



THE BARNETT MODEL

EVALUATING THE OUTCOME AND SCALABILITY OF AN AFFORDABLE HOMEOWNERSHIP MODEL

FINAL REPORT

PREPARED BY THE UNIVERSITY OF MELBOURNE



THE BARNETT MODEL: EVALUATING THE OUTCOME AND SCALABILITY OF AN AFFORDABLE HOMEOWNERSHIP MODEL

ABOUT TRANSFORMING HOUSING

This report is developed by the Transforming Housing Research Network, based at the University of Melbourne. Transforming Housing is an action-research project focused on influencing and supporting the transformation of the housing policy and delivery environment in Victoria. It aims to facilitate collaborations with industry, government and philanthropic organisations in order to improve affordable housing outcomes for very low to moderate income households. We advocate for housing that is affordable, well-located, diverse and well-designed.

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GLOSSARY

Deferred second mortgage	Deferred second mortgages are a financial instrument used to reduce upfront costs and ongoing interest payments for home purchasers. They are most commonly interest-free for 30 years and are usually financed by a government or not-for-profit organisation. They cover a portion of the market value of a home.
Community housing	Community housing is secure, affordable, long term rental housing managed by not-for-profit organisations for people on low incomes or with special needs.
Community housing provider	A not-for-profit organisation that delivers and/or manages community housing.
Barnett Advance	The Barnett Advance (Advance) is a type of deferred second mortgage used in the Barnett model. This is an interest-free and no-fee loan granted by the developer equal to 37% of the market value of the dwelling. The Advance is not payable until the home purchaser sells their dwelling or after 99 years.
Barnett participants	Barnett participants are home owners who have purchased in MAP and previously lived in social housing.
Melbourne Apartments Project	The Melbourne Apartments Project (MAP) refers to the 34-unit prototype of the Barnett Model delivered in North Melbourne
Public Benevolent Institution	A Public Benevolent Institution (PBI) is a charity whose main purpose is to relieve poverty, sickness, suffering or disability
Public housing	A form of long-term rental housing managed by the State Government and targeted at people on low incomes or with special needs
Shared appreciation loan	A mortgage arrangement that allows a borrower to receive a no-interest or low-interest loan in exchange for agreeing to pay the lender some of the profits when a property is sold.
Shared equity	An umbrella term that refers to a range of initiatives which ‘enable the division of the value of a dwelling between more than one legal entity’ (Whitehead and Yates 2007 p16)
Social housing	An umbrella term that refers to public housing, delivered by the State Government, and community housing, delivered by community housing providers.
The Barnett Foundation	The organisation that developed the Melbourne Apartments Project is a Public Benevolent Institution. One of the goals of the Foundation is to create viable pathways out of social housing into home ownership
The Barnett Model	The Barnett Model refers to the replicable housing model described in this report. While the Melbourne Apartments Project refers to the specific development in North Melbourne, the Barnett Model is a broader term for all projects delivered using the model devised by the Barnett Foundation.

EXECUTIVE SUMMARY

This report is the final output commissioned by the Melbourne City Mission (MCM), City of Melbourne and Resilient Melbourne to evaluate the Melbourne Apartments Project (MAP), a 34-unit apartment in North Melbourne. The report builds on the findings of the interim report to provide the following:

- a summary of the **cost benefit analysis** of government spending on social housing
- an outline of the **Barnett financial structure** and how it compares to government supported financial structures encouraging home ownership for low income households
- an assessment of the **current housing policy settings** aimed at encouraging and supporting home ownership by low income households
- an investigation of the lived experience of MAP residents to explore the motivations for a social housing tenant to be involved in projects that use the Barnett Model
- an assessment of the appropriateness of the Barnett Model to deliver a scalable affordable homeownership option in Victoria

[Click here to access the Phase One Report: Investigating the costs and benefits of the Melbourne Apartments Project](#)

THE BARNETT MODEL FINANCIAL STRUCTURE

The Barnett Model is based on a deferred second mortgage model designed to support social housing tenants to transition into homeownership. The building was delivered by a Melbourne-based developer. The model is managed by The Barnett Foundation, a Public Benevolent Institution (PBI) that reinvests funds in future Barnett developments and crisis accommodation. The model responds to two key barriers impacting low-income households in Australia; high deposit requirements and an inability to qualify for and service a loan large enough to afford a home in a well-located area. MAP requires participants to pay at least a \$25,000 deposit and source a loan to cover the remaining development costs of an apartment (about 63% of market value). The remaining 37 per cent is not payable until the homeowner sells their unit. This component, referred to as a 'Barnett Advance' in this project, does not attract interest or fees and functions as a deferred second mortgage.

The Advance represents the developer's equity share in the development and is created by capturing value in the property through the development process. This value is captured through cost savings and foregone profit. When the homeowner sells their apartment, the Barnett Advance is reinvested in the Foundation and used to fund future Barnett projects or other crisis accommodation. The Barnett Advance decreases over time, reducing by \$15,000 every year for the first four years.

CURRENT HOUSING POLICY

Australia has a history of ad hoc approaches to housing policy (Whitzman, Newton, & Sheko, 2015). The government commits a substantial proportion of its expenditure to promoting homeownership and investment, with large tax concessions granted in the form of negative gearing and capital gains tax concessions and in one-off first home buyer grants and stamp duty concessions. However, policy targeted directly at affordable home-ownership for low-income households is less common (Hulse, Burke, Ralston, & Stone, 2010). Current policy is more likely to support lower-income households through demand-side housing support initiatives such as Commonwealth Rental Assistance or through social housing rental options.

There are two current exceptions in Victoria. One is a program that supports public housing tenants to purchase their own home. The other is two new shared equity schemes; Buy Assist, delivered by the National Affordable Housing Consortium and HomesVic, managed by the Victorian Government. Both initiatives are small-scale initiatives designed to support low to moderate income households to enter homeownership. There are currently no consistent mechanisms designed to support developers or not-for-profit organisations to develop affordable homeownership options for social housing tenants or low income households. To date, interest in the private sector has remained cautious and there has been limited appetite for innovation in this area (AHURI with PricewaterhouseCoopers, 2013).

LIVED EXPERIENCE ANALYSIS

Initial interviews and survey data reveal a mostly positive experience for new home purchasers in the MAP. Most interviews revealed significant improvements in feelings of safety and security, a sense of ownership and great satisfaction with the capacity to build equity in this project. The survey revealed that satisfaction increased across every housing attribute except energy efficiency of dwelling and proximity to services and amenities. Almost all participants received the majority of their income from employment, with the exception of one household who received an aged pension and was supported by his family. Most interviewed participants had lived in social housing more than 10 years and had not considered purchasing a home or moving to private rental until they saw the MAP opportunity. For many, the MAP opportunity was a significant catalyst for change in their life. Many felt their costs had reduced or become more manageable since moving into MAP. The survey similarly revealed substantially increased housing satisfaction following movement into MAP.

Interviews reflected highly positive experiences and outcomes for participants. However, participants raised some concerns. Some discussed expenditure on body corporate fees and water rates. While participants were warned of these expenses prior to purchasing in MAP, many participants are experiencing these expenses for the first time. Similarly, interviews revealed that some deposits were gathered with substantial help from family and friends and repayments left little room for other costs. For some, financial shocks like losing a job may place them in a precarious position in the future. The risks of homeownership, such as potential reduction in home value, inability to maintain mortgage payments and capacity to become tied to a property, are exacerbated in lower income households. While all households interviewed were currently managing their finances, this should be monitored over time.

SCALABILITY OF THE BARNETT MODEL

The Barnett Model represents an innovative approach to affordable home ownership options in an Australian context. The financial model is replicable, particularly if adopted by community housing providers. The model delivers sufficient cash flow to support an expanding portfolio of projects over time. This is predominantly as lump-sum payments from home purchasers, financed through mortgage loans from banks, allow the developer to recoup the cost of developing the housing on settlement. This structure differs from the reliance on restricted rental income that is more common in social housing projects. Some adjustments may increase the replicability of this model including; integration of affordable homeownership with other tenures on a site, transitioning from a Barnett Advance to a Shared Appreciation Loan and securing a pipeline of land opportunities. Similarly, scaling this solution could benefit from contributions from a wide range of stakeholders as summarised in Table 1.

	Local government	State government	Federal government	Social impact investors	Not-for-profit housing providers	Private industry	Barnett Foundation	Charitable/ religious groups
Reduce cost of construction								
<i>Discount or defer payment for land</i>								
<i>Provide pro bono services</i>								
<i>Provide tax concessions</i>								
Access to capital								
<i>Provide social impact investment funds at reduced rate</i>								
<i>Create a revolving loan fund</i>								
<i>Establish a homeownership assistance program</i>								
Access to reinvested funds								
<i>Apply a shared appreciation loan structure</i>								
Respond to the target market								
<i>Combine a MAP model with social rental and market housing</i>								

TABLE 1: SCALING THE MELBOURNE APARTMENTS PROJECT

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INTRODUCTION

The following report will evaluate the Melbourne Apartments Project (MAP) and Barnett Model. Throughout this report we refer to the original apartment built in North Melbourne as the Melbourne Apartments Project. The Barnett Model refers to the overarching housing model that may be replicated across other sites. The MAP is a privately-funded 34-unit development situated in North Melbourne. The project enabled high capacity social housing tenants to transition into homeownership and created vacancies in social housing for new households currently on the waiting list. MAP was undertaken by a developer with the support of Melbourne City Mission. Resilient Melbourne and City of Melbourne are supporters of the project. It uses an innovative 'deferred second mortgage' model to reduce the financial burden of entering and maintaining homeownership. The research questions answered by this body of research are as follows:

1

How is The Barnett Model structured and delivered?

2

How does existing policy and legislation treat affordable home-ownership models and how does the The Barnett Model currently fit within affordable housing policy in Victoria?

3

What are the costs and benefits of delivering projects like the MAP development?

4

What motivates a social housing tenant to be involved in a project like MAP and what is their lived experience of moving from social housing into a development like MAP?

5

To what degree is The Barnett Model a scalable and appropriate affordable housing option for Victoria and what elements would support replication of the project?

The first phase of research produced an interim report addressing research questions 1, 2 and 3. This report forms the second phase of research. The report is organised into chapters to provide in depth responses to questions 1, 2, 4 and 5. This report summarises the interviews conducted with MAP occupants and uses these findings together with the results of the interim report to inform recommendations of the scalability and appropriateness of the The Barnett Model.

CONTEXT

Victoria faces a shortage of at least 164,000 housing units that are affordable and available to very low and low-income households (Palm, Raynor, & Whitzman, 2018). Similarly, since 1970 Australia's median real house price has almost quadrupled while real wages have only doubled. This change presents substantial challenges for lower income households and first home buyers (Committee for Economic Development of Australia, 2017). The deficit of affordable housing manifests across the housing continuum, from crisis and transitional accommodation, to social housing, affordable rental and home purchase options. Figure 1 demonstrates the housing continuum as it is often conceptualised in Australia.

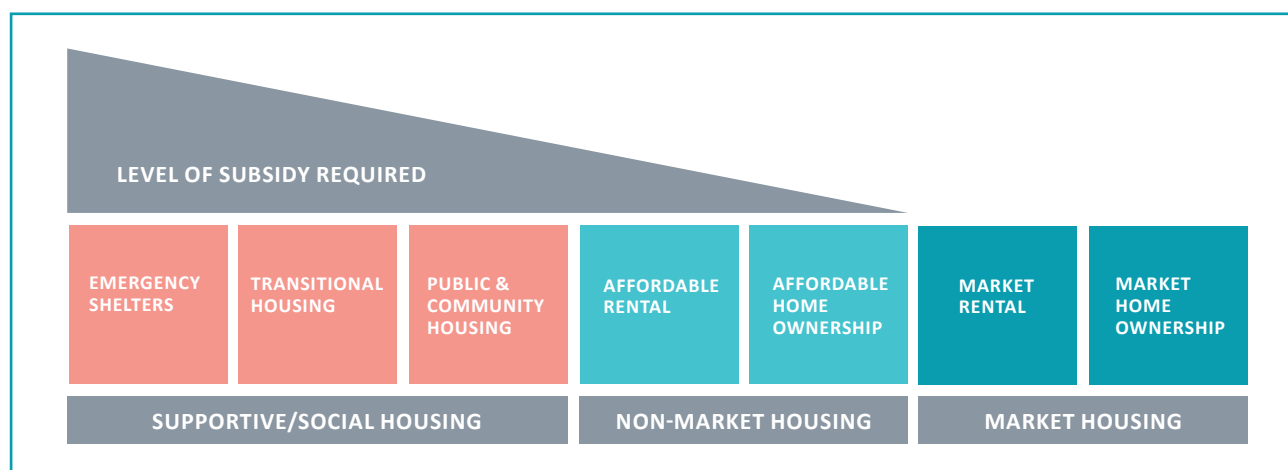


FIGURE 1: THE HOUSING CONTINUUM (WHITZMAN ET AL., 2015)

It is important to consider this range of housing options as inter-connected. Deficits in one area will have implications for the households and providers engaged in accessing and creating housing and support services in other areas. For example, a lack of affordable rental and home ownership options constrains the capacity of social housing tenants to transition out of that tenure. Similarly, a highly constrained social housing system creates a backlog in crisis and temporary accommodation.

A lack of exits out of social housing

The proportion of social housing, or below-market housing delivered by the state government or community housing providers in Australia, has reduced from a peak of 8% of all housing stock in 1966 (Hayward, 1996) to just 4.3% in 2016 (Productivity Commission, 2017). In this context, the role of social housing in Australia is changing from a home for working class families to a place of last resort for only the most vulnerable households. While social housing previously often served as a stepping stone to homeownership (Hayward, 1996), this pathway is significantly more challenging and less common in contemporary housing contexts (Wiesel, Pawson, Stone, Herath, & McNelis, 2014).

The lack of transitions out of social housing into homeownership is largely due to the lack of affordable and secure housing options available to low income earners in Australia. The change in social housing has occurred alongside rapidly increasing house prices since the 1980s, driven by “historically low interest rates, an unprecedented period of continuous economic growth and strong levels of migration” (Committee for Economic Development of Australia, 2017, p. 6). These factors reduce the availability of appropriate ‘exit points’ out of social housing. In addition, governments have responded to high demand and limited availability for social housing by tightening eligibility requirements to access this housing type. The result is a significant increase in the concentration of very disadvantaged households in social housing. These tenants often experience multiple vulnerabilities including physical and intellectual disability, barriers to employment, unsupported childcare responsibilities and substance abuse issues that preclude them from exiting social housing (Wiesel & Pawson, 2015).

At present, there is often little incentive or opportunity for tenants to move out of social housing (Wiesel et al., 2014). At June 2016, 42% of public housing tenants had lived in public housing more than 10 years (Australian Institute of Health and Welfare, 2017b). Tenants exiting social housing may receive some support in the form of Commonwealth Rental Assistance if they rent a property or First Home Buyer Grants and Stamp Duty Concessions if they purchase a property. However, once tenants leave public housing, the majority experience far higher housing costs in the form of market rental or mortgage repayments due to a lack of affordable dwellings. In fact, research conducted in 2014 found that 17% of households exiting public housing returned to this tenure within 10 years (Wiesel et al., 2014).

INTERIM REPORT LITERATURE REVIEW FINDINGS

The interim report highlighted the potential benefits of MAP that derived new homeowners vacating their social housing dwellings and creating vacancies for new households. The major benefits fall into four categories;

- » Health and Well-being
- » Education
- » Employment
- » Justice.

The interim report utilised data from the literature review to conduct a modified meta-analysis of the Melbourne Apartments Project. The meta-analysis found:

- » Australian cost benefit studies of affordable housing projects suggest that for every dollar invested in housing an at-risk resident in housing, the state receives between \$1.37 and \$3.25 in benefits.
- » MAP generates social benefits by ‘freeing up’ social housing dwellings and making them available to new residents, most of whom will be from the social housing priority access list
- » These social benefits include improved health and well-being, reduced use of justice services, improved education outcomes and improved financial and employment outcomes
- » The Cost Benefit Ratio for the MAP is 2.19: 1, meaning that the **state government saves \$2.19 for every dollar of cost associated with project**
- » **Over the course of ten years, the state government could expect \$2.63 million in benefits accruing from MAP.** This is predominantly due to reduced health and justice expenditure and improved educational outcomes for new residents moving into the social housing units vacated by MAP participants

FOR A DETAILED EXPLANATION OF THESE FIGURES, PLEASE SEE THE INTERIM REPORT: *INVESTIGATING THE COSTS AND BENEFITS OF THE MELBOURNE APARTMENTS PROJECT* (RAYNOR, PALM, O’NEILL, & WHITZMAN, 2018).

