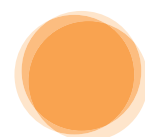


# UNLOCKING HOME OWNERSHIP

FOR PEOPLE RECEIVING SPECIALIST  
DISABILITY ACCOMMODATION PAYMENTS  
WHAT ROLE DO FINANCIAL INSTITUTIONS PLAY?

DISCUSSION PAPER – 2017



SUMMER  
FOUNDATION

**PREPARED BY:**

Anna Crabb

**PREPARED FOR**

The Summer Foundation  
ABN 90 117 719 516  
PO Box 208  
Blackburn 3180  
VIC Australia

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# EXECUTIVE SUMMARY

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## PURPOSE OF THIS PAPER

The purpose of this paper is to inform and prompt discussion in the finance sector and among others about ways to address inequity of home ownership for people with disability in Australia. We aim to improve the situation by focusing on options for people receiving NDIS Specialist Disability Accommodation (SDA) payments. We hope that the paper will help financial institutions see what role they can play in making home ownership a reality for more Australians with disability.

## HOME OWNERSHIP AMONG PEOPLE WITH DISABILITY

Most Australians aspire to enjoy the social and economic benefits of home ownership. However, people with disability have lower rates of home ownership than the general population. Limited availability of accessible, appropriate and affordable housing, plus a lack of in-home support services have driven this inequity over time.

## THE POTENTIAL TO FOSTER HOME OWNERSHIP UNDER THE NDIS

The NDIS offers financial institutions an unprecedented opportunity to help improve housing affordability for people with disability and their families, a group that historically has struggled to move into home ownership. Because the NDIS is generating housing demand at scale, Australia can now move beyond the grant-driven, cottage-industry approach to disability housing. To make it work, serious private capital commitments are needed, especially as we shift toward a total NDIS housing market valued at \$11.2 billion.

## THE POTENTIAL TO LEAD INNOVATION AND OFFER A NEW PRODUCT TO A NEW MARKET UNDER THE NDIS

This is a historic opportunity for financial institutions to enhance their current offerings and introduce new products to service a brand new market of people receiving SDA payments. This cohort may be considering home ownership as a realistic prospect for the first time. Governments have agreed that the pricing framework will apply to 30 June 2021, giving banks and investors a window to offer loans and establish a baseline of SDA lending performance.

# SHARED OWNERSHIP TO INCREASE HOME OWNERSHIP FOR PEOPLE WITH DISABILITY

For equity and efficiency reasons, our aim should be for standard home loans to be accessible to people with disability. In cases where standard home loans are not suitable (e.g. insufficient deposit), shared ownership models offer a way financial institutions can tap into the market of people receiving SDA payments, while offering them an affordable alternative so they can enjoy the benefits of home ownership.

## WHERE TO START

The Summer Foundation is working to support the six building blocks for a mature SDA market (see Appendix C). For the financial sector to play its role in boosting the home ownership rates of people with disability, institutions need confidence in policy settings and must be able to deliver products and services to people with disability and their families. There are actions that financial institutions – and government – need to take to build this market:

### **Actions for financial institutions:**

1. Share examples of commercial and consumer loans to people receiving SDA payments with other financial institutions to enable them to refine their own investment and lending policies to be accessible to people receiving these payments
2. Investigate partnership with equity partners to deliver shared ownership loan products to people receiving SDA payments that cannot access standard loans
3. Educate finance staff so they feel confident assessing loan applications and managing loans for people receiving SDA payments and their families, as well as organisations providing accommodation to this group
4. Appoint a team member specialist to lead responses to queries from SDA payment recipients and their families, and to developers interested in developing properties for this group
5. Share the details of property valuers experienced in valuing modified properties with other financial institutions

### **Actions for shared ownership equity partners (community housing providers, state and local governments)**

1. Aggregate suitable borrowers then approach financial institutions for commercial loans to develop properties
2. Sell existing SDA stock to tenants (where this is desirable for the tenants)
3. Hold SDA payments of up to 20 per cent of property value in trust and recycle back into future SDA

### **Actions for developers and landlords**

1. Understand the benefits of shared ownership returns compared to rental returns to encourage greater investment in properties suitable for people receiving SDA payments
2. Ensure properties align with SDA requirements and any changes to the property design are communicated to buyers receiving SDA payments and their families

## **Actions for NDIA**

1. Ensure SDA recipients' housing preferences are identified in NDIS plans and make aggregated housing demand information available to financial institutions and developers
2. Build investor confidence by providing information on demand, features of the scheme, and interactions with other government initiatives (e.g. CRA, social & affordable housing)
3. Encourage SDA recipients and their families to consider home ownership and investment
4. Provide SDA payments of up to first 20 per cent of property value as recoverable grants (to avoid 100% of loan to value ratio)
5. Introduce people receiving SDA payments and their families to responsible lenders and advocate on their behalf

## **Actions for people receiving SDA payments and their families**

1. Ensure financial literacy is at a level to be able to assess suitability of home ownership and/or investment with personal circumstances (including financial and asset planning, knowledge of responsible lenders)
2. Express interest of home ownership/investment to equity partners and financial institutions
3. Participate in property development design consultations to ensure properties are fit for purpose

## **ABOUT THE SUMMER FOUNDATION**

Established in 2006, the Summer Foundation is committed to growing a movement that will resolve the issue of young people living in nursing homes. Supporting, informing and empowering people with disability and their families is key to resolving this issue.

We build the capacity of this sector rather than focus on building our own organisation. We share knowledge, skills and leadership with other organisations. We collaborate with other non-profit organisations to increase funding for the disability sector rather than compete for scarce resources. We share credit and power within the organisation and with other organisations.

## **ACKNOWLEDGEMENTS**

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# PART 1: HOME OWNERSHIP AMONG PEOPLE WITH DISABILITY

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## BENEFITS AND RISKS OF HOME OWNERSHIP

Australians have a strong preference for home ownership, regardless of economic circumstance.<sup>1</sup> Australians enjoy both financial and social benefits from home ownership. Benefits include financial security, dignity, empowerment and confidence about the future<sup>2</sup>, and a sense of security and safety.<sup>3</sup> Home ownership can be more beneficial than affordable, high-quality rental housing. It encourages greater civic involvement, results in less disruption to social networks and children's education, and increases self-esteem.<sup>4</sup>

In recent years house prices have risen significantly, outstripping increases in median incomes.<sup>5</sup> This has made it difficult for many people to meet the up-front costs of purchasing a home.

Younger people (25 to 34-year-olds) were significantly less likely to own a home in 2014 than in 2002; substantially more people are now on public housing waiting lists<sup>6</sup> and more people are carrying mortgage debts into retirement.<sup>7</sup> Housing stress is resulting in relationship breakdowns and families going without food.<sup>8</sup> For homeowners, the ability to maintain the value of their housing asset through regular maintenance and improvements, or to move when required, is limited.



1 Senate Select Committee on Housing Affordability in Australia, *A Good House is Hard to Find: Housing and affordability in Australia*, Parliament of Australia, 2008, Chapter 2.

2 Shew W. and Stelzer I., *External Benefits of Home Ownership*, 2004.

3 Senate Select Committee on Housing Affordability in Australia, *op cit*.

4 Productivity Commission, *First Home Ownership*, 2014.

5 Australian Institute of Health and Welfare, *Housing assistance in Australia 2014*, 2014.

6 Morrison, S., 'Address to the Australian Housing and Urban Research Institute, Melbourne', Treasurer of the Commonwealth of Australia, 10 April 2017.

