



THE BARNETT MODEL

# AN 18-MONTH REVIEW OF THE OUTCOMES OF AN AFFORDABLE HOMEOWNERSHIP MODEL



PREPARED BY THE UNIVERSITY OF MELBOURNE



## AN 18-MONTH REVIEW OF THE OUTCOMES 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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### CITING THIS PAPER

Please cite this paper as Raynor, K, Palm, M, O'Neil, M. 2019. The Barnett Model: A 18-month review of the outcomes of an affordable homeownership model, Transforming Housing, The University of Melbourne: Melbourne

### ACKNOWLEDGEMENTS

This report was jointly commissioned by Melbourne City Mission, City of Melbourne and Resilient Melbourne. The authors are grateful to these organisations for their input and support in delivering this research.



Cover image: iStock.com/kotlyarn

## GLOSSARY

<b>Deferred second mortgage</b>	Deferred second mortgages are a financial instrument used to reduce upfront costs and ongoing interest payments for home purchasers. Internationally, such arrangements are 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.
<b>Community housing</b>	Community housing is secure, affordable, long term rental housing managed by not-for-profit organisations for people on low incomes or with special needs.
<b>Community housing provider</b>	A not-for-profit organisation that delivers and/or manages community housing.
<b>Barnett Advance</b>	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 per cent of the market value of the dwelling at settlement. It equates to the difference between the cost price of the development and the market price of the development, at the point of settlement. The Advance is not payable until the home purchaser sells their dwelling or after 99 years.
<b>Barnett participants</b>	Barnett participants are home owners who have purchased in MAP and previously lived in social housing.
<b>Melbourne Apartments Project</b>	The Melbourne Apartments Project (MAP) refers to the 34-unit prototype of the Barnett Model delivered in North Melbourne
<b>Public Benevolent Institution</b>	A Public Benevolent Institution (PBI) is a charity whose main purpose is to relieve poverty, sickness, suffering or disability
<b>Public housing</b>	A form of long-term rental housing managed by the State Government and targeted at people on low incomes or with special needs
<b>Shared appreciation loan</b>	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.
<b>Shared equity</b>	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)
<b>Social housing</b>	An umbrella term that refers to public housing, delivered by the State Government, and community housing, delivered by community housing providers.
<b>The Barnett Foundation</b>	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.
<b>The Barnett Model</b>	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

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This report is commissioned by Melbourne City Mission (MCM), with support from City of Melbourne and Resilient Melbourne. It is a review of the Melbourne Apartments Project (MAP), a privately funded 34-unit apartment building in North Melbourne. MAP acted as a prototype of the Barnett Model, a housing model devised by the Barnett Foundation to assist people living in social housing to move into home ownership. Of the 34-units, 28-units were purchased by Barnett participants and settled in 2017.

This report is the third and final report. The overall research seeks to document the experience of MAP participants in terms of their housing satisfaction as a result of MAP and the impact home ownership has had on their financial outcomes. The first report in the series is titled *Investigating the costs and benefits of MAP* and quantified the returns to government generated by the MAP project. The second report in the series is titled *Barnett Model: Evaluating the Outcome and Scalability of an Affordable Homeownership Model*. The second report analysed interview and survey data from participants and was completed six months post occupation of the apartment building. Both reports will be summarised in this report to provide context and a point of comparison.

This report analyses survey data collected 18-months post occupation of the apartment building. Conducting a second survey, 18-months post occupation, allows for a longitudinal analysis of changing experiences of homeownership and home satisfaction amongst this cohort. The report recognises the participants may have some fatigue in the research process which is evident through the reduced rate of responses between the first and second survey.

The key aspects compared in this report are:

- housing satisfaction of Barnett participants
- financial outcomes for the Barnett participants as a result of MAP

The key findings of this report are that respondents living in MAP continue to be either somewhat satisfied or extremely satisfied with their housing in MAP. There are high levels of financial resilience evident in most households and continuing high feelings of safety and satisfaction, as compared with previous housing. There is evidence that some households are struggling to meet their financial obligations, a fact that needs continued monitoring.

[Click here](#) to access – Investigating the costs and benefits of the Melbourne Apartments Project

[Click here](#) to access - Barnett Model: Evaluating the Outcome and Scalability of an Affordable Homeownership Model Report.

# INTRODUCTION

## 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. To participate in MAP, participants must provide a deposit of at least \$25,000. Many also qualified for a First Home Owner Grant (grant) from the Federal Government. Participants must then commit to a mortgage through a traditional provider to cover the remaining 'cost price,' or hard development cost, of their apartment. In the case of MAP, these costs amounted to approximately 63 per cent of market value of apartments at first sale, meaning that the cost price of the apartment is significantly lower than the market value of the apartment. The lump sum value of this difference is referred to as a 'Barnett Advance,' as participants are required to pay it back when they sell their apartment. In MAP, the Barnett Advance is fixed at time of sale—meaning it does not change as the value of the apartment changes. However, the advance 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 as demonstrated in Figure 1. When the homeowner sells their apartment, the Barnett Advance is reinvested in the Foundation and used to fund future Barnett projects, including crisis accommodation for people experiencing homelessness. In the MAP development, the Barnett Advance is a fixed figure that decreases over time, reducing by \$15,000 every year for the first four years.