METHODOLOGY AND RESEARCH DESIGN

This section details the design for the research project and outlines the methods used to answer each of the five research questions. As demonstrated in Table 2, the body of research draws its findings from a range of qualitative and quantitative sources with both primary and secondary data sources.

Question	Method	Research Approach
How is the Barnett Model structured and delivered?	Review of MAP documentation Interviews with the project developer, resident support officer and board member Site visit	Analysis of project documentation: MAP Banking White Paper, Melbourne Apartments Project - from social housing to home ownership, MAP information brochures, MAP resident prequalification documents Interviews used to contextualise MAP documentation and understand motivations for the creation of the MAP
How does existing policy and legislation treat affordable home-ownership models and how does the Barnett Model currently fit within affordable housing policy in Victoria?	Current policy analysis Literature review (Australia)	Review of current policy aimed at low income households entering homeownership. Policy for all Australian states was reviewed with a primary focus on Victoria. Review and assessment of Australian literature assessing low income home ownership with a focus on gaps, failures and successes of current and past policy.
What are the costs and benefits of delivering projects like the MAP development?	Literature review Modelling of cost benefit ratio for MAP	Review and analysis of Australian and international literature quantifying the costs and benefits of delivering housing (from emergency accommodation through to social housing) Meta-analysis of these findings to quantify the cost benefits of projects such as MAP.
What motivates a social housing tenant to be involved in a project like MAP and what is their lived experience of moving from social housing into a development like MAP?	Interviews (n=10) Survey (n=46)	Series of 10 semi-structured interviews conducted with MAP residents: Survey emailed to MAP residents and those on the wait list for future projects.
To what degree is the Barnett Model a scalable and appropriate affordable housing option for Victoria and what elements would support replication of the project?	Analysis of findings and recommendations Literature review	Analysis of MAP combined with international literature review to highlight international examples of similar projects or programs operating at a larger scale

TABLE 2: METHODOLOGY OVERVIEW TABLE

CHAPTER 1 —

MELBOURNE APARTMENTS PROJECT STRUCTURE

This section responds to question 1: How is MAP structured and delivered?

The Melbourne Apartments Project (MAP) is a privately funded 34-unit apartment development in North Melbourne, delivered by a developer. Future developments will be funded and managed by The Barnett Foundation, a PBI. The developer sold 28 units to social housing tenants while selling or retaining and renting the remaining six apartments at market rate to cross-subsidise the costs of MAP purchasers and set a market precedent for sales prices. The project offered a range of two and three-bedroom apartments and was delivered with the support of MCM. The development reflects a social mission focused on supporting the movement of high capacity social housing tenants into homeownership and the ‘freeing up’ of their dwellings for new social housing tenants.

MAP blends a deferred second mortgage model with strategies that aim to support social housing tenants to vacate their social housing dwellings and move into homeownership. MAP enables this by combining a homeowner’s deposit with a traditional bank loan and a second mortgage (an ‘Advance’) to reduce participants’ upfront purchasing costs and ongoing mortgage repayments. The MAP Advance represents the developer’s equity share in each home. To encourage purchasers to remain in the apartment, this MAP Advance is reduced by \$15,000 per year every year for the first four years. The Advance was also reduced by 5% of market price upon settlement, further reducing the size of the second mortgage. When a dwelling is sold, the MAP Advance sum is paid by the home seller to the Barnett Foundation, providing funds to support future projects.

THE BARNETT FOUNDATION: A PUBLIC BENEVOLENT INSTITUTION

The organisational structure of the Barnett Foundation has changed over the course of delivering the Melbourne Apartments Project. The organisation began as a Public Ancillary Fund (PAF), a special fund that provides a link between people who want to give (‘donors’) and organisations that can receive tax deductible donations as deductible gift recipients (DGRs). Ancillary funds are set up for the purpose of providing money, property or benefits to DGRs. However, the Barnett Foundation transitioned to a Public Benevolence Institution while developing the Melbourne Apartments Project. The PAF was found to be an inefficient structure to handle the multiple larger projects envisioned as part of a broader Barnett Foundation strategy. A PBI is a more robust vehicle through which to deliver complex projects.

THE MELBOURNE APARTMENTS PROJECT: A SHARED EQUITY MODEL

The MAP is an innovative approach to supporting homeownership for lower income households in the context of Australia. However, there is significant precedent for similar projects, particularly in the US and UK. This model may be considered under the broad umbrella of shared equity homeownership models. Shared equity is an overarching term for a range of initiatives which ‘enable the division of the value of a dwelling between more than one legal entity’ (Whitehead & Yates, 2007, p. 16). Initiatives differ depending on how rights and responsibilities are distributed between parties, how value in the property is divided, whether public subsidy is provided and whether resale is restricted or not (Pinnegar, Easthope, Randolph, Williams, & Yates, 2009). As Figure 2 shows, these models exist on a spectrum from shared equity loans that align closely with traditional homeownership models, through to subsidy retention models that focus on retaining affordability through restrictions on sale prices.

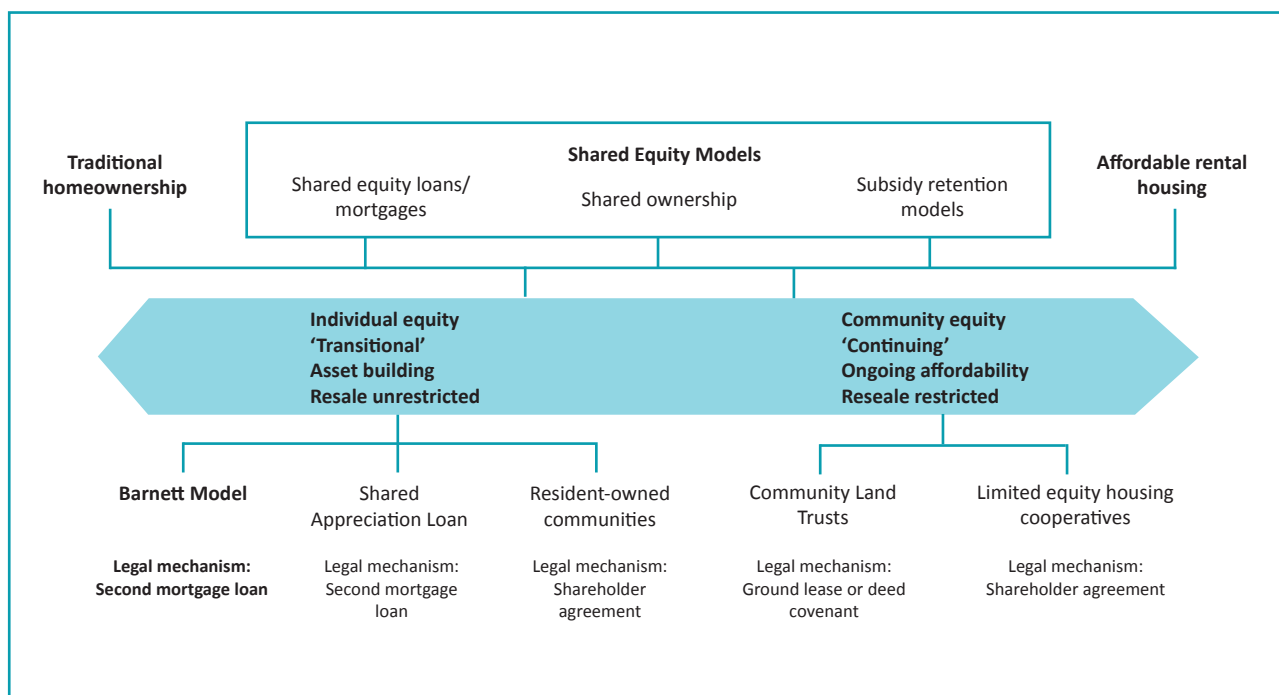


FIGURE 2: SPECTRUM OF SHARED EQUITY MODELS, ADAPTED FROM PINNEGAR ET AL., 2009 AND JACOBUS AND LUBELL., 2007

The Barnett Model is an example of a shared equity model that confers the rights of homeownership to the purchaser and uses a second mortgage as its legal mechanism. The below table addresses elements of the model.

ELEMENTS OF SHARED EQUITY MODELS	THE BARNETT MODEL
Legal mechanism	The Barnett Model is an example of a resale-unrestricted homeownership model, using a deferred second mortgage to support transitions into homeownership.
Division of rights and responsibilities between purchaser and partner	<p>The purchaser owns 100% of the property outright and holds property rights akin to standard property ownership in Australia. They have the right to sell, renovate, refinance or rent their home at any time, with no restrictions on price.</p> <p>The purchaser must give up their social housing dwelling to access this property.</p> <p>A caveat will restrict the purchaser from transacting on the title without the knowledge and consent of The Barnett Foundation. This caveat ensures the Advance is repaid upon sale of the property</p> <p>The purchaser pays body corporate and is responsible for the maintenance of their own property</p> <p>The organisation has no formalised 'duty of care' to the purchaser although the Barnett Foundation has the capacity to act as an advocate for purchasers should financial hardship occur</p>
Division of value between purchaser and partner	The 'Barnett Advance' represents the organisation's equity share in the development. It is an absolute figure, equalling 37% of the initial market value of the property. This amount reduces by 5% of market value upon settlement and a further \$15,000 per year for the first four years, to a maximum reduction of \$90,000. This figure is not subject to interest or fees and is not payable until the purchaser re-sells or until 99 years have passed. The purchaser finances the other 63% of the property through at least a \$25,000 deposit and a standard mortgage loan.
Sharing of risk and exposure to equity growth or loss	This arrangement is different to most other Australian shared equity models that provide the equity partner with a proportion of the value of the property, rather than an absolute figure. In the Barnett model, the purchaser receives all capital gains if their property increases in value. Similarly, if the development reduces in value the purchaser is still responsible for paying back the full MAP advance, less the \$90,000 reduction accrued over 4 years (if applicable).

Access to subsidy	There is no direct public subsidy supplied to this model. However, savings were accrued through in-kind marketing and purchaser pre-qualification contributions from the not-for-profit organisation, MCM. Similarly, the project received tax concessions due to its status as a PBI.
Policy objectives tied to this subsidy	There are no government-led objectives tied to this subsidy. However, the model's social mission and charitable status are linked to supporting social housing tenants to transition into homeownership, creating vacancies in a constrained social housing system.
Expectations regarding subsidy preservation or recoupment	The funds recouped through the Barnett Advances will be reused either in further Barnett projects or in the construction of crisis accommodation. Subsidy is not retained for individual Barnett dwellings.
Priorities	<p>Individual equity: The focus of this project is on individual equity and wealth building, rather than community equity in retaining affordability for others</p> <p>Transitional: The intent of the project is to help a household to transition into homeownership. After the initial household moves in, the individual apartment ceases to be affordable</p> <p>Asset building: The project is motivated by helping a household to build their assets and wealth through unrestricted sales and unrestricted renting opportunities</p> <p>Resale unrestricted: there are no caveats on the resale of each home. The four-year discount on the Advance serves to discourage immediate resale.</p>
Advantages	<p>To the purchaser:</p> <ul style="list-style-type: none"> » Allows individual homeowners to achieve maximum capital growth from their property. The project is designed to maximise the secondary sale price of the dwelling. » Confers homeownership rights akin to standard homeownership. It is therefore more attractive to purchasers and represents a simpler legal structure as there are no caveats on re-sale <p>To the delivery organisation:</p> <ul style="list-style-type: none"> » Allows the delivery organisation to re-invest MAP Advance funds in future projects
Disadvantages	<p>To future home purchasers:</p> <ul style="list-style-type: none"> » Does not retain affordability of individual units in perpetuity <p>To the delivery organisation:</p> <ul style="list-style-type: none"> » Does not share potential capital gains with the equity partner. As the second mortgage decreases for the first four years and then remains a fixed amount, there is no incentive for the home buyer to repay the second mortgage rapidly. This structure also reduces potential financial returns to the partner if the property increases in value. The reduction in returns constrains capacity to extend more Advances to future purchasers <p>To the purchaser:</p> <ul style="list-style-type: none"> » Does not share risk of capital losses with the equity partner. The home purchaser is still liable to pay back the full Advance (minus the reductions in the Advance over time) even if the value of their home reduces. This risk is partially ameliorated by their increasing equity as the Advance decreases over four years but does not completely protect the purchaser from a significant market drop in value

TABLE 3: DESCRIPTION OF THE MAP MODEL

THE MAP PROCESS

The process of delivering this model is explained below:

1

Development due diligence, feasibility and acquisition of the land by the Foundation

The Barnett Foundation identified the site and performed standard development due diligence and feasibility analysis. Subsequently, the land was purchased at market price under a standard purchase agreement.

2

Design and costing and subsequent authority approvals

Traditional approaches to the design, costing and development approvals were undertaken. Fender Katsalidis Architects designed the development and a builder was appointed on a fixed-price contract. As the below diagram demonstrates, the Foundation paid for land, construction, design and approvals, finance and development contributions. However, MCM supported the marketing of the development and prequalification of purchasers and the project received tax concessions to reflect the charitable status of the project. Similarly, the usual requirement for developer profit was not applicable in this not-for-profit model.

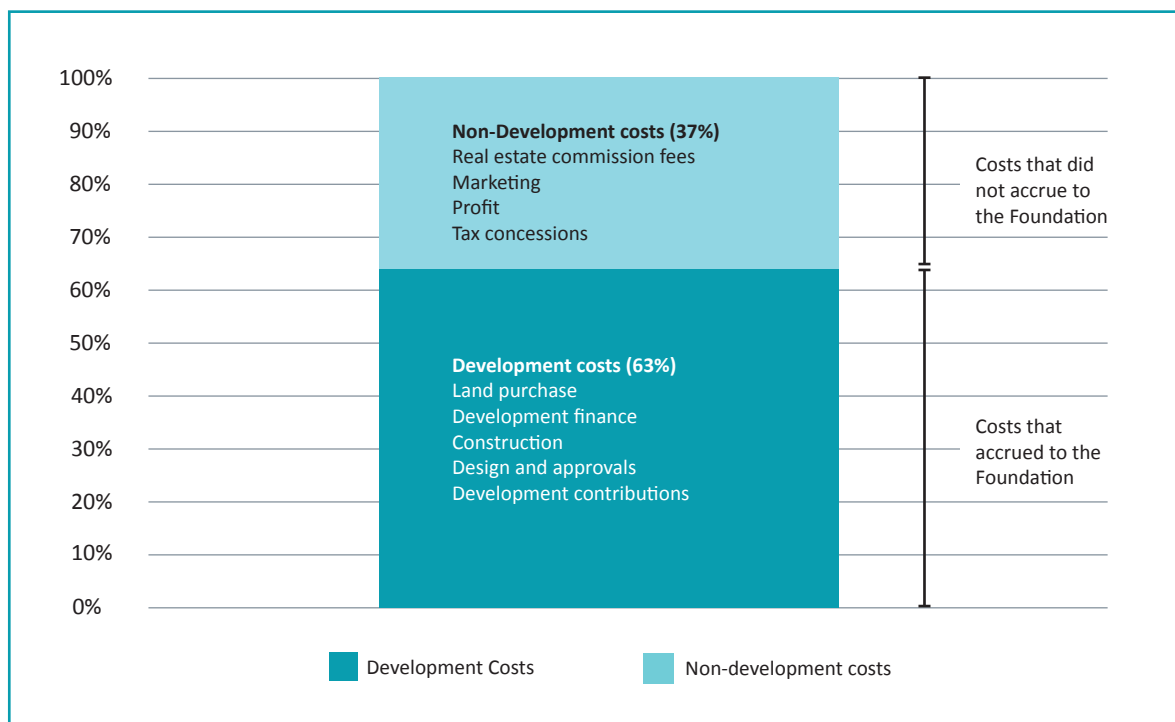


FIGURE 3: COST BREAK-DOWN FOR THE MAP MODEL

3

Marketing of the development

A pre-sales approach was utilised, which is standard practice in the Australian development market. In order to target the applicable market, the developer distributed flyers and held information sessions in locations on or near public housing estates in inner Melbourne. While the Victorian Department of Housing and Human Services supported these activities, community housing providers were less willing to distribute project information. This is partially due to the disincentive associated with losing higher-income residents in community housing units. MCM supported the marketing process, attending and supporting information sessions and following up with expressions of interest. An employee of MCM spent significant time interviewing and prequalifying applicants based on their income, savings, financial resilience and references. This employee also supported home purchasers through the process of securing a loan and purchasing the property. Targeting a specific group (social housing tenants living within 4km of the development site) and receiving in-kind support from MCM significantly reduced marketing costs for the project.