7 Productivity Commission, *Housing Decisions of Older Australians*, <http://www.pc.gov.au/research/completed/housing-decisions-older-australians>, 2015.

8 Burke, T., 'Experiencing the housing affordability problem: blocked aspirations, trade-offs and financial hardships', paper presented to the Financial Review Housing Congress, 2007.



## CURRENT STATE

Historically, people with disability have been constrained on being able to choose where and with whom they live. People With Disability Australia highlight that “for the majority of people with disability, where they live has been dictated by where their support provider is located” and that there has been a “critical shortage of accessible, appropriate and affordable housing”.<sup>9</sup>

People with disability place high importance on the certainty and security of tenure provided by home ownership. Recent reports from the National Disability Insurance Agency (NDIA) indicate that the majority of participants in the National Disability Insurance Scheme (NDIS) have goals related to daily living and independence.

These goals could be met through home ownership, which offers more long term security and increases control over home and life.<sup>10</sup>

However, the housing situation of many people with disability does not reflect home ownership aspirations. Figures show:

- There is a lack of affordable rental options for people with disability. In April 2016, less than 1 per cent of rental homes in Greater Sydney were appropriate and affordable for households on the Disability Support Pension<sup>11</sup>
- A high proportion of people living in social housing need this assistance due to a household member having a disability<sup>12</sup>
- People with disability are less likely to be homeowners<sup>13</sup>
- One-third of NDIS participants are expected to be unable to find affordable housing<sup>14</sup>

Moving towards home ownership is not without risks and challenges. On average, people with disability may have a more limited ability to manage the risks of home ownership than the general population. This is due to lower than average income and a higher likelihood of accommodation needs changing over time, particularly in the case of people with a degenerative disability.



9 Finch, Kate, 'Housing, Homelessness and Disability', Parity, Council to Homeless Persons, 2014.

10 NDIA, Market position statements, <https://www.ndis.gov.au/market-position-statements>, 2017.

11 Anglicare, Rental Affordability Snapshot 2016: Greater Sydney and the Illawarra, [https://www.anglicare.org.au/media/2805/anglicaresydney\\_ras\\_2017.pdf](https://www.anglicare.org.au/media/2805/anglicaresydney_ras_2017.pdf), p.4.

12 Australian Institute of Health and Welfare, National Social Housing Survey: a summary of national results 2016, <https://www.aihw.gov.au/reports/housing-assistance/national-social-housing-survey-summary-2016/contents/table-of-contents>

13 Australian Institute of Health and Welfare, Australia's Welfare 2015, <https://www.aihw.gov.au/reports/australias-welfare/australias-welfare-2015/contents/table-of-contents>, Ch. 5.