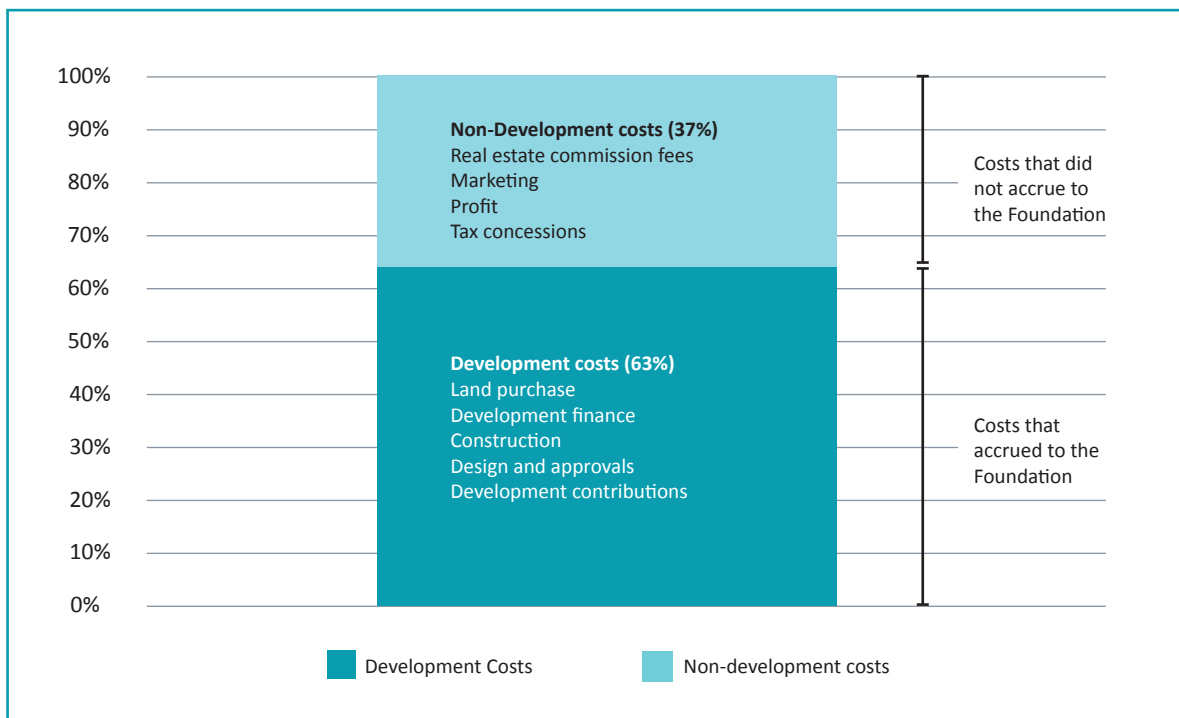
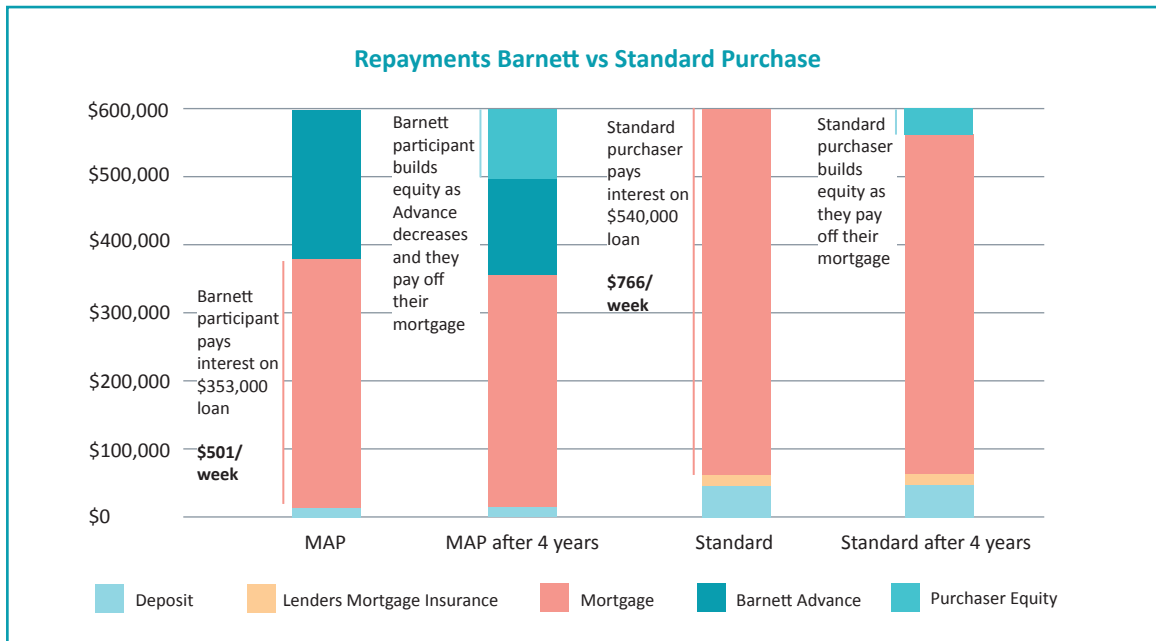


FIGURE 1 - COST BREAK-DOWN FOR THE BARNETT MODEL

Figure 2 demonstrates how the Barnett finance model used for MAP differs from a standard purchase model. The model used for MAP allows the purchaser to build equity as the Barnett Advance decreases each year for the first four years.



**FIGURE 2 - BREAK-DOWN OF BARNETT FINANCE VERSUS STANDARD MORTGAGE ARRANGEMENT**

A more detailed description of this model is provided in [Barnett Model: Evaluating the Outcome and Scalability of an Affordable Homeownership Model Report](#).

# RECENT CHANGES TO HOUSING POLICY

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The section documents policy relating to shared equity homeownership schemes. HomesVic and the First Home Loan Deposit Scheme are acknowledgments from the state and federal government respectively of the difficulties of saving for a house deposit. The First Home Loan Deposit Scheme proposed by the federal government would assist eligible first home buyers to purchase a home with a deposit as low as five per cent of the purchase price. It is predicted that the scheme will offer a government guarantee for 15 per cent of the loan (Ong ViforJ, 2019) HomesVic currently offers a similar structure, requiring homebuyers to provide a deposit of 5 per cent and contributing up to 25 per cent of the property value as a deposit repayable by the participant upon sale of the property (State Government of Victoria, 2019). The objectives of these policies are to support the purchase of a first home. These types of government policies have been criticised for their potential to inflate house prices by encouraging further demand without subsequently ensuring supply of appropriate housing (Daley, Wood, & Parsonage, 2016; Yates, 2016). Neither scheme specifically targets very low or low-income individuals rather, they are likely to help moderate income individuals who would have eventually owned a home under normal market conditions. However, both reflect current housing policy focused on supporting home ownership.

The Barnett Model differs from these government policies in a number of ways. It is offered by a Public Benevolent Institution using privately sourced funds and a cross subsidy stemming from selling a portion of the apartments to the open market. The program created a homeownership opportunity for low to moderate income people living in social housing. In doing so, MAP also created much needed vacancies in social housing that have significant benefits to government across a range of social services, as documented in the first report.

MAP participants would have been unlikely to purchase a home in normal market conditions. The program removes the barrier of saving for a high deposit which is required by lenders. The loan structure overcomes the barrier of servicing a loan large enough to cover the full cost of a home. Importantly, the model ensures the creation of appropriate housing in close proximity to the buyer's existing community.

# FINDINGS

The surveys delivered six and 18-months after occupation aimed to assess motivations for purchasing a home in MAP and to assess housing satisfaction and financial resilience for participants. Ten of the 28 participants were also interviewed six months after occupation, with details published in report two, Barnett Model: Evaluating the Outcome and Scalability of an Affordable Homeownership Model Report. This report will only focus on results from the surveys. This report begins with an overview of survey findings, starting six months after moving into MAP, and then compares these results to respondent views at 18-months after move in. The results are then interrogated using the themes established in the first stage of interviews.