4

Off-the-plan sales

28 of the 34 units were sold in an off-the-plan process to social housing tenants while the remaining 6 units were either sold at market rate or retained by the organisation to rent at market rates to cross-subsidise the project and establish a market value precedent for the other units.

Social housing tenants were invited to express interest in the project and were then prequalified for eligibility. Eligibility was based on 1) willingness to relinquish their social housing dwelling upon taking up residence in MAP, 2) access to at least a \$25,000 deposit and 3) the capacity to qualify for a standard bank loan for the remaining necessary funds. Each applicant was required to supply three references who were contacted to verify information regarding employment. Most home purchasers qualified for a loan based on their income, while one older homeowner's daughter paid for his apartment without accessing a loan. MCM played a key role in assessing applicants and supporting them through the home purchase process. Similarly, each household received one free session with a financial advisor who explained their likely future expenses and helped home purchasers to plan and understand their financial position.

The 'deferred second mortgage' model used by The Barnett Foundation increased the capacity of tenants to access this opportunity. As Table 4 demonstrates, homeowners must supply a deposit of at least \$25,000 and obtain a loan to cover the remainder of the development cost of each apartment (approximately 63% of market cost). The remaining non-development costs valued at 37% of market value represent the Barnett Foundation's equity share and form the 'MAP advance' or deferred second mortgage. For a unit valued at \$600,000, this results in weekly mortgage repayments of \$501. In contrast, a 'regular' purchaser would require at least a \$60,000 deposit plus Lenders Mortgage Insurance. As they are paying interest on the full value of the unit, their weekly repayments are far higher, at \$766 per week. Similarly, a standard purchaser would have to save for much longer to accrue the additional \$35,000 necessary to provide a \$60,000 deposit.

	MAP participant	Regular purchaser
Market value of property	\$600,000	\$600,000
Deposit	\$25,000	\$60,000
Mortgage	\$353,000	\$540,000
Lenders Mortgage Insurance	-	\$10,000
MAP Advance (second mortgage)	\$222,000	-
Interest Rate (25 year loan)	5.5%	5.5%
Weekly mortgage repayments	\$501	\$766

TABLE 4: BREAK DOWN OF BARNETT FINANCE VERSUS STANDARD MORTGAGE ARRANGEMENT

The difference between Barnett and a standard model is even more apparent after four years, as shown in Figure 4. Given that the Barnett Advance reduced by 5% at settlement and a further \$15,000 every year for the first four years, the Barnett purchaser is accruing equity much faster than in a standard model.

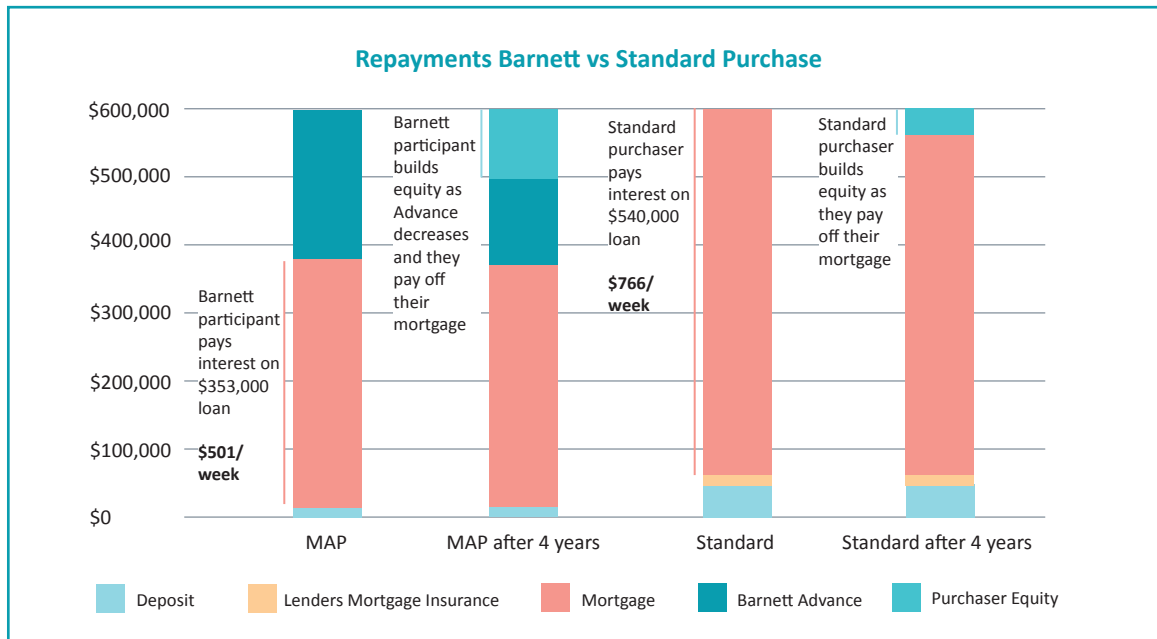


FIGURE 4: BREAK DOWN OF MAP FINANCE VERSUS STANDARD MORTGAGE ARRANGEMENT

Obtaining mortgage loans for purchasers was a challenge, partially due to the banking industry's lack of familiarity with the novel financial structure. A member of the organisation's board developed a Banking White Paper to explain the Barnett model to potential financiers. A large proportion of the mortgages in the MAP development are financed through the Bendigo Bank or Bank Australia. Their involvement reflects a higher than usual proportion of mortgages in one building, presenting some concerns for future projects and the risk profiles banks are willing to accept.

5

Development finance

Finalisation of the development finance for the construction phase involved an arrangement of 25% equity and 75% debt finance from a bank.

6

Development of the property by the organisation

The developer delivered the property, constructing 34 two and three bedroom units, all with balconies and two bathrooms. Of the 34 units, 23 are two-bedroom units and 11 are three-bedroom units. The three-bedroom units were substantially more sought-after than the two-bedroom units. The decision to avoid one-bedroom and studio apartments are part of the project's mission to emphasise housing for families with children.

7

Settlement and Occupancy

On practical completion, the titles were subsequently issued and the settlement process with purchasers and their financiers was conducted. As the settlements were completed, the developer's construction and land finance loans used for funding the development were repaid. The project broke even, allowing the Foundation to retain their equity in the project.

When residents move in they have full property ownership rights; they can sell, rent or renovate their home in line with standard strata-titled properties. A representative of The Barnett Foundation retains strong connections to the building, continuing to support home owners by answering questions and maintaining communication channels.

8

Eventual Resale

Going forward, when a purchaser sells their home the purchaser will pay their second mortgage. This transitions the Barnett Advance to the Barnett Foundation. These funds are used in future Barnett developments or crisis accommodation projects.

CHAPTER 2 –

POLICY

This section responds to question 2: How do existing policy and legislation treat affordable home-ownership models and how does the Barnett model currently fit within affordable housing policy in Victoria?

HOW DO EXISTING POLICY AND LEGISLATION TREAT AFFORDABLE HOME-OWNERSHIP MODELS?

Australian social housing policy has a long tradition of encouraging social housing tenants to enter homeownership (Hulse et al., 2010). This was predominantly achieved through sale of public housing rental stock to tenants (Wulff, 1992). Governments also delivered low-deposit and low-interest loan packages aimed at lower income households. An evaluation of a low-deposit, low-interest home loan scheme offered to low income Victorian households in the 1980s found increases in employment rates and significant financial benefits experienced by participants, influenced by strong housing price growth in the late 1980s (Wulff 1992). However, since the early 1990s government policy has predominantly focused on supporting first homebuyers to enter homeownership, regardless of their income levels (Hulse et al., 2010). Existing mechanisms such as negative gearing, capital gains tax exemptions, first home buyers grants and stamp duty concessions are criticised for disproportionately benefiting higher income households or stimulating demand and house prices increases without generating housing supply (Daley, Wood, & Parsonage, 2016; Yates, 2016).

One alternative solution is the shared equity schemes supported at a state and territory government level in ACT, Queensland, South Australia, Western Australia, Tasmania and Victoria (Raynor, Otter, & Dosen, 2017). Shared equity is an umbrella term that refers to a range of initiatives which “enable the division of the value of a dwelling between more than one legal entity” (Whitehead & Yates 2007 p16). It is an arrangement that allows a purchaser to enter into an agreement with a partner to share the cost of purchasing a property. In Australia, this has predominantly taken the form of arrangements where another entity, usually the government, takes part ownership in a dwelling in partnership with the home buyer (Victorian Government, 2017). Each scheme has variations in their structure including: source of funding for primary loan, owner-occupier requirements, previous owner status, income range and required size of deposit. These schemes are usually aimed at first home buyers and include income eligibility requirements but are not usually explicitly targeted at social housing tenants. Table 5 highlights four existing shared equity schemes functioning in Australia; HomesVic, Key Start, Shared Equity Scheme and Buy Assist.

	HomesVic (Victoria)	Key Start (Western Australia)	Shared Equity Scheme (ACT)	Buy Assist
Program run by / Financed by	Victorian Government – Applicant must secure a home loan from a panel financial institution – either Bank Australia or Bendigo Bank	WA Housing Authority (Government) Bendigo Bank recently acquired part of the loan book – this was completed to reduce government debt levels and ensure long-term and sustainable financing	Housing ACT and IMB Limited	National Affordable Housing Consortium

	HomesVic (Victoria)	Key Start (Western Australia)	Shared Equity Scheme (ACT)	Buy Assist
Location of dwellings	Victoria – there is a list of eligible locations	Western Australia	ACT	Australia-wide. Buy Assist will match eligible home owners with approved properties
Rationale	<p>Assist low to medium income earners purchase their first home</p> <p>Shared equity seeks to address two key barriers to entry for Victorians who would like to become home owners:</p> <p>the difficulty of saving an ever-increasing deposit while paying rent; and insufficient capacity to service a large loan that would have otherwise been required to enter home ownership.</p>	<p>Focus on low to middle income</p> <p>Keystart can help bring home ownership dreams alive by offering affordable, low deposit home loans with no mortgage insurance</p> <p>Keystart was set-up to help West Australians who might not qualify for a home loan from one of the traditional lenders into a home of their own.</p>	<p>Targeted specifically at public/social housing tenants</p> <p>Encourage lower to moderate income earning tenants to consider home purchase as an option, thereby releasing funds to facilitate the increase in supply of appropriate housing for those tenants with a greater financial need;</p> <p>Relinquish assets to generate additional funding for the rejuvenation of the public housing stock portfolio</p> <p>Procure appropriate replacement housing targeted at prospective tenant needs</p>	<p>Focus on low to middle income</p> <p>A solution to homeownership and increasing proportion of long-term renters</p> <p>Reduce the size of the deposit required to purchase a home</p> <p>Provide a loan size that buyers can afford to service (reducing the size of regular mortgage repayments)</p>
Funding	\$50 million provided by Victorian Government for initial scheme (equivalent to \$125,000 per dwelling)	No subsidies are provided to Keystart and has not required ongoing financial assistance.	Funding to the individual provided by IMB Limited (this differs from other public housing purchase in that the purchaser does not need to source their own funding)	
Potential for scaling/ re-use of funds	When the properties are sold, participants will pay the proportional beneficial interest, which the Government will reinvest in other homes.	Surpluses are returned to the Housing Authority in the form of a dividend, and the Housing Authority uses those funds to fulfil its social housing objectives.	Does not create new dwellings for purchase – however, the funds from sale are proposed to be used for to generate additional funding for the rejuvenation of the public housing stock portfolio through acquisition, construction and/or refurbishment	The Victorian Government is contributing \$5 million to the Buy Assist Scheme

	HomesVic (Victoria)	Key Start (Western Australia)	Shared Equity Scheme (ACT)	Buy Assist
Structure	<p>5% deposit required from purchaser</p> <p>State government co-owns 25% of the property and homeowner purchases 75% with their own savings and a private loan</p> <p>The owner must reside in the property and it be their principal place of residence</p> <p>Participants will be required to repay the Government's proportional beneficial interest within the initial duration of the home loan with the panel financier (plus six months), or two years from repayment of the home loan if the home loan is paid off early.</p> <p>If an individual's or household's income increases beyond the threshold level they will be given a 2 year grace period to repay the government's portion</p> <p>No set maximum value of property</p>	<p>Housing Authority will co-own up to 40% of a property</p> <p>Set maximum value of property (depending on location)</p> <p>Shared equity – two owners (Individual/Family and WA Housing Authority)</p> <p>Purchaser needs 2% of purchase price in metro area or 7% in regional areas (first home owner grant can contribute towards the deposit)</p> <p>The owner must reside in the property and it be their principal place of residence</p>	<p>The Shared Equity Scheme in the ACT began in 2010 as a home purchase opportunity for social housing tenants (ACT Community Services 2017).</p> <p>The eligible purchaser enters into an agreement to purchase 70 per cent of the house, financed through IMB Limited (Bank), with Housing ACT owning the remainder (Rowley et al. 2017)</p> <p>The remaining proportion must be purchased from Housing ACT within 15 years (Rowley et al. 2017)</p>	<p>The individual/family owns 100% of the property. BuyAssist and 'socially minded' investors hold an equitable interest in the property's future value and holds a second mortgage securing those interests.</p> <p>Agreed proportion (usually 25%) to be repaid when the property is refinanced or sold – this is of the sale or valuation price not the original purchase price</p> <p>The owner must reside in the property and it be their principal place of residence</p> <p>A panel of lenders work with BuyAssist to provide a loan directly to purchasers for the 75% component (loan structure to be principal and interest repayments). This portion of the loan must be from a BuyAssist approved lender.</p> <p>No initial deposit required.</p> <p>If income increases beyond an agreed amount then eligibility to be involved in the program ceases and 12 months is given to exit the agreement (e.g. refinance/sell)</p>

	HomesVic (Victoria)	Key Start (Western Australia)	Shared Equity Scheme (ACT)	Buy Assist
Participants/ Eligibility	<p>First home buyers only</p> <p>Pilot program is anticipated to offer 400 agreements</p> <p>Income up to \$75k for individuals and \$95k for couples or families</p> <p>May not have debt of over \$10k (excluding HELP)</p>	<p>Specific loan assistance is available for public housing tenants, sole parents, people living with a disability and Aboriginal borrowers (different schemes and loan structures for different groups)</p> <p>Lower to medium income earner</p> <p>Education program offered to potential participants who are not yet eligible (need assistance with managing current debt levels)</p> <p>Assist home buyers (not just first home buyers) – however, applicant may not own another property at time of application</p>	<p>Participant must be a current head tenant and occupant of the dwelling that they are applying to purchase</p> <p>Participant must have been a continuous public housing tenant for at least 3 years prior to registering an interest in purchasing the property</p> <p>The applicant must have no record of rental arrears within the last 12 months or legal action pending tenancy matters (apart from rental arrears of a minor or trivial nature).</p>	<p>Do not need to be a first home owner – although there is a strong focus on first home owners</p> <p>Lower to medium income earner – no published criteria, need to submit details and be advised if you are eligible</p>
Fees	<p>Interest and principal required to be paid</p> <p>No Lenders Mortgage Insurance (LMI)</p> <p>No additional savings on stamp duty – although if home fits Homes for Victorians reduced stamp duty criteria applicants will be eligible for reduced stamp duty</p>	<p>No Lenders Mortgage Insurance (LMI)</p> <p>No ongoing monthly account keeping fees</p> <p>The Housing Authority does not charge rent or interest on the portion of the property it co-owns</p> <p>Interest is calculated based on the average of the four major banks' standard variable interest rate</p> <p>Different loan products comparable to each other:</p>	<p>\$1,000 non-refundable– however, if settlement goes ahead this goes towards the deposit:</p> <p>Administration Fee non-refundable – \$300.00 to be paid on receipt of the advice from Housing ACT that the property has been assessed as available for sale.</p> <p>Assurance Fee non-refundable - \$700.00 to be paid on notification of the sale price.</p>	<p>One off fee of \$1,100 once you agree to purchase</p> <p>Monthly services and admin fee \$137.50</p>
Property type	<p>A standard residential property (for example, a house, townhouse, unit) that is either an existing home or a new home construction for which completion is planned to occur within three months of entering into a contract of sale.</p> <p>Must meet location and building typology requirements identified by the State Government</p>	<p>Either existing or to assist with building new home – any property for sale on the market</p>	<p>Purchasing the current public housing dwelling that the buyer lives in</p>	<p>BuyAssist provides options of dwelling to the applicants – it cannot be any dwelling for sale in the market</p>

TABLE 5: COMPARISON OF SHARED EQUITY SCHEMES IN AUSTRALIA

VICTORIAN POLICY

How does the Barnett model fit within existing housing policy?

