HOME OWNERS PARTNERING EQUITY

Home Sooner

HOPE Housing Submission

Developing the National Housing and Homelessness Plan

DEPARTMENT OF SOCIAL SERVICES

OCTOBER 2023

Executive Summary

HOPE Housing Fund Management Ltd ("HOPE") welcomes the opportunity to provide comment on the Government's National Housing and Homelessness Plan Issues Paper. HOPE is a not-for-profit fund manager delivering a shared equity financing solution to Australian essential workers, that enables greater access to home ownership, sooner.

How can governments and community service providers reduce homelessness and/or support people who may be at risk of becoming homeless in Australia?

The causal relationship between poverty and homelessness is well understood. Given wealth inequality is a key driver of poverty, it follows that practical actions by governments that focus on closing gaps in relation to wealth inequality will reduce homelessness rates.

One of the most powerful (and practical) levers governments can pull to close the wealth inequality gap is to foster high levels of home ownership. OECD research demonstrates that countries with high homeownership rates exhibit low wealth inequality.[1]

Today, home ownership is slipping out of reach for younger, middle-income Australians. As a result, the financial safety net that is built through home ownership will no longer be accessible to a significant proportion of this cohort. This will place a greater number of Australians than ever before at risk of experiencing homelessness, at some point over their lifetime.

HOPE Housing firmly believes addressing the structural challenges related to accessing home ownership, namely making the financing arrangement more affordable, is the most effective preventative measure with respect to reducing homelessness rates over time.

Shared equity is a successful financing arrangement that is enabling access to home ownership for Australians, sooner. State and federal governments have been strong backers of this model, with schemes available nationwide for a limited number of low-income workers. However, to scale the reach of shared equity to middle-income workers, who are experiencing unprecedented levels of housing stress, the government must encourage private sector capital to enter the shared equity market, and work with institutional investors to identify barriers to investment, to unlock capital.

Case Study: Affordable home ownership with shared equity

First home buyer [redacted] was one of the first participants in the HOPE Housing shared equity scheme.

Without assistance from HOPE, [redacted] was only able to secure a total pre-approval from a major bank of $638,000. Combined with [redacted] deposit, this was not sufficient to purchase a home close to [redacted] place of employment. Asset caps and [redacted] income meant [redacted] was ineligible for state or federal shared equity schemes.

Under a shared equity arrangement with HOPE, [redacted] was able to secure a quality 2-bedroom unit in Kensington, within a 30-minute commute of the [redacted], for $928,000. The HOPE Housing fund contributed $450,000 to the purchase price, with [redacted] loan and deposit contributing the other $478,000. HOPE pre-approved the maximum purchase price allowable, with [redacted] able to secure the property below HOPE's independent pre-purchase valuation.

[1] https://one.oecd.org/document/ECO/WKP(2019)58/En/pdf

Under the structure, [redacted] mortgage limit is set to ensure [redacted] debt-to-income servicing ratio is below 30%. This ensures [redacted] has significant headroom within the financial arrangement to purchase more equity over time, as she steps towards full ownership.

The HOPE fund pools its shared equity investments, with investors receiving their proportional share of the capital growth in the portfolio of properties, as equity buybacks, refinance and full sale events occur. No government subsidies are required to meet HOPE's target return of 10% per annum.

In obtaining secure home ownership close to [redacted] place of work, [redacted] can now remain in [redacted] and focus on excelling in [redacted] career, [redacted]. In addition to the capital return on the asset, the flow on return to the community, from enabling [redacted] to step into home ownership sooner, can also be quantified. With help from the Centre of Social Impact at UNSW, HOPE has measured the economic value generated for every dollar invested by the fund in helping buy homes with essential workers to be 67c. This return is made up of improved productivity through increased workforce retention and reduced attrition, enhanced financial wellbeing and mental health, reduced commuting times and more quality time with family and children.[2]

What should governments, private industries, the not-for-profit and community sectors focus on to help improve access to housing and housing affordability in the private market?

