumers reluctant and sometimes suspicious of the products. Good independent advice and analysis of the advantages and disadvantages of the various tenure models is crucial for their acceptance in the market.

Pinnegar et al (2009) undertook focus groups to investigate consumers' views on shared equity opportunities in Brisbane, Sydney and Melbourne. They focused on low and middle value housing markets in these cities. Key findings included:

- Being tied to particular supply stream (development) that was not integrated into the wider market reinforced the sense of "other" rather than mainstream and this was not the housing experience they were seeking to attain home ownership;
- Households were seeking a helping hand (transitional tenure) rather than an alternative permanent intermediate/shared equity tenure. It was a pervasive view across income levels even if the costs of achieving this (transitional tenure model) were higher than other alternatives it was a better solution than being locked into permanent agreement/housing stock; and
- Participants viewed the intermediate/shared equity programmes as a means of saving, as an opportunity for stability and security of tenure rather than ownership.

Pinnegar et al (2009) concluded realising the future potential for shared equity products would require:

- Getting the product right and minimising any potential barriers;
- Encouraging the private sector to become involved including institutional and superannuation funds to increase the supply of capital;
- Aligning public sector and private sector interests by ensuring the risks are appropriately balanced to ensure a sustainable framework for affordable finance through market cycles;
- They concluded that in broader policy terms, it is not only about recognising that a continuum of strategies and approaches are required when taking a whole of market system approach, but requires work to understand how both the public and private sector arrangements can best work together to deliver those strategies;
- Different intermediate/shared equity products are appropriate at different points in the housing continuum and in different housing markets;
- A long term commitment is required to allow shared equity to assist households at one point in the housing continuum and should be seen as only one component within a range of policy responses;
- Ensure staircasing is viable and provide support/ a stepping stone to full ownership; and
- Shared equity models work best in markets which are enjoying steady sustainable growth. These conditions help build equity and are likely to build greater predictability in return profiles.

Whitehead (2010) suggested shared ownership and shared equity products had untapped potential in England and recommended a number of strategies to achieve higher levels of market penetration. Her suggestions included:

- Key areas of reform include a simplified standardised product enabling shared equity on existing and new dwellings, more transparent regulation and subsidy;
- The development of a better resale market for shared ownership/equity products;
- The need for a transparent shared equity product that concentrates on risk sharing and sustainability and has the potential for scale.

Smith et al (2013) note that the internationally there are very few working shared equity models operating at scale. They note a number of potential reasons for this including:

- The role governments play in supporting traditional debt finance which leaves little room for innovation in shared equity models;
- As a new style of financing shared equity is costly, time consuming, and risky when compared to other traditional funding routes which are readily available;
- It might suggest that shared equity models are not as efficient as they look in principle raising issues of market failure and transaction costs;
- The institutional framework set by government and regulators does not leave adequate room for the development of such products; and
- It is possible that funding for shared equity products is not seen as mainstream by potential providers which results in a perception of a lack of liquidity.

In summary, intermediate/shared equity products face a number of challenges to grow beyond the niche markets they currently occupy. These barriers include:

- Targeted nature of the product can limit the number of households that meet a programme's eligibility criteria;
- Lack of appropriately priced patient capital;
- Non standardisation of tenure documentation and more complex nature of the tenure agreements;
- A lack of understanding the opportunities and products from potential purchasers, financial institutions, not for profits and government agencies;
- Potential for the misalignment of the different shared equity parties' interests causing adverse outcomes which increases the potential for mis-selling;
- A lack of understanding of the importance of the stewardship of occupiers before and after entering an intermediate/shared equity programme and which organisations are most appropriately placed to provide these services; and
- A lack of understanding in the financial sector and their willingness to finance buyers entering shared equity programmes can also be a limiting factor.

3.10: Intermediate/shared equity tenure models performance

The objective of this section of the report is to discuss how intermediate/shared equity tenure models have performed. Temkin et al (2013) evaluated the performance of shared equity home ownership initiatives in USA. They identified four broad reasons these home ownership support programmes were developed, and they included:

- Home ownership provides family stability;
- Home ownership programmes improved health outcomes and educational achievements for children;
- Increase the participation of households in social and civic activities and improves the quality of neighbourhoods; and
- Allow families to accumulate wealth.

Temkin et al (2013) note housing policy in the USA now focuses on promoting models which create sustainable owner occupation models. In general, the commonly used models allow income eligible families to purchase homes at below market prices thereby reducing the risk of negative equity at some point in the future. In return the owner's potential capital gain from resale at some point in the future is restricted. This assists in creating a pool of retained affordable dwellings. The three most common models are community land trusts, limited equity cooperatives and resale restricted dwellings with affordability covenants.

Davis (2006) suggests intermediate/shared equity housing is designed to balance the competing interests of the individual households and the community. Five pairs of benefits are commonly claimed for shared equity models creating a multifaceted set of standards by which the performance of these tenures can be judged. The evidence for and against these claims is sometimes convincing, sometimes inconclusive contradictory or non-existent.

Table 3.9 summarises the potential advantages and criticisms of intermediate/shared equity tenure performance.

Table 3.9: Intermediate/shared equity performance matrix

	Claims - Advantages		Claims - Criticisms	
	Individual	**Community**	**Individual**	**Community**
Affordability	Access to ownership is expanded for households on modest incomes	Access to home ownership is preserved for future home buyers of modest means	It is not the form of tenure which expands home ownership rather it is the type of housing and the level of subsidy	Helping low income households to become home owners is high cost and low volume. Public subsidies should be put into rental housing instead.
Stability	Security of tenure is enhanced, and the risks of home ownership are reduced	Neighbourhood mobility is increased	Occupants gain security but relinquish independence. They have little choice and too little control over their personal living space.	Stabilisation is limited to a small pool of housing with little impact on the neighbourhood as a whole. Instability amongst housing's sponsors more over may jeopardise neighbourhood gains
Wealth	Personal assets are enlarged	Community assets are preserved	Resale restricted housing is a poor personal investment. Occupants accumulate relatively limited wealth.	Public subsidies should be recaptured and reinvested not locked passively and permanently in low cost housing.
Involvement	Social bonds and collective action are nurtured within shared equity housing	Civic engagement is expanded outside of shared equity housing	Too many contentious meetings and too many free riders put a strain on neighbourliness and deplete social capital	The owners of shared equity housing turn inwards, not outwards. Self-absorption not civic engagement is the more likely outcome.
Improvement	Personal mobility is enhanced	Community development or community diversity is promoted	Resale restricted housing creates barriers to economic social and geographic mobility. Occupants are stuck.	The tenure of a neighbourhood's housing does not matter much in promoting either development of diversity.

Source: Davis (2006)

Affordability

Davis (2006) concludes affordability is enhanced by shared equity models by lowering the entry cost for households into owner occupation. This increases opportunities for low and moderate income households. However, critics suggest it is the subsidy rather than the tenure that improves affordability. Although they are correct, the level of subsidy is important, the shared equity tenure models allow for the recycling of the housing stock or the subsidised capital across multiple households rather than having the benefit fall as a one off gain for one household. The level of subsidy required is influenced by the household income of families targeted relative to the cost of supplying appropriate housing.

Tenure models can also impact on affordability by influencing the front end decisions made by developers when designing and building housing complexes. Shared equity models which entail ongoing commitment to shared equity from the developer (community housing provider) in the operation of the complex is likely to result in more durable materials and the installation of more sustainable systems which could reduce the operating costs of a development in the longer term.

Davis (2006) concluded after analysing empirical studies examining whether shared equity tenures were effective in retaining affordable housing concluded they produce significant sustainable benefits and were also effective in protecting the community's capital/investment in affordable housing. Davis (2006) concluded affordability is improved by lowering the initial cost of buying a dwelling. At the same time most models preserve affordability over many years by either retaining stock as affordable or recycling public equity on the resale of a property. He also noted intermediate tenures models expanded access to owner occupation across lower to moderate income households including key worker families in high cost housing areas.

Stability

Davis (2006) suggested evidence from studies suggest household and community stability is improved by shared equity housing. Improved stability is evident as the owners of shared equity property default less on their mortgages, remain in their homes for longer, and keep their dwellings in better repair.

From a community stability perspective evidence is mixed, however, it does suggest that shared equity models do preserve the affordability of low cost housing and prevent the displacement of low income households. Davis (2006) also concluded that shared equity models, particularly limited equity cooperatives, were enduring in their longevity.

Temkin et al (2013) examined the performance of seven shared equity programmes in USA. They included a mixture of deed restricted housing, community land trusts, and limited equity cooperatives. They concluded that there were significantly lower mortgage defaults than for loans in the areas surrounding the shared equity schemes. They suggested that home ownership counselling associated with the shared equity programmes is likely to have had an influence on the security of tenure for buyers. Over 91% of buyers remained owner occupiers after five years. This compares with other studies (Herbert and Belsky, 2008) which suggested that approximately half of all low income home buyers (not in shared equity programmes) sustained owner occupation after 5 years.

Temkin et al (2013) also noted that one of the consequences of the global financial crisis was many low to middle income households in the USA lost their homes to foreclosure which created financial and social turmoil for those former owners. As a result, policy makers are less certain of the benefits associated with promoting home ownership programmes to these households. They suggest that this ignores the benefits that can be generated from shared equity programmes which have demonstrated their ability to promote sustainable owner occupation to low and middle income households.

Wealth creation

Davis (2006) concluded that although shared equity models do assist households accumulate wealth the characteristics of the different models employed result in different outcomes. Sales restriction housing particularly those using formula based resale prices can limit the individual accumulation of wealth. However, it is worth noting that any wealth accumulated is less than the owners of dwellings which do not have any sale restrictions.

Davis (2006) notes his conclusion is supported by the results of other studies such as Jacobs (2005) analysis and Davis and Demetrowitz’s (2003) conclusions. However, Davis (2006) concluded that although the rate of shared equity models’ wealth creation was lower than market housing it should be sufficient to tip the scales toward transformation of households’ outcomes.

