
# Shared homeownership

## **Frequently asked questions** - consumer information for interested homebuyers

***1. What is shared homeownership?***

Shared homeownership is when you buy your home in partnership with another partner. This reduces the price you have to pay to buy into homeownership.

***2. Who is the other partner?***

In some States and territories, it's the government. In this NSW program, it's a registered community housing provider (CHP). You would sign a co-ownership deed with the CHP.

***3. What is 'tenancy in common'?***

'Tenancy in common' is the legal concept used to describe the relationship between the two parties to this sort of co-ownership. All the parties have an individual and undivided interest in the property. This means, for example, that either may sell their share in the property without the consent of the other. In this arrangement the two parties may hold an unequal share which is different from other arrangements like the equal shares common among married couples. In this situation the term 'tenant' does *not* mean someone who rents a piece of property, for example as a 'social housing tenant'. It is used for both the homeowner and the community housing provider. The community housing provider is a 'co-tenant' in a shared homeownership arrangement, as is the homeowner actually living in the property. This concept might seem strange, but the main thing is that it is an ownership arrangement that allows for different shares (not just 50:50) and it allows either party to sell their share to someone else.

***4. What is a 'community housing provider'?***

A community housing provider (CHP) is a nonprofit nongovernment organization that provides housing services targeted to people on lower and moderate incomes. Most of their business activity is in providing housing for rental, in most cases at rents charged below the market rate. Most community housing providers are registered with the state government under an Act of parliament, and these are called *registered* community housing providers. CHPs operate right across New South Wales, managing over 30,000 dwellings.

***5. Are CHPs financially stable?***

Yes. CHPs are strongly regulated and have a relatively strong asset base and financial stability. More information can be found online at: www.nrsch.gov.au/national_register.

***6. What costs do I have to pay?***

You would have costs at the beginning of your homeownership ('start up' costs), and ongoing costs during the course of owning and managing your home. Costs at the beginning would include a deposit of 5% to 10% of the value of your share of the property, as you take out a mortgage to buy your share of the home. You might have to pay stamp duty during the purchase process. You will also have legal fees to pay. Once you have bought your share of the property, you will have ongoing costs, like other owners do.  You will have to pay the local council rates, relevant insurances, water, gas/electricity, and all other repairs and maintenance. You also have to pay an ongoing administration fee to the CHP.

***7. Who can I borrow the money from?***

Any approved lender that understands the arrangement with the CHP. Some CHPs may have preferred lenders who offer appropriate loans.

***8. What deposit do I need?***

This will vary between lenders, but as with any home loan, you will need 5-10% of your share of the purchase price as a deposit. For example, if you are buying a 70% share of a $350,000 home ($245,000) then a deposit of up to $24,500 is likely.

***9. Where do I get the loan?***

Many banks will consider providing you with a loan to help you acquire your share of the property. This product has been developed to fit into normal bank loan criteria. However you will need to comply with the usual bank requirements to satisfy them of your ability to repay the loan.

The loan you get from a bank to help you buy your share of the property remains your responsibility.

***10. What happens if I want or need to sell?***

When you need to sell, you need to let the CHP know. They may have a waiting list of eligible buyers. The CHP can either buy you out directly, or oversee the sale to the next eligible buyer. Your equity return will be calculated according to a resale formula that is specified in the deed.

***11. Can I buy out the remaining share?***

This will vary between CHPs. Some might allow this, while others might limit the percentage of the home you can buy so that the home stays affordable for the next buyer.

***12. What are the advantages to me?***

You get the benefits of owning, like being able to make improvements, hang pictures, or leave the home to family, at a reduced cost. Unlike rent, your payments will probably not keep going up over time and once you pay off your mortgage, your costs will drop significantly. You may achieve a modest equity gain if you choose to sell, so you will feel as if you are not paying 'dead money' in rent. Your equity gain would probably not be as much as on the open market, because you paid less than the open market price to buy your share.

***13. Who else is doing it?***

There are shared homeownership schemes run by the government in Western Australia and the Australian Capital Territory. There are many variations of shared homeownership in other countries like Britain and United States of America.

***14. Why is this form of homeownership available?***

There is a growing lack of affordable homeownership in Australia and CHPs are interested in offering appropriate homeownership options to their tenants and/or people who are currently renting in the private market. Shared homeownership is an example of what's called an 'intermediate' tenure, as it spans the gap between renting and owning.

***15. Is there an income cap or means test?***

Yes. These will be decided by each CHP. Modelling to date shows shared homeownership would be most successful when applied to households of incomes of $70,000 – $100,000, but it is up to each CHP to decide who their target households are.

***16. Do I have to pay stamp duty?***

Yes, although this is calculated only for your share of the price. However, you can get an exemption from stamp duty if you are buying a share of a newly built home, if you have not owned a house previously, and if your share is at least 50%. More information can be found online at http://www.osr.nsw.gov.au/grants/fhnh.

***17. What about the First Home Owner Grant?***

The NSW State Government has been asked to make first homebuyers partnering with CHPs in shared homeownership schemes eligible for the Grant.

***18. What are the risks to me?***

As with any homeownership situation, there is the risk that you might not be able to make repayments if your life circumstances change. Your CHP might have ways to help you in this situation. Similarly, as with any homeownership situation, if you need to sell and house prices crash, there is the risk you could lose equity on the house, although the amount you lose may be less than if you were in the open market.

***19. What if I want to renovate or upgrade the home?***

This will vary between CHPs. You will probably be allowed to make improvements, although there might be limits to what you can do if the CHP is trying to keep the home affordable to the next buyer.

***20. When we sell, how is the equity gain or loss calculated?***

The legal agreement you sign when you buy the house will have a resale formula included in it. This will spell out how the gain or loss is calculated. Your CHP should also explain your rights and responsibilities to you, but you also have to get independent legal advice when you sign, to make sure you understand these.

***21. What documents do I need to sign?***

You will need to sign a co-ownership deed with the CHP as well as relevant loan documents with a bank that spell out what happens if you fall into arrears or default.

***22. Do I also need to pay rent?***

No. You pay an ongoing administration fee to the CHP to help them cover the costs of administering the program.

***23. How is the administration fee calculated?***

This is the difference between the total of the loan repayments and the dwelling costs, and either market rent of the property or 35% per cent of the household income, whichever is less.

***24. What happens if my income increases while I'm living here?***

Nothing. Income limits apply when you buy, but not afterwards. However, in this happy situation you might want to upgrade into another property and allow this one to be purchased by a family who wants to step into shared homeownership.

***25. Is there a financial model which helps me to understand this arrangement?***

Yes there is. The CHP will run through this with you however you still need to get independent financial and legal advice.

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