14 Finch, Kate, 'Housing, Homelessness and Disability', Parity, Council to Homeless Persons, 2014.

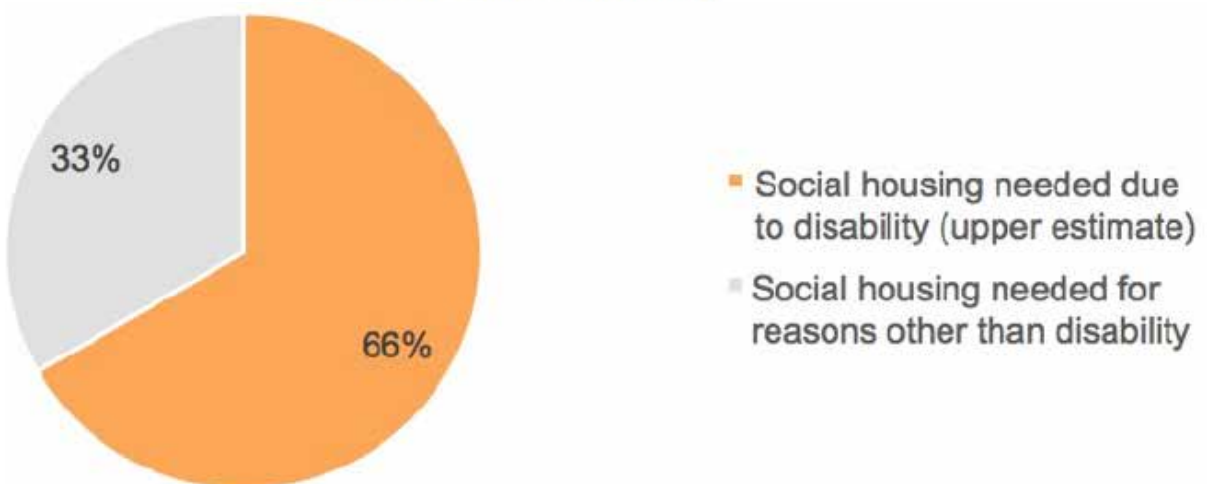
## Lack of affordable housing options

Proportion of rental homes in Greater Sydney

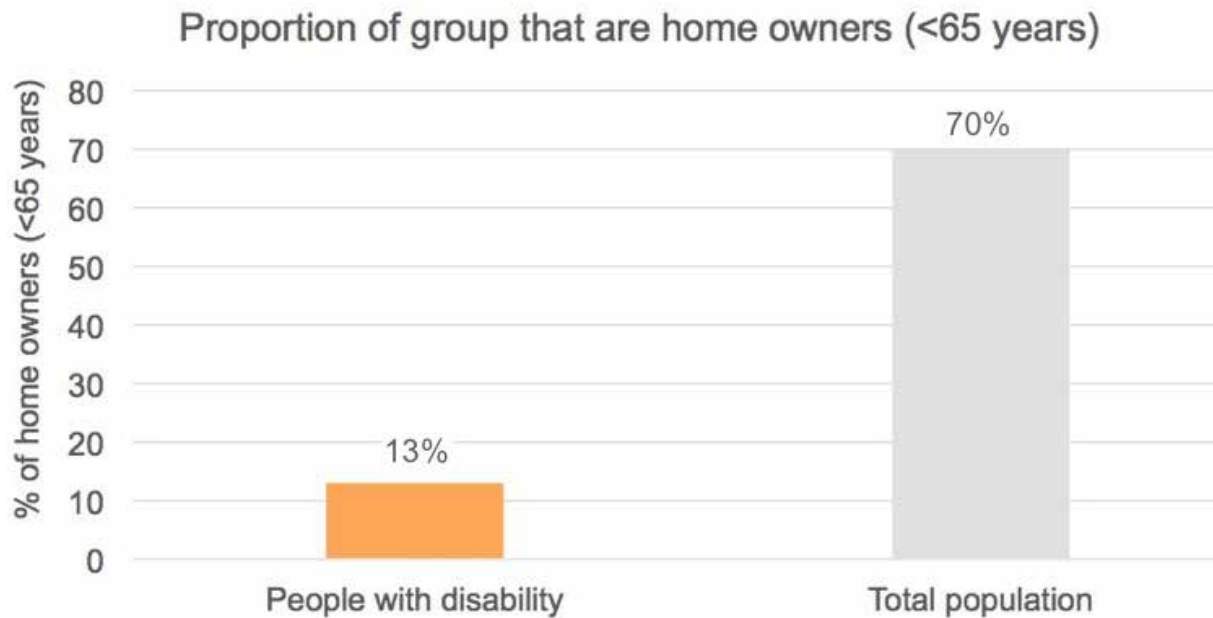


## High occupancy of social housing

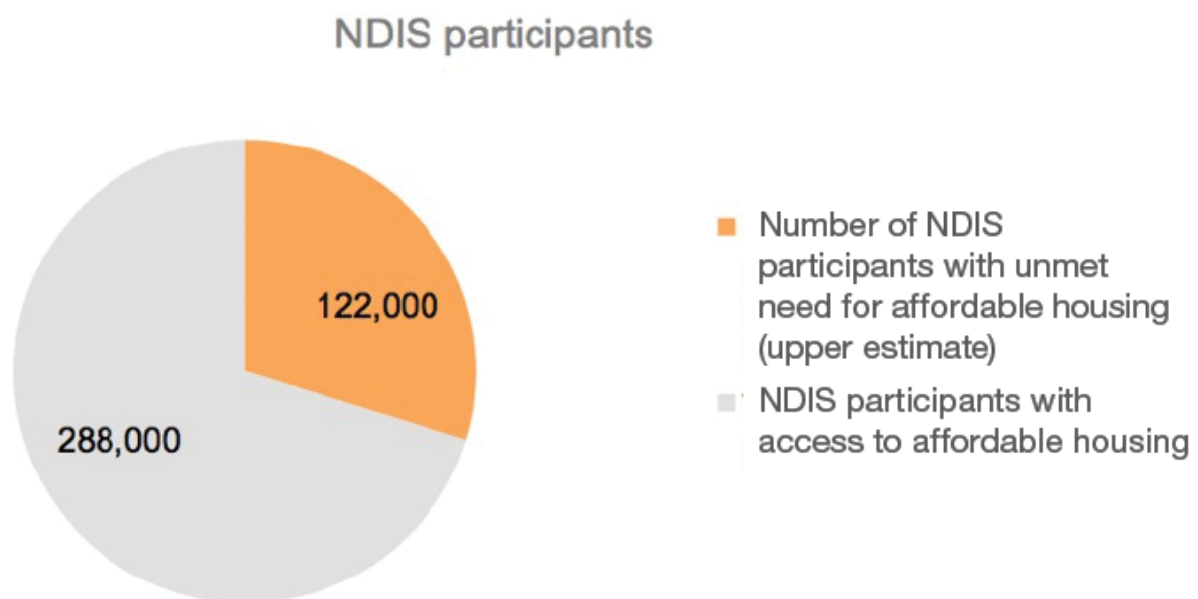
Need for social housing



## Less likely to be home owners



## High occupancy of social housing



# PART 2: THE POTENTIAL FOR INCREASED HOME OWNERSHIP UNDER THE NDIS

## THE NDIS AND SPECIALIST DISABILITY ACCOMMODATION (SDA)

The NDIS will fund affordable housing for around 28,000 participants, raising the total value of the accessible housing market in Australia to around \$11.2 billion. This represents a significant opportunity to expand affordable housing for people with disability. Of the 28,000, about 12,000 people will access affordable, accessible housing for the first time. This will require around \$4.8 billion of new affordable housing stock over the next five years.

### What is SDA?

"Accommodation for people who require specialist housing solutions, including to assist with the delivery of supports that cater for their extreme functional impairment or very high support needs"<sup>15</sup>

SDA includes both the existing specialist accommodation where people are currently living and new, innovative models not yet widely available.<sup>16</sup>

SDA funding is for the dwelling itself and is not intended to cover support costs, which are assessed and funded separately by the NDIS.

15 15 National Disability Insurance Scheme (Specialist Disability Accommodation) Rules 2016, p.39.

16 National Disability Insurance Agency, Specialist Disability Accommodation: Position Paper on Draft Pricing and Payments, 2016.

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SDA funding is for the dwelling itself and is not intended to cover support costs, which are assessed and funded separately by the NDIS.

The NDIS is supporting the creation of a sustainable SDA market that "fosters choice and control, encourages innovation, provides options for participants, continuity of supply and financial sustainability for governments, participants and providers".<sup>19</sup> The NDIS funding, when combined with resident contributions and land price inflation, is designed "to cover the efficient cost of providing accommodation over its full lifecycle". It "should allow providers to attain finance (debt and equity) in the private market to meet these lifecycle costs".<sup>20</sup> The NDIS is aiming to transition existing SDA stock into the Scheme, provide incentives to retain SDA and to introduce new SDA supply.

17 15 National Disability Insurance Scheme (Specialist Disability Accommodation) Rules 2016, p.39.

18 National Disability Insurance Agency, Specialist Disability Accommodation: Position Paper on Draft Pricing and Payments, 2016.

19 NDIA, Specialist Disability Accommodation Pricing and Payments Framework, 2016.

20 NDIA, Specialist Disability Accommodation Pricing and Payments Framework, 2016.

## SDA PAYMENTS

For SDA payments to be made, three components are required:

- A registered provider of SDA (who could be an individual, a property developer, a private landlord or a community housing provider)
- An enrolled dwelling, and
- A resident who is an NDIS participant with SDA in their plan

Participants will be expected to pay a Reasonable Rent Contribution and may pay board (for food, utilities etc) in addition to the SDA payment. SDA providers may qualify for a vacancy payment of up to 90 days to maintain continuity of investment.

SDA prices are set, to encourage investment in properties expected to be in demand by people receiving SDA payments (smaller-scale dwellings of 2-5 bedrooms). Modelling undertaken by Housing Choices Australia indicates that SDA payments provide a positive cash surplus annually when properties are fully occupied by people receiving the payments.<sup>21</sup>

The SDA price for a dwelling is based on:<sup>22</sup>

<b>Stock type</b>	New build Existing stock (group home for up to five people) Legacy stock (group home for more than five people)
<b>Building type</b>	Apartment Villa/duplex/townhouse House Group home Number of bedrooms Number of residents
<b>Design category</b>	Basic Improved liveability Fully accessible Robust High physical support Innovation
<b>Other</b>	On-Site Overnight Assistance room (to be used by support staff) Additional breakout room (to enhance learning, exploration or positively impact mood) Location factor (based on geographic regions) Fire sprinkler allowance

<sup>21</sup> Noel Phillips, Housing Choices Australia, SDA IAG NDIS Housing Finance Seminar, February-March 2017.

<sup>22</sup> NDIA, NDIS Price Guide: Specialist Disability Accommodation, <https://www.ndis.gov.au/medias/documents/ha6/h19/8800438648862/SDA-Price-Guide.pdf>. 1 April 2017.

A sample of the range of SDA base prices is shown below:



More information about SDA payments is in Appendix B.

## INCREASED HOUSING OPTIONS

The NDIS is increasing the capacity of people with disability to transition into home ownership in two main ways. First, many people with disability and their families have historically supplemented government-funded support by paying for additional support services. The introduction of the NDIS means that more of these additional services are being paid for by the NDIS. This frees up some financial resources that some people with disability and their family could use towards a housing deposit or ongoing housing costs.

Secondly, SDA payments are an additional, stable income stream for people with disability that recipients can use for mortgage repayments. The figure above shows that a person receiving SDA payments could potentially have control over an additional \$105,030 in income per year.