Improving access to housing and housing affordability in the private market requires a more holistic focus on the role of housing during the working and retirement phases of a citizen's lifetime. It is HOPE's view that there is a need for more active involvement by the custodians of Australia's working capital – superannuation funds – in enabling more affordable access to home ownership as part of their broader retirement remit.

The importance of home ownership in enabling dignity in retirement

As documented in Treasury's *Retirement Income Review - Final Report*, the home is the most important component of voluntary savings. It improves retirement outcomes by reducing ongoing housing costs and acts as a store of wealth that may be drawn upon to help fund retirement.[3]

Falling rates of home ownership among pre-retirement Australians are therefore of great concern, and if not reversed, will significantly impact retirement outcomes for many Australians. Declining home ownership rates will force retirees to increase their reliance on the Age Pension and other welfare measures, to support increased housing costs during their non-working years.

Working Australians need only look at the current impact of low home ownership rates on existing rates of retirement poverty to understand what is heading their way. Today 60 per cent of single retirees and around 20 per cent of retiree couples renting in retirement experience an elevated poverty rate. This paints a bleak picture for working age Australians who today cannot afford to buy a home under the current home ownership financing structure, and where renting for longer is becoming the norm.

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[2] HOPE Housing Benefit and Cost Forecast Report, UNSW Centre for Social Impact

[3] https://treasury.gov.au/publication/p2020-100554

Income poverty rates of retirees

Source: The Australian Government the Treasury.

Treasury's *2023 Intergenerational Report* is alert to this, noting that changing home ownership trends and rising mortgage indebtedness are a fiscal risk to Age Pension spending in the future, and will impact superannuation draw down rates.[4] To date no detailed forecasting is available on the scale of this future financial cost to the taxpayer, either authored by government or the superannuation industry. In addition to these unknown impacts on the Aged Pension and superannuation draw down rates, it is predicted that a failure to adequately house Australians will cost the Australian taxpayer $25 billion per year by 2051, due to rising health, education, productivity and crime costs borne by the community, as a result of unmet housing needs.[5]

The impact of falling home ownership rates on essential workers

The impact of falling home ownership rates is not only a 'tomorrow' retirement self-sufficiency problem. For critical segments of Australia's workforce, in particular essential workers, home ownership is impacting 'today' decisions related to career choices and productivity levels, and is having a ripple effect on community safety, health outcomes and quality of education.

The number of essential workers living within 15kms of Sydney and Melbourne CBDs is in rapid decline, despite a significant proportion of essential worker jobs being located within inner-city areas.[6] This 'spatial divide' is resulting in longer commutes for essential service workers, adding additional pressure to already stressful roles, and increasing workforce attrition rates and harming productivity.

Catholic Health Australia, who provide 10 percent of hospital and aged care services in Australia, report that many nurses are now opting to reduce their hours because of long days and commutes.[7] Research from the University of NSW found that more than 90 per cent of NSW teachers are now priced out of living in the communities they teach, with newly graduated teachers especially vulnerable to housing affordability. A lack of housing risks turning new graduates and early-stage

[4] https://treasury.gov.au/publication/2023-intergenerational-report
[5] https://sgsep.com.au/assets/main/SGS-Economics-and-Planning_Give-Me-Shelter.pdf
[6] https://www.sydney.edu.au/news-opinion/news/2023/03/23/essential-workers-face-ever-greater-challenges.html
[7] https://cha.org.au/wp-content/uploads/2023/02/Catholic-Health-Australia-Pre-Budget-Submission-2023-24-1.pdf

career teachers away from the profession, exacerbating an already unprecedented workforce shortage across Australia.[8] These housing challenges are also mirrored in findings reported by The Police Association of NSW, who note that no Local Government Area in the inner and middle ring of Sydney are affordable for even a Senior Constable, on the top pay increment. Young officers are particularly vulnerable, with the Association noting that officers will now sleep in their car during shift blocks, only commuting home for their days off.[9] These are clearly unacceptable working and living conditions for those on the frontline of law enforcement.