Temkin et al (2013)’s study of intermediate/shared equity programmes in the USA found all the programmes included in the study incorporated appreciation formulas that allowed units to be resold to buyers with incomes similar to the initial buyer while providing for a positive internal rate of return for the sellers of those dwellings. They noted that the pricing formulas used by each entity require a degree of flexibility, so they can adapt and change in line with the evolution of the market in their targeted location. The median rate of return for sellers ranged between 6.5% and 59.6% across the seven programmes.

The level of return was influenced by the formulas used by the programme to estimate any capital appreciation allocated to the seller and the changes in the house price index used to estimate any changes in value. The highest rate of return was influenced by the scheme allowing the seller to retain a large portion of value growth. They compared the returns the shared equity resellers would have achieved had they remined as renters and invested their capital in the stock market or 10 year treasury bonds. The median return was higher for shared equity resellers (in all but one programme) than investing in either the stock market or 10 year treasury bonds.

Temkin et al (2013)'s study also noted that the difference in the seven schemes was those with higher returns can decrease the affordability for subsequent buyers, escalating the amount of income required to purchase the dwellings at resale. The two limited equity cooperatives included in the study which kept the fees low in real terms had the smallest change in incomes required to purchase a share over time. Thus, some balancing of the individual households benefits relative to the ongoing community benefit is required.

Temkin et al (2013) study also supported the claims shared equity programmes can assist low into middle income households build wealth via sustainable owner occupation while at the same time provide a supply of units which remain affordable over time. They also concluded that shared equity programmes were less expensive method of supporting home ownership in the longer term than grants as the capital and or dwelling units were recycled across multiple owner occupiers.

They noted that rather than the type of programme (deed restrict, community land trust or limited equity cooperative), the factors which influenced the outcome the most were initial unit pricing formula, resale formula, conditions in the local housing market, and the ongoing stewardship provided. They also noted that if the organisation's goals and objectives can be aligned with the shared equity owner occupiers' long term sustainability of the scheme appears stronger.

Lubell (2009) observed there are two main ways alternative tenures reduce risks associated with home ownership and lower risk allows increases the opportunity to create wealth. First, depending on the type of tenure, occupiers buy dwellings at below market prices[11] and consequently owners are insulated from a significant fall in house values. Second, by reducing the purchase price housing costs as a percentage of total household income falls. This allows households to save money in other ways and gives them increased capacity to cope with fluctuations in their housing costs due to factors such as increasing interest rates. For example, in 2010 only 1.3% of CLTs mortgages were seriously delinquent compared to 8.6% of conventional mortgage rate home loans.

[11] This assumes the owner occupier partner pays a price which reflects their share in the market value of a dwelling with an equity partner holding the balance of the property's value.

Davis (2006) concluded owner occupation also provides a household with the opportunity to accumulate wealth. It also provides the opportunity to assemble transformative assets that one generation can pass to the next lifting a family beyond their own achievement. Shared equity programmes typically allow individual households to accumulate personal wealth whilst at the same time prevents the privatisation and removal of public subsidises by either the retention of housing stock on resale or recycling public equity within shared equity programmes.

Davis (2006) concluded intermediate/shared equity tenures which place families within a community based support system can lower the risks associated with low income households becoming owner occupiers. Although shared equity programmes do allow households to build equity, restricting the amount of appreciation that flows to the homeowner on resale can be justified as these opportunities were created by a public subsidy or other public intervention and also allows a portion of the wealth to be recycled across addition households adding to the community wide benefit.

Involvement

Davis (2006) concluded evidence suggests there is reason to believe that shared equity housing does nurture social capital at least in the more collective forms of shared equity housing. He also suggests the evidence of increased involvement creating community benefit is uncertain. The studies suggest shared equity provides community improvement as well however some critics suggest that the improvement was not due to the tenure rather it was a result of increase capital invested, people mobilised, jobs created, services provided by the shared equity providers. Davis (2006) suggests that it is likely that a component of both is true with the nonmarket models combined with the increased investment and the organisation strategies from the not for profit housing providers resulting in diverse and improved neighbourhoods.

Davis (2006) concluded stabilising the housing of individual households can also have a stabilising effecting in the surrounding community. Enhancing security of tenure helps households succeed.

Davis (2006) concluded home owners typically have more involvement in their community with increased participation in voluntary organisations and engagement in political activity. Davis (2006) also cited evidence that neighbourhoods with denser social networks also had lower rates of instability, unemployment, crime, and other social ills. He suggested that limited equity cooperatives, community land trusts and deed restricted housing (the common shared equity models used in the USA) were credited with making the same contributions to social participation as any other form of ownership.

Household mobility

Davis (2006) analysed a number of studies investigating household mobility and concluded they suggest shared equity housing does improve mobility although the results are not conclusive. Davis (2006) concluded intermediate/shared equity housing also is a platform for improved social mobility, providing low income people with stability, confidence, resources and skills that enable them to better their lives and those of their children.

Temkin et al (2013)'s study of intermediate/shared equity programmes in the USA found all programmes experienced similar household mobility rates. Median length of tenure for movers in most sites were 3 to 4 years. Two sites were slightly higher with medians between 5.0 and 6.6 years. They concluded that the turnover data from these programmes suggest that home buyers were not stuck in place and their mobility was not restricted by entering the shared equity programme.

General Performance

National Audit Office 2006) review of English shared equity programmes of low cost home ownership assistance programmes[12] found:

- Demand far exceeded the potential capacity to meet the need and accounted for approximately 4% of all first home buyers in England and up to 7% in some higher priced markets such as London;
- Ethnic minorities benefited from the schemes and accounted for 16% of all households in the schemes. Ethnic households account for 5% of all households nationally;
- Households in the shared ownership programme had median incomes of 24,000 GBP compared to 29,500 GBP for households using the shared equity loan scheme. These incomes were over 10,000 GBP higher than households entering social housing and were between 5,000 and 10,000 GBP less than all first home buyers. Typically, the households receiving assistance would not have been able to achieve owner occupation without assistance;
- The volume of households entering these programmes combined with the eligibility criteria for both households and dwellings meant that they were unlikely to have had an impact on prices;
- A number of factors may have limited the demand for the shared ownership products and these included they are more complex than standard ownership and rental products, some RSLs demand a fee for reserving a property for shared ownership, the application process was considered complex, assessment criteria was not evenly applied across the country;

[12] These included the shared ownership and shared equity loan policies used in England from the 1990s though to 2006

- The housing costs associated with the shared ownership products was lower than purchasing with a standard mortgage;

- The ability under the shared equity loan programme to buy a new house on the open market rather than one developed by a RSL (as under the shared home ownership programme) made it a more attractive option and provided greater choice;

- Households financial returns were higher under shared equity loan when compared to shared ownership products primary due to the rent households have to pay on the unpurchased equity in their dwelling. In addition, unlike the mortgage payments the rent increased with inflation. In contrast rent is not charged on the unpurchased equity in the shared equity loan programme;

- Less government grant money is required to help a household buy a share in their dwelling than to assist a household to affordably rent one; and

- Better targeting would have ensured the funds available would have helped an increased number of households as in a large proportion of cases households did not borrow the maximum they could.

In summary, the evaluations cited above imply intermediate/shared equity tenures can provide a range of sustainable outcomes however models need to be appropriately designed to balance the individual benefits relative to the community wide benefits. The key aspects of the models which contribute to these gains include:

- Reduced risk of owner occupation by lowering the initial purchase price of the unit which improves affordability to the household;

- Stewardship provided by the equity partners allows households to develop the skills they require to be successful home owners; and

- Intermediate/shared equity households appear to attract the same benefits associated with “full” home ownership.

3.11: Intermediate/shared equity tenure models in a policy perspective

The objective of this section of the report is to discuss intermediate/shared equity tenure models from a policy perspective. Bright and Hopkins (2012) suggest it is important from a policy perspective when designing intermediate/shared equity programmes, to take into account the tensions that exist between seeking to deliver both individual and community benefits of owner occupation. They suggest this can be described as a "conflict of competing goods". This expression captures the different housing goals that provide outcomes which meet social and moral objectives. The issue being it is impossible to maximise each competing goal with the tensions that exist between the individual goals relative to community benefits.

Table 3.10 presents a summary of the relative advantages and disadvantages of a range of schemes promoting owner occupation from a British perspective.

Table 3.10: Advantages and disadvantages of owner occupation schemes

	Community impact			Individual impact		
	Mixed communities	**Sustain tenure mix**	**Sustains access to equity growth**	**Wealth creation**	**Mainstreaming**	**Security of place**
Rent to buy	Achieved	Achieved	Not achieved	Achieved	Achieved	Achieved
Cash incentives	Not achieved	Not achieved	Not achieved	Achieved	Achieved	Achieved
Shared ownership	Achieved	Achieved	Achieved	Achieved with risks	Limited	Achieved with risks
Shared equity	Achieved	Limited	Achieved	Achieved	Limited	Achieved
Cooperatives	Limited dependant on rules	Achieved for non-market mix	Achieved	Limited	Not achieved	Limited dependant on rules

Source: Bright and Hopkins (2012)

Wallace (2012) suggested that subsidised shared ownership schemes are more acceptable to purchasers the closer the models fit with purchasers' expectations of what home ownership means. Thus, from a policy perspective it is important to take these factors into account if part of the objective is to allow households to accumulate ownership like benefits from an intermediate /shared equity programme. They considered the key aspects of home ownership were:

- Assessing housing assets so the households can accumulate housing wealth through the amortisation of the mortgage and/or capital appreciation. Restricting households use of their asset can be seen as paternalistic in that it limits the shared owner's self-efficacy in relation to the use of the housing equity;
- Security of housing assets in relation to the legal tenure provided under the shared equity agreement. For example, the tenure underlying England's shared ownership model is leasehold. If the owner occupier defaults on any payments, they may lose their equity contribution;

- Redistribution of risk and financial benefits is an important consideration. Shared ownership can mitigate exposures to market fluctuations in asset prices which is particularly useful if used by purchasers to avoid over reaching themselves by using someone else's equity rather than relying on debt; and

- Accumulating housing wealth is also seen as a major benefit. Home ownership is seen as one of the few leverage investments available to low to middle income households. Diamond (2009) notes models in the USA which restrict equity sharing are seen as a second class forms of ownership. Wallace (2012) notes that in the UK, shared ownership has in some circumstances been limited to new supply and the over saturated apartment markets which have been vulnerable to price fluctuations. To some extent this has mitigated the benefits that home ownership can provide in terms of wealth accumulation.

