Which alternative tenure models suit which households?

Alternative tenure - sometimes called shared equity - is a way for lower-income households to move into a home with some of the benefits of ownership. Different models suit different households. Getting the right match is important for a shared equity scheme to be sustainable.

With shared equity models, a provider such as a trust or a private company provides funding to help a low to middle-income household into a home of their own. There can be advantages for both the households themselves and the wider community (see Alternative tenure models #1 *What are alternative tenure models?*).

Research suggests that shared ownership schemes are more acceptable to households the closer the models fit with the households' expectations of what home ownership means. There are many different alternative models, and some suit certain types of household more than others. Some models are closer to renting, while some are closer to home ownership.

The key differences to consider are:

- how they are funded
- the value of each party's share and how capital growth/loss is shared
- how risks are shared between households and the funding provider
- the nature of the property rights (including transfer rights) between the parties
- whether the purchaser can eventually own all of their home or not.

Common forms of alternative tenure include:

- cooperatives
- community land trusts
- shared equity ownership
- co-ownership
- shared equity loans
- deed-restricted housing.

Common forms of alternative tenure

Cooperatives

The cooperative owns the building, and households have a lease or rental agreement. Membership of the cooperative provides a right to occupy a dwelling and participate in governance.

Cooperatives allow people on lower incomes to gain security over their housing and a measure of control over how their housing cooperative is governed. There may be guidance available in areas such as maintenance or dispute resolution. On the other hand, a household's rights are restricted by the lease agreement they hold.

In some countries, the communal aspect works well for older people. Cooperatives can also provide security for key workers who may not be on high incomes, such as hospital staff.

Because households in cooperatives have no equity stake in their units, wealth creation is not a focus for people choosing this option. A household wanting to sell up cannot just sell to any buyer. There may be household income limits for new members, and there may be a predetermined calculation around how a unit's resale price will be reached. Normally, the cooperative has the first right of refusal when a unit is offered for sale.

Cooperatives tend to involve multi-unit housing that is often medium to high density. Because neighbours are all part of the same cooperative, this model does not suit people looking to live in diverse communities where there is a mix of ownership types.

Community land trusts

A trust owns the land while occupiers own the improvements. The trust retains some control over the structures - for example, to ensure necessary maintenance is carried out. Trust rules and regulations typically set out how the initial purchase and resale price of units is set.

This model suits lower-income households who are looking for security and affordable housing. Working families may find this a good option. The rules in the ground lease may be more restrictive than the situation in some other shared equity models.

Community land trusts are not the best model for households looking to make capital gains and build equity, especially in a rising housing market. Although it is possible they may make a gain on their investment when they sell up, this will be limited by a predetermined equity sharing formula. In some overseas models, equity growth is limited to 1% per year, while others allow occupiers to keep 50% of equity growth in their home.

Because neighbours are part of the same body, this model does not suit people looking to live in diverse communities where there is a mix of ownership types.

In New Zealand, papakāinga housing initiatives share similarities with community land trusts. Three or more homes are developed on Māori-titled land that is usually collectively owned. The shared land ownership means that papakāinga housing can be more affordable. Te Puni Kōkiri administers the programme.

Shared equity ownership

In shared equity ownership, the occupiers hold a lease. They purchase a share of the property and pay a rent on the partner's equity. Tenants usually have the right to increase their share to 100% ownership over time.

This model gives security and affordability - leases used overseas can be up to 99 years, and the rent in the provider's share of ownership is typically no more than 3% per year.

While the household can increase their share to 100%, the experience overseas is that most do not. Very often, there is a 21-year period when the household has to first offer the house to the provider at a price set by an independent valuation. This clearly allows an opportunity for the household to enjoy some capital gain. If the provider doesn't buy, the household has to try and sell their share on the open market. This may not be easy. Some observers think this model favours the provider and households can lose out.

Co-ownership

Co-ownership models have both the occupier and the equity partner registered on the title. The occupier typically has the right to increase their share up to 100%, with the price of each part of the equity they buy reflecting the market value at that time.

When the property is sold, the household receives their pro-rata share of the sale price, providing the opportunity for wealth building.

