UNSW City Futures Research Centre

Submission to the Senate Economics Legislation Committee

Help to Buy Bill 2023

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Established in 2005, the City Futures Research Centre (CFRC) is Australia's leading urban policy research centre and a founding member of the AHURI housing research network. For its entire existence, the Centre has been deeply involved in researching issues relevant to the Senate Inquiry on the proposed Help to Buy scheme. In particular, this submission draws on our recent participation in an AHURI Inquiry Program that generated a batch of reports including:

- Assisting first homebuyers: an international policy review (2022)[1], and
- Financing first home ownership: opportunities and challenges (2023)[2].

The shared equity concept

As used in Australia and in other countries, the terms shared ownership (SO) and shared equity (SE) refer to a range of models that enable the value of a dwelling to be divided between more than one legal entity. Such products 'enable the main purchaser … to reduce their outgoings at the expense of giving up rights to part of the equity in their home. At the same time they share the risks associated with home ownership between the owners'[3].

Under SE an individual or household occupier holds full title to the home, but 'there is a [second] mortgage with a reduced rate of interest or no interest payable in return for a share of capital gain on the sale of the property'[4,5].

From the purchaser perspective, the appeal of SE is the smaller mortgage loan and deposit downpayment needed to achieve this than would have been otherwise needed. From the government perspective, SE can be one means of addressing the policy objective of easing access to home ownership for low to moderate income first home buyers (FHBs).

As more fully discussed in our 2022 report *Assisting First Home Buyers: An International Policy Review*[6], government-backed SE schemes have a number of attractions by comparison with other forms of demand-side FHB assistance – that is, measures that enhance the home-purchasing power of eligible households:

- Compared with approaches such as first home owner grants and stamp duty concessions, SE is more cost-effective because the financial assistance provided to beneficiaries will be

[1] Pawson, H., Martin, C., Lawson, J., Whelan, S. and Aminpour, F. (2022) Assisting first homebuyers: an international policy review, Final Report No. 381, Melbourne: AHURI https://www.ahuri.edu.au/research/final-reports/381

[2] Whelan, S., Pawson, H., Troy, L., Ong ViforJ, R. and Lawson, J. (2023) Financing first home ownership: opportunities and challenges, Final Report No. 408, Melbourne: AHURI https://www.ahuri.edu.au/sites/default/files/documents/2023-09/AHURI-Final-Report-408-Financing-first-home-ownership-opportunities-and-challenges.pdf

[3] Whitehead, C. and Yates, J. (2010) 'Is there a role for shared equity products in twenty first century housing? Experience in Australia and the UK', in J. Smith, J. and B. Searle (eds), The Blackwell Companion to the Economics of Housing: The Housing Wealth of Nations, Wiley-Blackwell, New York: 481–498.

[4] Shelter NSW (2007) 'Shared-equity home-ownership: welfare and consumer protection issues', Shelter Brief, vol. 33, https://tinyurl.com/59hc8hx8

[5] Importantly, this is technically distinct from the UK's 'shared ownership' model since the latter involves two or more parties sharing legal title to the dwelling on a 'tenants in common' basis.

[6] Pawson, H., Martin, C., Lawson, J., Whelan, S. and Aminpour, F. (2022) Assisting first homebuyers: an international policy review, Final Report No. 381, Melbourne: AHURI https://www.ahuri.edu.au/research/final-reports/381

subsequently recouped by government – with the repaid sum probably enhanced by capital appreciation

- Again compared with first home owner grants and stamp duty concessions, SE schemes may make a more limited contribution to house price inflation because the assistance has to be repaid when the house is sold (or before). The homeowner, therefore, has less housing equity to leverage into their next home purchase. Inflationary impacts may also be mitigated by targeting newly built homes only – that is, where increased demand is directly associated with increased supply

- Unlike schemes such as mortgage guarantees, SE can ease the *affordability* of home ownership (by cutting the ongoing cost of occupancy through reducing the size of the necessary loan), rather than only impacting on the ease of *accessing* home ownership (by reducing the size of the necessary loan deposit). As a result SE schemes may be able to push the prospect of home ownership somewhat further down the income scale.

- Again in contrast with some other forms of FHB assistance, SE models may be particularly suitable for those holding modest amounts of investable capital but lacking the income earning capacity to secure a sizeable mortgage – e.g. older single women facing housing insecurity due to relationship breakdown entailing the sale of the former family home.

At the same time, the SE model is not a panacea:

- Like all demand-side assistance measures there will be some inflationary impact. And, although SE schemes should prove budget-positive in the longer term, they tie up capital in the short-to-medium term.

- Calibrated on per beneficiary basis, this short-to-medium term cost is relatively high. For example, assisting a purchaser acquiring a new-build dwelling valued at $950,000 under the Help to Buy scheme might entail a government contribution to the cost of $380,000.

- Decisions on detailed scheme design (especially maximum allowable household incomes and/or purchase price limits) demand careful judgements in targeting assistance narrowly enough to restrict help to those genuinely in need of it, while at the same time avoiding eligibility limits so tight that the scheme is made unworkable (because there are few suitable homes available within the price cap, or because income-eligible households lack the income required to access a mortgage large enough to acquire an appropriate property).

Comments on the Help to Buy proposal

While the Government's proposed legislation is necessary to provide legal authority for the Help to Buy scheme, there is also a need for a more elaborated rationale for the program. Moreover, the scheme's role and functionality will be determined primarily by administrative arrangements that are unspecified in the legislation itself. Rather than focusing on the terms of the draft bill itself, our submission responds to the request of the Senate Economics Legislation Committee to share our 'opinions and proposals' regarding the program more broadly.