Wallace (2012) also notes there are psychological qualities associated with home ownership. She contends home ownership provides a sense of a person's identity as well as their sense of place or belonging. Furthermore, the tenure provides a sense of pride, status, and advancement for many people. Mixing shared ownership occupiers in low income neighbourhoods with significant numbers of social tenants may reduce shared owner's psychological benefits. The structure of England's shared ownership model implies a landlord tenant relationship rather than partial ownership which could also diminish the benefits accruing to the occupier.

AHURI (2013) concluded shared equity schemes work best when:

- They allowed households to staircase towards 100% ownership at a later stage;

- Purchasers had the ability to choose their own home rather than being tied to a particular stock or development;

- They allow purchasers to capture equity gains and sell on the open market;

- Central government takes a leadership position at the policy and regulatory level enabling the development of standardised documentation and the development of secondary markets;

- The design of shared equity programmes need to take into account differences in incomes and house price characteristics across different housing sub markets; and

- Purchasers need to have the long term financial capacity to service housing related debt and therefore targeted eligibility criteria is important. They suggested schemes need to be targeted at households with incomes below but not sustainably below, median household incomes and enable the purchase of properties in the lower quartile to median house price range.

Mowbray and Warren (2007) noted, shared equity schemes are typically not suited to assist those in greatest housing need. Table 3.11 presents a summary of how the policy around different intermediate/shared equity tenures impacts on subsidies provided and when each strategy is appropriate.

Table 3.11: Intermediate tenure subsidy and appropriateness of policy

Scheme advantages	Scheme disadvantages	Consider policy when
Subsidy forgiveness -		
Maximises individual benefit Simple to administer Easy to market	New subsidy for each applicant As house prices increase so does the level of assistance required. Large grants become hard to justify	Subsidy levels are low per buyer Retaining affordability over time is not a major concern Buyers need an inducement to buy a difficult property
Subsidy recapture		
Funds can be reused Home owners don't take scarce public funds with them when they move Home owners can earn equity in a rising market Relatively simple to administer	As prices rise recaptured funds may not meet demand Without increases in funds programs will serve fewer people Does not ensure continued affordability in a particular neighbourhood Requires ongoing administration to recycle funds	Subsidy amounts are modest Jurisdiction can afford to supplement funding Home prices are not expected to increase substantially The market offers adequate supply of affordable homes for reinvestment of funds
Shared appreciation		
Does a better job of preserving the buying power of public funds. House price appreciation is shared among all financial contributors Does not tie the subsidy to a single home giving flexibility	In a rising market funding top ups may be required Home sales at market value does not ensure ongoing affordability in a particular neighbourhood	There is concern about rising prices and the jurisdiction can top up the funding as required Choice of where to live is more important than ongoing affordability in a particular neighbourhood
Subsidy retention/stock		
One time subsidy ensures ongoing affordability Homeowners can earn significant equity Retains mixed income character of neighbourhoods going through rapid price rises	Long term affordability and requirements need ongoing administration Home owners typically get less equity than other models	Subsidy amounts are high, and prices may increase faster than incomes Preservation of a stock of affordable units is a key goal Funds may not be available to re-subsidise at resale Limited future development opportunities make it difficult to re-invest recaptured funds.

Mowbray and Warren (2007)

AHURI (2013) concluded there was consumer appetite for intermediate shared equity housing with particular interest in models which:

- Kept normal homeownership within reach of households earning close to the median household income;
- Allow the household to staircase up to 100%;
- Choose their house on the private market rather than being tied to a particular development; and
- Allows the households to capture an appropriate proportion of any equity gains by selling on the open market.

Table 3.12 presents a summary of AHURI (2013)'s conclusions of intermediate/shared equity models and their appropriateness from a policy perspective.

Table 3.12: Intermediate/shared equity models from a policy perspective

Consumers (primary owners)	Equity partners	Policy perspective
Only way some low to moderate households can become owner occupiers and benefit from ownership like advantages (security of tenure etc)	Allows the opportunity to invest in the housing market	Offers the potential to widen home ownership opportunities and provide a means to more affordable and more appropriate housing
Allows access to higher valued larger and more appropriately located dwellings	Allows for greater diversification (housing) within a portfolio	Extend or support the market for new housing/supply
Allows the purchase of dwellings more suited to the households needs	Allows for the opportunity to expand into other areas of the market	Provide the opportunity to leverage private and not for profit capital which may be targeted to lower income households
Enhances the housing affordability by lowering the effective purchase price	Allows for the opportunity to expand into other areas of the market assisting lower income households	Assists in reducing the need in the rental market
Reduces overall risk as primary owners require a smaller outlay and consequently their housing costs are lower	Provides opportunity to diversify into another asset class reducing overall portfolio risk	By increasing rates of owner occupation potentially reduces government's fiscal cost by lowering the number of older renter households requiring future assistance

AHURI (2013)

AHURI (2013) also noted the fragmented nature of shared equity schemes across different jurisdictions suggest that there is a role for central government leadership at a policy and regulatory level to standardise product documentation taking into account the need for flexibility to match products to different markets. Target eligibility was also considered important.

Monk and Whitehouse (2010) contend the policy rationale supporting intermediate tenures is that ultimately they will reduce government expenditure. Table 3.13 presents the potential net benefits to government from both traditional tenure and intermediate tenure formats.

Table 3.13: Potential net benefits to government

	Owner Occupation	Social renting	Private renting	Intermediate ownership	Intermediate renting
Short term gvmt savings					
Direct subsidy	High	Low	Medium	Medium	Medium
Tax benefits	Low	High	High	Medium	High
Longer term gvmt benefit					
To public finances	High	Low	Low	Med/High	Low
Dwelling quality /maint	High	Low	Low	Med/High	Low
Dwelling utilisation	Low	Low	High	Low	Low
Community benefits	High	Medium	Medium	Med/High	Medium
Social stability	High	Low	Low	Med/High	Medium
Labour mobility	Low	Low	High	Low	Low

Source: Monk and Whitehead (2010)

No tenure dominates all the attributes which reinforces the case for providing intermediate tenures with a mix of attributes to suit households at different stages of the housing continuum. This does not address the case as to whether government should subsidize these tenures. Monk and Whitehead (2010) contend that governments typically respond to the potential for reducing public costs and improving value from public money not in an optimal manner but in the easiest and most politically acceptable way in a highly constrained world. In this context the strongest political rationale for intermediate tenure may well be simply that it can avoid higher government outlays in the short term and that the social investment today will lower future public spending.

In summary, intermediate/shared equity tenure models provide capacity to create an opportunity for households with insufficient incomes to buy dwellings outright with an affordable housing solution which provides some ownership like benefits. Different models suit households at different points of the housing continuum. From a policy perspective, decisions are required about how best to deploy the time and resources required to achieve these outcomes and which group of households are most in need of assistance. Any policies also need to consider the trade-off between accumulation of individual benefits relative to community wide benefits.

4. New Zealand based alternative tenure models

4.1: Introduction

The objective of this section of the report is to provide an overview of the alternative tenure models current in use in New Zealand. These are divided into the following categories:

- Shared equity;
- Papakāinga housing initiative; and
- Licences to occupy/occupancy right agreements.

4.2: Shared equity models in New Zealand

The following organisations have offered shared equity products in New Zealand:

- New Zealand housing Foundation (NZHF). The NZHF has also assist a number of other organisations such as Tamaki Regeneration, Ngai Tahu, Te Tuma Kainga to offer shared equity to purchasers using NZHF's shared equity product;
- Queenstown Lakes Community Housing Trust (QLCHT);
- Dwell Housing Trust (DHT); and
- Marlborough Sustainable Housing Trust (MSHT).

Table 4.1 summaries the key attributes of their product.

Table 4.2: Existing New Zealand shared equity products

	NZ Housing Foundation	Queenstown Lakes Community Housing Trust	Dwell Housing Trust	Marlborough Sustainable Housing Trust
Product	Shared ownership	Shared ownership	Shared ownership	Shared ownership
Equity partner's contribution	Up to 40%	Up to 40%	Up to 30%	Up to 50%
Typical household incomes	\$55,000-\$95,000	\$84,000-\$127,000[13]	\$50,000-\$134,000	-
Capital appreciation	Shared proportionally	Shared proportionally	Shared proportionally	Shared proportionally
Availability of dwellings	Within NZHF developments	No longer offered	Within DHT developments	Within MSHT developments
Households	138	124	6	-

[13] \$80,000 is the household income for a single person and \$127,000 is the maximum for a six person household.

QLCHT Stopped offering their shared equity product as the affordability of even part shares in a dwelling became less affordable. Consequently, their programme evolved into their Secure Home tenure. Secure Home model developed out of the Queenstown Lakes Housing Affordability Taskforce. The group spent some time researching international examples, in particular the Whistler model used in Western Canada

Secure Home model is a form of assisted ownership where the land under the development is leased to the development on a 100-year ground leasehold-model. Occupier's initial purchase price is the based on the cost of construction, and the ground rent set at approximately 1.5% of the land value. This similar to the community housing trust model used in the United States of America.

There are no significant legal impediments, known by the author, preventing organisations from offering shared equity, community land trust or cooperative housing programmes[14]. For example, there are already a number of active shared equity offerings and the Bank of New Zealand[15] has recently announced its intention to enter the shared equity market. A lack of accepted industry standard tenure agreements is likely to be a greater impediment. The New Zealand Housing Foundation currently has the largest shared equity market share. Their documentation is based on co-ownership model. The shared equity mortgage model, although common overseas, is not currently offered in New Zealand. Community land trusts and cooperative housing are in a more developmental phase. The first organisations promoting these tenures within a development are likely to incur significant legal costs. Organisations promoting these alternative tenure models would need to work with the banking sector to ensure they were willing to fund either occupants under a community land trust/ground lease model or fund a development with a cooperative structure.