Supply on its own is not enough – it must be attainable for low to middle-income earners

Reversing the falling home ownership trend is the best measure Australia has in its policy toolkit today to protect future budgets and to ensure working Australians have the best opportunity to retire with dignity. A further laser focus on home ownership close to work for essential workers has the additional benefit of increasing the resilience of our social support systems, to the benefit of all Australians.

To enable affordable home ownership, both supply and demand side measures are critical. This means two things must be done concurrently:

- Increase the supply of homes
- Develop new financing models that ensure new and existing supply are affordable for those on low to middle-incomes

Historically, new supply coming into market has not, on its own, changed the affordability of existing homes. Between September 2011 and March 2017, the number of residential properties in Australia rose by 9.5 per cent, outpacing Australia's population increase of 8.2 per cent. Over this same period the mean value of residential properties rose by 36.5 per cent.[10]

To solve affordability, Australia must therefore develop new home ownership financing solutions that ensure any supply, be it new or existing, is affordable when measured against savings and income rates of low and middle-income earners.

New home ownership financing models

It is HOPE's view that the current home financing model (deposit + mortgage) is now at its end of life, as the sole financing model to support the home ownership aspirations of middle-income Australians, in particular essential workers. Australia must look to evolve the home financing model using shared equity, to ensure that existing and new supply entering the market can be more readily accessed for ownership outcomes. Failure to do so will exacerbate already declining home ownership rates and further entrench retirement poverty for middle-income essential workers.

Establishing a flourishing shared equity market will also provide an alternative access point for property investors, enabling these investors to access the same returns available through traditional direct property investment, yet with the added benefit of enabling home ownership, rather than locking up stock for rental purposes. From mum and dad investors through to institutional investors, shared equity provides another way of accessing the diversification benefits of the residential property asset class, while strengthening the benefits that flow to the community from high rates of home ownership.

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[8] https://link.springer.com/article/10.1007/s13384-023-00621-z

[9] https://www.pansw.org.au/assets/pdf/pansw_election_booklet_2023-online-version.pdf

[10] https://www.ahuri.edu.au/analysis/brief/does-building-more-houses-fix-affordability-low-income-households

The HOPE Housing shared equity model

HOPE Housing's shared equity model makes equity contributions of up to 50 per cent in homes for eligible frontline workers, with funding provided by investors looking to access the stable and solid returns of residential property. HOPE Housing partners with mutual bank Police Bank, who provide the homeowner with mortgage finance on their 50 per cent share. The mortgage is limited to ensure the debt component can be serviced within 30 per cent of the household income of scheme participants. HOPE also limits the purchase price of the asset, utilising pre-purchase independent valuations and an investment committee review process, to set purchase caps.

A key tenet of the scheme is the integration of the equity and mortgage components, reducing the debt loading on a homeowner and facilitating progressive equity buybacks over time, stepping homeowners into full ownership. Investors benefit from access to a stable and secure asset class with well understood growth characteristics, with the property maintained by the homeowner in full, including any costs related to maintenance.

The fund has been operational for 9 months, supporting 22 essential workers and their families into homes, assisting 55 people in total. The fund targets a return of 10% p.a. and aims to deliver a social dividend of more than 30 cents for every $1 invested through:

- Enhancing physical and mental wellbeing through reduced commute times and more time with family
- Improving workplace productivity
- Retaining trained essential workers in their roles and working in our major cities
- Making the cost of housing more affordable

As an unlisted managed investment trust, HOPE Housing has to date received investment from High Net Worth individuals, Self-Managed Super Funds and Private Ancillary Fund investors, who meet the wholesale/sophisticated investor test. However in order for HOPE to deliver shared equity at scale and meet existing market demand, institutional capital is required. With limited marketing and awareness raising, HOPE has a waitlist of over 1000 essential workers, and capacity through its banking partner, Police Bank, to deploy in excess of $100m within 12 months. Many additional mutual banks have demonstrated a keen interest in sharing any future capital deployment load, should institutional capital inflows require a wider banking distribution footprint.