Occupiers are liable for all property taxes and maintenance costs. In return, typically there is no charge or a nominal charge on the use of the partner's equity.

This model lets a household buy a dwelling more suited to their needs in a location that they like - they aren't limited to units in a single multi-unit development.

Shared equity loans

Shared equity loans are similar to co-ownership models except that the equity partner's interest is registered on the title as a mortgage rather than as a shared owner.

This model also lets a household buy a dwelling more suited to their needs in a location that they like - they aren't limited to units in a single multi-unit development. (Some Australian states have used these for purchases of public housing units, however.)

Households can gradually buy more equity in the house until they own 100% of it.

Shared equity loans provide a wealth-building opportunity when house prices rise, but the household doesn't take all of the gain - the relative proportion of any gain/loss is set out in the loan agreement. Non-profit providers may just take a pro-rata share - for example, if the loan is 25% of the purchase price, the provider takes 25% of the capital gain/loss. There is a greater variety of arrangements among private providers. They often take a higher share of gains and a lower share (if any) of losses.

In the United Kingdom, shared equity mortgages have been used by the government to help key workers in the public service into home ownership.

Deed-restricted housing

Units are sold to eligible households at a price determined by a formula designed to keep the housing affordable. On resale, dwellings must be sold to households meeting the eligibility criteria using the same formula. (The provider may have the first right of refusal to buy the property.)

The provider and the household share any increase in value. This can vary depending on the level of discount at purchase and whether the home is an existing dwelling or a new build.

Deed-restricted housing allows some opportunity for asset/wealth building. The household is compensated for value increases from improvements they have made to the property.

Security or wealth creation?

There is an enormous range of shared equity housing models around the world. Most have the chief goal of helping lower-income households into housing that has at least some of the benefits of traditional owner-occupied housing.

When it comes to individual households selecting a model that suits their needs, the biggest defining factor is likely to be whether they are looking primarily for secure and affordable housing over a long period of time or for freedom in the choice of property they buy and an opportunity to build wealth through capital gain (Table 1).

Models such as cooperatives and community land trusts provide long-term security and affordability. This can be important for families on low incomes who want a secure base to raise children and for key workers in sectors where pay rates are relatively low. The fact that the home is likely to be in a complex or neighbourhood of similarly owned homes is not a problem and may even have advantages.

For households with more traditional home-owning aspirations - building wealth from home ownership and having a choice of the neighbourhood they want to buy in - models such as co-ownership and shared equity loans will be better options.

There is no single model that suits everyone or has definite advantages over the others. How some models operate can be quite complex, and households will need to spend time and get good advice to ensure that they have a clear understanding of the risks and rewards. The evidence from overseas is that finding a shared equity model that is the right match for household aspirations is critical for a sustainable outcome.

More information

BRANZ Research Now: Alternative tenure models #1 *What are alternative tenure models?*

Mitchell, I. (2018). *Alternative tenure models and their potential applicability in a New Zealand context*. BRANZ Report ER35. Judgeford, New Zealand: BRANZ Ltd.

Table 1. Key features of different alternative tenure models.

MODEL	COOPERATIVES	COMMUNITY LAND TRUSTS	SHARED EQUITY OWNERSHIP	CO-OWNERSHIP	SHARED EQUITY LOANS	DEED-RESTRICTED HOUSING
Buyer name on property title?	No	No	No	Yes	No – buyer's interest registered on title as a mortgage	Depends on individual scheme
Buyer can share capital gain?	No	Possible but usually limited – depends on the trust	Possible	Yes on a pro-rata basis	Yes on a pro-rata basis	Yes, with limits, on a pro-rata basis
Limited to certain properties?	Yes – usually multi-unit properties	Yes	Sometimes	Sometimes	No	Usually
How is sale price set on exit?	By predetermined calculation	By predetermined calculation	Provider often has right to buy at valuation – otherwise sale is on open market	Open market	Open market	Price set by predetermined calculation
Who can buy on exit?	Limits (e.g. around income) on who can buy	Limits on who can buy		Typically no limits	Typically no limits	Limits (e.g. around income) on who can buy, and provider may have first right of refusal