4.3: Papakāinga and Te Ara Mauwhare housing initiatives

Papakainga housing initiatives include opportunities where three or more homes are developed on Māori titled land. Typically, the land underlying the development is collectively owned. This gives this style of development similarities to community land trusts where the land is owned whereas the improvements to the land have a different ownership structure. Papakainga housing can be more affordable because of the shared land. Te Puni Kokiri administer the programme on behalf of the Government.

Te Puni Kokiri's Māori Housing Network has provided grants and other support to Papakainga. At the end of 2017 it has invested over $40 million in small scale projects, mostly in Te Tai Tokerau, Ikaroa-Rāwhiti and Waikato-Waiariki.

[14] Known by the author.
[15] New Zealand Herald 10th November 2018.

In addition, a further $15 million for Māori housing has been set aside as part of Budget 2018. The funding is part of the Government's housing programme which will also focus on providing more public housing and more affordable homes and part of which will be available for Papakāinga projects.

Te Puni Kokiri's Te Ara Mauwhare housing initiative includes strategies/trials to assist low to median income whanau into owner occupation under their Te Ara Mauwhare initiative. Te Ara Mauwhare will use $9 million over three years to trial new ways to help low to median income whanau Māori to move towards home ownership. Projects announced to date include:

- Te Tihi o Ruahine Whānau Ora Alliance in Palmerston North; and Te Taiwhenua o Heretaunga in the Hawkes Bay. Te Tihi o Ruahine Whānau Ora Alliance in Palmerston North are trialling a rent to own arrangement with support through Te Puni Kōkiri capital seed grant funding. Whānau will accumulate sufficient capital to buy their homes outright. Te Taiwhenua o Heretaunga in the Hawkes Bay are trialling a co-housing arrangement, where several whānau could buy a group of homes, and live according to kaupapa Māori with support through Te Puni Kōkiri capital seed grant funding.
- Port Nicholson Block Settlement Trust; Te Rūnanganui o Ngāti Porou, and the Chatham Islands Housing Partnership Trust are trailing a shared equity model. This would mean the iwi would leave some capital in the home, supported by a temporary grant from Te Puni Kōkiri while whānau can accumulate enough capital to obtain bank finance and buy the house outright.

4.4: Licences to occupy/occupancy right agreement

Licence to occupy tenure in New Zealand grew with the development of retirement village industry. The right to occupy a unit in a retirement village and access common areas is established though a licence to occupy, now called an occupancy right agreement (ORA). Operation of retirement villages is governed by the Retirement Villages Act (2003). There are now over 30,000 retirement village units under ORA agreements.

The retirement industry is dominated by commercial for profit organisations. The terms and conditions reflect this. For example, typically an occupier will pay for a unit and depending on how long they occupy the unit receive 65% to 75% of their initial purchase price on exit. The balance is retained by the village operator as a deferred management fee. In addition, the occupiers pay a weekly (or monthly fee) which reflects the actual cost of operating and maintaining the village.

In addition, licences to occupy have been used as a tenure within some Papakāinga housing initiatives. For example, the Waimarāma 3A1C2 Incorporation development completed in 2017 at Waimarāma in the Hawke's Bay used a mixed ownership structure which included three new affordable rental homes and two home-ownership properties under a "Licence to Occupy".

5. Feasibility of alternative tenure models in a New Zealand context

5.1: Introduction

The objective of this section of the report is to present the results of case studies testing the feasibility of alternative tenure models in a New Zealand context. The case studies were developed with organisations interested in testing the opportunity for these products in their housing market. The case studies are based on low rise walk up multi unit dwelling complexes designed for low income key worker families located in:

- Auckland;
- Tauranga and Western Bay of Plenty; and
- Christchurch.

In addition, the opportunity for a low income over 65 year old person focused development was also considered. This section of the report sets the context for these case studies, presents results of the case study analysis, discusses the implications of the results and the way forward.

5.2: Context

New Zealand's housing markets are facing pressures similar to other cities around the world. Housing prices have increased significantly faster than household incomes over the last two decades resulting in a decline in the rates of owner occupation. Lower income households are now faced with lower periods renting dwellings in the private rental market with limited prospects of achieving owner occupation if that is one of their aspirations.

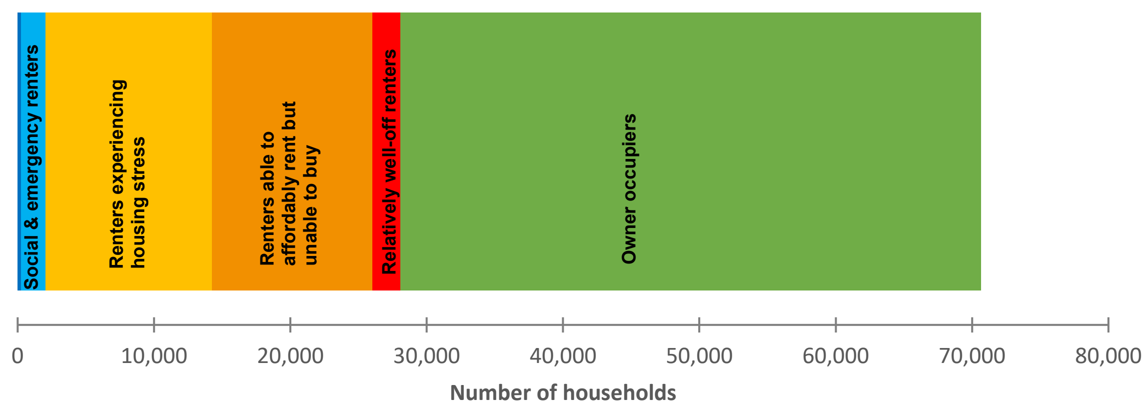
Different tenure models are likely to be more or less appropriate at different points along the housing continuum and consequently its important from a policy perspective that clear objectives are established around the types of households and the income thresholds being targeted together with whether the challenge is to move more households into owner occupation (though policies such as shared equity) or provide more households with hybrid tenure options that deliver some ownership like outcomes with a mixed rental/ownership structure (for example using cooperatives and community land trusts).

Contextually, the consideration is which alternative tenure models provide the greatest assistance in improving housing outcomes across the housing continuum and, consequently which sub group benefits the most. From an affordability perspective benefits can be achieved by assisting renters close to the income thresholds required to achieve ownership with products such as shared equity. At the same time low income households unable to affordably rent a dwelling would benefit from a hybrid rental/ownership tenure that provides them with stability of tenure at an affordable price.

By way of example, alternative tenures could be applied to the housing continuum for Tauranga and Western Bay of Plenty[16]. This example provides context for the case studies which follow in terms of quantifying the size of the different parts of the continuum and the levels of household income they receive.

Figure 5.1 presents Tauranga and Western Bay of Plenty's housing continuum in 2017 as an example of the relative size of the key sub-groups in the housing market.

Figure 5.1: Tauranga & Western Bay of Plenty's housing continuum



Source: Livingston and Associates and Community Housing Solutions (2017)

This approach divides the housing continuum into five key sub groups:

- Social and emergency housing which accommodates those with extreme housing needs. Providers in this space of the market include Housing New Zealand and other agencies such as the Salvation Army;
- There are approximately 11,400 renters experiencing housing stress, these households have insufficient income to affordably rent their dwelling and are paying more than 30% of their gross household income in housing costs. Typically, these households have incomes less than $60,000 per annum (93% of stressed

[16] Livingston and Associates and Community Housing Solutions (2017), Tauranga and Western Bay of Plenty Housing Needs Analysis. A report for Smart Growth. Provides the analysis for the housing continuum.

renter households). Approximately 55% of these households are aged under 50 years old;

- A total of 9,300 renter households have sufficient income to affordably pay market rents (using less than 30% of their gross household income) but are unable to affordably buy a dwelling. Typically, these households earn between $60,000 and $90,000 per annum; and
- Relatively well off renters who can affordable rent and could buy a dwelling if they chose to. Typically, these households have incomes in excess of $90,000 per annum; and
- Owner occupier households account for the last sub group in the housing continuum (66% of the total market), with over 79% aged 40 years and older.

Housing market prices have moved against renter households' ability to pay. This is the context in which one of our case study markets is currently operating with the majority of renter households unable to affordably pay the lower quartile market rent or purchase a dwelling. A significant proportion of these are in fully time employment however the income generated is insufficient to affordably meet their housing costs.

The case studies are designed to test the viability of developing a rental cooperative focused on renters unable to affordability rent. In the context of Tauranga and Western Bay of Plenty this accounts for 11,400 households or approximately 54 % of all renter households market. In addition, the viability of shared equity and a community land trust models are also tested. Only 8% of renter households can affordably purchase a dwelling. In the context of Tauranga and Western Bay of Plenty a shared equity model where the purchaser brought 75% of the value of the dwelling[17] an additional 3,100 renter households would be able to affordably buy a dwelling. The two fastest growing sub groups in the housing continuum are projected to be "households unable to affordably rent their dwelling" and "households able to affordable rent but unable to affordably buy a dwelling".

When considering the following case studies, it is important to note the number of households which of these alternative tenure models could assist the different sub-groups and their substantial size. Similar issues exist in the other two case study markets Inner City Christchurch and East Auckland.

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[17] The balance of the equity required is assumed to provide at no cost by a community housing provider or via the central or local government.

5.3: Case studies

The objective of this section of the report is to present the results of the alternative tenure case study analysis. The case studies were developed in conjunction with a developer/community housing provider/council in each market. The development profile reflected the potential market for an affordable multi unit development. The analysis provided below is a summary of the detailed analysis of the development costs and the opportunity for a rental cooperative, shared equity or a community land trust style tenured development.