## METHODOLOGY

Six months post occupation of MAP the research team surveyed Barnett participants with a response rate of 25 of the 28 households. In addition, a slightly adjusted survey was sent to contacts on the Barnett Foundation model waiting list, a list of people currently living in social housing with a stated interest in moving into future projects. A second survey for the purpose of the 18-month review was sent to all 28 Barnett participants. The surveys were emailed directly to participants and they were reminded of the survey through two follow-up emails and flyers dropped in individual letterboxes between March and May 2019.

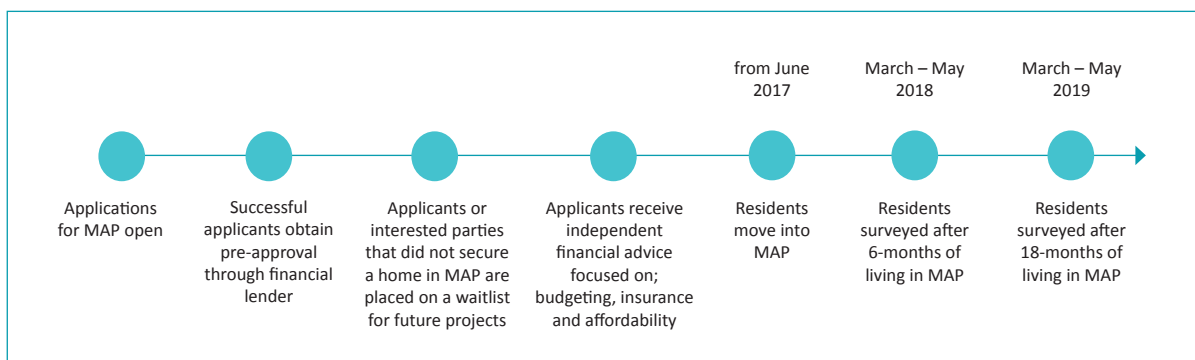


FIGURE 3 - TIMELINE OF KEY EVENTS IN MAP

Of the 28 households, 11 households completed the survey. The low response rate may be due to levels of research fatigue in the cohort. Figure 3 demonstrates key events leading up to this report being completed.

## SUMMARY OF FINDINGS SIX MONTH POST OCCUPATION

A key theme established in all interviews and surveys was a strong desire to own a home. Before MAP, most respondents felt that home ownership was out of their reach and many had given up on potential to own their own home. MAP was recognised by respondents to provide a realistic and attainable option to purchase a home and stay within their existing community. The survey responses show a varied range of financial situations of Barnett participants in terms of deposit size and ongoing income. These factors are reflected in how participants sourced their deposit, the size of their mortgage and their predicted timeframe to pay off remaining debt.

## FINDINGS 18-MONTHS POST OCCUPATION

Housing satisfaction and financial outcomes are the focus areas for this review. Overall the responses show that Barnett participants continue to experience high levels of housing satisfaction. The findings demonstrate that MAP has had a positive impact on participants' ability to feel settled, calm and safe in their living situation. The financial implications of home-ownership for the participants of MAP is important to understand for future projects. Although all respondents are satisfied with the affordability of MAP, the data shows some respondents feel MAP has negatively impacted their ability to afford basic costs (i.e. housing costs, electricity, groceries, etc.). This apparent conflict in feedback is unpacked in the financial outcomes section of the report to contextualise the feedback.



The data from the survey is organised into the following categories:

- » demographics
- » housing satisfaction
- » financial outcomes

## DEMOGRAPHICS

Residents living in MAP are not representative of the broader social housing community, with higher levels of educational attainment, household income, levels of employment and size of household. Residents are more likely to speak a language other than English at home, be born overseas and live in multi-generational households than the average Australian household. (See Report Barnett Model: Evaluating the Outcome and Scalability of an Affordable Homeownership Model Report for a more comprehensive overview of demographics).

The cohort also earned more than the average social housing household, with a median household income of \$72,000. The median household income at the time of the 6-month survey was \$47,138 (this excludes some responses that appear to be erroneous). The responses in the 18-month post occupation survey do not indicate why the median household income may have changed by over \$20,000 between the two surveys. It is noted that the sample size is smaller for the 18-month survey. Only one of the 11 households that responded had an increase in occupants while all other households remained unchanged. The ratios of employment status have remained comparable between the two waves as shown. One respondent reported a change from full-time to part-time work between the two surveys and expressed a desire for more work hours. Few respondents received government allowances; one respondent receives the aged pension and although they may receive support from family members they do not provide information about any other sources of income in the survey, while two other respondents receive other forms of government allowances in addition to a wage.

## HOUSING SATISFACTION

### Housing Priorities

Respondents living in MAP are either somewhat satisfied or extremely satisfied with their housing in MAP. Satisfaction with housing has remained high between the six month and 18-month surveys. This is a significant outcome, particularly when compared to reported housing satisfaction among public housing residents on the MAP waitlist as shown in Figure 4.