## Case study: From residential aged care to home ownership

There are currently more than 6,000 people aged under 65 years of age living in residential aged care (RAC) in Australia. Younger people in RAC are paying higher fees for rent and board than their peers in NDIS funded housing. By moving from RAC into SDA, participants can free up income to work towards homeownership:

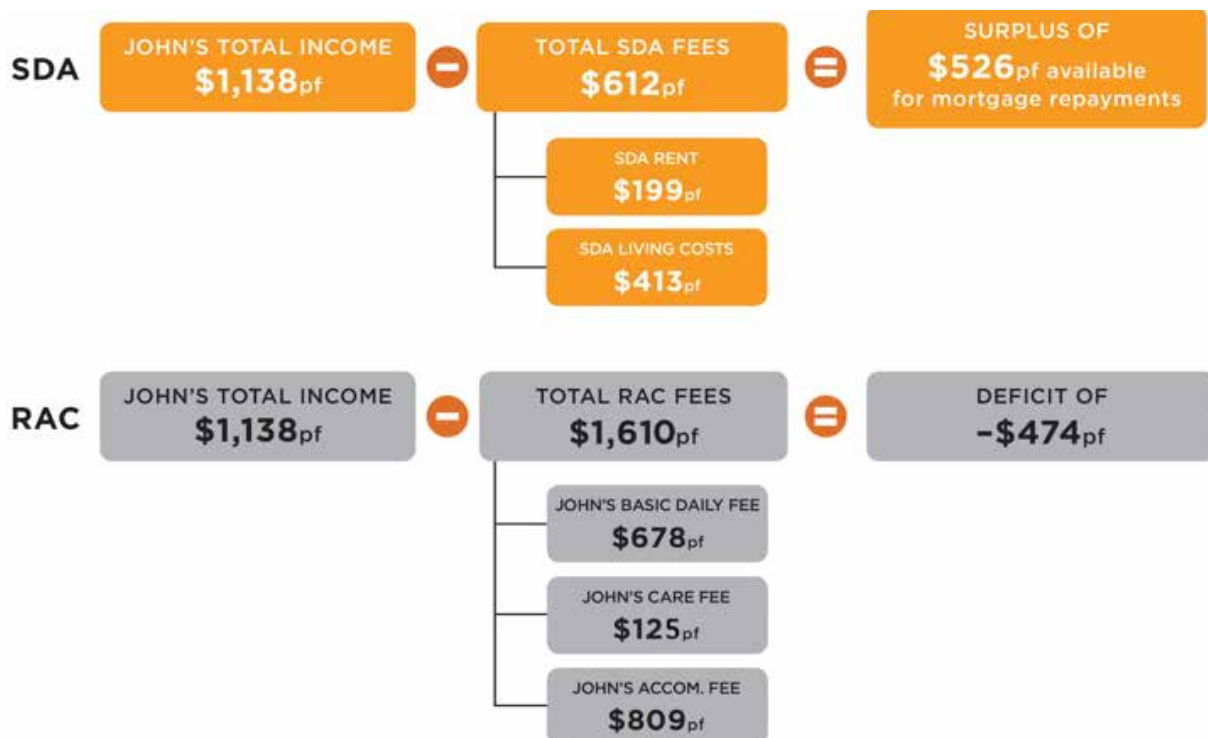
**Case Study: John, early 40s, single.** In October 2016 John suffered a stroke and is now a wheelchair user. He requires daily support with day-to-day activities. After selling his home, John's assets totaled \$310,000. John's Centrelink part pension and income on his assessable assets equals \$1,138 per fortnight.<sup>23</sup>

- Living in aged care: When John lives in aged care he pays for his daily expenses (meals and board) and means-tested accommodation and care fees. For John, these fees total \$1,612 per fortnight. This is \$474 more than John's fortnightly income.
- Living in SDA: If John moves from aged care into SDA, his costs reduce by \$1,000 per fortnight as he no longer has to pay for care and pays less for his accommodation. This frees up income that can be used towards home ownership.

Not only are John's fees \$1,000 per fortnight less in SDA, John also gets an SDA payment he could use towards home ownership. If John moves into a one-bedroom villa, he will receive an additional SDA subsidy of \$1,910 per fortnight. This \$1,910 is in addition to John's existing \$1,138 income per fortnight.

Collectively, the reduced aged care fees and SDA subsidy create an additional \$2,910 per fortnight for John (\$75,660 per annum). This is a significant amount of money that could be used for home ownership.

<sup>23</sup> Department of Human Services, Disability Support Pension, Australian Government; Available from: <https://www.humanservices.gov.au/customer/enablers/income-test-pensions>, 2017.





## UNDERSTANDING HOUSING DEMAND OF PEOPLE RECEIVING SDA PAYMENTS

There are data limitations on future SDA demand as this information was not systematically collected and the NDIS remains new. Demand data will become available from the NDIS over time as participants' plans are developed. The NDIA intends to develop a platform for communicating this information.

In the meantime, the Summer Foundation is conducting a quantitative and qualitative study of the housing needs, preferences and locations of people receiving SDA payments in all states and territories; and the current state of SDA housing stock. The results of this study will help investors and housing providers make informed decisions about investing in SDA housing across Australia.

More information about how this study fits into the building blocks for a mature SDA market is in Appendix C.





# PART 3: THE ROLE OF FINANCIAL INSTITUTIONS

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## THE OPPORTUNITY

This is a big opportunity for financial institutions to enhance their offerings and introduce new products for the new market of up to 28,000 people receiving SDA payments. For many, this is the first time they will be realistically considering home ownership.

Financial institutions will play a critical role in leveraging the opportunity created by the NDIS to increase home ownership for people with disability. We interviewed five financial specialists about what is required to reap the benefit of these changes. Our interviewees indicated that financial institutions will need to:

- Recognise SDA payments as a stable income stream in standard home loan assessments (i.e. in credit policies and operational guidelines)
- Class SDA payment recipients at an acceptable risk level to access standard home loans
- Value dwellings with modifications at a level that covers production costs, recognises the value-add of well-designed modifications and the cash flow provided through the SDA payment model

## POTENTIAL CHALLENGES AND OPTIONS TO CONSIDER

Variability in the valuation of properties and the risk profiling of potential borrowers receiving SDA payments will affect property Loan to Value Ratios (LVRs) and therefore the loan products, loan value and Lenders Mortgage Insurance (LMI) requirements offered to people receiving these payments. Financial institutions may have valuation, risk profiling and tenancy management challenges when providing standard home loans to people that receive SDA payments. Challenges identified by the interviewees are outlined in the table on page 14:

Potential challenge	Description	Options to consider
<b>Valuation</b>		
<b>Government payment reviews</b>	<p>The current SDA Pricing and Payments Framework applies until mid-2021. The COAG Disability Reform Council will review the SDA Pricing and Payments Framework. The review is expected to take place in 2019 and inform the future of the Framework (however this date could be brought forward). The terms of reference of the review are not yet available.</p> <p>For people receiving SDA payments, the payments will be one of the biggest sources of income that they can allocate to housing. Uncertainty about future payment amounts may present a challenge for financial institutions looking to fund property developments suitable for people receiving SDA payments, and for valuing individual properties that are designed to be suitable for people with disability.</p>	<p>Secure Government commitment to not reduce payments</p> <p>Ensure housing developed for people with SDA payments is appealing to many buyers and alternate users</p>
<b>Valuation methodology</b>	<p>As a new market, there is limited information about the housing preferences and demand of people receiving SDA payments (now and in the future). In the absence of historical transaction data and industry benchmarks, there is likely to be variability in the valuations of new properties and property types that are emerging to meet the needs of people receiving SDA payments. The usual valuation methodology of comparable market sales will not necessarily apply to properties with modifications that are well-suited to people receiving SDA payments.</p>	<p>Establish mechanisms to share valuation methodologies between financial institutions</p> <p>Summer Foundation demand study</p>
<b>Overlays</b>	<p>Group home/villa/village-style properties that qualify for SDA payments tend to have non-standard tenure and sale arrangements. These arrangements can be protected through planning overlays and zoning.</p> <p>Depending on the requirements and level of complexity of these arrangements, the re-sale market may be limited and the cost of re-sale may be higher than average. This can lower the re-sale potential and value which can increase the LVR.</p>	<p>Where suitable, encourage standard tenure and sale arrangements</p>
<b>Risk profiling</b>		
<b>Payment interactions</b>	<p>Governments at state and federal levels are working through how SDA payments will interact with other types of housing assistance for people purchasing their first home, and for people on low or middle incomes. Some financial institutions consulted by the Summer Foundation have indicated that there is a lack of information about the relationship between SDA and Commonwealth Rental Assistance, social housing, stamp duty and First Home Owners Grants. Increased clarity on the interactions between these forms of assistance will enable financial institutions to confidently assess the suitability of people receiving SDA payments for standard home loans.</p>	<p>Clarity from Government on interactions between payment types</p>
<b>Tenure</b>	<p>There is the perception that people receiving SDA payments may have uncertain tenure due to the trajectory of their disability. If a person has a degenerative disability they may have to move to a different property type (e.g. that accommodates an on-site support worker). Anecdotally, the Summer Foundation has found the tenants in their properties value long-term housing security and express very little desire to move in the future. Where tenants need to move, SDA providers are assisted with vacancy payments while searching for a new tenant.</p>	<p>Ensure housing developed for people with SDA payments is appealing to many buyers and has alternate users</p> <p>Access SDA vacancy payments</p>
<b>Shared owner management</b>		
<b>Relationship management</b>	<p>Financial institutions can lack confidence in managing the tenancies of people with disability and their families. There is a perceived heightened reputational risk with this customer base, particularly regarding the management of mortgage defaults.</p>	<p>Partner with a disability/community organisation to manage tenancies</p>

# PART 4: SHARED OWNERSHIP AS AN OPTION TO INCREASE HOME OWNERSHIP OF PEOPLE WITH DISABILITY

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## BENEFITS FOR FINANCIAL INSTITUTIONS

Creating the conditions for SDA recipients to own their own home through standard home loans is the most desirable option as it provides the greatest access and choice. SDA pricing should facilitate this aim.

Shared ownership models could increase the pool of borrowers in cases where:

- The person or their family are unable to raise a sufficient deposit for a standard home loan
- The financial institution is not confident in managing the relationship with the person with disability and their family

The opportunity presented by the NDIS, particularly the introduction of SDA payments, has sparked a renewed interest in shared ownership models to help this group achieve home ownership.

Financial institutions benefit from these models through:

- Access to a traditionally under-served market with a high-value product
- A portion of the loan being guaranteed by a third party
- A third party typically managing the relationship with the shared owner, this may include assistance with the application process and due diligence



## SHARED OWNERSHIP MODELS AND PRODUCTS

In these models a “shared owner” (the person purchasing the property) typically has an agreement with both an “equity partner” (a ‘non-person’, typically a state or community housing provider, involved as a partner in a shared ownership scheme) and a mainstream lender.<sup>24</sup> The three parties enter agreements bi-laterally or tri-laterally.

Shared ownership models fall into three main categories: shared equity, mixed equity and gifted equity.

### Shared Equity

Shared equity refers to shared ownership models where the shared owner is on the title (alone or as a tenant in common) and is responsible for outgoings. For example, in the case of HomesVic the Victorian Government will provide up to 25 per cent equity for first homebuyers. The shared owners (first homebuyers) will be required to have a 5 per cent deposit and a mortgage from a financial institution for the remainder of the property value.

The owner will be responsible for property costs, such as maintenance and rates.<sup>25</sup>

### Mixed Equity

Mixed equity refers to shared ownership models whereby the shared owner makes a one-off equity contribution and ongoing rental payments to the equity partner, but is not named on title and is not responsible for outgoings. For example, in Housing Choices Australia’s Mixed Equity program a property is purchased using funds provided by the shared owner, the Office of Housing and Housing Choices Australia. Housing Choices Australia retains title and the applicant has secure tenure under a Residential Tenancies Act lease and pays rent at Office of Housing rates. The shared owner signs a Mixed Equity Partnership Agreement securing their financial interest in the property. The applicant is released from responsibilities of maintenance undertaken by Housing Choices Australia, payment of rates, body corporate fees, building insurance, etc.<sup>26</sup>



24 AHURI, Shared home ownership by people with disability, 2017, p.viii.

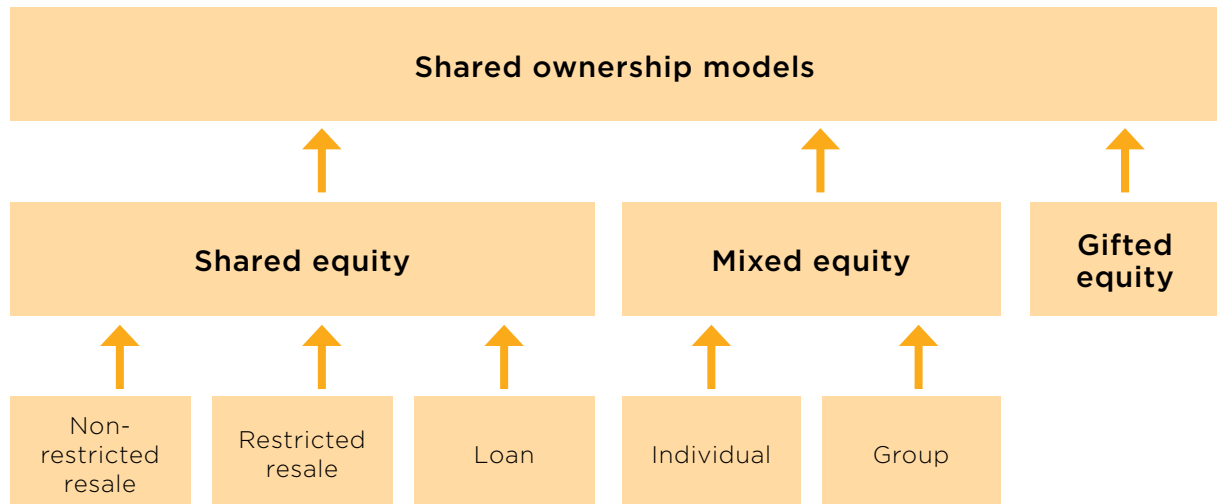
25 Victorian Government, Shared equity Fact sheet -<http://www.vic.gov.au/affordablehousing/buying-a-house-in-victoria/shared-equity.html>, 2017.

26 Housing Choices Australia, Housing Choices Australia Mixed Equity Program, [http://www.housingchoices.org.au/wp-content/uploads/Mixed\\_Equity\\_brochure.pdf](http://www.housingchoices.org.au/wp-content/uploads/Mixed_Equity_brochure.pdf), undated

## Gifted Equity

Gifted equity refers to homebuyers' parents or someone else gifting a deposit. Some financial institutions allow homebuyers to borrow up to 95 per cent of the property value in this scenario. The aim of gifted equity is to help individuals access home ownership when they may be unable to raise 20% deposit for a home loan within the SDA target group. NDIS participants may receive gifted equity through family or donor wealth.