Case study assumptions include:

- The affordability threshold assumes occupiers spend 30% of gross household income on housing costs;
- Under the cooperative model, an annual fee of $1,000 per household is included in the cooperative's operating expenses to provide for the cost of household stewardship and patient capital owners' representation on the cooperative's board;
- Under the cooperative model, households contribute a $25,000 initial membership fee which is refundable on exit from the cooperative less any refurbishment costs to the unit they are vacating. To ensure consistency under the shared equity scenarios the households are assumed to have a $25,000 deposit;
- Under the community land trust approach, it is assumed a community land trust contributes the land at no cost and the ownership of the land is retained by the trust.

The estimated annual cost of operating the cooperative is calculated for each case study. This includes the annual $1,000 fee per household. The cooperative operating cost includes allowances for:

- Building maintenance sinking fund set at 0.6% of the construction costs;
- Local and regional council rates including any water levies;
- Cleaning and utility costs associated with building common areas;
- Fire protection and building warrant of fitness;
- Building insurance;
- Annual maintenance expenses;
- Cooperative fee; and
- GST.

The case studies include:

- A 40 unit low rise apartment building in Tauranga targeting low income key worker families;
- A 30 unit one bedroom apartment complex in Tauranga targeting households aged 65 years and older;
- A 30 unit low rise apartment building located in eastern Auckland targeting low income key worker families; and
- A 45 unit low rise apartment building located in central Christchurch targeting low income key worker families.

Case study 1: Tauranga – Low income key worker family case study

Tauranga and Western Bay of Plenty have a significant number of low income renter households engaged in full time employment supporting the region's economy. These households are typically living in dwellings rented from private sector landlords. A large proportion of these households have children. The objective of this case study is examine whether a rental cooperative is a viable affordable[18] solution to meet their housing needs. The case study is based on a hypothetical 40 unit low rise apartment development organised around a self-managed cooperative model.

Tauranga's median household income was $55,800 in 2013. Nationally, household incomes are estimated to have increased by 3% to 4% per annum between 2013 and 2018. If Tauranga's household incomes have increased by 3.5% per annum over the last 5 years median household incomes would have increased to approximately $66,000, as at March 2018. Households earning 80%[19] of median would have an annual household income of $53,000. Consequently, to demonstrate the financial feasibility of this case study it is assumed the cooperative is targeted at households encompassing those with incomes below this threshold to above the median income ($50,000 to $70,000 gross household per annum).

Table 5.1 provides an overview of the key metrics of the hypothetical low rise apartment development.

Table 5.1: Development overview – low rise apartments

Type of space	Number of units	Floor area (m2)	Estimated value	Estimated market rent ($ per week)
3 bedrooms	20	95	$620,000	$475
4 bedroom	20	110	$660,000	$550
Common area		200 m2		

[18] Affordable is defined as a household spending no more than 30% of its household income on housing costs.
[19] Internationally households earning 80% of the median are considered the top end of low income households.

The unit floor areas includes a deck which accounts for approximately 15% of the total floor area. The building includes a communal common area for residents to socialise and be used for cooperative meetings where appropriate.

Table 5.2 presents the estimated cost of developing the low rise apartment building.

Table 5.2: Tauranga low income key worker family development cost profile

	Total cost (ex GST)	Cost per unit (ex GST)	Total cost plus GST
Land	$2,600,000	$65,000	$2,990,000
Civil & construction	$14,851,000	$371,300	$17,079,000
Fees, marketing, legal, & funding	$2,300,000	$57,600	$2,646,000
Contingency	$743,000	$18,600	$854,000
Total cost (ex GST)	$20,494,000	$512,500	$23,569,000
Developers margin	$2,049,000	$51,200	
GST	$3,381,000	$84,500	
Total cost (inc GST)	$25,924,000	$648,100	

The total cost of developing the complex is $25.9 million assuming a developer's margin of 10%. The total cost excluding GST and developer's margin is $23.6 million. The estimated cooperative operating cost including GST is $333,800 per annum or an average of $8,300 per unit.

Table 5.3 presents the results of the financial analysis of a rental cooperative assuming household incomes ranging from $50,000 to $70,000 per annum.

Table 5.3: Tauranga low income key worker - financial viability of a rental cooperative

	Return on patient capital outcomes		
Cooperative members' household income	$50,000	$60,000	$70,000
Cooperative fee @30% of household income	$15,000	$18,000	$21,000
Total cooperative revenue (assuming 95% occupancy)	$570,000	$684,000	$798,000
Less annual cooperative expenses	$333,800	$333,800	$333,800
Surplus cooperative revenue	$236,200	$350,200	$464,200
Cooperative capital requirements			
Total cost inc GST, and ex developer's margin	$23,600,000	$23,600,000	$23,600,000
Less members' contribution ($25,000 per household)	$1,000,000	$1,000,000	$1,000,000
Patient capital required	$22,600,000	$22,600,000	$22,600,000
Return on patient capital before tax	1.0%	1.5%	2.1%

The return on patient capital (surplus cooperative income divided by the patient capital required) ranges from a low of 1.0% assuming household incomes of $50,000 to 2.1% with household incomes at $70,000 per annum. If the cooperative fee increased to 35% of household income the returns on patient capital increase to 1.5% to 2.6% per annum.

Another scenario is to increase the initial membership fee from $25,000 to $100,000 per household and if the annual cooperative fee is set at 30% of household income the return on patient capital is estimated to vary between 1.2% and 2.4% per annum. These returns are significantly below market returns and would require subsidised capital to be viable.

Table 5.4 presents the proportion of a unit that a household could afford to purchase assuming a $25,000 deposit and they use no more than 30% of their gross household income to pay mortgage costs and likely body corporate expenses (cooperative operating costs less GST and the cooperative fee). The balance of the equity required is presented as the patient capital equity share.

Table 5.4: Tauranga low income key worker - Shared equity outcomes

	Shared equity outcomes		
Household income	$50,000	$60,000	$70,000
3 bed room at a cost of $620,000			
Occupier's equity share	41%	48%	56%
Patient capital's equity share	59%	52%	44%
4 bed room at a cost of $660,000			
Occupier's equity share	38%	45%	52%
Patient capital's equity share	62%	55%	48%

Under these options households struggle to purchase more than half the value of a unit. Typically for shared equity to be attractive households need to be purchasing a minimum of 60% of the dwelling. One alternative to lower the initial capital cost of the development is have a hybrid structure where the land is owned by a community organisation (a community land trust) and is provided at no cost or small annual fee.

The objective of the community land trust is to ensure the ownership of the land remains with the community and any appreciation in value ultimately accumulating to the community. It provides to the development at no cost to ensure affordable housing.

Table 5.5 presents the indicative results of a community land trust approach assuming either a rental cooperative is developed on the land or alternatively a shared equity development is undertaken.

Table 5.5: Tauranga low income key worker hybrid community land trust outcomes

	Community land trust outcomes		
Household income	$50,000	$60,000	$70,000
Community land trust/rental cooperative hybrid			
Total cost inc GST, and ex Developers margin	$23,600,000	$23,600,000	$23,600,000
Less land value	$2,600,000	$2,600,000	$2,600,000
Less members contribution ($25,000 each)	$1,000,000	$1,000,000	$1,000,000
Patient capital required	$20,000,000	$20,000,000	$20,000,000
Cooperative surplus revenue	$236,200	$350,200	$464,200
Return on patient capital	1.2%	1.8%	2.3%
Community land trust/shared equity hybrid			
3 bed room unit			
Occupier's equity share	46%	54%	62%
Patient capital's equity share	54%	46%	38%
4 bed room unit			
Occupier's equity share	43%	50%	58%
Patient capital's equity share	57%	50%	42%

The community land trust approach provides a marginally improved outcome on the return on patient capital (excluding the land value) and occupiers can affordably purchase slightly higher proportions of their dwellings. However, under all these scenarios, significant subsidy is required to make any of these options viable.

Case study 2: Eastern Auckland – Low income key worker family case study

Auckland has a significant number of low income renter households engaged in full time employment supporting the region's economy. These households are typically living in dwellings rented from private sector landlords. A large proportion of these households have children. The objective of this case study is examine whether a rental cooperative is a viable affordable[20] solution to meet their housing needs. The case study is based on a hypothetical 30 unit low rise apartment development located in eastern Auckland and organised around a self-managed cooperative model.

Auckland's median household incomes were $76,500 in 2013. Nationally, household incomes are estimated to have increased by 3% to 4.% per annum between 2013 and 2018. If Auckland's household incomes have increased by 3.5% per annum over the last 5 years median household incomes would have increased to approximately $90,000, as at March 2018. Households earning 80%[21] of median would have an annual household income of $72,000. Consequently, to demonstrate the financial feasibility of this case study it is assumed the cooperative is targeted at households encompassing those with incomes below this threshold and up to the median income ($60,000 to $90,000 gross household per annum).

Table 5.6 provides an overview of the key metrics of the hypothetical low rise apartment development.

Table 5.6: Eastern Auckland - development overview – low rise apartments

Type of space	Number of units	Floor area (m2)	Estimated value	Estimated market rent ($ per week)
3 bed room	15	100	$660,000	$625
4 bed room	15	115	$700,000	$750
Common area		200 m2		

The unit floor areas include a deck which accounts for approximately 15% of the total floor area. The building includes a communal common area for residents to socialise and be used for cooperative meetings where appropriate.

[20] Affordable is defined as a household spending no more than 30% of its household income on housing costs.
[21] Internationally households earning 80% of the median are considered the top end of low income households.

Table 5.7 presents the estimated cost of developing the low rise apartment building.

Table 5.7: Eastern Auckland low income key worker family development cost profile

	Total cost (ex GST)	Cost per unit (ex GST)	Total cost plus GST
Land	$2,100,000	$70,000	$2,415,000
Civil & construction	$11,506,000	$383,500	$13,232,000
Fees, marketing, legal, & funding	$1,950,000	$65,000	$2,244,000
Contingency	$575,000	$19,200	$661,000
Total cost (ex GST)	$16,131,000	$537,700	$18,552,000
Developers margin	$1,613,000	$53,800	
GST	$2,662,000	$88,700	
Total cost (inc GST)	$20,406,000	$680,200	

The total cost of developing the complex is $20.4 million assuming a 10% developers margin. The total cost excluding GST and developer's margin is $18.6 million. The estimated cooperative operating cost (including GST) is $237,300 per annum or an average of $7,900 per unit.