The MAP received no direct governmental funding or support. However, most home purchasers accessed First Home Owner Grants and stamp duty concessions due to their status as first home buyers. Similarly, the project is likely to receive tax concessions due to the charitable nature of its activities. These elements served to increase the feasibility of the project for purchasers and the developer. However, at present there are very few policy mechanisms that support privately-delivered affordable homeownership models. Most financial support for low income households in Australia is targeted at rental options. This takes the form of social housing or Commonwealth Rental Assistance (CRA). The Commonwealth Rental Assistance is an on-going, non-taxable income support payment to eligible households currently renting in the private market or from a community housing provider.

Homes for Victorians, the Victorian Housing Strategy released in 2017, outlines several policies aimed at encouraging home ownership (Victorian Government, 2017). In particular, it highlights a need to address the fact that “potential home owners are being locked out of the market by growing competition and the upfront costs associated with purchasing a home – the need for a deposit, stamp duty payments and other fees” (Victorian Government, 2017, p. 9). Policies specifically targeting first home buyers who intend to be owner-occupiers include:

- » Shared equity opportunities for first home buyers
 - HomesVic provides shared equity solutions (pilot started 2018)
 - Homes for Victorians provides financing to instigate BuyAssist – a shared equity managed by the National Affordable Housing Consortium
- » Housing for first home buyers in key precincts
 - Helps first home buyers purchase in urban renewal precincts - at least 10% of all properties in government-led developments will be prioritised for first home buyers
- » Rebalancing the market between investors and home buyers
 - Off-the-plan stamp duty concessions to benefit only owner occupiers
- » First Home Owner Grants
 - First Home Owner Grants remained as \$10,000 for first home buyers purchasing a newly constructed home in metropolitan areas and doubled to \$20,000 for new homes in regional areas

Buy Assist, approved by the Victorian Government and delivered by the National Affordable Housing Consortium, is the program with the greatest overlap in intent with the MAP project in Australia. The program matches eligible households with newly completed developments, functioning as an intermediary rather than a developer. The program will result in up to 100 new shared equity homeownership opportunities in Victoria. A Buy Assist investor provides deposit support (similar to a Barnett Advance) of up to 25% of a property’s market value. The program works with a panel of lenders to secure finance for the balance of the purchase price. One of the long-term goals of the program is to create a pipeline of investment opportunities in affordable homeownership that may access opportunities on government land (BuyAssist, 2017).

A developer with an interest in selling their product with a shared equity component could partner with Buy Assist and so add to the stock of affordable homeownership options available in Victoria. However, with 28 units already delivered in a single development and a pipeline of future development already planned, the Barnett structure would soon become too large for a program initially targeting 100 dwellings distributed across Melbourne. Similarly, there are substantial differences in arrangements with investors and loan providers, different homeowner rights and restrictions and a different approach to sharing property value increase or decrease. Therefore, while existing Victorian housing policy and programs are beginning to incentivise affordable homeownership schemes, there are no direct mechanisms for supporting MAP or other projects replicating its structure.

CHAPTER 3 –

LIVED EXPERIENCE

This section responds to question 4: What motivates a social housing tenant to be involved in a project like MAP and what is their lived experience of moving from social housing into a development like MAP?

INTERVIEW FINDINGS

The objectives of the interview process were to understand the motivations for participants of MAP and to identify both benefits and negative consequences arising from their transition to MAP. Participants were recruited through a letter-drop at the apartment building. The participant break down is provided below.

Interviewee Summary

The ten interviews revealed a range of experiences of social housing (nine participants had lived in public housing and one had lived in community housing). Most interview participants were long-term occupants of social housing with four participants growing up in social housing with their parents and remaining in social housing into adulthood. Similarly, another two participants immigrated to Australia more than 15 years ago and have lived in social housing since their arrival in Australia. A further two participants entered social housing as single parents when their children were born. One exception was an older homeowner who transitioned from private rental into social housing for two and a half years before moving to MAP. Overall, seven of the ten participants had lived in social housing over 10 years and many had lived in social housing for close to thirty years. Participants also reflected a range of income levels, ranging from low to moderate income households.

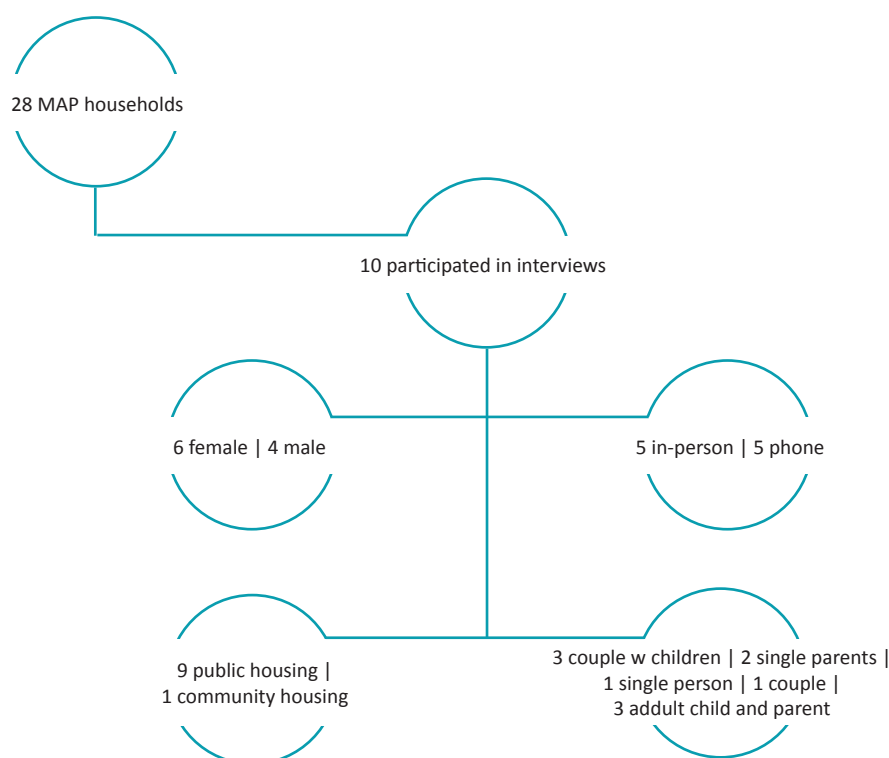


FIGURE 5: SUMMARY OF INTERVIEW PARTICIPANTS

Main Findings

The following section outlines the key themes that emerged from ten interviews with home owners living in MAP. Interviews with ten of the 28 households in MAP revealed a range of themes, including;

- » the benefits of achievable, well-located homeownership
- » the desire to exit social housing
- » managing finances and negotiating homeownership
- » well-being and feelings of security
- » design
- » connection to community and
- » concerns and program design.

ACHIEVABLE, WELL-LOCATED HOMEOWNERSHIP

All MAP owners expressed a strong desire to own their own home. However, many had given up on home purchase until they saw the MAP opportunity. As one participant explained, *“without something like the MAP...it would never be...it would always be a dream.”* Others described the deposit and mortgage repayments as ‘realistic,’ ‘attainable’ and ‘concrete,’ allowing them to continue to live their lives without putting themselves under too much pressure. For some, MAP represented an opportunity to remain in the community they had lived in for decades. Many framed their options as a choice between remaining in social housing or moving to outer-suburban locations, compromising their ability to access work, services and their friends. As one homeowner explained,

“I’m an inner-city kid, born and bred. My sister bought a house down in South Morang, in the outer suburbs. I’m not that kind of person... I was never even gonna consider buying a house in the suburbs.”

Many participants felt there were many other social housing tenants who would love to access the same opportunity. As one participant explained,

“that’s the sort of people that are, I think like myself, who have lived in housing and commission flats pretty much all their lives, and are progressing to the next part of their life, you know, whether they are getting married or whatever... That is the perfect candidate for this, who have got a steady job and who have lived in a flat for so long, but just don’t have that \$60,000, \$70,000 to put on a deposit. Their income is not that great for them to borrow \$700,000 from the bank. But more like \$380,000 and put in a \$25,000 deposit, that is doable. You know what I mean?”

For one participant, their desire to leave social housing was partially motivated by creating opportunities for other people. They explained,

“having grown up in public housing all my life... Because of this, now the entire family is completely out of the public housing cycle. So, you know, it allows other people who, given the housing crisis with the massive waiting list, you know, at least someone else can now move in and enjoy the comfort of public housing.”

Multiple participants expressed their desire to stop paying rent, explaining that *“public housing rent is a waste of money.”* This was particularly relevant for the interviewed participants as most qualified as ‘over-income households,’ meaning they were paying market rent for their social housing units before moving to MAP. Participants were motivated by the opportunity to build equity, provide security for themselves and their family in retirement and own an asset to pass on to children. As one participant explained

“it was achievable property ownership. I always wanted to buy. Also, because I adopted my niece, it was something to give to her as well. So it was something tangible that I could give to her long term... it builds that self-worth that you have got something. That you can actually say ‘I own a place now.’”

Stories ranged from low-income households with long-term dreams of homeownership to higher-income households that hadn’t really considered homeownership until the MAP opportunity presented itself.

INCREASED WELL-BEING AND SAFETY

Initial feedback on MAP is predominantly positive. Many reflected on their improved sense of safety, security and relaxation moving to MAP. One participant explained that she used to stay late at work whenever possible to avoid going home. Reflecting on the experience she explained, “always I call my daughter and I say ‘I’m driving, I’m so happy I’m going to my house. Every day I feel blessed...It’s such a nicer place to be.’” Another homeowner explained “actually moving in, it’s been amazing. It just feels like we can-we can rest. That was... the biggest goal I wanted to achieve for my daughter.” These comments were predominantly reflections on feelings of achievement for entering homeownership and greater feelings of security and safety. Participants were similarly positive about the process of purchasing a home through MAP. All participants recounted that they felt supported throughout the decision-making process and felt comfortable asking questions whenever necessary. While many encountered challenges choosing a lawyer, navigating the home purchase process and securing a loan, all felt they had sufficient support to make informed decisions and feel confident in the process. Interviews revealed unanimously glowing reviews of the MCM employee who managed the recruitment process. MAP developed a white paper and briefed all major banks on their financial model before participants contacted them, a step that many felt greatly increased their ability to secure a loan.

Several interviewees recounted their desires to leave social housing due to safety considerations and their desire to have a home they felt comfortable inviting friends or partners to visit. Many spoke fondly of their sense of community in social housing, reflecting on homes and communities they had lived in for over 15 years. As one homeowner explained,

“Flemington is like home – for 15 years is home. So I miss it. I miss it. But I am glad. It is just walking distance.”

Despite this, there was a strong theme of tension and concerns for safety living within social housing. One resident described her current living situation compared to her previous environment in social housing;

“I am much more relaxed. I know it sounds weird, but it is just not that tension – I think the environment in Richmond was getting quite, not dangerous, but a bit more aggravated.”

Another recounted waking her daughters at 5:30am each morning to watch her walk out to her car in case she was attacked while walking down the stairs. Another explained that they could now allow their oldest daughter to have a key and be in the apartment on their own without fear for their safety. Several participants explained that this issue was relatively new in social housing, reflecting that there had been an increase in drug dealers and ‘problem neighbours’ in recent years, rather than the emphasis on migrant families they’d experienced in their childhoods.

MANAGING FINANCES AND NEGOTIATING HOMEOWNERSHIP

The interviews conducted in this research revealed substantially different financial situations across the participants. Most homeowners felt their financial stress had remained the same or even decreased since purchasing a home in MAP. For many, the mortgage repayments were similar to the amount of money they previously spent on rent as most were ‘over-income’ households paying market rent for their social housing homes. For some, the change to a mortgage reduced their financial stress as it necessitated a more structured approach to assessing and managing their finances and was accompanied by a feeling of achievement in becoming a homeowner. For others, the transition to ownership instigated a new sense of financial responsibility. Two participants lived with a parent in public housing, contributing nominally to rent and/or bills. Moving into MAP moved the responsibility for housing costs from their parents to themselves, creating a substantially higher financial burden. However, neither interpreted this change in a negative manner. As one participant explained,

“maybe something about me or something about the generation that I was from, but I never truly felt like an adult until now...but because I’m paying off the mortgage on my own, I’ve definitely had to become really vigilant about my finances.”

Approaches to gathering deposits and securing loans were similarly diverse. One participant’s daughter paid for his apartment outright without seeking a loan. For her, MAP was an astute investment and one that would support her father in retirement. Another participant explained that she had been saving money for years without knowing what to spend it on and consequently had a large deposit available. Conversely, many households explained the difficulties they experienced in saving a deposit and obtaining a loan. Some borrowed money from friends and family to reach the \$25,000 target. Some explained that they were rejected by several financial institutions due to their low incomes or status as a single mother or as someone approaching retirement age before eventually securing a loan. Another element in securing loans was access to Islamic finance. Several home purchasers in MAP are Muslim and therefore require access to finance in keeping with Sharia Law. Blending a novel financial model with smaller Islamic banks presented challenges for those interviewed and may require additional support for future projects. As one participant explained;

"It is Islamic financial system. And yeah, with that, they are smaller so they need a lot more information and it takes a little bit more time for them to approve it. And that was a little bit stressful, because obviously we have never applied for a loan that big before, me and my wife. So that was stressful, because it just took ages... They have to be 100% sure that, you know, we are the right fit to get that loan. So that is what has probably made it more difficult."

This is not a prohibitive challenge but can add to the complexities for home purchasers combining a limited pool of financiers with a novel financial structure. Growing familiarity with this model within the housing industry and a successful pilot project is likely to support uptake in future projects.

DESIGN

The design of the apartments impacts the long-term livability and likelihood of owners to stay in the apartments. Most interview participants articulated their happiness with the apartment design. One homeowner described it as *"like a mini hotel suite. You always feel like you're living it up."* Others described their happiness with the quality of build and fittings. Some interviews revealed a frustration with building defects, with participants recounting issues with locks not working and poor workmanship. These issues were resolved through the defects process. Many expressed a desire for some modifications to materials such as wooden flooring rather than carpet or larger kitchens; these were seen as important to them due to their lifestyles and cultural preferences. While some participants, particularly those with children, expressed initial desires for a house rather than an apartment, they expressed satisfaction with the size of the apartments and its proximity to services and transport.

CONNECTION TO COMMUNITY

Interviewees expressed a strong desire to stay within their existing community. This desire stemmed from being familiar with the area and staying close to friends and their existing connections. The proximity to the public housing dwellings and their previous communities was particularly important to older homeowners who continued to participate in activities such as table tennis and gardening at these locations. The ability to walk or catch a tram to the public housing dwellings was strongly valued. As one participant explained:

"I lived in Flemington for 19 years. I lived pretty much most of my life in Flemington. I grew up here. Yeah. I guess Flemington, it's one big family. So you obviously build connections with a lot of other people that live there. So definitely I miss it. My parents live in Flemington, so yeah, I'm still around the area as well. And I'm in North Melbourne, so I am not that far away."

In contrast, participants often commented on the lack of community in the MAP building and lack of connections with other homeowners. One resident explained her initial experiences of the apartment;

"I thought, in a way, it would be more community-ish but I think everyone is still settling in. It's like, I don't have time. If I am coming home I am just tired. I basically stay in my apartment. I haven't even looked at the rooftop. It sounds like a lot of people are going on the rooftop. I feel like that is private time."

Or as another resident explained;

"there are a few other people that live on my floor, that I see randomly from time to time, I guess. But there is not a real sense of community at the moment, no."

These reflections are unsurprising given that residents had lived in the MAP less than 12 months at the time of the interviews and a sense of community takes time to form. Most interviews revealed high levels of connection to community at the neighbourhood level, with lower connection to their building. However, this was rarely mentioned as a negative attribute and most expressed their view that sense of community would increase over time.

CONCERNS AND PROGRAM DESIGN

While most feedback on MAP was positive, participants did raise several concerns. A common theme was concerns about ‘loopholes’ or people ‘gaming the system.’ For example, one resident explained that an apartment was immediately rented to several students. Another apartment was immediately sold upon settlement. This dwelling was actually one of the units sold at market rate by the developer, but the residents were not aware of this fact. These situations raised tensions in the building with one participant explaining,

“as a person who came from that, I guess, from social housing, we were all more grateful that we had this opportunity... But then you kind of feel like, ‘are you slapping us in the face by selling your house so quickly?’”

Participants raised concerns that one of the occupants was the parent of several extremely wealthy children who could support them without this opportunity. Concerns that a particular resident had failed to vacate their social housing unit were also raised, although this claim was unconfirmed. These concerns highlight a need for on-going communication between the Foundation and residents to manage their concerns and expectations about the management of the building.

