

Campaign brief 4

Sustainable homeownership for low-income households

What we want

Sustainable homeownership for low-income households.

The situation we face

Purchase of a dwelling to live in as an owner-occupier is difficult for low-income earners in New South Wales. This is because of the high prices for dwellings in the coastal zones of the state and, within the metropolitan area of Sydney, Newcastle and Wollongong, in suburbs close to the coast and to the commercial centres that are a key source of better-paid jobs.

The cost of a dwelling is comprised of a number of elements:

- acquisition cost of the land
- construction cost of the dwelling itself (materials, labor in design, labor in building)
- taxes associated with construction, e.g. goods and services tax
- taxes associated with provision of urban infrastructure, e.g. roads, sewerage, electricity
- taxes associated with the purchase transaction, e.g. purchaser transfer duty (i.e. conveyancing stamp duty), conveyancing fees

In addition, the builder and seller of a property will want to cover costs of financing the construction, and get a return on their capital (i.e. make a profit – they will not want to sell at cost).

The price paid by the homebuyer will be affected by upward (or downward) movements in any of these factors. It will also depend on the location of the dwelling, since some land has more attraction than others. There is a 'location premium' for land closer to the coast or to places of scenic attraction, where demand is greater. There is a locational 'negative premium' on major highways, or in towns where work opportunities and populations are declining.

The unaffordability of dwellings in favored locations is a problem for low-income homebuyers in two ways:

- It presents a barrier for first homebuyers to enter the owner-occupier housing market since a homebuyer is normally expected to contribute some portion – usually between 5% and 20% – of the value of the dwelling when they buy, i.e. put down a deposit. The more expensive the dwelling, the larger the amount of deposit that is expected by the finance institution that is lending money to them. The deposit and other upfront charges of making a purchase (e.g. legal fees, mortgage insurance) can deter potential homebuyers.
- It creates ongoing stress as homebuyers make repayments on their mortgage loan, to pay back the loan and the interest being charged on it by the lender. By stress, we mean a situation where the homebuyers who have incomes in the bottom 40% of the income ranges of the population are paying more than 30% of their gross income on repayments on their mortgage loan. Paying more than 30% reduces the amount of money they have for groceries, utilities, clothing, etc. This stress is likely to be 'front-ended', i.e. it is likely to be greater earlier in the homebuyer's housing career when their debt is higher; however, some older homebuyers who lose their jobs or get forced into retirement might also find themselves with mortgages that, while repayments are lower than in previous years, are harder

to meet on much smaller incomes. Housing costs are generally lowest for households who own their dwelling outright and greatest for those who have a mortgage.

For those households who cannot afford to buy a dwelling outright, they will have costs associated with taking out a loan. Since most loans for home-purchase have variable interest rates, the lenders' interest rate and the official Australian interest rate, set by the Reserve Bank, are critical to ongoing affordability.

Thirty-six percent of lower-income homebuyers in Sydney, and 24% of lower-income homebuyers in the rest of New South Wales, are in housing stress, using that '30/40' measure (Judith Yates and Michelle Gabriel, 'Housing affordability in Australia', AHURI, 2006).

Homeownership rates in Australia remain high by international standards, with over two-thirds of households in this tenure. There is no evidence of significant decline in the power of this tenure (Judith Yates, Hal Kendig and Ben Phillips, 'Sustaining fair shares: the Australian housing system and intergenerational sustainability', AHURI, 2008).

However, high house prices have had an impact on access to this housing tenure, especially for younger buyers. Younger people are entering the homeownership market later than they used to a few decades ago. The average age of first homebuyers increased from 30 to 33 over the 1990s and early 2000s (Yates, Kendig and Phillips, 'Sustaining fair shares').

House prices rose sharply in the early 2000s. They started to fall in a number of capital cities across Australia in late 2005, and, since then, trends in prices of dwellings have shown more diversity across the country.

For low-income homebuyers, high prices might put them at risk of default on their mortgage repayments, with potential loss of their dwelling (security of tenure), etc.

Why are we concerned about this?

Homeownership gives residents significant benefits that are not necessarily available – or available to a lesser extent – in the various rental markets. Those benefits are economic and non-economic.

The economic benefits are about the wealth expressed in the dwelling as an asset (assuming it is not located in an area where prices are diving, which can lead to 'negative equity'). A key benefit is the nontaxation of capital gain arising from the sale of a dwelling where it is the principal place of residence. Another benefit is the drop in the amount of money that needs to be spent on recurrent housing costs as the owner's mortgage loan is reduced and paid off completely.

The non-economic benefits are about the improvement in wellbeing that can come from stability and greater control over one's residence (e.g. its physical condition, amenity and appearance).