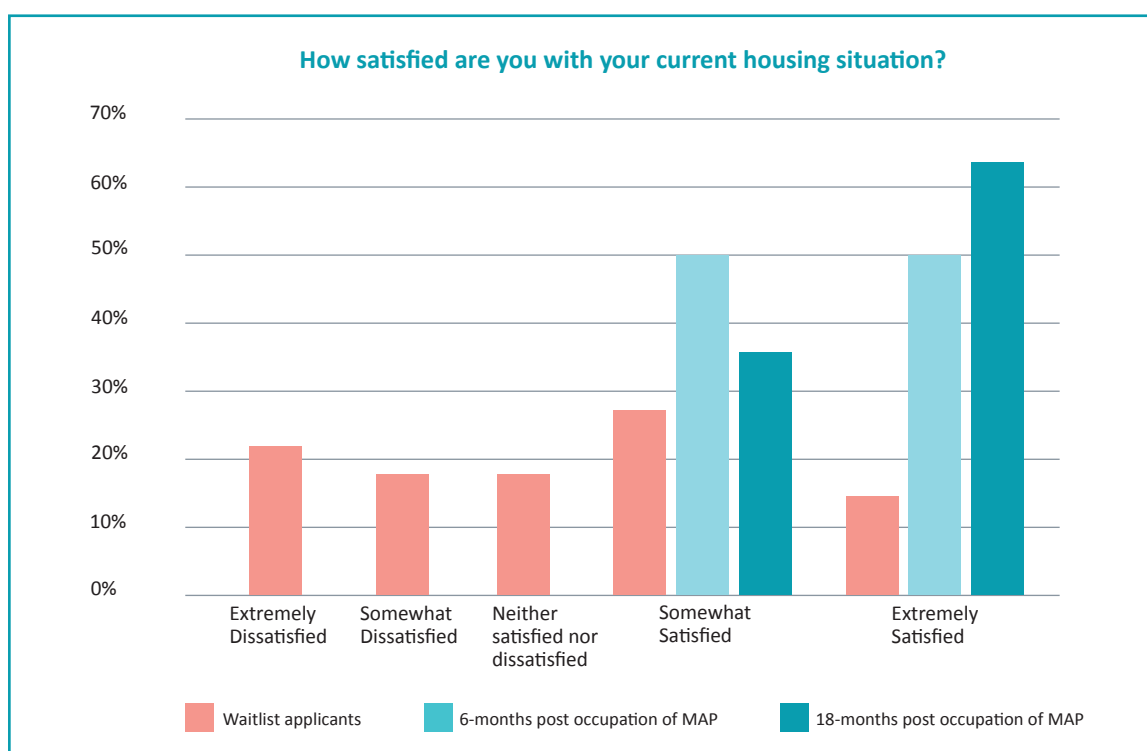
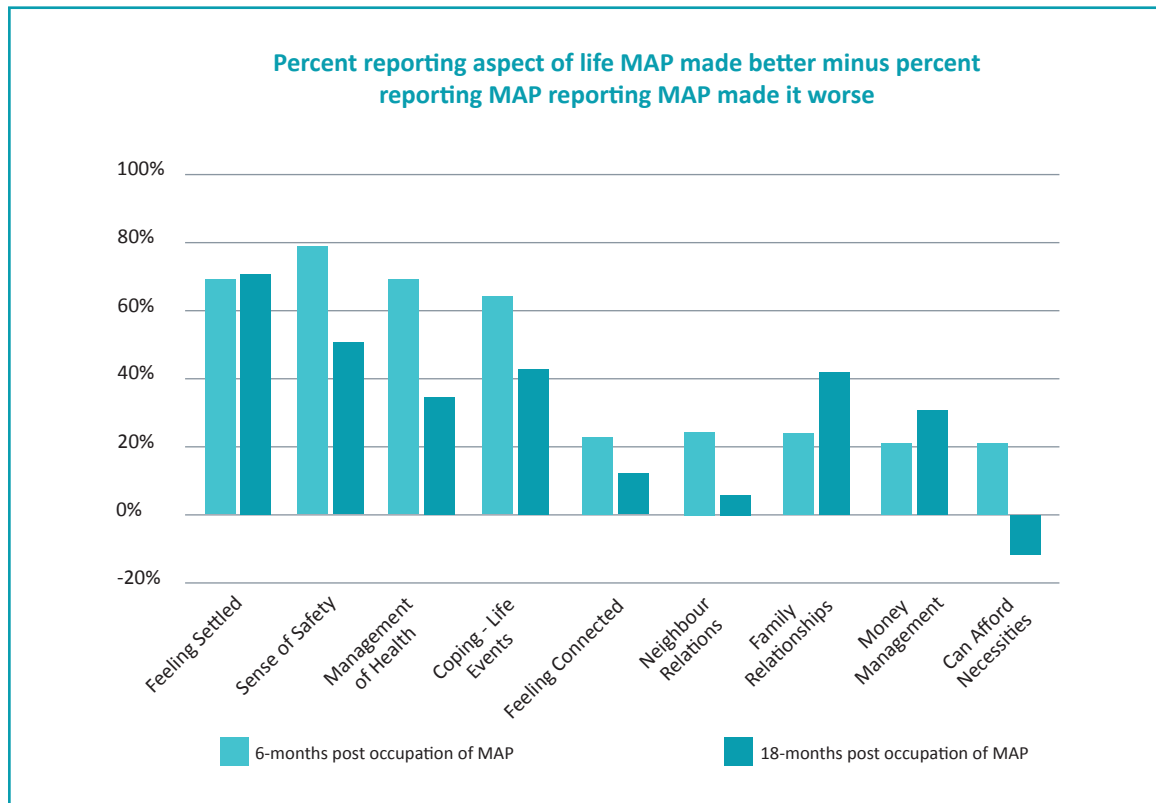


FIGURE 4 – COMPARISON OF HOUSING SATISFACTION FOR PUBLIC HOUSING TENANTS ON MAP WAITLIST, BARNETT PARTICIPANTS SIX MONTHS POST OCCUPATION OF MAP AND BARNETT PARTICIPANTS 18-MONTHS POST OCCUPATION OF MAP

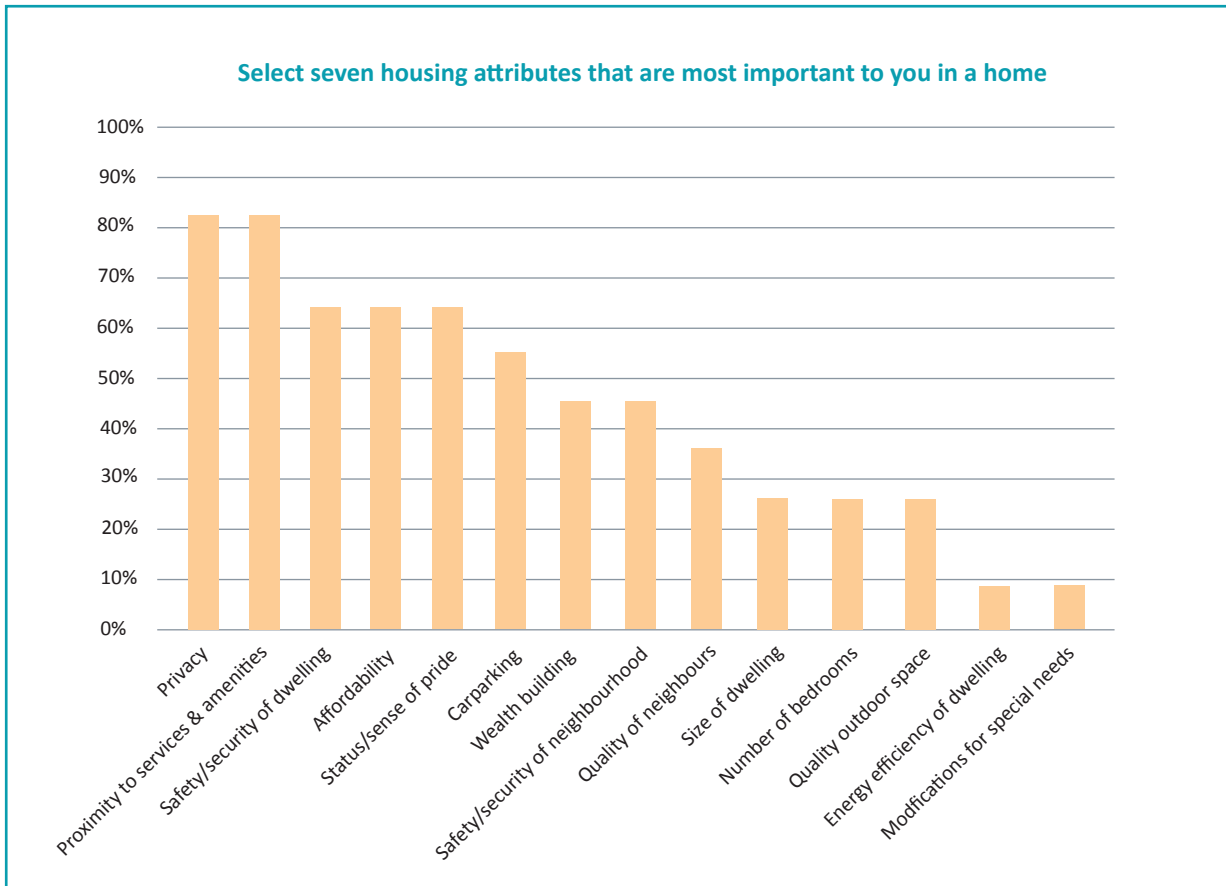
To compare attitudes of the impact of the MAP project between the two waves of surveys, this report shows a “net improvement measure” of MAP residents’ attitudes towards how various aspects of their lives changed as a result of moving into MAP. This is defined as the percentage of MAP respondents who believe MAP participation improved a particular aspect of their life minus those who say MAP made that aspect of their lives worse. The resulting net improvement measure between both survey waves is plotted in Figure 5.