One resident raised concerns about other households inviting friends and family into the building. For him, moving out of social housing meant moving away from gangs that used to pick fights with him. He explained that those same people are now starting to frequent the neighbourhood and building. For him, this is a problem for the use of communal spaces and maintenance of the building;

“they treat the building like it’s the commission flats. Kids running around the building... They go to roof top, stomping on the tables. [On the shared rooftop area] we’ve got alcohol, you know, beer cups, cans, cream charges, balloons... All over the deck... I saw a little baggie. That is not something I wanna see in my building.”

There is a body corporate structure in place in MAP with members from the building and the Barnett Foundation both represented on the committee. Managing shared spaces is a concern in all apartment buildings. However, tensions may be heightened by the predominance of home-owners and diversity of households in MAP. Similarly, interviews suggested that homeowners who had previously felt unsafe in their homes and communities may have heightened awareness of unsafe or unwanted visitors given their previous experiences.

The transition to homeownership was also not without concern. Many described their anxiety in relation to body corporate fees and water bills, despite having had these expenses explained to them before entering MAP. The added expenses of homeownership, particularly as repairs are required over time, are costs that are not accrued in social housing and may result in financial hardship for new homeowners. Similarly, one of the aspects that participants most appreciated about social housing was the ‘safety net’ of being able to transition to lower rent if something happened and they lost their jobs or capacity to pay higher rent. As one participant explained,

“I knew that if anything happened in crisis I could afford it [social housing]. Whereas here, there is just such a worry. The only reason I could get this place is because my partner had saved up, they had money. So we went together. Ultimately, they were the one who put in most of the money. And I was the one with the eligibility. There is that dynamic of, what happens if anything goes wrong? Not that they are like that at all. But I don’t have the financial backing. I never really feel 100% comfortable and good about being here.”

This quotation is indicative of the potentially precarious position that lower-income households face when entering homeownership or market rental. Projects like MAP may ‘trap’ lower income households who take on substantial risk to enter homeownership and find themselves without a viable way to exit (Hulse et al., 2010). The demands of meeting housing repayments may cause greater stress for households or reduce a homeowner’s sense of control or capacity to leave a job or relationship.

SURVEY RESPONSES

A survey was emailed to all MAP residents and all households on the waiting list for the next Barnett project.

MAP Residents

There are 28 households in MAP. Of that, 25 households completed a survey, resulting in a 90% response rate. Key results from the survey are provided below.

The survey revealed that most MAP participants were born overseas. Countries of origin include Eritrea, Sudan, China, Russia, Ethiopia, Hong Kong, Vietnam, Afghanistan and Cambodia. Most speak English as a second language. All respondents that were born overseas have lived in Australia over 10 years with the average time living in Australia 21 years.

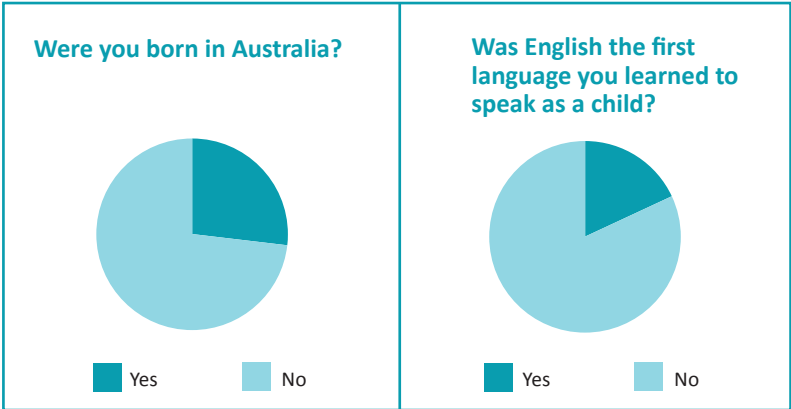


FIGURE 6: DEMOGRAPHIC OVERVIEW OF MAP HOME BUYERS

Unsurprisingly, MAP participants display higher educational levels and higher levels of employment than the broader social housing population. Almost 60% of respondents had a Bachelor degree while 16% had the equivalent of Year 11 or below schooling. Almost 90% received the majority of their income from employment, in contrast to the broader social housing population where 7.6% receive the majority their income from employment (Australian Institute of Health and Welfare, 2017a). The professions of respondents were diverse including registered nurses, business owners, pharmacists, taxi operators, factory workers, chefs, analysts, cleaners, marketing admin and pay roll specialists. The majority of households did not receive government pensions or allowances, apart from three households that received age pensions.

The average reported household income in \$55,500 per annum, with incomes ranging from \$16,900 per annum to \$111,800 per annum. Households ranged from very low income households, with their entire income from the aged pension to four households with incomes above \$90,000 per annum.

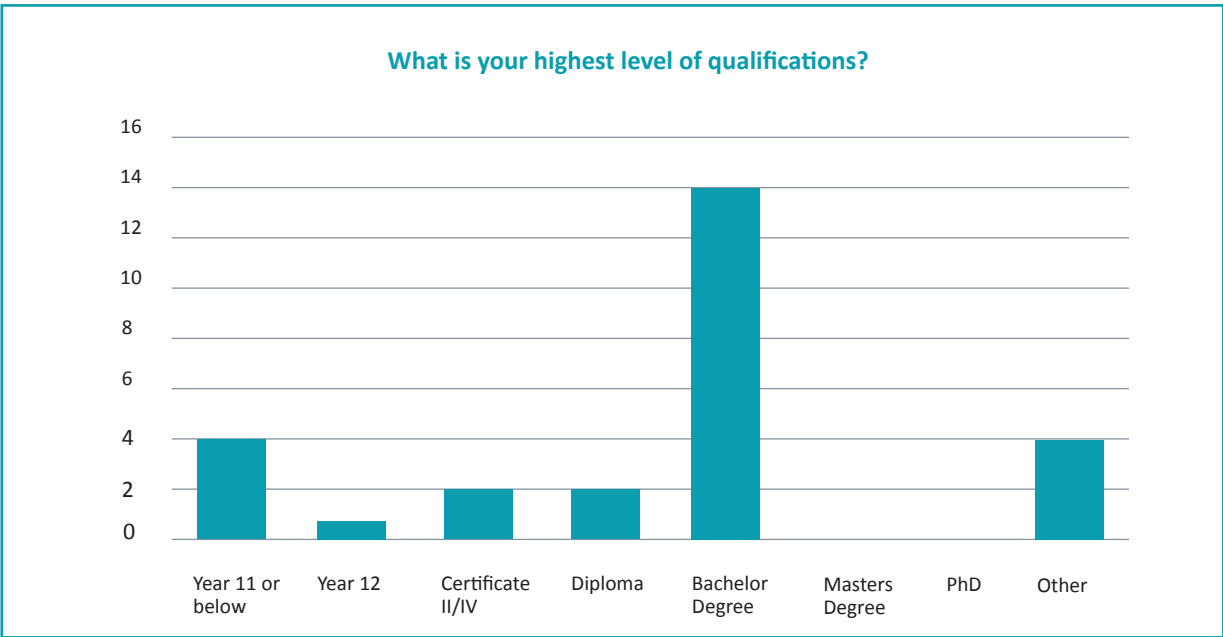


FIGURE 7: WHAT IS YOUR HIGHEST LEVEL OF QUALIFICATIONS? (MAP HOME OWNERS)

Of the 25 respondents, 4 lived alone while the remainder lived with family. Family arrangements were diverse, reflecting single parents, couples with and without children, a couple living with their parents and adult children living with a parent. In this way, MAP residents differ from the general public housing population where 54% of tenants live alone (Australian Institute of Health and Welfare, 2017a).

Housing satisfaction

The move to MAP has largely improved housing satisfaction for participants. While 8 of the 25 participants were either extremely dissatisfied or somewhat dissatisfied with their previous housing situation, all participants were satisfied with their housing after moving to MAP.

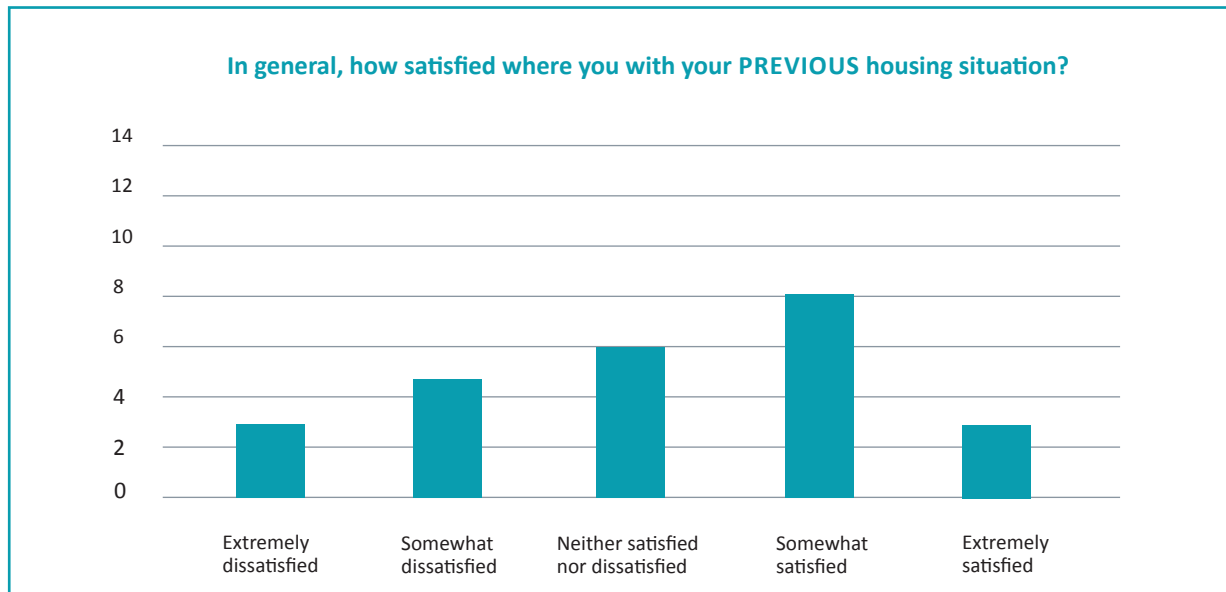


FIGURE 8: IN GENERAL, HOW SATISFIED WERE YOU WITH YOUR PREVIOUS HOUSING SITUATION? (MAP HOME OWNERS)

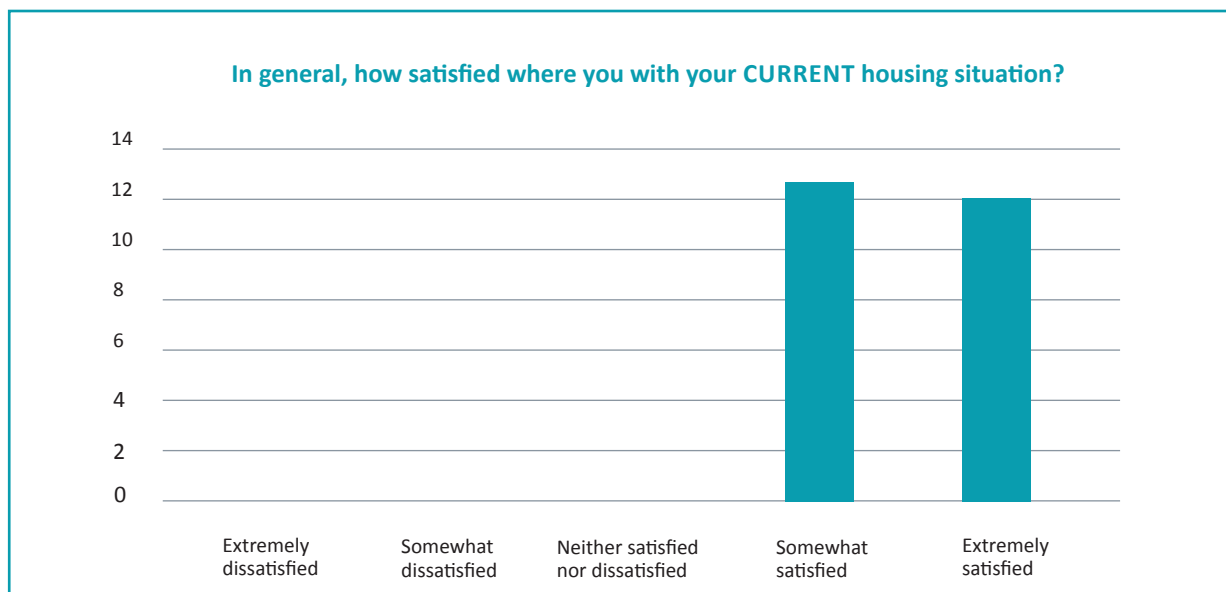


FIGURE 9: IN GENERAL, HOW SATISFIED ARE YOU WITH YOUR CURRENT HOUSING SITUATION? (MAP HOME OWNERS)

Levels of satisfaction differed depending on housing attributes. The below graphs reflect levels of satisfaction with various elements of current and previous housing situations. Respondents were asked to rank the 7 most important housing attributes to them. Figure 10 illustrates these results, highlighting the emphasis placed on affordability, privacy, safety and security and proximity to services and amenities. Respondents were then asked to rank their satisfaction with those seven attributes.

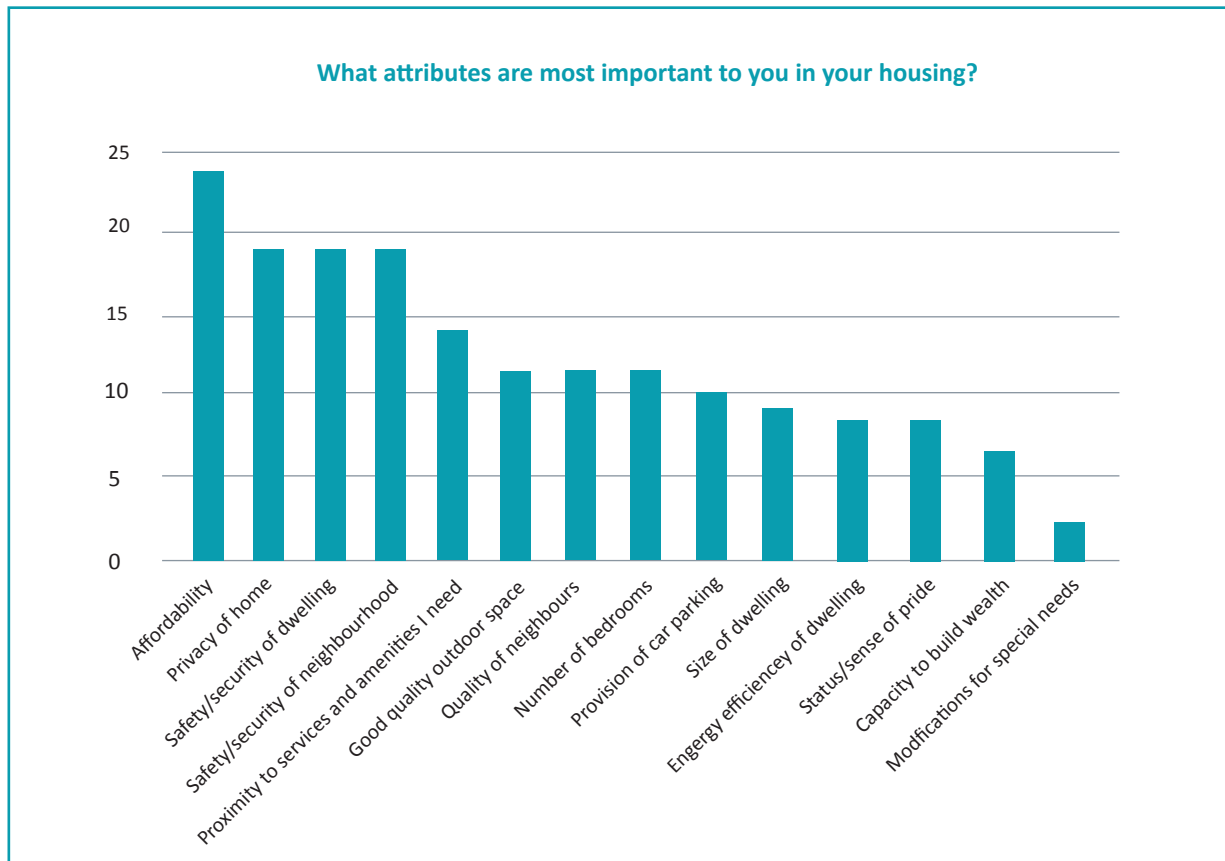


FIGURE 10: WHAT ATTRIBUTES ARE MOST IMPORTANT TO YOU IN YOUR HOUSING? (MAP HOME OWNERS)

When asked about their previous housing situation, respondents reported high levels of dissatisfaction with the safety/ security of dwellings and neighbourhoods, quality of neighbours, provision of carparking and status or sense of pride associated with their housing. In contrast, respondents were largely satisfied with levels of affordability, privacy of their home, proximity to services and amenities and size of their new dwellings.