A concern for social equity suggests that these benefits should not be available only to higher-income people, but that lower-income people should be able to access them, too. Likewise, a concern for 'intergenerational' equity suggests that younger homebuyers need to be able to have a chance of buying a dwelling, if they want to.

Housing unaffordability can also promote social polarization, with concentrations of home ownership (associated with wealth) in particular suburbs and concentrations of rental housing in 'less desirable' – and possibly stigmatized – suburbs. Homeownership rates are high in affluent suburbs and low in poorer suburbs dominated by public housing, in Sydney. Lower-income families living in lower-priced dwellings tend to be more distant from employment sites, and from public transport.

What is being done?

Home purchasers are assisted by the Commonwealth government in a number of direct ways. Indigenous Business Australia provides loans to buy land, buy dwellings, and meet a deposit gap. The

Commonwealth government has also established a Housing Affordability Fund, a grant scheme for local governments to assist with the cost of providing new urban infrastructure and reduce local government development charges, with the expectation that savings will be passed on to homepurchasers in lower dwelling prices.

In addition, a First Home Saver Account, a special account with a superannuation fund that will assist purchase of a first-home for owner-occupation by helping eligible persons save for a deposit, will be launched in October.

In New South Wales, the First Home Owner Grant (FHOG) scheme provides a grant of \$7,000 to eligible first homebuyers. First homebuyers may also get an exemption or concessions on purchaser transfer duty for dwellings or land (First Home Plus). For dwellings, there is an exemption for dwellings valued up to \$500,000 and a concession for dwellings valued between \$500,000 and \$600,000. For vacant residential land, there is an exemption for land valued up to \$300,000 and a concession for land valued between \$300,000 and \$450,000. The take-up of these exemptions and concessions has been strongest in western Sydney and the Central Coast. The Commonwealth Government is topping up this grant for a time-limited period beginning October 14. This top-up, called First Home Owners Boost, consists of an additional \$7,000 for dwellings that are already built (making for a total grant of \$14,000) and an additional \$14,000 for dwellings that are newly-built (making for a total grant of \$21,000). These top-ups will apply only to contracts for homepurchase entered into by 30 June 2009.

The state government also, in the early 2000s, backed cooperative housing societies in 5 regional centres for home loans they gave to low and moderate income earners (Perfect Start Home Loans). The government provided a guarantee of the societies' loans to the Commonwealth bank, and provided a limited indemnity to the societies on each loan.

For low-income households already in homeownership and who get into problems meeting their loan repayments, there is a Mortgage Assistance Scheme. This provides an interest-free loan of up to \$20,000 to eligible homeowners who are experiencing temporary difficulties with their mortgage. The money is paid to the loan lender, the mortgagee (not to the mortgager). The loan is seen as a 'last resort' for mortgagers in great stress who cannot resolve their stress some other way. This scheme is available only to households with a gross household income of \$90,000 a year and who have loan repayments greater than 36% of their income. This scheme was enhanced in April this year, to broaden eligibility criteria and to increase the amount of money available for loans.

The state government also assists homeowners through an exemption from land tax on the principal place of residence.

What else could be done?

In relation to the Mortgage Assistance Program, are there other ways in which this scheme could better assist low-income mortgagers in stress, e.g. the government taking an equity share in the mortgager's dwelling (as may happen in the Western Australian Keystart scheme).

One of the costs a borrower might take on is mortgage protection insurance. This insurance is optional (unlike lender mortgage insurance, which the borrower takes out to protect the lender from the borrower defaulting on the loan, and is usually required by major finance lenders). A homepurchaser might want to take it out to cover their mortgage repayments for a period of time if they are otherwise unable to meet those repayments, for example, because of disability, trauma, unemployment, or death. Is there a way the state government could assist low-income mortgagers pay for mortgage protection insurance?

New South Wales is the only state or territory that does not have a government-sponsored loan scheme for home-purchase. Do you think it should?

Three jurisdictions with home loan schemes have a feature that allows consumers to buy a portion of the new dwelling and bring in the state housing authority as a partner (shared equity).