Revolving fund

One of the potentially appealing features of a government-supported SE scheme is its capacity to operate as a revolving fund. Thus, when monies are repaid to government at property sale (or when the purchaser re-finances), these could be treated as a resource to be made available to a new qualifying home buyer. Thus, while there would be a one-off cost to government at scheme commencement, successive generations of marginal first home buyers could be assisted sequentially over time with little or no further budgetary impact.

However, from the limited information so far released it does not appear that the HtB scheme is envisaged as operating as a revolving fund. Instead, it appears to be envisaged as a time-limited initiative that will assist access to home ownership for up to 40,000 households over a four-year period, before ceasing to issue new support agreements from 2028. Perhaps relevant to this aspect is the statement at para 1.14 of the Government's explanatory memorandum that: At the conclusion of [a shared equity arrangement with a qualifying home buyer], Housing Australia must pay the Commonwealth all amounts that it receives under a Help to Buy arrangement. We therefore suggest amendment of the relevant clause in the Help to Buy Bill 2023: Part 4, S28.

Given that constraints on home ownership affordability are unlikely to have significantly eased by 2028, it is hard to see that there is any realistic prospect that the need for a program of this kind will have been fulfilled by that time. In our view there is a strong case for the program to be established on the basis of a one-off capital fund where there is a presumption that monies repaid are recycled to new qualifying recipients under a program that has no pre-determined end-date.

Integration with other Federal and state programs on FHB assistance

As more fully detailed in our 2022 report[7], the Help to Buy scheme will sit alongside a wide range of other Commonwealth Government and state/territory FHB assistance measures. Apart from anything else, this risks adding to confusing complexity faced by potential service users. There is a need for a clearly articulated rationale for HtB within this broader context. Ideally, this will be integrated within a broader home ownership support strategy to form part of the government's forthcoming National Housing and Homelessness Plan.

Such a rationale will need to explain the complementary roles of all of the relevant schemes. How, will the HtB scheme relate to the existing (and substantially larger) First Home Guarantee program? How will the national HtB scheme relate to SE schemes already operated by state governments – notably in Western Australia, Victoria and New South Wales? What is the thinking that underlies proposed HtB scheme rules where these differ from those of state government-run SE schemes?[8]

There is also the question of the HtB scheme's relationship to the First Home Owner Grants (FHOG) schemes and stamp duty concession schemes operated by state and territory governments. These schemes are hugely expensive – we estimate total expenditures of more than $20 billion over the decade to 2020[9] – and, in the virtually unanimous opinion of economists and housing policy experts, have resulted merely in rising house prices, not genuine improvements access to homeownership or affordability. Subject to reviews of the HtB scheme, we recommend that governments should look to HtB and similar shared equity schemes entirely replacing the FHOGs and stamp duty concessions.

[7] Pawson, H., Martin, C., Lawson, J., Whelan, S. and Aminpour, F. (2022) Assisting first homebuyers: an international policy review, Final Report No. 381, Melbourne: AHURI https://www.ahuri.edu.au/research/final-reports/381

[8] For example, the Victorian Government's Homebuyer Fund SE scheme is open to prospective FHBs with household incomes of up to $200,000, while eligibility for the national HtB scheme is proposed as being limited to households receiving incomes of only up to $120,000.

[9] Pawson, H., Martin, C., Lawson, J., Whelan, S. and Aminpour, F. (2022) Assisting first homebuyers: an international policy review, Final Report No. 381, Melbourne: AHURI https://www.ahuri.edu.au/research/final-reports/381

Scope for program to fulfil other housing policy objectives

There could be scope for the HtB scheme to fulfil other housing policy objectives. The most obvious of these is the Federal government's over-riding priority to expand new housebuilding – as articulated in the National Housing Accord. With this in mind, it seems surprising that the program is open to FHB acquisition of existing as well as newly built homes (albeit that the scale of support offered is larger for the latter). Restricting program scope in this way might be undesirable for other reasons, but it would also have the benefit of addressing criticism that, by supporting demand without necessarily enabling new supply, it contributes to house price inflation.

A second existing housing policy objective that the HtB scheme could potentially support is the aspiration to build the capacity of the community housing sector. This could involve CHPs being funded to develop new homes for disposal to qualifying purchasers on HtB terms, with the provider being the holder of the second mortgage and therefore the recipient of the repaid equity share upon property sale or mortgage re-financing. This would build the capabilities of CHPs as developers as well as generating an ongoing income stream to build financial capacity for recycling into social/affordable housing investment. This would, of course, come at the expense of being able to treat the program as a revolving fund – or otherwise simply a temporary outlay for government to be recouped at program termination.

Thirdly, consideration could be given to adapting the HtB scheme (or developing a similar program) targeted at existing home owners facing repossession due to mortgage arrears brought on by recent interest rate rises. Priority could be given to recent FHB purchasers subject to particular misfortune such as loss of employment due to unforeseen ill health or injury.

Scheme review

We note the proposal that the HtB scheme be subject to review three years after commencement. The terms of reference for this assessment should extend beyond matters of administrative functionality. The review should incorporate an evaluation of additionality generated through the scheme – the extent to which it has enabled home ownership for those otherwise likely to have been permanently excluded – as opposed to cases where the main effect is to simply bring forward the timing of first home acquisition.

Beyond this, the review should consider the complementarity of the scheme with other FHB assistance measures – both as provided by the Commonwealth Government and by state/territory governments.

We propose that the review is delegated to the National Housing Supply and Affordability Council.