The HOPE Housing Fund has therefore been designed to meet the Best Financial Interests Duty required by superannuation funds, while also providing a model for better supporting the overall objectives of the retirement system. The HOPE model requires no government subsidy to deliver a market-linked return.

It is HOPE's view that superannuation funds should look to shared equity solutions to meet the escalating housing needs of its membership base and play their role in helping Australia avert the looming retirement poverty crisis that will be amplified by a reduction in home ownership rates. Encouragement by government towards the superannuation sector to prioritise investments in home ownership financing solutions, in addition to supply side measures like Build-To-Rent and Build-To-Sell is critical. If home ownership is not a focus, the superannuation sector may well preside over the largest erosion of home ownership seen in Australia to date, by prioritising capital investments into new rental solutions only.

Benefits of developing a private shared equity market

Private shared equity schemes like HOPE benefit the government by:

- Complementing federal and state government shared equity schemes (that focus on low-income earners) by extending the reach of shared equity to middle-income essential workers not currently eligible for government support.

- Providing an investment structure and return profile that meets the expectations of institutional investors, enabling the shared equity model to attract and leverage private capital and reducing the need for taxpayer funded government schemes.

- Establishing residential property as an investable asset class, enabling government shared equity portfolios to be sold to institutional investors, returning profits to government to fund further housing support measures.

- Creating a new stepping stone in the housing ownership journey that enables government to more effectively enable Australians to move through housing types, freeing up social housing and affordable rental stock.

- Supporting retirement outcomes to ensure there will be reduced reliance on the Aged Pension and other welfare assistance.

Developing the private shared equity market

The total value of assistance through state and territory first homeowner grants and concessions came in at $3 billion in 2020, up from $1.2 billion in 2016 .[11] These government funded demand side measures are not sustainable or scalable in the long-term, and have not addressed the structural affordability barriers facing prospective homeowners.

Instead, it is HOPE's view that government should focus on facilitating the development of a sustainable and regulated private shared equity market and encourage the redirection of private property investment capital towards investments that enable home ownership. This will develop a deeper pool of support for first-home buyers, reducing their reliance on government schemes and alleviate pressure on rental and social housing stock. It will also complement and mirror one of the most effective informal shared equity mechanisms first-home buyers have utilised to date – the 'bank of mum and dad', ensuring this investment pathway is accessible to all, not just limited to the 'lottery of birth'. By fostering the development of a self-sustaining private market that can support first homeowners through shared equity arrangements, the government can redirect its existing first homeowner subsidies into deeper support for social and emergency housing initiatives.

A flourishing private shared equity market will also ensure more Australians move successfully through the housing system, creating a better stepping stone between rental and ownership.

As part of the National Housing and Homelessness Plan, we recommend the Minister:

1. Establish a government/industry working group to explore and recommend to the Minister for Housing measures that can support, scale, and develop the private sector shared equity market, out of existing budget commitments across relevant government portfolios.

[11] https://www.pc.gov.au/inquiries/completed/housing-homelessness/report/housing-homelessness.pdf

2. Extend the National Housing Supply and Affordability Council report on the barriers to institutional investment, finance and innovation in housing, with respect to affordable home ownership.[12]
3. Encourage APRA and ASIC to look at regulatory and consumer protection for new financing products in the home ownership space, in particular deposit-gap solutions that have the potential to introduce systemic risk into the housing market.
4. Include shared equity on the agenda of the National Housing Accord and the Treasurer's Investor Roundtable, to canvas the views of the Industry Super sector on their role in helping to establish a shared equity home ownership solution for their members.

[12] https://nhsac.gov.au/#report