The Northern Territory government's HomeNorth Xtra Shared Equity Loan allows low-income people to buy a dwelling worth up to \$350,000 (Darwin and Palmerston, with lesser values in other towns), together with the territory housing authority. If they buy a dwelling, rather than build it themselves, it will be a dwelling on the open market and the buyer chooses it and arranges the conveyancing themselves (i.e. they do not buy a government-built dwelling). The loan scheme allows the borrowers of a home loan with the government's home loan agency (Territory Insurance Office) to buy between 70-99% of a dwelling; the territory housing authority buys the remaining portion to a maximum of \$70,000. An applicant must provide a minimum deposit of 2%. The lending agency charges a variable interest rate for the loan. The housing authority, as part-owner, does not charge rent for the portion of the dwelling it owns; the borrower pays for repairs, maintenance, insurance, local government property rates, body corporate fees, etc. The borrower may buy out the authority's share when they can, in part (minimum increments of 5%) or whole. The value of the authority's share is the market value, not including the value of any capital improvements (i.e. structural alterations or additions) made by the owner/borrower. If the resident sells the dwelling while the authority is still holding equity, the authority's share of the sale is based on a current valuation.

The Western Australian government's First Start Share Equity loan scheme is similar to the Northern Territory scheme. It allows low-income borrowers under the government's Keystart loan scheme to buy or build a dwelling worth up to \$375,000, together with the state housing authority (Department of Housing and Works). If they buy a dwelling, rather than build it themselves, it will be a dwelling on the market and the buyer chooses it and arranges the conveyancing themselves (i.e. they do not buy a government-built dwelling). The loan scheme allows the borrower to buy a minimum 60-70% of a dwelling (depending on the number of adults, dependents, and assessable income), with the department owning the remaining share. The Keystart agency charges a variable interest rate for the loan. It does not charge lenders mortgage insurance or account-keeping fees. The department, as part-owner, does not charge rent for the portion of the dwelling it owns, or interest; the resident pays for repairs, maintenance, insurance, local government property rates, etc. The borrower may buy out the department's share when they can, in part (minimum increments of 5%) or whole. The value of the department's share is the market value, not including the value of any capital improvements made by the owner-occupier. The owner-occupier may sell the dwelling at any time, with the department having first option to purchase.

A variant shared-equity product, the Access Home Loan, is for low-income people with a disability or their low-income carers. It allows the borrower to buy a minimum 70% of a dwelling, with the Department of Housing and Works owning the remaining share. The dwelling may be priced no more than \$450,000 and the borrower needs to contribute a deposit of \$2,000 or 2% of the purchase price. The borrower may buy out the department's share when they can.

The South Australian government's HomeStart Breakthrough loan allows borrowers in the government's HomeStart loan scheme to borrow more money than they might normally be eligible for, without increasing the size of their loan repayments, in exchange for a share in the capital appreciation of the dwelling when the borrower/owner sells it (in the future). This approach is called a 'shared appreciation mortgage' to differentiate it from the 'shared equity mortgage' of the Northern Territory and Western Australian schemes (though, in those two jurisdictions, if the borrower sells the dwelling, the government loan agency will benefit from any appreciation in the value of the dwelling).

The shared-equity schemes in those three jurisdictions are linked to a home loan product provided by a government agency (for which there is no equivalent in New South Wales).

Those shared-equity schemes are government backed and differ from innovative financing products being developed in the private sector, such as rent-to-buy products (e.g. Easy Houses, Rent to Buy

Your House, Rent to Own Home) and equity release or reverse mortgage products (these latter being of primary interest to existing homeowners).

A US model for facilitating affordable homeownership that has not yet been used in Australia is that of a 'community land trust'. This is a nonprofit nongovernment organization that buys land and then rents it out to either homebuilders or nonprofit rental housing providers. Where the land is rented to homebuilders or, where there is an existing dwelling, to homepurchasers, affordability is promoted by them not having to purchase the land. If the homeowner sells the dwelling, the community land trust has an option of buying it. If the homeowner sells the dwelling to another private household, the community land trust can put conditions on the resale price, which provide the seller with a return on their investment but also give access to a new homeowner at a submarket purchase price. Since the community land trust is not profit-motivated, its land holdings can counter the trend to high land prices in favored locations. The community land trusts in the USA have been set up independently but have been assisted with government grants, donations of land by local councils, etc.

Note

Housing stress refers to a situation where a low or moderate income earner pays more than 30% of their gross household income on recurrent housing costs.

Housing crisis refers to a situation where a low or moderate income earner pays more than 50% of their gross household income on recurrent housing costs.

Questions

1. Should the state government deregulate supply of land and remove infrastructure development charges to reduce the cost of new housing estates?
2. Should the state government enhance its support for low-interest loan schemes?
3. How might the Mortgage Assistance Scheme be changed to better assist low-income mortgagors in stress?
4. Is there a way the state government could assist low-income mortgagors pay for mortgage protection insurance?
5. Would a shared-equity home loan scheme, along the lines of those in the Northern Territory and Western Australia, be useful?
6. Is the model of a 'community land trust' something that might work in New South Wales?
7. What other ways could the state government assist low-income homebuyers in affordable homeownership?