Table 5.8 presents the results of the financial analysis of a rental cooperative assuming household incomes ranging from $60,000 to $90,000 per annum.

Table 5.8: Eastern Auckland low income key worker - financial viability of a rental cooperative

	Return on patient capital outcomes			
Cooperative members' household income	$60,000	$70,000	$80,000	$90,000
Cooperative fee @30% of household income	$18,000	$21,000	$24,000	$27,000
Total cooperative revenue (assuming 95% occupancy)	$513,000	$598,500	$684,000	$769,500
Less annual cooperative expenses	$237,300	$237,300	$237,300	$237,300
Surplus cooperative revenue	$275,700	$361,200	$446,700	$532,200
Cooperative capital requirements				
Total cost inc GST, and ex developer's margin	$18,600,000	$18,600,000	$18,600,000	$18,600,000
Less members' contribution ($25,000 per household)	$750,000	$750,000	$750,000	$750,000
Patient capital required	$17,850,000	$17,850,000	$17,850,000	$17,850,000
Return on patient capital before tax	1.5%	2.0%	2.5%	3.0%

The return on patient capital (surplus cooperative income divided by the patient capital required) ranges from a low of 1.5% assuming household incomes of $60,000 to 3.0% with household incomes at $90,000 per annum. If the cooperative fee increased to 35% of household income the returns on patient capital increases to 2.0% to 3.7% per annum. Another potential scenario is to increase the initial membership fee from $25,000 to $100,000 per household and if the annual cooperative fee is set at 30% of household income the return on patient capital is estimated to vary between 1.8% and 3.4% per annum. These returns are significantly below market returns and would require subsidised capital to be viable.

Table 5.9 presents the proportion of a unit that a household could afford to purchase assuming a $25,000 deposit and that they use no more than 30% of their gross household income to pay mortgage costs and likely body corporate expenses (cooperative operating costs less GST and the cooperative fee). The balance of the equity required is presented as the patient capital equity share.

Table 5.9: Eastern Auckland low income key worker - Shared equity outcomes

	Shared equity outcomes			
Household income	$60,000	$70,000	$80,000	$90,000
3 bed room at a cost of $660,000				
Occupier's equity share	28%	35%	42%	49%
Patient capital's equity share	72%	65%	58%	51%
4 bed room at a cost of $700,000				
Occupier's equity share	26%	33%	39%	46%
Patient capital's equity share	74%	67%	61%	54%

Typically for shared equity to be attractive households need to be purchasing a minimum of 60% of the dwelling. Under these options households would need to be earning more than $90,000 per annum to make a shared equity option viable. One alternative to lower the initial capital cost of the development is have a hybrid structure where the land is owned by a community organisation (a community land trust) and is provided at no cost or small annual fee.

The objective of the community land trust is to ensure the ownership of the land remains with the community and any appreciation in value ultimately accumulates to the community. It provides to the development at no cost to ensure affordable housing.

Table 5.10 presents the indicative results of a community land trust approach assuming either a rental cooperative is developed on the land or alternatively a shared equity development is undertaken.

Table 5.10: Eastern Auckland low income key worker hybrid community land trust outcomes

	Community land trust outcomes			
Household income	$60,000	$70,000	$80,000	$90,000
Community land trust/rental cooperative hybrid				
Total cost inc GST, and ex Developers margin	$18,551,000	$18,551,000	$18,551,000	$18,551,000
Less land value	$2,100,000	$2,100,000	$2,100,000	$2,100,000
Less members contribution ($25,000 each)	750000	$750,000	$750,000	$750,000
Patient capital required	$17,051,000	$17,051,000	$17,051,000	$17,051,000
Cooperative surplus revenue	$275,700	$361,200	$446,700	$532,200
Return on patient capital	1.6%	2.1%	2.6%	3.1%
Community land trust/shared equity hybrid				
3 bed room unit				
Occupier's equity share	31%	39%	47%	54%
Patient capital's equity share	69%	61%	53%	46%
4 bed room unit				
Occupier's equity share	29%	36%	44%	51%
Patient capital's equity share	71%	64%	56%	49%

The community land trust approach provides a marginally improved outcome on the return on patient capital (excluding the land value) and occupiers can affordably purchase slightly higher proportions of their dwellings. However, significant subsidises are required to make all options viable.

Case study 3: Inner City Christchurch – Low income key worker family case study

Christchurch has a significant number of low income renter households engaged in full time employment supporting the region's economy. These households are typically living in dwellings rented from private sector landlords. A large proportion of these households have children. The objective of this case study is examine whether a rental cooperative is a viable affordable[22] solution to meet their housing needs. The case study is based on a hypothetical 45 unit low rise apartment development located in inner city Christchurch and organised around a self-managed cooperative model.

Christchurch's median household incomes were $65,300 in 2013. Nationally, household incomes are estimated to have increased by 3% to 4% per annum between 2013 and 2018. If Christchurch's household incomes have increased by 3.5% per annum over the last 5 years median household incomes would have increased to approximately $77,500, as at March 2018. Households earning 80%[23] of median would have an annual household income of $62,000. Consequently, to demonstrate the financial feasibility of this case study it is assumed the cooperative is targeted at households encompassing those with incomes below this threshold and up to the median income ($40,000 to $70,000 gross household per annum).

Table 5.11 provides an overview of the key metrics of the hypothetical low rise apartment development.

Table 5.11: Inner City Christchurch - development overview – low rise apartments

Type of space	Number of units	Floor area (m2)	Estimated value	Estimated market rent ($ per week)
1 bed room	15	55	$390,000	$350
2 bed room	15	75	$500,000	$425
3 bed room	15	95	$600,000	$500
Common area		200 m2		

The unit floor areas include a deck which accounts for approximately 15% of the total floor area. The building includes a communal common area for residents to socialise and be used for cooperative meetings where appropriate.

[22] Affordable is defined as a household spending no more than 30% of its household income on housing costs.
[23] Internationally households earning 80% of the median are considered the top end of low income households.

Table 5.12 presents the estimated cost of developing the low rise apartment building.

Table 5.12: Inner City Christchurch low income key worker family development cost profile

	Total cost (ex GST)	Cost per unit (ex GST)	Total cost plus GST
Land	$2,250,000	$50,000	$2,588,000
Civil & construction	$11,915,000	$264,800	$13,702,000
Fees, marketing, legal, & funding	$2,925,000	$65,000	$3,364,000
Contingency	$596,000	$13,200	$685,000
Total cost (ex GST)	$17,686,000	$393,000	$20,339,000
Developers margin	$1,769,000	$39,300	
GST	$2,918,000	$64,800	
Total cost (inc GST)	$22,373,000	$497,200	

The total cost of developing the complex is $22.4 million assuming a 10% developer's margin. The total cost excluding GST and developer's margin is $20.4 million. The estimated cooperative operating cost including GST is $358,700 per annum or an average of $7,970 per unit.

Table 5.13 presents the results of the financial analysis of a rental cooperative assuming household incomes ranging from $40,000 to $70,000 per annum.

Table 5.13: Inner City Christchurch low income key worker - financial viability of a rental cooperative

	Return on patient capital outcomes			
Cooperative members' household income	$40,000	$50,000	$60,000	$70,000
Cooperative fee @30% of household income	$12,000	$21,000	$24,000	$27,000
Total cooperative revenue (assuming 95% occupancy)	$513,000	$641,250	$769,500	$897,750
Less annual cooperative expenses	$358,700	$358,700	$358,700	$358,700
Surplus cooperative revenue	$154,300	$282,550	$410,800	$539,050
Cooperative capital requirements				
Total cost inc GST, and ex developer's margin	$20,339,000	$20,339,000	$20,339,000	$20,339,000
Less members' contribution ($25,000 per household)	$1,125,000	$1,125,000	$1,125,000	$1,125,000
Patient capital required	$19,214,000	$19,214,000	$19,214,000	$19,214,000
Return on patient capital before tax	0.8%	1.5%	2.1%	2.8%

The return on patient capital (surplus cooperative income divided by the patient capital required) ranges from a low of 0.8% assuming household incomes of $40,000 to 2.8% with household incomes at $70,000 per annum. If the cooperative fee increased to 35% of household income the returns on patient capital increased to 1.2% to 3.6% per annum.

Another scenario is to increase the initial membership fee from $25,000 to $100,000 per household and if the annual cooperative fee is set at 30% of household income the return on patient capital is estimated to vary between 1.0% and 3.4% per annum. These returns are significantly below market returns and would require subsidised capital to be viable.

Table 5.14 presents the proportion of a unit that a household could afford to purchase assuming a $25,000 deposit and they use no more than 30% of their gross household income to pay mortgage costs and likely body corporate expenses (cooperative operating costs less GST and the cooperative fee). The balance of the equity required is presented as the patient capital equity share.

Table 5.14: Inner city Christchurch low income key worker - Shared equity outcomes

	Shared equity outcomes			
Household income	$40,000	$50,000	$60,000	$70,000
1 bed room at a cost of $390,000				
Occupier's equity share	31%	39%	50%	62%
Patient capital's equity share	69%	61%	50%	38%
2 bed room at a cost of $500,000				
Occupier's equity share	24%	30%	39%	49%
Patient capital's equity share	76%	70%	61%	51%
3 bed room at a cost of $600,000				
Occupier's equity share	20%	25%	33%	41%
Patient capital's equity share	80%	75%	67%	59%

Typically for shared equity to be attractive households need to be purchasing a minimum of 60% of the dwelling. Under these options households would need to be earning more than $70,000 per annum to make a shared equity option viable on a one bedroom unit. This is approximately 90% of median household income. One alternative is to lower the initial capital cost of the development is have a hybrid structure where the land is owned by a community organisation (a community land trust) and is provided at no cost or a small annual fee.