As shown in Figure 11, responses changed substantially when respondents considered their current housing situation. In particular, respondents were substantially more likely to be satisfied with the security of their dwelling and neighbourhood, status or sense of pride associated with their home, quality of neighbours and the privacy of their home. Across almost all attributes, levels of satisfaction increased for all respondents. However, some respondents still expressed some dissatisfaction with levels of affordability, safety and security in their dwelling and neighbourhood, quality of neighbours, provision of car parking, size of dwelling and energy efficiency of dwelling. It is noteworthy that dissatisfaction with proximity to services and amenities increased slightly for MAP residents. This is possibly as residents moved away from existing communities and employment and sacrificed their location for a chance to purchase a home.

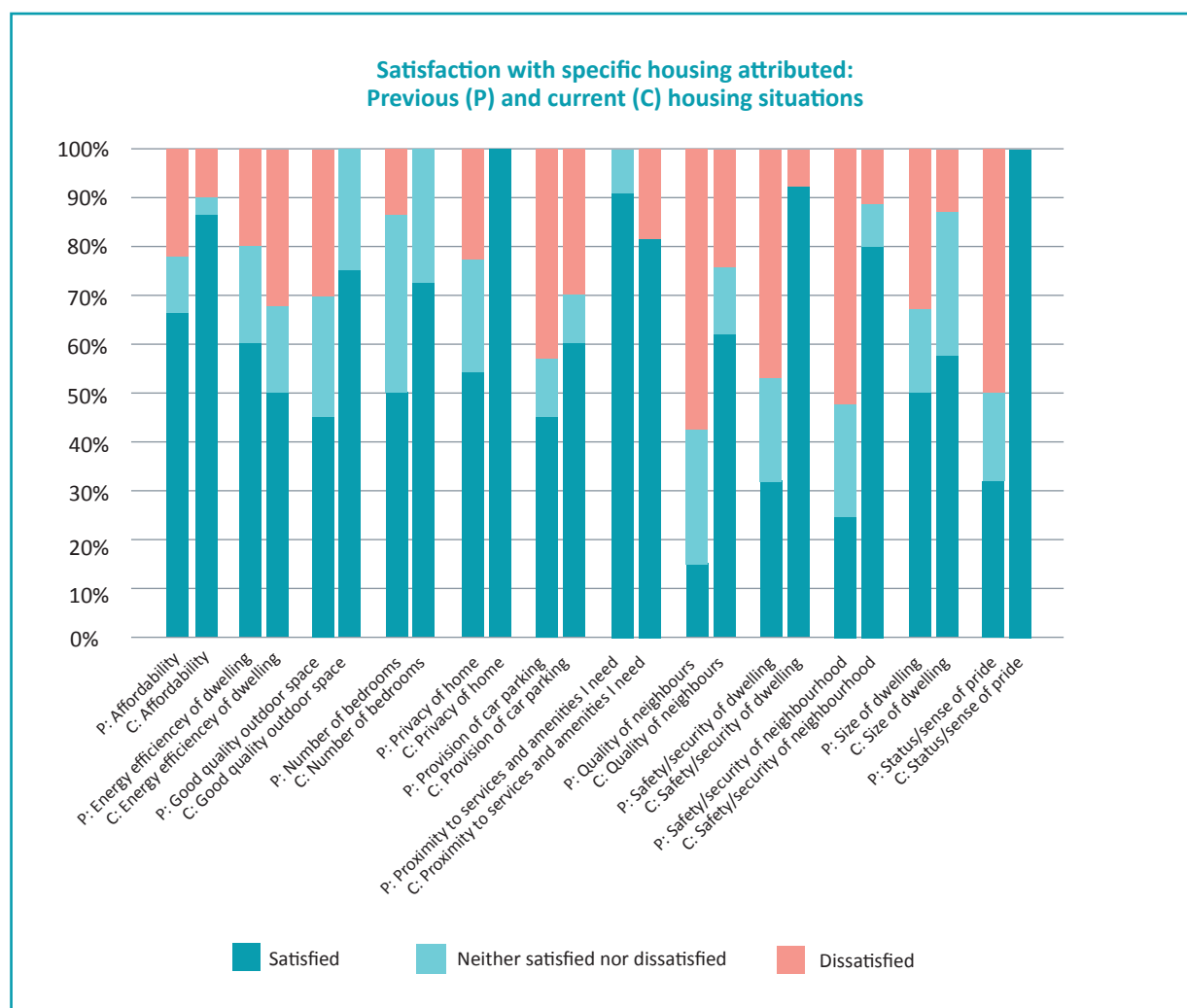


FIGURE 11: SATISFACTION WITH SPECIFIC HOUSING ATTRIBUTES: PREVIOUS AND CURRENT HOUSING SITUATIONS (MAP HOME OWNERS)

The survey found that most respondents believe their ability to feel settled, feel calm and safe, manage their health and cope with life events had increased since moving to MAP. In contrast, most felt that their ability to improve their job situation, start or continue education or training and access public transport was unchanged by their move. The only areas in which some respondents reported feeling reduced satisfaction was in connection to community, ability to access amenities and facilities, ability to feel settled and ability to manage money well.

Almost 70% of MAP residents intend to live in their apartment in the long term (over 10 years), citing their satisfaction with the location and their unit as reasons. For those intending to live in the apartment for about 5 years before renting it out, this decision was largely driven by plans to have more children or plans to move to more supported housing as they age.

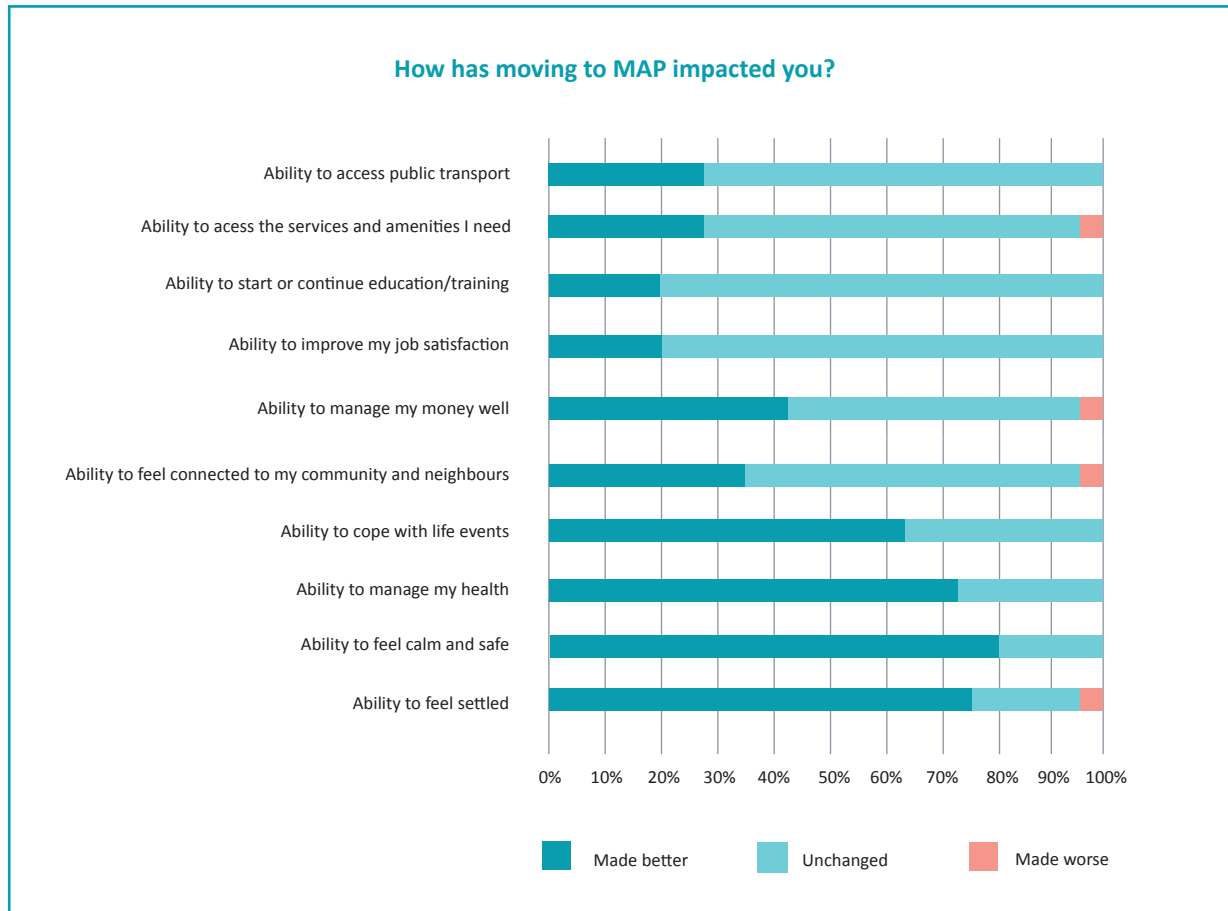


FIGURE 12: HOW HAS MOVING TO MAP IMPACTED YOU? (MAP HOMEOWNERS)

Financial Resilience

Most respondents reported high levels of financial resilience with 70% reporting that they could raise \$2000 in a week if they had a financial emergency like a car breakdown or washing machine that stopped working. Similarly, over half responded that they have a basic budget that they stick to most of the time. 4 respondents stated that they were meeting or exceeding their financial budgets while only one household reported experiencing regular financial problems.

Locational Preferences

Respondents were asked to indicate on a map places they would most like to live in Melbourne. Their responses are aggregated on the below map. These responses echo the outcome of interviews in which participants demonstrated a strong preference for inner-city locations.

Q37 - Below is a map of inner Melbourne. We'd like you to click up to five neighbourhoods you would be most willing to purchase a home in if there were affordable options available to you there.



FIGURE 13: MAP OF HOME LOCATION PREFERENCES (MAP HOME OWNERS)

Respondents were asked if they had additional preferences. The most commonly cited locations were Box Hill, Malvern and Malvern East, Elwood, St Kilda and Carnegie. When asked where they would not choose to live most respondents used broad explanations like 'somewhere that are not close to the city because I work in the city' or 'anywhere that feel unsafe.' However, specific unpopular locations included Werribee, Broadmeadows, Tarneit, Sunbury, Springvale, Noble Park, Dandenong and St Albans.

HOUSEHOLDS ON THE MAP WAITING LIST

21 households on the waiting list responded to the MAP survey. Key results from the survey are provided below.

Like the MAP residents, most households on the waiting list were born overseas.

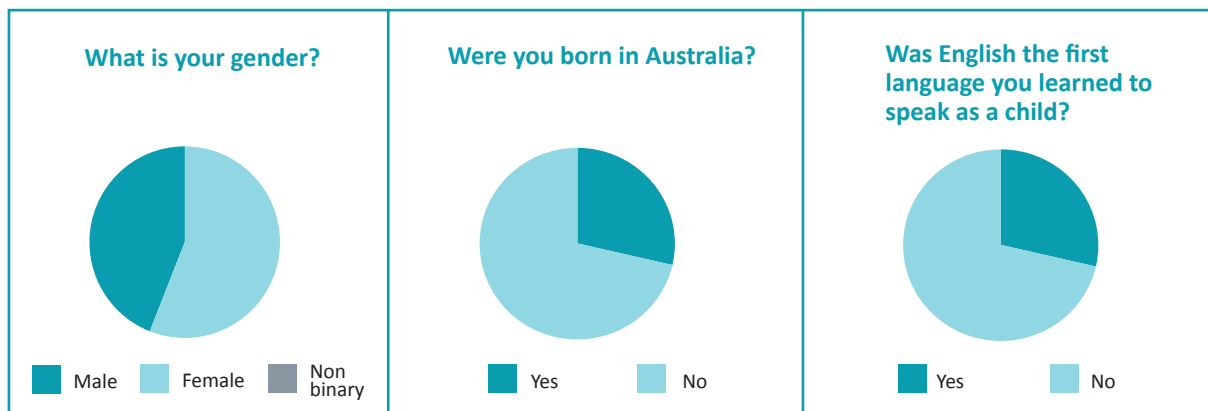


FIGURE 14: DEMOGRAPHIC OVERVIEW OF MAP WAITLIST RESPONDENTS

Respondents on the waiting list had a range of educational qualifications. Over 50% of respondents had a Bachelor or Masters degree while just under a quarter had the equivalent of a Year 12 education.

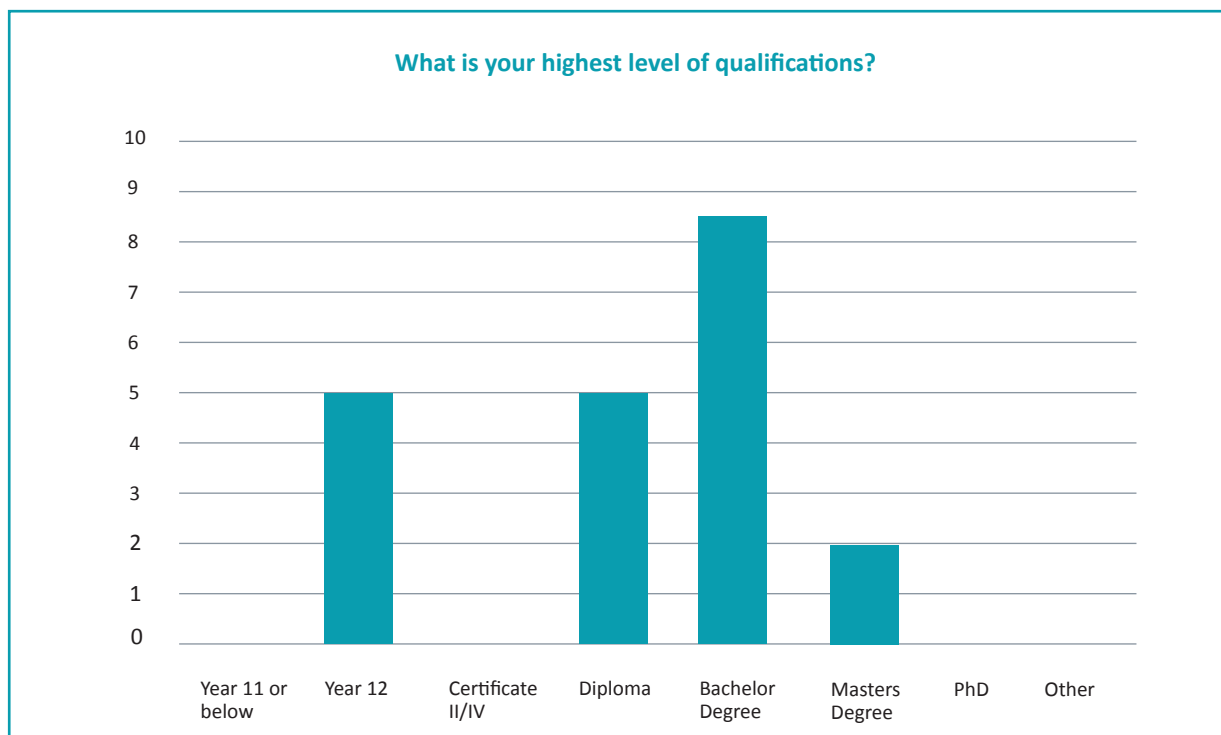


FIGURE 15: WHAT IS YOUR HIGHEST LEVEL OF QUALIFICATIONS? (MAP WAIT LIST RESPONDENTS)

Of the 25 respondents, 6 lived alone while 15 lived with family in diverse family arrangements.

10 respondents worked full time while another 5 worked part time and another one person worked casually. Professions included retail workers, drivers, construction labourers, accountants, nurses, teacher's aides and childcare workers. While the majority of households did not receive government pensions or allowances, one household received a carer payment, two received a disability support pension and two received Newstart.

Housing Satisfaction

Respondents on the waiting list report similar levels of satisfaction with their current housing to that reported by MAP home owners.

