A sustainable housing ladder:
The entry and exit affordability of shared-equity homeownership

Housing affordability and a circular economy

Traditionally a young family, usually a married couple, purchases a starter home under a shared title, puts up a deposit and pays down the mortgage with a bank until it is owned outright. But skyrocketing house prices prevent many of them from taking this traditional route.

In recent years, the shared-equity housing model has become a popular policy tool to help them own their first property with a smaller deposit, or even no deposit, through a 'subsidy' by a third party, such as the government. While this shared-equity model provides them with a starter home option, little is done to facilitate them moving up the housing ladder so that the starter homes can be 'recycled' and freed up for others in need.

Finding an exit? Housing pathways are heading to a cul-de-sac

Encouraging people to climb the housing ladder is a crucial concern for policymakers worldwide. However, transitioning into the private housing market is almost out of reach for many households on low incomes. Unless a shared-equity homeownership programme is intended to assist families for life, there should be an 'exit' mechanism that helps these families move on to better housing options through the housing ladder. In our study, we defined two types of affordability within shared-equity homeownership:

- 'entry-affordability' means how affordable subsidised housing is when a household first becomes an assisted homeowner
- 'exit-affordability' means how affordable it is for assisted homeowners to later transition from subsidised housing to private housing.

Many policy discussions that support shared-equity homeownership focus on improving entry-affordability, but they usually ignore the importance of exit-affordability. Using price-to-income ratios, our study compared the entry- and exit-affordability of shared-equity homeownership programmes in Australia, Mainland China, Hong Kong, Norway, the UK and the USA. We found that while shared-equity homeownership programmes can improve entry-affordability, homeowners' exit-affordability is weak when they must share their capital gain with the government.

Shared equity models offer sustainable homeownership

Our study divided shared-equity homeownership models into two distinct types.

The *'share-to-buy'* model is like the shared-equity approach used in the UK and Australia. Assisted homeowners choose to redeem the shared-equity and exit the subsidised housing programme. This model can significantly improve assisted homeowners' exit-affordability. However, it costs the government more, and fewer people benefit from the programme in the future.

In the '*share forever*' model, the equity subsidy is returned to the government when reselling. The government can recoup the entire equity gains from homeowners, so this model involves smaller subsidy costs but impeding assisted homeowners to resell their properties. The repayment of the government's equity makes it very costly for assisted homeowners to trade their homes on the open market and to exit subsidised housing. This is one of the most critical factors restraining households from moving up the housing ladder.

To remedy this, we proposed a novel '*follow-as-you-go*' model, which unbundles the deadlock between the right to live in a subsidised home and the right to enjoy a housing subsidy. The existing assisted homeowners can sell their subsidised homes and keep the subsidies for buying another home in the private market. The subsidy follows households 'as-they-go'.

If they want to sell their private home and continue to trade up on the market, they may either sell it to another eligible subsidised home buyer at a discount or to anyone at the market price after repaying the subsidy.

What does this exit-affordability mean for housing policy in New Zealand?

Understanding exit-affordability provides insight into social mobility dynamics on the lowest rungs of the housing ladder. In recent years, the New Zealand Government has allocated the first tranche of funding in its progressive home ownership scheme to enable low to median income households to access shared ownership, rent-to-buy or leasehold arrangements.

Regardless of how policy objectives are framed, subsidised affordable homeownership's core objective is to help first-home buyers to purchase their own properties and then encourage them to achieve self-sufficiency on the housing ladder. This helps to free up subsidies for future first-home buyers and, overall, allows more householders to become homeowners.