The objective of the community land trust is to ensure the ownership of the land remains with the community and any appreciation in value ultimately accumulates to the community. It provide to the development at no cost to ensure affordable housing.

Table 5.15 presents the indicative results of a community land trust approach assuming either a rental cooperative is developed on the land or alternatively a shared equity development is undertaken.

Table 5.15: Inner city Christchurch low income key worker hybrid community land trust outcomes

	Community land trust outcomes			
Household income	$40,000	$50,000	$60,000	$70,000
Community land trust/rental cooperative hybrid				
Total cost inc GST, and ex Developers margin	$20,339,000	$20,339,000	$20,339,000	$20,339,000
Less land value	$2,250,000	$2,250,000	$2,250,000	$2,250,000
Less members contribution ($25,000 each)	1125000	$1,125,000	$1,125,000	$1,125,000
Patient capital required	$16,964,000	$16,964,000	$16,964,000	$16,964,000
Cooperative surplus revenue	$154,300	$282,550	$410,800	$539,050
Return on patient capital	0.9%	1.7%	2.4%	3.2%
Community land trust/shared equity hybrid				
1 bed room unit				
Occupier's equity share	62%	76%	89%	100%
Patient capital's equity share	38%	24%	11%	0%
2 bed room unit				
Occupier's equity share	47%	57%	68%	78%
Patient capital's equity share	53%	43%	32%	22%
3 bed room unit				
Occupier's equity share	38%	47%	55%	64%
Patient capital's equity share	62%	53%	45%	36%

The community land trust approach provides a marginally improved outcome on the return on patient capital (excluding the land value) and occupiers can affordably purchase slightly higher proportions of their dwellings. However, under all these scenarios they are still insufficient to be viable with significant subsidy.

Case study 4: Tauranga aged person one bedroom apartment case study

Tauranga and Western Bay of Plenty have a growing number of households aged 65 years and older renting their accommodation. The number of renter households with reference people aged 65 years is estimated at 4,160 in 2017 and this is projected to increase to 6,760 households by 2028[24]. Aged renter households with annual gross incomes of less than $50,000 totalled 3,750 in 2017. These low income households are particularly vulnerable to changes in market rents. They have to cope with increases in market rents. They can crowd with other households, shift to a lower cost location potentially moving away from their community support and access to essential services, or return to the work force to supplement their income.

The objective of this case study is to examine to financial viability of a 30 unit one bedroom apartment development focused on this sector of the market (renter households aged 65 years and over) and organised around a self-managed cooperative model.

For the basis of this case study, the targeted market is assumed to be either one person or couple only households with people aged 65 years and older. One person households are assumed to have gross household incomes of $25,000 and couple only households $40,000 which equates to slightly higher than the superannuation payments for these households. Two levels of membership fees are used. First, a $25,000 initial fee and second an initial fee of $250,000. The higher fee for the second group reflects households who have significant savings (these could be equity in a dwelling) however these are insufficient to allow them to either buy a retirement village unit or a modern one bedroom unit suited to their needs.

Table 5.16 provides an overview of the key metrics of the hypothetical low rise apartment development.

Table 5.16: Tauranga aged person one bedroom apartment - development overview

Type of space	Number of units	Floor area (m2)	Estimated value	Estimated market rent ($ per week)
1 bed room Common area	30	54 200 m2	$430,000	$400

The unit floor areas also include a deck which accounts for approximately 14% of the total floor area. The building also includes a communal common area for residents to socialise and be used for cooperative meetings where appropriate.

[24] Livingston and Associates and Community Housing Solutions (2017.) Tauranga and Western Bay of Plenty Housing Needs Analysis.

Table 5.17 presents the estimated cost of developing the low rise apartment building.

Table 5.17: Tauranga aged person one bedroom apartment development cost profile

	Total cost (ex GST)	Cost per unit (ex GST)	Total cost plus GST
Land	$2,400,000	$80,000	$2,760,000
Civil & construction	$6,298,000	$209,900	$7,242,700
Fees, marketing, legal, & funding	$825,000	$27,500	$948,800
Contingency	$290,000	$9,700	$333,500
Total cost (ex GST)	$9,813,000	$327,100	$11,285,000
Developers margin	$1,423,000		
GST	$1,685,400		
Total cost (inc GST)	$12,921,400	$430,700	

The total cost of developing the complex is $12.9 million assuming a 15% developer's margin. The total cost excluding GST and developer's margin is $11.3 million. The estimated cooperative operating cost including GST is $224,300 per annum or an average of $7,500 per unit.

Table 5.18 presents the results of the financial analysis of a rental cooperative assuming household incomes ranging from $50,000 to $80,000 per annum.

Table 5.18: Tauranga aged person - financial viability of a rental cooperative

Initial membership fee	**Initial fee of $25,000**		**Initial fee of $250,000**	
Cooperative members' household income	**$25,000**	**$40,000**	**$25,000**	**$40,000**
Cooperative fee @30% of household income	$7,500	$12,000	$7,500	$12,000
Total cooperative revenue (assuming 95% occupancy)	$213,800	$342,000	$213,800	$342,000
Less annual cooperative expenses	$224,300	$224,300	$224,300	$224,300
Surplus cooperative revenue	-$10,500	$117,700	-$10,500	$117,700
Cooperative capital requirements				
Total cost inc GST, and ex developer's margin	$11,286,000	$11,286,000	$11,286,000	$11,286,000
Less members' initial contribution/fee	$750,000	$750,000	$7,500,000	$7,500,000
Patient capital required	$10,536,000	$10,536,000	$3,786,000	$3,786,000
Return on patient capital before tax	-0.1%	1.1%	-0.3%	3.1%

The return on patient capital (surplus cooperative income divided by the patient capital required) ranges from a low of -0.1% assuming household incomes of $25,000 and an initial fee of $25,000 to 3.1% with household incomes at $40,000 per annum and an initial fee of $250,000. If the cooperative fee increased to 35% of household income the returns on patient capital increased to 0.2% to 4.6% per annum. These returns are below market returns and would require subsidised capital to be viable.

One alternative to lower the initial capital cost of the development is have a hybrid structure where the land is owned by a community organisation (a community land trust) and is provided at no cost or annual fee. The objective of the community land trust is to ensure the ownership of the land remains with the community and any appreciation in value ultimately accumulates to the community. It provides the land to the development at no cost to ensure affordable housing.

Table 5.19 presents the indicative results of a community land trust approach assuming either a rental cooperative is developed on the land.

Table 5.19: Tauranga aged person hybrid community land trust outcomes

Initial membership fee	**Initial fee of $25,000**		**Initial fee of $250,000**	
Cooperative members' household income	**$25,000**	**$40,000**	**$25,000**	**$40,000**
Cooperative fee @30% of household income	$7,500	$12,000	$7,500	$12,000
Total cooperative revenue (assuming 95% occupancy)	$213,800	$342,000	$213,800	$342,000
Less annual cooperative expenses	$224,300	$224,300	$224,300	$224,300
Surplus cooperative revenue	-$10,500	$117,700	-$10,500	$117,700
Cooperative capital requirements				
Total cost inc GST, and ex developer's margin	$11,286,000	$11,286,000	$11,286,000	$11,286,000
Less land value	$2,400,000	$2,400,000	$2,400,000	$2,400,000
Less members' contribution	$750,000	$750,000	$7,500,000	$7,500,000
Patient capital required	$8,136,000	$8,136,000	$1,386,000	$1,386,000
Return on patient capital before tax	-0.1%	1.4%	-0.8%	8.5%

One option under this approach provides returns which may justify a development with an annual yield of 8.1% per annum before tax. This assumes members' initial contributions of $250,000 and household incomes of $40,000 per annum.

The community land trust approach provides a marginally improved outcome on the return on patient capital (excluding the land value) and occupiers can affordably purchase slightly higher proportions of their dwellings. However, significant subsidy is required to make all of these options viable.

6. Conclusions

A number of alternative tenure models operate overseas. These models provide an opportunity to assist households at different points in the housing continuum. Typically, the goals have been to:

- Improve affordability for renters and first home buyers;
- Improve security of tenure;
- Maintain the diversity of households living within an area undergoing urban regeneration;
- Provide accommodation for key workers and their families; and
- Provide home ownership like outcomes.

Key considerations impacting on the performance of these alternative tenure models included:

- Availability of low or no cost patient capital;
- Degree of standardisation of tenure documents within the market;
- The relative affordability of the balance of the market. As housing costs become unaffordable alternative tenures tend to increase in popularity;
- The structure and capability of organisations to deliver alternative tenure dwellings and the level and degree of on going stewardship provided to households;
- Consistent Government policy and funding mechanisms to allow organisations to build capacity to deliver alternative tenure model dwellings;
- Different alternative tenure models are more appropriate at various points along the housing continuum; and
- The design, structure and objectives of the organisations delivering these alternative tenure dwellings and how these align with the policy goals set by Government.

The case studies demonstrate a number outcomes and these include:

- As housing affordability declines the level of household income required under a shared equity model can easily exceed 120% of median household income;
- The need to provide significant quantities of low cost capital if these tenures are to operate at scale; and
- Rental cooperatives generate sub market returns on the patient capital.

Impact of declining affordability on shared equity models

Overseas experience suggests shared equity programmes become more problematic as affordability declines. As prices increase relative to incomes, household incomes require increase and governments find it less politically acceptable to commit publicly subsidised funds to assist households particularly when the incomes required exceed median incomes for an area. Table 6.1 presents the level of gross household income required[25] for a shared equity occupier to affordably service their mortgage for a range of dwelling values and of shared equity values (60% to 80% of the dwellings total value).