**FIGURE 5 - PERCENT REPORTING ASPECT OF LIFE MAP MADE BETTER MINUS PERCENT REPORTING MAP MADE IT WORSE**

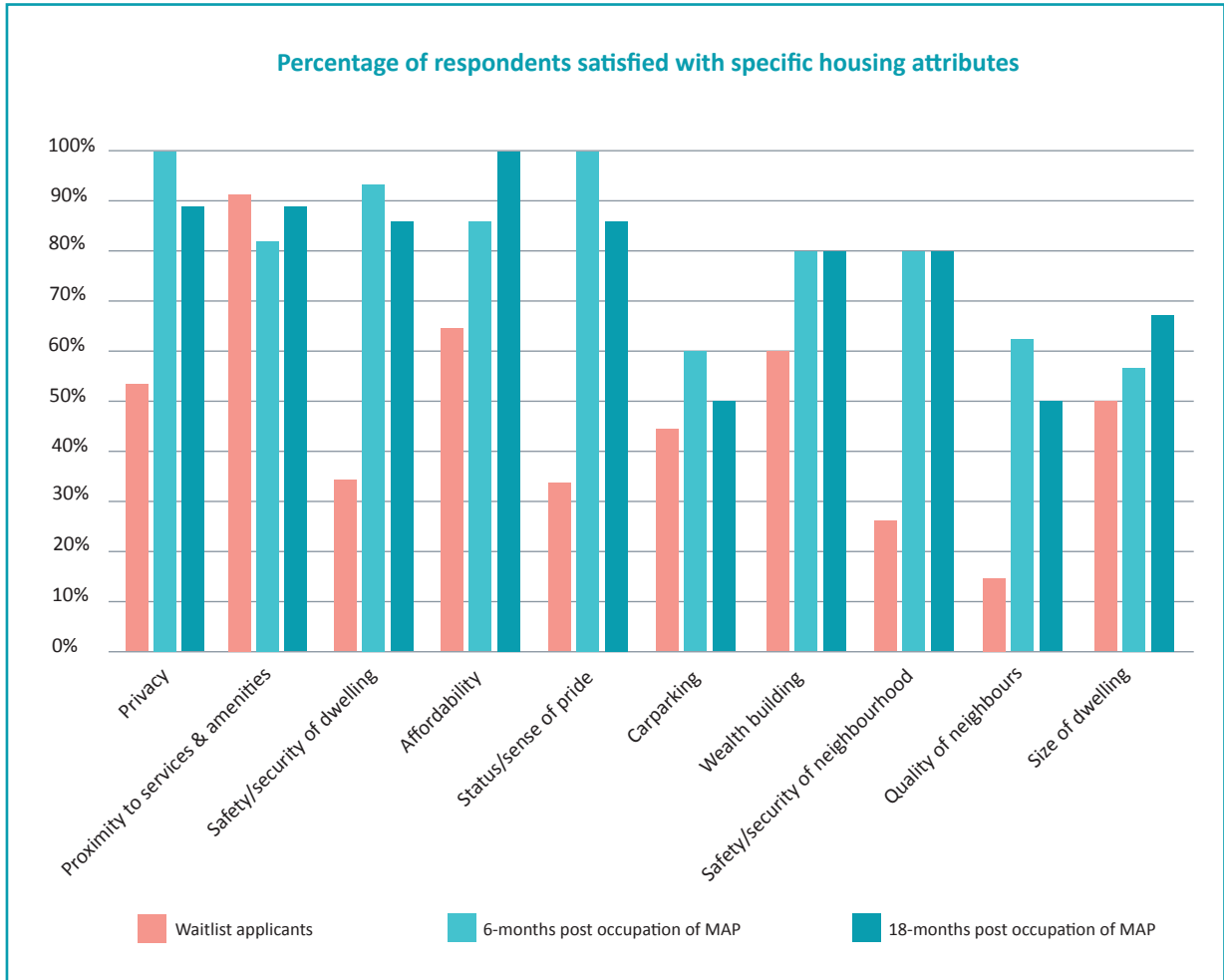
As Figure 5 shows, respondents remained generally positive about the impact of MAP on their lives. In particular, respondents felt that participation in the program contributed to their ability to feel settled, cope with life events, and maintain family relationships. Surveys show positive outcomes post-occupation for all participants across all factors except the ability to afford necessities 18-months after moving into MAP. Approximately a third of respondents reported that MAP negatively influenced their ability to afford basic necessities in the second wave of the survey, compared to a majority reporting a positive impact at six months.

Respondents were asked to nominate up to seven housing attributes that were most important to them. As Figure 6 shows, approximately 80 per cent of respondents listed privacy and proximity to services and 64 per cent listed safety / security of dwelling, affordability and status/sense of pride as factors important to their housing decision. Modifications for special needs, energy efficiency, size of dwelling, number of bedrooms and quality of outdoor space ranked the lowest, with a quarter or less of respondents ranking these attributes of housing as important characteristics in a home.



**FIGURE 6 - PERCENT OF BARNETT PARTICIPANTS INDICATING THAT EACH ATTRIBUTE OF HOUSING IS IMPORTANT TO HOUSING SATISFACTION**

The changes in satisfaction of the ten most important housing attributes is shown in Figure 7. It is encouraging to see that the majority of respondents are satisfied that MAP delivers the attributes they value the most. Furthermore, that MAP is an improvement on most of these attributes in comparison to their previous living situation.