The relationship between the models is shown in the diagram below and described in the table that follows.<sup>27</sup>



27 AHURI, Shared home ownership by people with disability, 2017, p.7-10.

Feature	Shared equity
<b>Aim</b>	Transition people from insecure private or social rentals Provide greater housing security for those who are unable to achieve full home ownership
<b>Typical target group</b>	People with moderate incomes who can pay both a mortgage and property ownership outgoings (e.g. maintenance, rates, insurance)
<b>SDA target group</b>	NDIS participants with SDA payments and capacity to manage risk, in existing SDA stock, RAC or private rental

Typical model	Non-restricted resale	Restricted resale	Loan
	Equity partner takes an equity share Shared owner contributes to a deposit, when the home is sold the equity partner recovers their share of the equity in the property	Equity partner takes an equity share permanently Shared owner sells property back to equity partner at market value	Equity is shared between the shared owner and the lender without a separate equity partner Shared owner has two loans (i. standard interest + repayments, ii. interest-free or discounted shared equity)
<b>Example products</b>	<b>HomesVic</b> <a href="https://www.vic.gov.au/affordablehousing/buying-a-house-in-victoria/homesvic.html">https://www.vic.gov.au/affordablehousing/buying-a-house-in-victoria/homesvic.html</a>  <b>Buy Assist</b> <a href="http://www.buyassistaustralia.com.au/homebuyers/">http://www.buyassistaustralia.com.au/homebuyers/</a>	<b>SharedStart (WA)</b> <a href="http://www.housing.wa.gov.au/sharedstart/Pages/FixedorFlexible.aspx">http://www.housing.wa.gov.au/sharedstart/Pages/FixedorFlexible.aspx</a>	<b>Keystart (WA)</b> <a href="https://www.keystart.com.au">https://www.keystart.com.au</a>  <b>HomeStart (SA)</b> <a href="http://www.homestart.com.au">http://www.homestart.com.au</a>  <b>HomeShare (Tas)</b> <a href="http://www.homesharetas.com.au">http://www.homesharetas.com.au</a>

	<b>Mixed equity</b>		<b>Gifted equity</b>	<b>Feature</b>
	Provide pathway to home ownership		Access to home ownership	<b>Aim</b>
	Individual	Group		
	People with very low incomes living in single family households	People with very low incomes living with unrelated adults	People unable to raise 20% deposit for home loan	<b>Typical target group</b>
	Low income NDIS participants living alone or not able to manage risk	NDIS participants in shared living, with low incomes or not well placed to manage risk	NDIS participants with family (or donor) wealth	<b>SDA target group</b>
	Equity partner purchases and retains property title and pays outgoings Shared owner pays equity partner proportion of property value for guaranteed secure tenancy and can buy out equity partner share	Equity partner purchases and retains property title Shared owner pays equity partner proportion of property value for guaranteed secure tenancy (which is smaller than mixed equity individual) and sells share to equity partner (or nominee)	Equity partner gifts equity from their property/ies and shares the cost of the loan with the shared owner	
	Housing Choices Aus Mixed Equity Program <a href="http://www.housingchoices.org.au/wp-content/uploads/Mixed_Equity_brochure.pdf">http://www.housingchoices.org.au/wp-content/uploads/Mixed_Equity_brochure.pdf</a>	Project Independence <a href="http://www.projectindependence.com.au/">http://www.projectindependence.com.au/</a>	nab Family Guarantor Loans <a href="https://www.nab.com.au/personal/learn/buying-your-first-home/get-family-help-with-a-home-loan-deposit">https://www.nab.com.au/personal/learn/buying-your-first-home/get-family-help-with-a-home-loan-deposit</a>	<b>Example products</b>

All shared ownership models aim to provide affordability, choice, security of tenure, sense of home ownership, and accumulation of capital to people that would otherwise find it very difficult, if not impossible, to access standard home loans. Benefits of shared ownership models for people receiving SDA payments could include:

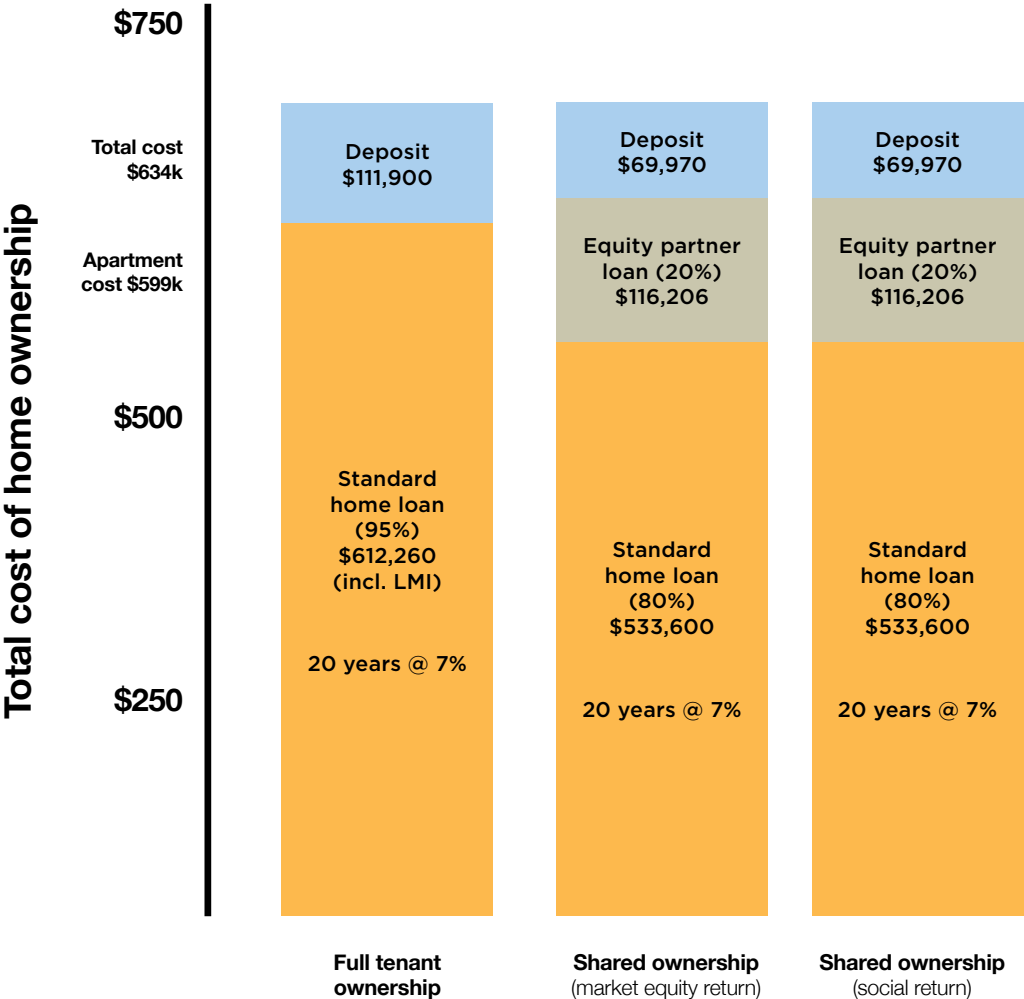
- The LVR is lowered and therefore expensive Lenders Mortgage Insurance (LMI) is avoided
- There is a contribution made to the deposit or the deposit is wholly covered meaning people can move into home ownership sooner
- The relationship with the financial institution may be managed through a third party

## Case study: Home ownership options for people receiving SDA payments

### Mary, aged 40, single

Mary has the capacity to pay approximately \$90,000pa for housing (assuming SDA payment and rent of 25% of Disability Support Pension). An apartment suitable for Mary costs around \$634,000 to develop and manage (factoring in standard build plus modifications, project management and tenant engagement, and transaction costs).