Table 6.1: Required gross household income for a shared equity purchase

	Proportion of dwelling's value purchased by the occupier		
Dwelling value	**80%**	**70%**	**60%**
$400,000	$67,000	$59,000	$51,000
$450,000	$76,000	$66,000	$57,000
$500,000	$84,000	$74,000	$63,000
$550,000	$93,000	$81,000	$69,000
$600,000	$101,000	$88,000	$76,000
$650,000	$109,000	$96,000	$82,000

The challenge from a policy perspective is as affordability declines (house prices increasing faster than incomes) the absolute level of income required increases. For example, the median household incomes in 2018[26] in the cases study markets were estimated to be:

- Auckland $90,000 per annum;
- Tauranga Western Bay of Plenty - $66,000 per annum; and
- Christchurch City - $77,800 per annum.

Consequently, in Auckland a household earning the median household income would only be able to purchase between 70% and 60% of a dwelling priced at $650,000. The key policy question is should publicly subsidised funds be used to assist households that are earning $90,000 into owner occupation. Off setting the cost is the range of positive attributes generally associated with owner occupation including improved health, social and educational outcomes, potential wealth accumulation for households, increased community engagement.

[25] These calculations assume no capital charge is paid by the occupier on their shared equity partners capital, the occupier pays a 10% deposit on their share, a 25 year table mortgage, 5% annual interest rate, and 30% of gross household income is used to service the occupiers mortgage.

[26] These estimates assume household incomes have increased by 3.5% per annum from the levels recorded in the 2013 census.

Level of patient capital required

The levels of subsidy required are significant. For example, shared equity models with the occupier purchasing 70% of the dwelling would require a patient capital contribution of the remaining 30% which on a $600,000 dwelling would equate to $244,000 and require gross household income of $88,000 per annum. Over time the occupiers typically stair case up their share to 100% ownership repaying the patient capital. Another benefit of a shared equity development (assuming a new dwelling is purchased) frees up an existing dwelling for another household.

Hybrid tenures (such as cooperatives and community land trusts) consequently have potential to provide home ownership like outcomes for households where owner occupation is unobtainable even with a shared equity programme.

Rental cooperative developments provide an opportunity to provide households with secure tenure and based on overseas research home ownership like outcomes. However, the level of patient capital required per household is typically significantly higher than for a shared equity programme albeit shared equity typically targets households with higher incomes than a subsidised rental programme such as a cooperative. For example , under case study one patient capital of $565,000 is required per household. This falls to $500,000 under the community land trust/rental cooperative hybrid model.

The total patient capital required to have a significant impact

Table 6.2 presents the level of subsidy required to assist one percent of households living in Tauranga and Western Bay of Plenty into an alternative tenure development (shared equity, community land trust/rental cooperative hybrid and a rental cooperative).

Table 6.2: Subsidy required for various alternative tenure options in Tauranga and Western Bay of Plenty

	Subsidy per household	Total patient capital required ($m)
Share equity[27]	$244,000	$176 million
Rental cooperative[28]	$565,000	$408 million
Community land trust/rental cooperative hybrid	$500,000	$362 million

[27] The shared equity calculation is based on a household earning 120% of median household income (approximately $79,200) paying 30% of their gross household income in mortgage payments and having a 10% deposit on their 3 bedroom $620,000 dwelling as per case study 1. Under this scenario they would be able to purchase 60% of their dwelling.
[28] The rental cooperative and community land trust /rental cooperative hybrid options are based on the analysis in case study one.

The capital sums required are significant. Although the rental options are likely to target needier households than under a shared equity model, the subsidy per household is over double. For example, based on these outcomes Government could either help 2.3 households earning 120% of median household income into shared equity or one household earning 80% of median household income into a rental cooperative.

Rental cooperatives returns on patient capital are poor and shared equity is reliant on future value growth to provide a return

Table 6.3 presents the level of returns generated on the patient capital invested assuming the cooperative fee is set at 30% of gross household income in the four case studies.

Table 6.3: Rental cooperative returns

Household incomes	**\$50,000**	**\$60,000**	**\$70,000**	**\$80,000**
Tauranga - Low income key worker family units	1.0%	1.5%	2.1%	2.6%
Auckland - Low income key worker family units	1.1%	1.5%	2.0%	2.5%
Christchurch Inner city low income key worker units	1.5%	2.1%	2.8%	
Household incomes	***\$25,000***	***\$30,000***	***\$40,000***	***\$45,000***
Tauranga - aged renter units	-0.1%	0.3%	1.1%	1.5%

Note the median household incomes vary between cities.

The case studies demonstrate the rental cooperative models produce low returns. Any value escalation in a market is effectively locked away as the model is based on the improvements being used by the cooperative over the development's functional life.

Returns for the provider of patient capital for shared equity developments (assuming no annual charges on their equity as per the case study) is reliant on growth in property values. These could be substantial during periods of upswing in the market and potentially suffer negative returns if values decline.

Given the low level of returns the most likely source of patient capital ranges from philanthropic investors with a social conscience, and local and central government. Consequently, the potential of these models to grow are likely to be determined by Government's willingness to invest.

Summary

From a policy perspective the challenge is if a wider range of tenure options are not offered (using publicly subsidised capital) renter households are likely to remain in the rental market. Assuming there is no significant correction in house prices and rents, renter households face more of the same. Renter households earning less than 80% of median household income will continue to pay in excess of 30% of their income in housing costs, rates of owner occupation are likely to continue to fall and demand will continue to grow for both private and social rental units.

Forward thinking is also required to consider how the market maybe able to provide for a wave of renter households due to reach 65 years and older over the next decade. Potentially these low income households with limited capital have poor housing affordability outcomes. Rental cooperatives may offer a secure self-managing housing outcome, however, the subsidies required are high. At the same time, it seems that the alternative for these households are crowd[29], relocate and live with other family members, shift to low cost areas away from their communities and support networks.

An area for future research is to investigate the relative cost of alternative tenure models compared to the existing market settings including providing renter households with the accommodation supplement, on-going hardship grants, and growing the social rental stock. In addition, benefits associated alternative tenure models providing home ownership like outcomes would also need to be included in the research.

Ultimately there are no free lunches. If the objective of developing alternative tenures is to improve housing affordability, significant quantities of low cost patient capital is required on an ongoing basis to allow providers to operate at scale. The costs are high so with limited availability of patient capital it is likely that at best, these tenures will operate as a niche within the market.

[29] Share their accommodation with others.

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Appendix One

Definition of intermediate/shared equity tenure models

Cooperatives

Cooperative tenure is typically associated with multi unit housing complexes. Cooperatives in USA were inspired in the early 1990s by the growing number of developments in Europe. These initial cooperatives were supported by labour and immigrant groups, McCulloch and Woo (2006). While cooperatives initially grew in popularity labour unions were not successful in advocating for their inclusion in the US Housing Act (1937). This limited their ability to grow.

The cooperative groups together families and individuals living with the complex. Membership of the cooperative provides a right to occupy a specified dwelling and participate in the governance of the building. The cooperative owns the building and members' underlying tenure is a lease or rental agreement. Subsidised rental cooperatives may require little or no payment to become a member provided the potential occupier meets some specified criteria and they pay a rental as specified in the cooperatives rules and regulations. Other types of cooperatives require payment to become a member with the initial and resale price of units set with the cooperatives rules and regulations. In subsidised limited equity cooperatives these are defined by a formula whilst market cooperative prices reflect an open market value. Operational costs associated with the building are also paid by the members.

Shared ownership

Shared ownership used in England was developed in association with the sale of social housing stock by housing associations to their tenants. The underlying tenure is a lease to the occupiers. They purchase a share of the property and pay a rent on the partners equity. Tenants have the opportunity to staircase up to 100% ownership.

Community land trusts/ ground leases

Community land trusts (CLT) are typically private not for profit corporations that are established to obtain and develop properties for affordable housing. In the USA the CLT model were largely developed in response to rising land prices in the 1980s and the dearth of affordable home ownership opportunities, (McCulloch ad Woo 2006).

Typically, a community land trust operates within a defined geographical location and are governed by the people living in that area. The ownership of the land is retained within the CLT while the ownership of the structures on the land is separate. The ground lease arrangement provides the CLT with control over the structures built on the land enabling it to intervene and force repairs if required, or in the event of default to correct any problems and avert foreclosure. Occupier partners typically own part or all of the improvements. The initial purchase and resale price of any units is governed by the CLTs rules and regulations typically included in the ground lease.

Co-ownership

Co-ownership models used in various countries have both the occupier and equity partner registered on the title/deed. This form of ownership is promoted as an affordable housing strategy. Typically, the occupier partner has the right to staircase up to 100% at market values, may or may not be compensated for any improvements to the property, receive a proportional share of any change in market values, and may or may not have to pay a return on the equity partners capital.

Shared equity loans/ mortgages (SEMs)

Shared equity loans are similar to co-ownership models although the equity partner's interest is registered on the title as a mortgage rather than as a shared owner. This model is currently being used in England and Australia as a subsidised affordable housing strategy targeting eligible households. The different tenure arrangement (compared to co ownership) creates a different alignment of the interests between the occupier and equity partner. In subsidised models operated by government agencies or community housing providers (including RSLs) any change in values is typically shared relative to the proportional ownership interests. In models promoted by the private sector the equity partner typically is allocated a higher proportion of any increase in value and a proportional share of any loss. For example, if the equity partner provides a 20% loan they would be allocated 40% of any increase in value and 20% of any loss.

Deed restricted housing

Deed restricted housing has been used in association with inclusion zoning policies in the USA and Europe. This form of tenure is used as an affordable housing policy where units are sold to eligible households at a price determined by a formula registered on the title or deed. On resale dwellings must be sold to households meeting the eligibility criteria using the same formula thus preserving the units as part of an affordable housing stock. Typically, occupiers have the right to occupy the dwelling, they can resell it (with restrictions), they may improve the dwelling, mortgage their property, or bequeath it. The contractual constraints typically include around who and for what price they can resell the property and that they must occupy it as their primary residence. The covenant may also include a pre-emptive option giving a not for profit or government agency the first right of refusal to buy the property using a predetermined formula to set the purchase price. Enforcement of the covenants in some state of the USA has been problematic and home owner associations have been unreliable stewards of enforcing the covenants (Davis, 2006).