**FIGURE 7 - SATISFACTION WITH TEN MOST IMPORTANT HOUSING ATTRIBUTES**

# FINANCIAL OUTCOMES

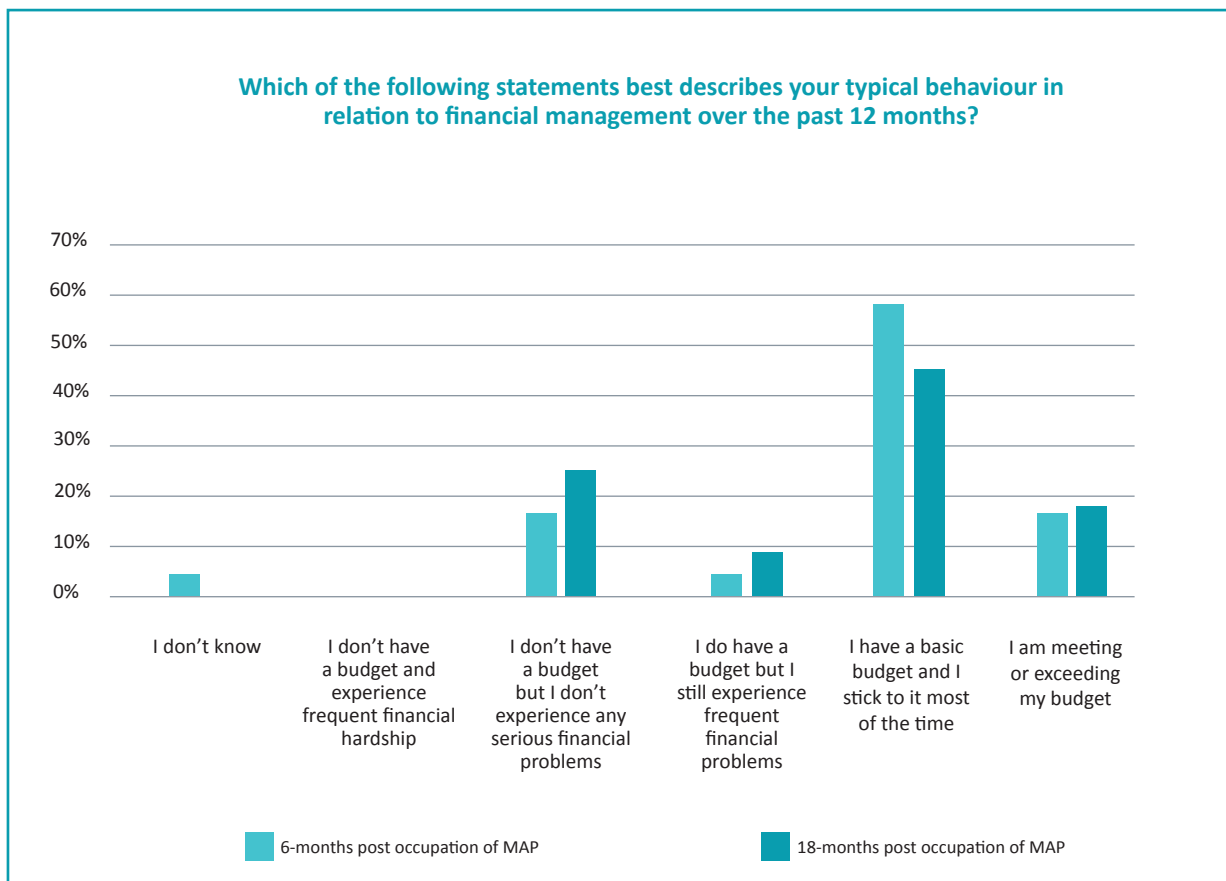
The 18-month follow up survey has highlighted three key findings;

- » Most respondents continue to demonstrate high levels of financial resilience
- » The ability of some respondents to meet household costs has decreased in the last 12 months
- » High levels of variation in remaining mortgage sizes and expected payment dates