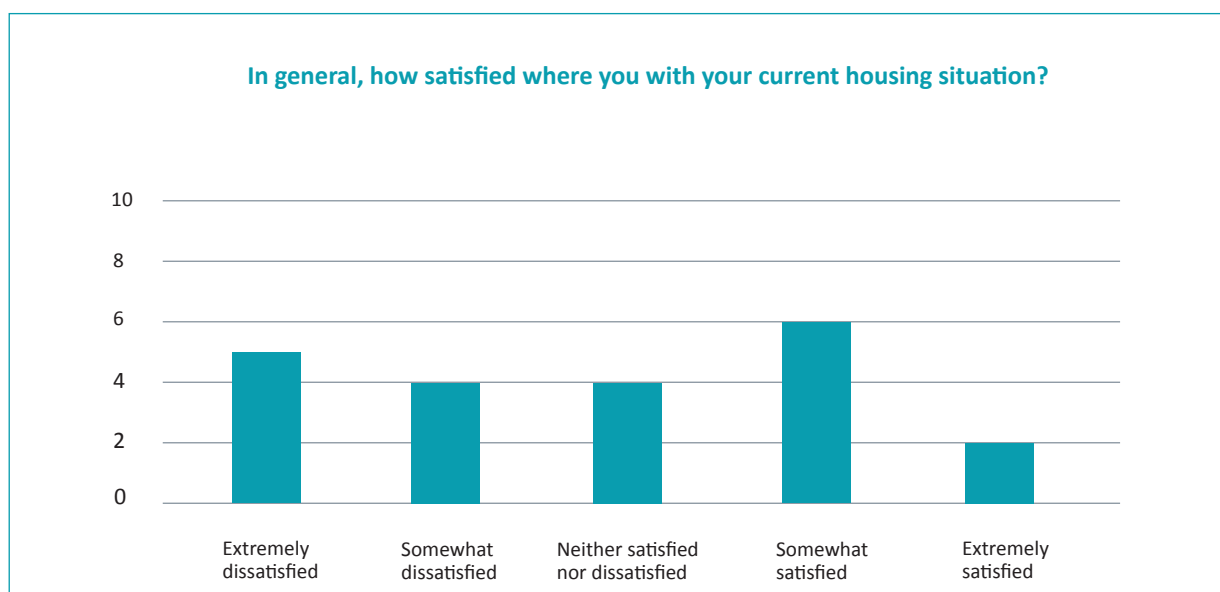


FIGURE 16: IN GENERAL, HOW SATISFIED ARE YOU WITH YOUR CURRENT HOUSING SITUATION? (MAP WAIT LIST RESPONDENTS)

Respondents reported high levels of dissatisfaction across all housing attributes. This was accompanied by a high level of motivation to exit social housing. The elements with highest satisfaction were proximity to services and amenities, privacy of home and number of bedrooms. The higher bars represent attributes that are valued more highly by respondents.

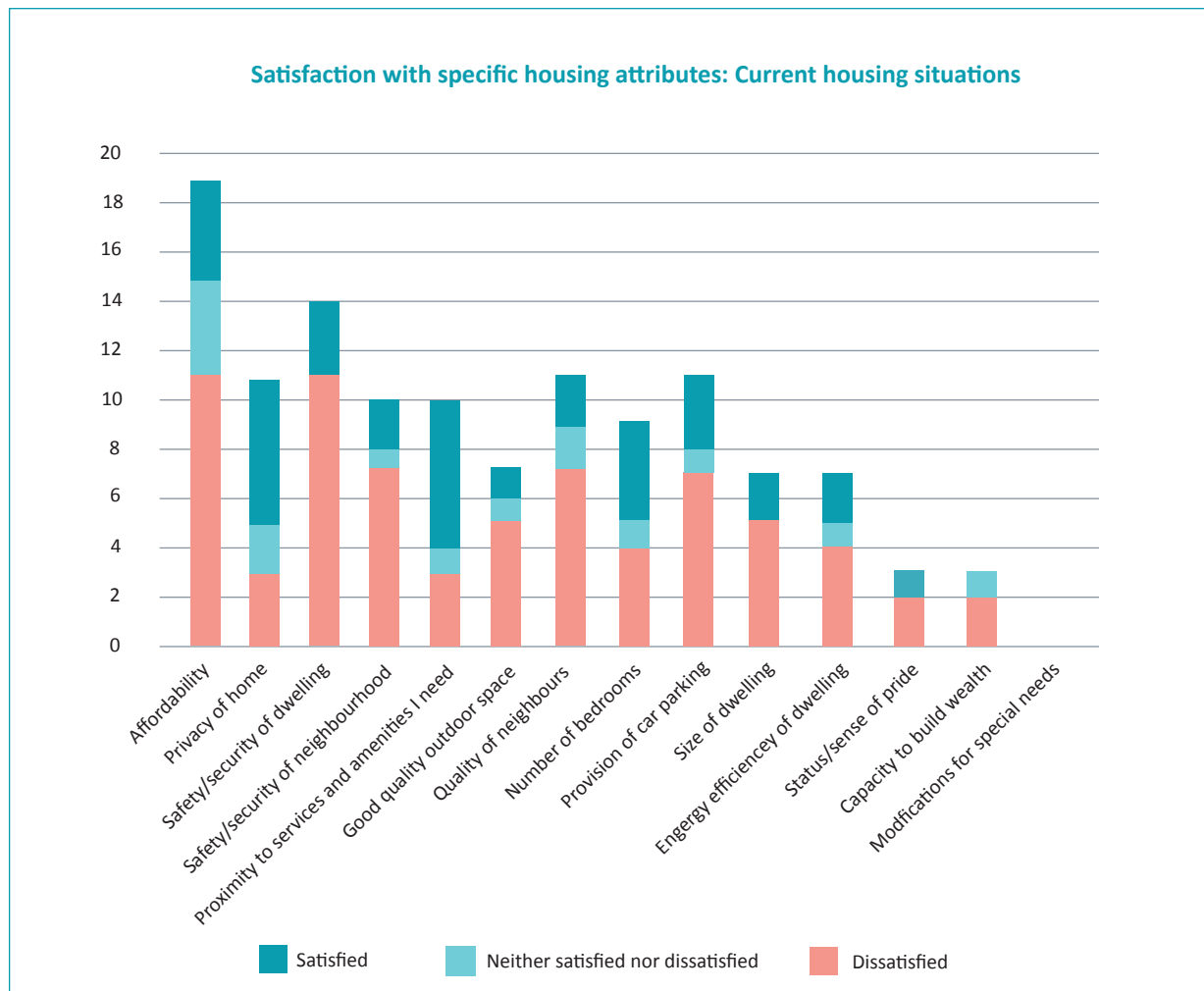


FIGURE 17: SATISFACTION WITH SPECIFIC HOUSING ATTRIBUTES: CURRENT HOUSING SITUATIONS (MAP WAIT LIST RESPONDENT)

Financial resilience

When asked how likely they were to purchase a home in the next five years if they can not be involved in the next MAP project, almost a quarter said 'extremely unlikely.' Respondents report relatively high levels of financial resilience as over half report that they have a budget and stick to it most of the time while another 20% are meeting or exceeding their budgetary goals. Similarly, 13 of the 21 respondents have no debts while a further 5 have debts that they are managing to repay comfortably. However, some respondents reported seeking financial help from friends or family or not being able to afford a visit to a medical professional in the last 12 months, indicating levels of financial stress in the group.

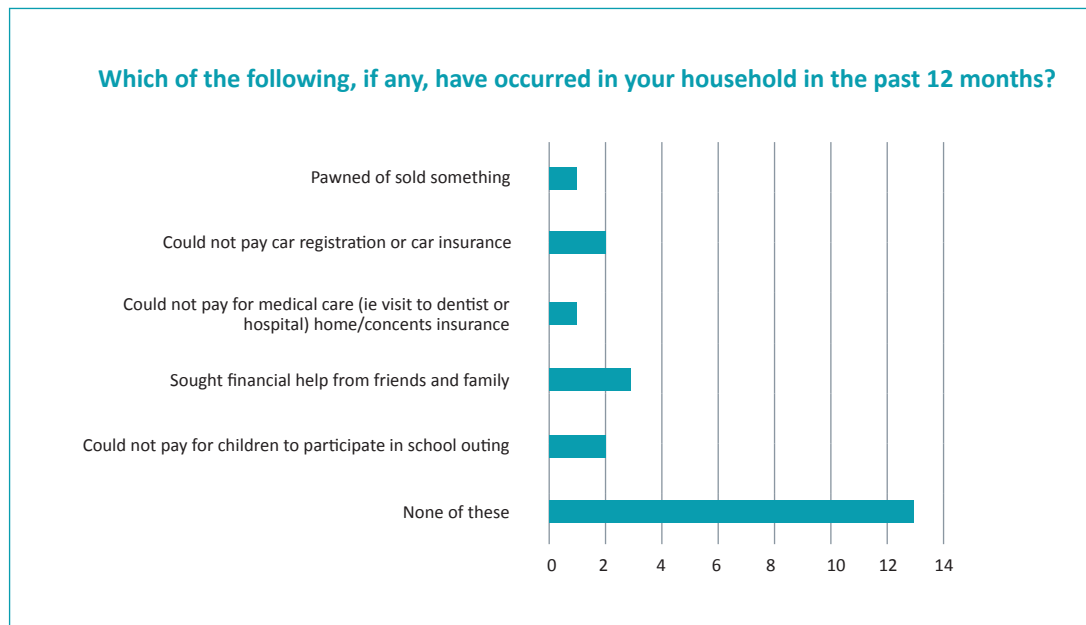


FIGURE 18: WHICH OF THE FOLLOWING, IF ANY, HAVE OCCURRED IN YOUR HOUSEHOLD IN THE PAST 12 MONTHS? (MAP WAIT LIST RESPONDENTS)

Locational Preferences

The below map illustrates the areas that respondents on the MAP wait list are most interested in living in. Like the MAP home owners, there is a concentration around North Melbourne with other 'hot spots' around Footscray, Essendon, Carlton, Melbourne CBD and Moonee Ponds. Respondents again noted their lack of interest in living far from the CBD, with the exception of one respondent who worked in Broadmeadows and would live there if the opportunity arose.

Q37 - Below is a map of inner Melbourne. We'd like you to click up to five neighbourhoods you would be most willing to purchase a home in if there were affordable options available to you there.

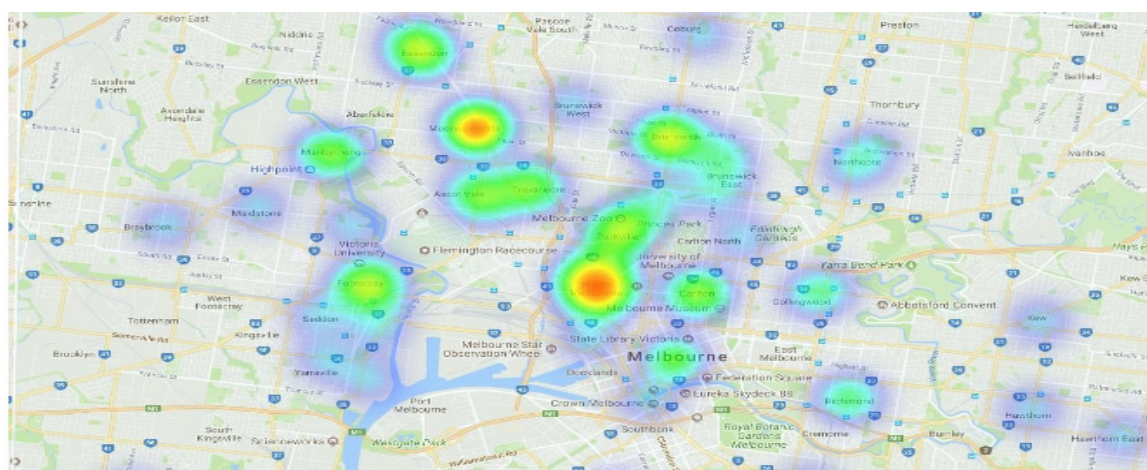


FIGURE 19: MAP OF HOME LOCATION PREFERENCES (MAP WAIT LIST RESPONDENTS)

CONCLUSION

Overall, the interviews and surveys revealed a general lack of satisfaction with living in social housing and a desire to transition into homeownership. Further, the MAP home owners and wait list are not representative of the broader social housing population, displaying higher levels of employment, education and financial resilience. This is unsurprising, given that respondents had either just purchased a home or were on a waiting list to purchase a home in the future. However, interviews also revealed the variety of motivations for purchasing a home and the high barriers tenants face when attempting to save a deposit or qualify for a loan. The survey revealed substantially improved housing satisfaction for MAP homeowners, particularly in relation to feelings of safety and security in their housing and neighbourhood.

This chapter also highlights the strong preference for inner-city living expressed by participants. As a group of people living in subsidised, well-located housing in Melbourne with very little capacity to buy or rent another home in this area, there is a very strong disincentive to leave social housing. This project has revealed that a high capacity subsection of social housing tenants have the ability to enter homeownership but often only if supported through a second mortgage structure.

CHAPTER 4 –

SCALABILITY OF PRIVATELY FUNDED SHARED EQUITY SCHEMES: WHERE TO FROM HERE

This section responds to question 5: To what degree is The Barnett Model a scalable and appropriate affordable housing option for Victoria and what elements would support replication of the project?

This section makes recommendations on the scalability of Barnett Model style projects based on the policy environment, financial model and the lived experience of the homeowners.

IS THE MAP MODEL SCALABLE?

Yes. To a degree.

Based on its current structure, the Barnett model represents a replicable and scalable mechanism for supporting social housing tenants to transition into homeownership. The model is financially self-sustainable and home purchasers show high levels of satisfaction with their homes. The model could be delivered by a philanthropic foundation or a not-for-profit community housing provider and has the capacity to be integrated into larger community housing provider portfolios as an important housing option and mechanism for cross-subsidising social rental housing aimed at lower income households. The model generates the Barnett Advance by capturing value throughout the development process through reduced expenditure on marketing and real estate processes, foregone profit and reduced tax contributions. The model may also be applicable to households currently on the waiting list for social housing. Organisations implementing the model require substantial equity and the capacity to forego profit. They also require development capabilities or the willingness to commission a development. Similarly, they would benefit from partnerships with other not-for-profit partners willing to subsidise or gift their contributions in the same way MCM supported marketing and resident pre-qualification processes.

Options for Homes (Options), an affordable homeownership model operating in Canada, is an example of the capacity of this model to be scaled up (Options for Homes, 2018). Options is a not-for-profit social enterprise that works to deliver low-price condominiums by passing on cost savings and offering down-payment support. The model is based on 'no-frills' development that reduces construction costs. The 'down-payment' support is another term for a second mortgage. The key difference between Options and MAP is that Options uses a Shared Appreciation Loan model that contributes to a 'Pay it Forward' fund to provide down-payment assistance for the next home purchaser. Similarly, second mortgages in Options are usually 10 to 15% of the market value, rather than the 37% offered in MAP. To date, Options has developed 2,500 homes with 2,000 additional units in its development pipeline. While Options does not preserve affordability in perpetuity for individual condominiums, the 'pay it forward' fund allows a growing pool of money to subsidise future home purchasers.

IS THE BARNETT MODEL APPROPRIATE?

Yes. For some households.

The Barnett Model is an appropriate and innovative approach to homeownership for a sub-section of social housing tenants, representing an important contribution to affordable home ownership options. It is particularly appropriate as it avoids one of the key criticisms directed at shared equity schemes in Australia; creating a demand-side stimulus without generating supply (Pinnegar et al., 2009). The Barnett Model is predicated on building new housing stock rather than just increasing access to and demand for existing dwellings.

It is important to remember that the Barnett model is one solution in a broader spectrum of housing options. It will not suit all social housing tenants, many of whom do not earn sufficient money to service a home loan and do not have the capacity to save a \$25,000 deposit. As a recent study commissioned by Women's Property Initiatives identified, many social housing tenants are

neither willing nor able to commit to a mortgage and may be wary of a system they perceive as risky (Black & Ralston, 2015). Within public housing, only 7.4% of tenants receive the majority of their income from employment (Australian Institute of Health and Welfare, 2017a). Homeownership generates risks for lower income households, such as reduced housing values, becoming 'stuck in place' and lack of resilience to interest rate rises (Hulse et al., 2010). Similarly, projects like MAP further contribute to the residualisation of social housing, creating exits for high capacity households while leaving other households behind. This has implications for the funding model of social housing and the lived experience of households living in social housing. Solutions to address this issue are explored in the following section.

What elements would support replication of the project?

Several alterations or interventions could support further diffusion of this model. Projects that employ a Barnett model are likely to be constrained by four key barriers; 1) High costs of construction; 2) access to capital 3) access to reinvested funds and; 4) capacity to meet the needs of the target market. The potential resources, partnerships and regulatory changes that could support a larger-scale implementation of projects like MAP will be explored in detail in this section of the report.