Mary has three options to move into home ownership: standard home ownership (full tenant), shared ownership (market equity return), or shared ownership (on social investment terms), as follows:





In all three scenarios, Mary would have sufficient housing income to make mortgage repayments and cover the cost of property outgoings, as follows:

<b>Item</b>	<b>Full tenant ownership</b>	<b>Shared tenant ownership (market equity return)</b>	<b>Shared tenant ownership (social return)</b>
Cost of Apartment	\$634,000	\$634,000	\$634,000
NFP Project Management + Tenant Engagement	\$35,000	\$35,000	\$35,000
Transaction costs	\$17,000	\$17,000	\$17,000
Sub-total	\$686,000	\$686,000	\$686,000
Less deposit <sup>26</sup>	\$111,900	\$69,970	\$69,970
Sub-total	\$574,100	\$616,030	\$616,030
LMI <sup>27</sup>	\$24,500	\$-	\$-
Commercial loan <sup>28</sup>	\$563,600	\$464,824	\$464,824
SDA shared equity partner loan	\$-	\$116,206	\$116,206
Tenant (shared owner) repayments (pa)	\$52,435	\$43,245	\$43,245
Shared equity partner <sup>29</sup> repayments (pa)	\$-	\$11,621	\$3,486
Housing Income' after mortgage repayment (pa)	\$37,751	\$35,320	\$43,454.71

26 Full tenant ownership: 10% + project management, tenant management + transaction costs Shared (market equity and social investment): 3% apartment costs + project management, tenant management + transaction costs

27 LMI not required in shared tenant ownership scenarios due to presence of equity partner

28 Commercial loans in shared tenant ownership scenarios at 80% of equity

29 Shared equity partner loans at 20% of equity

## RISKS AND CHALLENGES OF SHARED OWNERSHIP MODELS

Shared ownership models address some of the risks and challenges for people receiving SDA payments being able to access standard home loan products. There are some risks and challenges additional to standard home loans that are unique to shared ownership models, including:

- **Alignment** - There is a need to achieve alignment of objectives between at least three parties (including the resident, the financial institution, the equity partner and the developer if relating to new builds) and an ongoing investment in maintaining these relationships.
- **Transfer of payments** - The SDA payment model assumes one provider per property and therefore makes SDA payments to only one provider per property. The option for the payments to be split between two or more entities/individuals is more consistent with shared ownership models.
- **Management of arrears** - The ownership of the contributions made by the person receiving the SDA payments that falls into arrears needs to be specified up-front. There has been a case in the UK whereby a shared owner lost their payments and had their property repossessed when they fell into arrears.<sup>28</sup>
- **Investment repayment** - There can be challenges in the relationship between the shared owner and the equity partner at the sale or refinance stage based on the shared owner under-estimating the share owed to the equity partner. Depending on the shared ownership model, the equity partner may not be able to exit the investment until the shared owner leaves the property.
- **Marketing** - If a new product was required, the costs involved in developing and marketing a product specific to a small cohort need to be taken into account (noting that there are flexible shared ownership models in existence that could be adapted to incorporate SDA payments).

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<sup>28</sup> Peaker, Giles, 'The hidden dangers of shared ownership', The Guardian, 3 September 2013.

# PART 5: WHERE TO BEGIN TO INCREASE HOME OWNERSHIP

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The Summer Foundation is working to support the six building blocks for a mature SDA market (see Appendix C). For the financial sector to play its role in boosting the home ownership rates of people with disability, institutions need confidence in policy settings and be able to deliver products and services to people with disability and their families.

Our consultations with financial specialists coupled with and research into the international experience of shared ownership internationally, highlighted some options to increase the take up of shared ownership. There are actions that financial institutions – and government – need to take to build this market:

## **Actions for financial institutions**

1. Share worked examples of commercial and consumer loans to people receiving SDA payments with other financial institutions to enable them to review and refine their investment and/or lending policies to be accessible to people receiving these payments
2. Investigate partnership with equity partners to deliver shared ownership loan products to people receiving SDA payments that cannot access standard loans
3. Educate teams so they feel confident assessing loan applications and manage loans for people receiving SDA payments and their families, and institutions that are providing accommodation to this group
4. Appoint a team member to lead responses to queries from SDA payment recipients and their families, and to developers interested in developing properties for this group
5. Share the details of property valuers that have experience valuing modified properties with other financial institutions

## **Actions for shared ownership equity partners (community housing providers, state and local governments)**

1. Aggregate suitable borrowers then approach financial institutions for commercial loans to develop properties
2. Sell existing SDA stock to tenants (where this is desirable for the tenants)
3. Hold SDA payments up to 20 per cent of property value in trust and recycle back into future SDA

## **Actions for developers and landlords**

1. Understand the benefits of shared ownership returns in comparison to rental returns to encourage greater investment in properties suitable for people receiving SDA payments
2. Ensure properties align with SDA requirements and changes to property designs are communicated to buyers receiving SDA payments and their families

## **Actions for NDIA**

1. Ensure SDA recipients' housing preferences are identified in NDIS plans and make aggregated housing demand information available to financial institutions and developers
2. Build lender and investor confidence by providing information on demand, features of the scheme, and interactions with other government initiatives (e.g. CRA, social & affordable housing)
3. Encourage SDA recipients and their families to consider home ownership and investment
4. Provide SDA payments up to first 20 per cent of property value as recoverable grants (to avoid 100 percent of loan to value ratio)
5. Introduce and advocate for people receiving SDA payments and their families to responsible lenders

## **Actions for people receiving SDA payments and their families**

1. Ensure financial literacy is at a sufficient level to assess the suitability of home ownership and/or investment to personal circumstances (including financial and asset planning, responsible lenders)
2. Express interest in home ownership / investment to equity partners and financial institutions
3. Participate in property development design consultations to ensure properties are fit for purpose

# APPENDICES

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## A. SELECTED RELEVANT GOVERNMENT BUDGET MEASURES 2017-18

### **National Housing Finance and Investment Corporation (Australian Government)<sup>29</sup>**

- Will operate an affordable housing bond aggregator to encourage greater private and institutional investment
- Will provide cheaper and longer-term finance to registered providers of affordable housing
- Will administer the \$1 billion National Housing Infrastructure Facility to provide local governments with concessional loans, grants and equity to finance infrastructure to deliver housing supply sooner

### **Investment tax incentives (Australian Government)<sup>30</sup>**

Increase in the capital gains tax discount (of 60 percent) for investors in affordable housing provided at below market rent to eligible tenants on low to moderate incomes

New rules to enable Managed Investment Trusts to acquire, construct and redevelop property to hold for affordable housing for at least 10 years

### **HomesVic (Victorian Government)<sup>31</sup>**

Initial allocation of \$50 million over two years to be administered through State Trustees Limited for 400 homebuyers

Government will provide up to 25 per cent equity for first homebuyers with incomes up to

\$75,000 (single) or \$95,000 (couples or families) and recover its equity share on sale to reinvest

### **Buy Assist (Victorian Government)**

\$5 million grant to the National Affordable Housing Consortium's national shared equity scheme to assist 100 homebuyers low to medium income households with little or no deposit to secure a mortgage without having to pay mortgage lenders insurance

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29 Australian Government, Establishing the National Housing Finance and Investment Corporation, [http://budget.gov.au/2017-18/content/glossies/factsheets/download/FS\\_18\\_Housing\\_Affordability.pdf](http://budget.gov.au/2017-18/content/glossies/factsheets/download/FS_18_Housing_Affordability.pdf), Budget 2018, 2017.