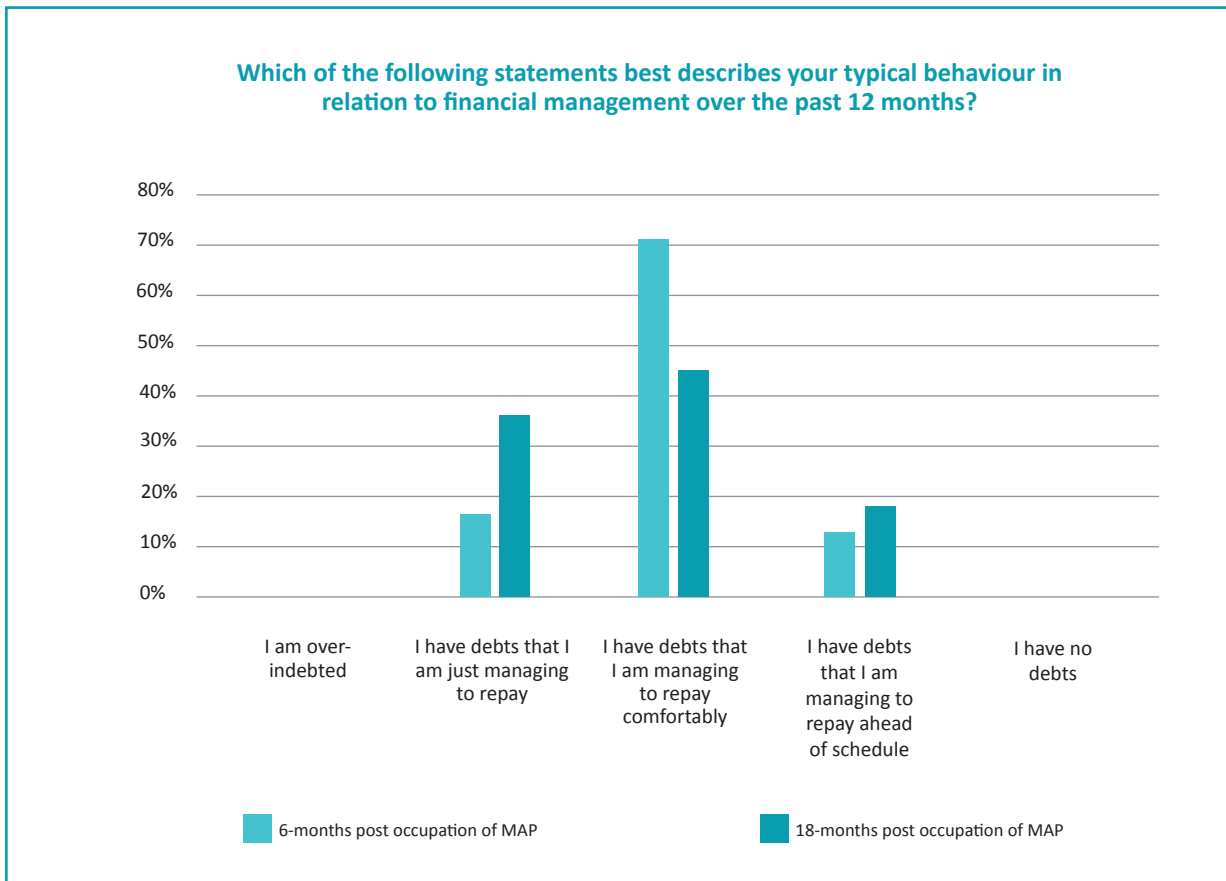
## FINANCIAL RESILIENCE

We measure financial resilience in three ways: financial management or use of a budget; ability to manage financial debts and obligations and; instances of financial hardship.

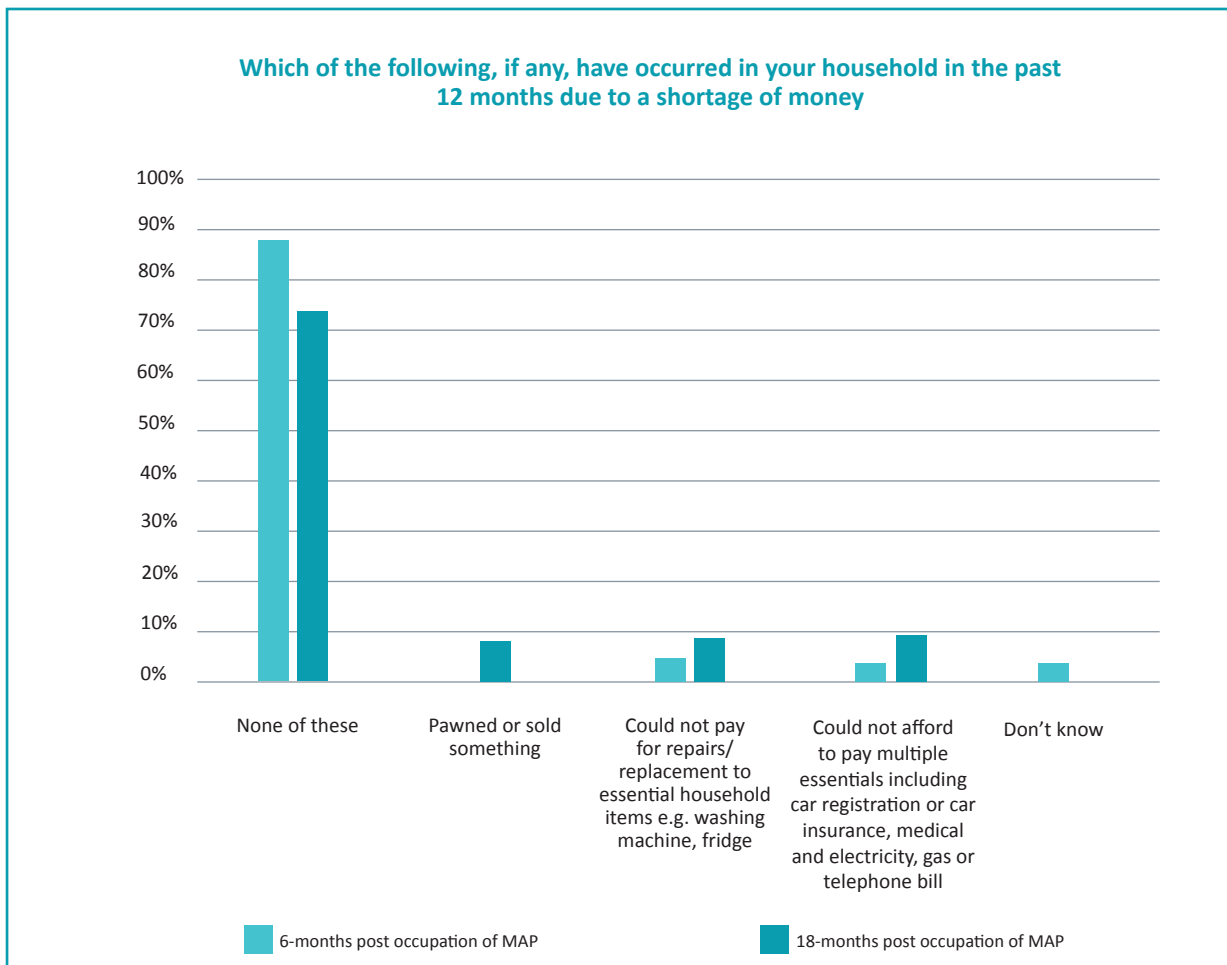
The survey found that the majority of respondents are managing to meet their budget. Those who don't have a budget do not have any serious financial problems and only one respondent is experiencing frequent financial problems. These responses are mostly comparable to the 6-month survey. Figure 9 asks respondents about their overall debt status (including mortgage). It demonstrates that no respondents feel over-indebted, although 36% believe they are 'just' managing their debts, including their mortgage. Importantly, very few respondents reported instances of financial hardship as demonstrated in Figure 10.



**FIGURE 8 - FINANCIAL MANAGEMENT – BUDGET**



**FIGURE 9 – FINANCIAL MANAGEMENT - DEBT LEVELS**



**FIGURE 10 - INSTANCES OF FINANCIAL HARDSHIP**

Two of 11 respondents identified they had experienced a shortage of money since living in MAP which impacted their ability to repair/replace an essential household item. However, these respondents did not feel moving into MAP had been the cause of that shortage. The responses suggest these residents may have experienced similar shortages when living in social housing, however, these shortages are of greater concern now that they have greater financial obligations

## DECREASED ABILITY TO MEET HOUSEHOLD COSTS FOR SOME HOUSEHOLDS

As outlined earlier in the report, four respondents feel their ability to afford basic costs (i.e. housing costs, electricity, groceries, etc.) has been made worse by moving to MAP. This is not surprising given the transition from renting to homeownership involves increased maintenance costs and direct responsibility for water fees, rates and body corporate fees. This change is further exacerbated in transitions to homeownership from social housing, where housing costs are below market rate and linked to household income. The increase in respondents reporting decreased ability to pay for necessities in the 18 month review is likely due to greater familiarity with additional charges over time. It is important to clarify that although these respondents feel it is more difficult to afford basic costs they are, in most cases, able to afford these types of costs. Furthermore, three of the four respondents have a budget and only one respondent, despite having a budget, identified having regular financial problems (such as missed payments or serious arrears).