	Local government	State government	Federal government	Social impact investors	Community housing providers	Private industry	Barnett Foundation	Charitable/ religious groups
Reduce cost of construction								
<i>Discount or defer payment for land</i>								
<i>Provide pro bono services</i>								
<i>Provide tax concessions</i>								
Access to capital								
<i>Provide social impact investment funds at reduced rate</i>								
<i>Create a revolving loan fund</i>								
<i>Establish a homeownership assistance program</i>								
Access to reinvested funds								
<i>Apply a shared appreciation loan structure</i>								
Respond to the target market								
<i>Combine a MAP model with social rental and market housing</i>								

1. Reducing cost of construction

In the Barnett model, all cost reductions represent value captured by the developer. This value is then provided as Barnett Advances to home owners. Therefore, all cost reductions represent an opportunity to pass on savings to the home purchaser.

DISCOUNT OR DEFER PAYMENT FOR LAND

Echoing the challenges faced by most higher density developments (Rowley, Costello, Higgins, & Phibbs, 2014), The Barnett Foundation struggled to identify appropriate, affordable land in a well-located location. MAP purchased land at market rate, competing in an open market with for-profit ventures. Land prices have almost doubled in North Melbourne since the land was first purchased by the developer. In a fast-moving market like Melbourne, this can be prohibitive. State, federal or local governments or philanthropic organisations could provide land subsidies or priority access to support future projects. Rather than seeking 'highest and best use' land value for sales of government land for affordable housing, governments could treat land sale as a transparent subsidy that reflects the level of housing subsidy a development delivers to residents (Randolph, Troy, Milligan, & van den Nouweland, 2018). The MAP model does not require or warrant a deep subsidy to be financially viable and any land value discount could be supplemented by other affordability mechanisms. Simply deferring the requirement to pay for land until development has

concluded would also support this model, by reducing holding costs for the developer. This option is used extensively by Options for Homes, the Canadian organisation that always seeks to buy land from vendors who are willing to defer payment until construction financing is secured or the building is occupied (Canadian Urban Institute, 2017).

Scaling up The Barnett Model may require leveraging existing government land. The state government has recently designated a series of surplus government sites to be redeveloped. The program commits to at least 100 social housing units on these sites through an Inclusionary Housing program (Victorian Government, 2017). Palm et al. (2018) similarly find 185 hectares of 'lazy' government land that is appropriate for hosting affordable or social housing in Greater Melbourne. Further, the state government is currently seeking partners to redevelop several public housing estates in Melbourne, with a commitment to at least a 10% increase in social housing. These initiatives provide an opportunity to add a requirement for affordable homeownership options *as well as* increased social housing.

PROVIDE PRO BONO OR DISCOUNTED GOODS AND SERVICES

Melbourne City Mission provided significant services to MAP in the form of marketing, prequalification of homeowners and ongoing support for homeowners throughout the MAP process. This in-kind contribution of a full-time staff member for almost two years is a substantial input for the project. Not-for-profit organisations could continue to play a role in supporting projects based on the MAP model, lending expertise and legitimacy to similar projects.

PROVIDE TAX CONCESSIONS

Foundations with a PBI status are eligible for charity tax concessions from the Australian Tax Office. As tax forms a substantial proportion of development costs, providing this tax concession may also support the on-going scaling of similar projects.

2. Access to Capital

A significant barrier to scaling up production of affordable homeownership involves access to funds for land acquisition and construction costs. While The Barnett Foundation had sufficient equity to support this project, substantial scaling of this model would require access to funds to support a pipeline of projects. The State or Federal Government could support further funding of affordable home-ownership programs by increasing access to lower-cost finance. Similarly, social impact investors have a role to play in supporting innovative approaches to providing affordable homeownership. In response to this barrier, three potential solutions are;

1. SOCIAL IMPACT INVESTMENT

Social impact investment is investment intending to generate social and financial returns, while actively measuring both (Sharam, Moran, Mason, Stone, & Findlay, 2018). Social impact investors could provide direct debt and/or equity investments in organisations implementing a MAP model, providing lower-cost finance and access to equity for these organisations.

Social impact investment has been instrumental in supporting the growth of the Nightingale Model in Melbourne (Sharam et al., 2018). In the Nightingale Model, equity investors provide 30% of funding and debt funding is sought for the remaining 70% of costs. These equity investors were willing to accept concessionary (reduced) returns in return for the improved environmental and built form outcomes that Nightingale delivers (Sharam et al., 2018). It is possible that social impact investors would accept a concessionary return on a Barnett Model to reflect housing affordability outcomes. Their investment would reduce the cost of finance for the Barnett model and increase access to capital. In Australia, around \$20 million has already been invested by non-bank social investors in affordable housing options, particularly those that display an innovative and scalable departure from the status quo (Muir et al., 2018).

Social impact investors are also central to the Buy Assist shared equity model delivered by the National Affordable Housing Consortium. In this model, investors may invest in a pool of residential properties that are designed for low to moderate income households. The investment is an agreed percentage of the future value of the property (BuyAssist, 2018). This pool of investors provide equity to support home purchasers, fulfilling a similar role to the Barnett Advance in the existing Barnett model. The benefit of accessing multiple investors is the potential for a larger pool of equity to support further expansion of the model.

For potential future Barnett purchasers, there is a role for social impact loans to provide credit on reasonable terms to lower income households currently excluded from mainstream finance (Muir et al., 2018). These households may face challenges accessing finance but are still able to service a loan. Social impact loans may create a pathway to accessing mainstream finance in the future by establishing a credit history for home purchasers. Similarly, social impact loan providers may accept flexible repayment terms to reflect a household's increased and decreased capacity to repay loans over time. This approach is well suited to shared equity schemes and affordable housing schemes and is already being applied in a Habitat for Humanity affordable housing project in Victoria (Muir et al., 2018). Habitat for Humanity accessed funds from the Affordable Housing Loan Fund, administered by the Lord Mayor's Charitable Foundation and Social Enterprise Finance Australia. Accessing these funds allows Habitat for Humanity to provide interest-free loans with repayments capped at 25% of gross household income to very low and low-income households (Sharam et al., 2018).

2. DEVELOP A REVOLVING LOAN FUND

The Victorian Government announced a revolving loan facility and loan guarantee program in 2017 designed to increase access to finance for affordable housing projects (Victorian Government, 2017). At present, these options are only available to registered housing associations. An additional or expanded revolving loan fund available to alternative models and other not-for-profit stakeholders could support greater application of this model. This would provide both short and long-term project equity. It could be established by the government or social impact investors and equity would be returned once mortgage loans are issued.

3. ESTABLISH A HOME OWNERSHIP ASSISTANCE PROGRAM

The Victorian or Australian Government could implement a program similar to the Home Ownership Assistance Program (HOAP) in Toronto. The City of Toronto provides a Home Ownership Assistance Program (HOAP) to promote the development of new homes available for affordable home purchase. HOAP loans are intended to reduce up-front development costs, and the Program is designed so that these savings flow through to eligible buyers of the new homes in the form of down payment assistance (City of Toronto, 2018). The scheme involves three stages

- 1.1. Successful not-for-profit providers receive a lump sum from the City of Toronto to reduce up-front development costs of housing projects
- 1.2. Not-for-profit providers then deliver and administer no-payment, interest-free down-payment assistance loans (similar to a MAP Advance) to eligible home buyers, essentially using these funds as second mortgages on the property title. In Toronto, these loans are up to \$50,000 per homebuyer
- 1.3. Funds are repaid to the City of Toronto when the homebuyer sells their home or repays their down payment assistance

While the HOAP requires repayment of all funds to the City of Toronto, another option to support further growth of this initiative would be a 50% reinvestment of HOAP repayments in the not-for-profit provider to support further developments.

3. Access to reinvested funds

One of the key elements likely to slow the scaling of this model is the treatment of the 'Barnett Advance.' Unlike many other shared equity schemes, this model does not allow the equity partner (the Barnett Foundation in this case) to share in future capital gains or capital losses. While this increases the individual household's capacity to build equity if the property gains in value, it reduces the pool of funds available to be reinvested in the project. Similarly, it does not share the risk of property value decrease with the equity partner.

The Barnett model shares many similarities with a Shared Appreciation Loan model as both approaches use a no-interest second mortgage to reduce upfront and ongoing costs of homeownership. However, within the Barnett model, the second mortgage is an absolute figure that does not change over time (after the four years of reductions). In a Shared Appreciation Loan, a portion of the value appreciation or depreciation accrues to the equity partner. This portion usually relates to the proportion of market value that the second mortgage covers. For example, if the second mortgage is 37% of market value, 37% of total capital growth will be paid to the equity partner.

This model generates an impetus for the home purchaser to pay back the second mortgage sooner to reduce their future contribution to the equity partner. It also creates the opportunity for the equity partner to share in capital gains, increasing their capacity to reinvest funds in subsidies for the next round of home purchasers. Figure 20 demonstrates the differences in these models, assuming a 2% annual property value increase. In both models, the purchaser contributes \$378,000 to purchase a home valued at \$600,000 in Year One and sells in Year Ten for \$717,000. Upon sale in year 10, the initial home purchaser would receive \$555,000 under the Barnett model while the equity partner would receive \$162,000. In this example, the home purchaser gains \$177,000 or a 47% return on their investment. In a Shared Appreciation Mortgage model, the initial home purchaser would receive \$452,000 and the equity partner \$265,000 from a sale in year 10. This results in a 20% return for the home purchaser. At the end of ten years, the difference in return for the equity partner is over \$100,000. This additional funding could be reinvested in the philanthropic organisation, spreading the benefits of this model across a larger number of participants and projects. Options for Homes refers to this fund as the 'Pay it Forward' fund.

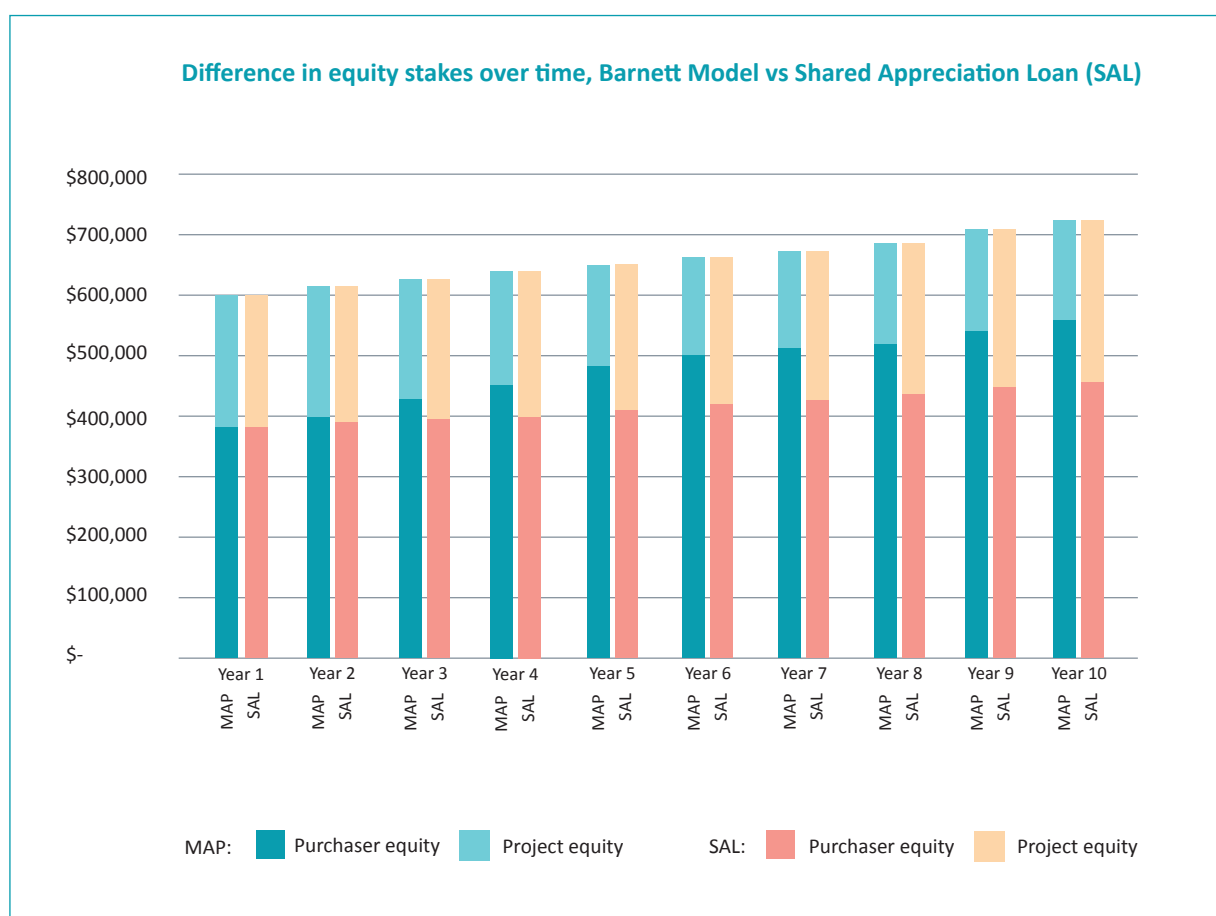


FIGURE 20: INDICATIVE DIFFERENCE IN EQUITY OUTCOMES OVER TIME BETWEEN BARNETT MODEL AND SHARED APPRECIATION LOAN (SAL)

4. Capacity to meet the needs of the target market

As mentioned earlier, the Barnett model is not the correct solution for all social housing tenants, many of whom experience multiple barriers to homeownership. The MAP model is targeted at high-capacity tenants with access to substantial private funds or a household income of at least \$75,000. There is a finite number of households that meet these criteria in Australia.

One key method for scaling this model is by combining the Barnett model with social rental housing and/or market housing. Mixed tenure developments are increasingly common in Australia. Two recent examples are the Abbotsford Demonstration Project, developed by Common Equity Housing Limited (Fyffe, 2015) and the Nicholson project, led by Places Victoria (Moore & Higgins, 2016). These models allow for cross-subsidisation of social rental housing through the sale of market-rate housing. Community housing providers are increasingly in search of ways to fund housing for the most vulnerable households (Milligan, Pawson, Phillips, & Martin, 2017) and the Barnett Model represents a useful mechanism for achieving this goal as Advances are channelled into future Barnett projects and other not-for-profit housing ventures. Combining home ownership and rental models on a site will allow community housing providers to offer a range of housing outcomes without compromising their capacity to meet the needs of lower income households.

CHAPTER FIVE –

CONCLUSION

The Melbourne Apartments Project is a novel approach to supporting social housing tenants to move into homeownership. This report has highlighted the structure and process of developing the Barnett model. It highlighted the division of rights, responsibilities, capital gain and risk embedded in the shared equity structure. The report also highlighted existing housing policy that supports homeownership, particularly for low to moderate income households. Research found that, while Australian and Victorian housing policy is largely supportive of homeownership, the current Barnett model is not supported at present. The report also drew upon 10 interviews and 46 surveys of people currently living in the MAP or on the waiting list for future projects. Interviews revealed largely positive resident outcomes, while also foreshadowing potential risks for lower-income households.

This report concludes that the Barnett model is both scalable and appropriate for a subsection of social housing tenants that are likely to benefit from the opportunity to transition into homeownership. The MAP supported 28 households, many of whom who had lived in social housing for almost 30 years and were unlikely to move without this opportunity, to achieve their goals of homeownership. MAP has illustrated that a project of this type is achievable without government subsidy if savings are achieved through different mechanisms (such as foregone profit, in-kind contributions from not-for-profit partners and tax concessions).

Key mechanisms likely to support scaling of this model include;

1. Access to land: Land could be subsidised, payment could be deferred, or priority access could be granted on government or philanthropically owned land. This could be tied to existing government projects like the Public Housing Renewal Program or the Inclusionary Housing program
2. Access to capital: The state or federal government could create a revolving loan facility to support access to funds to support development of these projects. Alternatively, a Home Ownership Assistance Program, similar to the program delivered in Toronto, could offer funds to not-for-profit developers to pass on to consumers as down-payment support
3. Access to reinvested funds: Changing the structure of the Barnett Advance to share in capital gains or losses associated with changing property values may also support the scaling of the Barnett model. A Shared Appreciation Loan allows the equity partner to share in property value increases, thereby increasing the pool of funds available to future home buyers
4. Capacity to meet the needs of the target market: The MAP model lends itself to use by community housing providers. This model could be combine with market and social rental housing to provide mixed tenure communities. This model acknowledges that not every household is willing or able to enter homeownership and allows community housing providers to cross-subsidise lower-income rental options.

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