30 Australian Government, Bosting affordable housing for Australians through investment tax incentives, Budget 2018, [http://budget.gov.au/2017-18/content/glossies/factsheets/download/FS\\_110\\_Housing\\_Affordability.pdf](http://budget.gov.au/2017-18/content/glossies/factsheets/download/FS_110_Housing_Affordability.pdf), 2017.

31 Victorian Government, Shared equity opportunities for first home buyers, Budget 2018, <https://www.vic.gov.au/affordablehousing/buying-a-house-in-victoria.html>

## B. SPECIALIST DISABILITY ACCOMMODATION (SDA) PAYMENTS

Specialist Disability Accommodation (SDA) refers to housing for NDIS participants who require specialist housing solutions to assist with the delivery of supports that cater for their individual care needs.

SDA payments will be paid by the NDIA directly to the SDA Provider. The payment is included in each participant's plan and is held by the NDIA in a trust-like arrangement on behalf of the participant. The value of payment is calculated on the particular dwelling they choose to live in. The participant is in control of where they live and is able to choose any dwelling that is registered with the NDIA.

SDA Providers will only be paid for dwellings that are occupied by NDIS participants. The property owner bears the vacancy risk should they be unable to find a tenant for the dwelling.

Tenants will be required to make a Reasonable Rent Contribution ('RRC') to their SDA Provider, which will be in addition to any SDA payment from the NDIS. The rent will be a standalone payment for rent only. Rent paid by a participant will be limited to 25 percent of the Disability Support Pension plus any Commonwealth Rent Assistance.

It is anticipated that the SDA pricing will continue for 20 years. The framework assumes that at the end of 20 years the property would revert to the general market, providing a lump sum cash flow to the investor(s) equal to the market value of the property. When combined the revenue from SDA payments, rent and the sale value of the property will sufficiently recover the initial investment, all maintenance, outgoing and management costs, and an 'institutional' return on debt and equity.

## C. BUILDING BLOCKS OF A MATURE SDA HOUSING MARKET

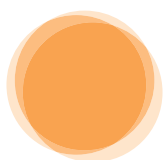
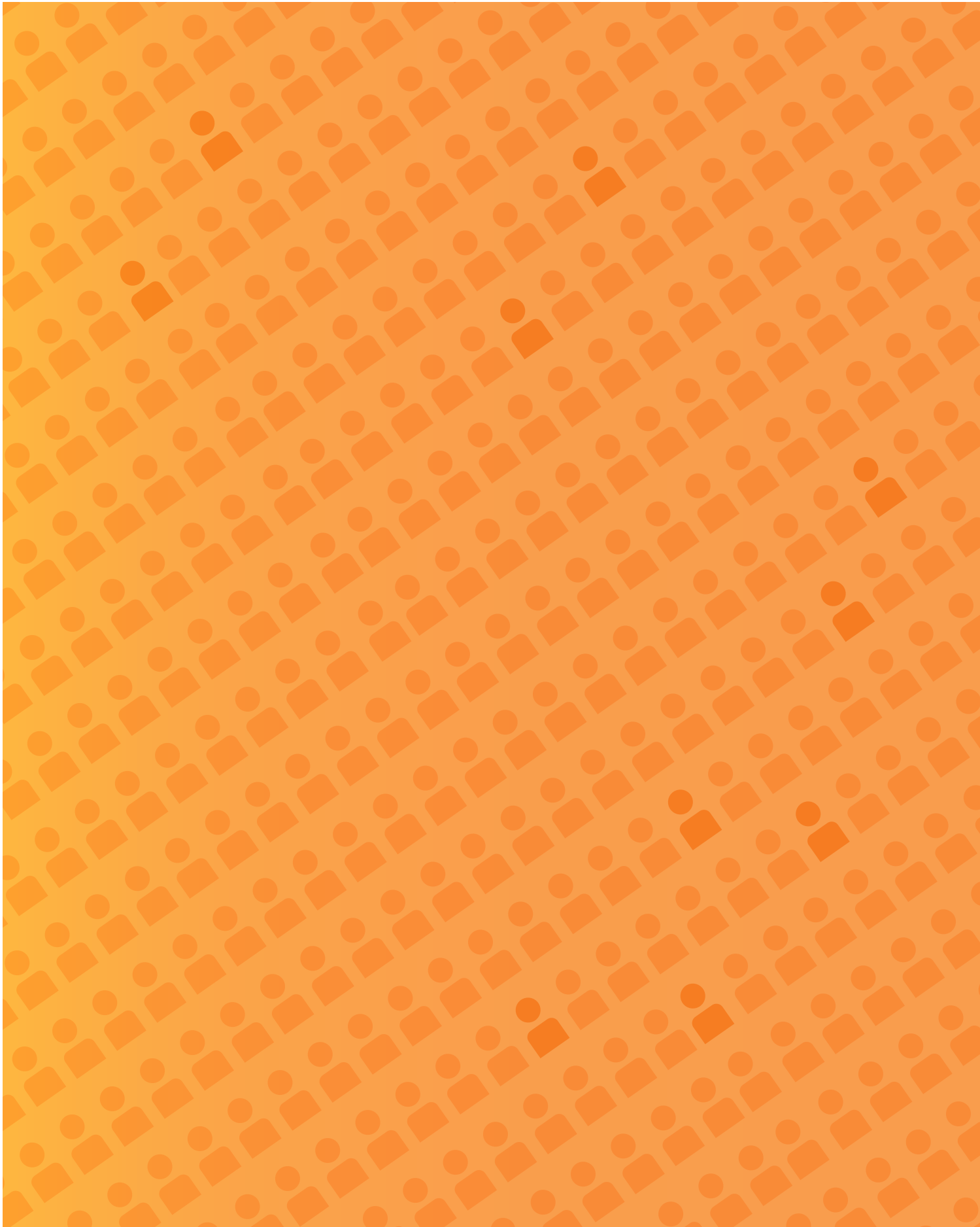
The Summer Foundation has identified six building blocks of a mature NDIS SDA housing market:



The Australian Government Department of Social Services is funding the Summer Foundation to deliver five NDIS Housing Market Development Initiative Projects to contribute to these building blocks:

1. Development of a platform prototype to identify participant demand and connect with SDA housing
2. Development of a resource bank of housing information for people with disability, including the compilation of existing resources and creation of new resources
3. National Specialist Disability Accommodation Housing Demand Study
4. Toolkit for SDA providers to separate housing and support services
5. Development of a shared equity and home ownership product for SDA (this project)

For further information about these projects, please contact [housingmarket@summerfoundation.org.au](mailto:housingmarket@summerfoundation.org.au)



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