This analysis demonstrates that although some respondents feel that MAP has made affording basic living costs more difficult, the majority are successfully using budgets to manage costs. Respondents indicated the challenges of affording additional costs related to homeownership, cautioning future participants to appropriately account for the cost of body corporate fees, council rates and a building maintenance fund. These responses indicate that although promotional material for the project provided guidance on additional costs of ownership and how to budget for them, the respondents still felt a significant change from being in the controlled financial demands of social housing to home ownership. Somewhat contradictorily, all respondents reported that their ability to manage their money has either been unchanged or seen some improvements following their move to MAP. However, interviews suggest this may be due to improved money management practices emerging from the transition to homeownership and from housing cost responsibilities shifting within household structures from parents to children. While some respondents may have more cost imposts than before, and consequently less ability to meet basic needs, they often see this as a necessary aspect of purchasing a home and this has catalysed improved perceptions of money management.

## PROJECTED PAYOFF OF MORTGAGE

Respondents were asked to approximate their outstanding mortgage amount within a range of \$100,000 and predict the year they were likely to pay it off. This question required respondents to consider their long term budget. Respondents were not asked to consider how a change in interest rate may impact their prediction however, it is noted that the official cash rate has reduced by a total of 0.5 per cent subsequent to the completion of the 2019 surveys (Reserve Bank of Australia, 2019). As outlined in the second report, a large proportion of the mortgages in the MAP development are financed through the Bendigo Bank or Bank Australia. These banks passed on a proportion of the interest rate cut totalling 0.40 per cent and 0.41 per cent respectively (Bendigo Bank, 2019a; Bendigo Bank, 2019b; Bank Australia 2019a; Bank Australia 2019b). These reductions in interest rates may reduce the time it takes for residents to repay their mortgage. Nine of 11 respondents provided responses to these questions as demonstrated in Figure 12. Those with larger mortgages predictably anticipated a date further in the future to repay the debt. Results ranged from anticipated mortgage payment in 2020 to a 30-year payment horizon. Our findings demonstrate that almost half of respondents have mortgages less than \$300,000 and most intend to pay their mortgage within a 30-year timeframe. There is no correlation between higher incomes and a shorter predicted period of time to pay off a mortgage.

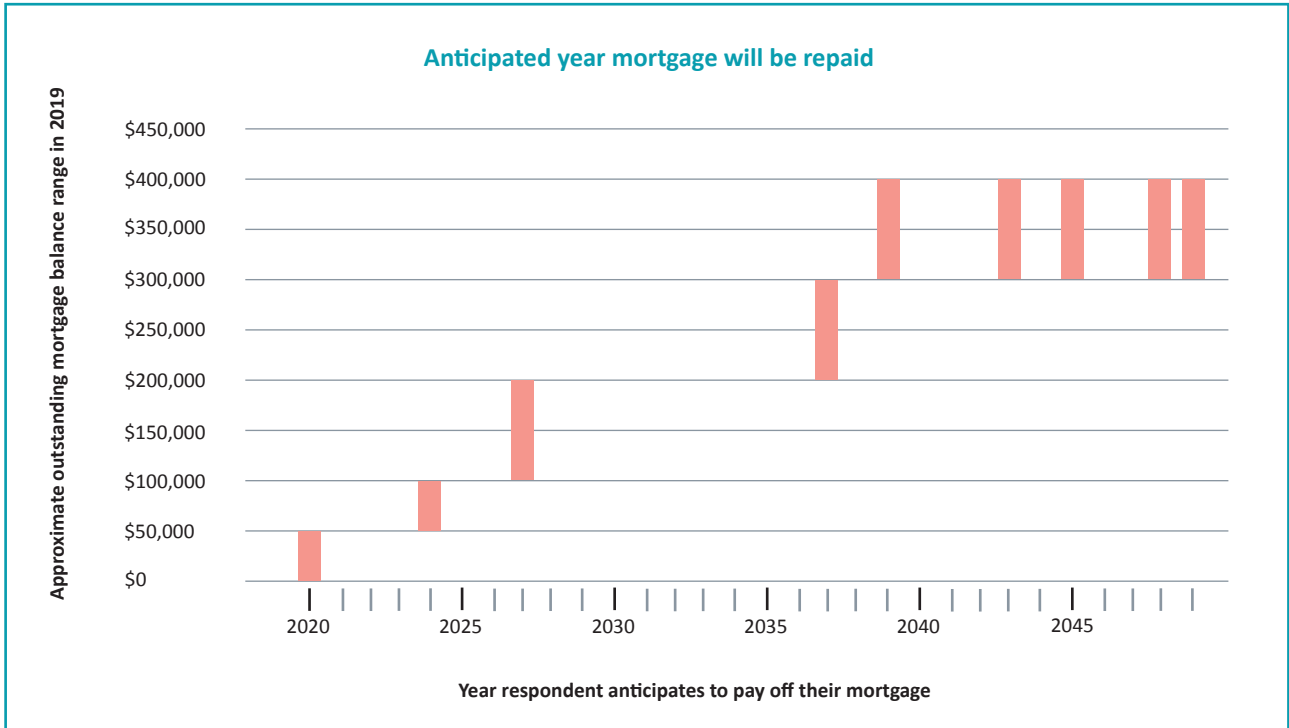


FIGURE 11 - ANTICIPATED YEAR MORTGAGE WILL BE REPAYED



# RECOMMENDATIONS AND CONCLUSION

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The findings in this report highlight continuing positive housing satisfaction outcomes across multiple areas for Barnett participants, while acknowledging the financial implications and risks of homeownership for some participants. The findings may be used to inform government policy and future Barnett Model projects using shared equity structures in terms of financial literacy required to prepare first time home owners. It is important to note that participants are not reflective of all social housing residents. The overall social housing population is a diverse group and not all residents would be financially capable of entering into similar arrangements. This report demonstrates the model can benefit a portion of existing social housing residents, particularly those with moderate, secure and regular income.

Overall the respondents demonstrated they are satisfied with the amenities (built form, ability to build wealth, safety and security) in their current apartment. These very high levels have remained high for their time in MAP, particularly in comparison to extremely high levels of dissatisfaction before the move to MAP. Most respondents encouraged friends and family to explore similar models if given the opportunity. Some respondents offered a cautionary tale of budgeting for additional expenses such as body corporate fees, council rates and a building maintenance fund and understanding how these fees are calculated and used. This is despite promotional material and financial advice provided for MAP and future projects that outlines the additional costs that can be anticipated as a home owner and independent financial management advice provided to all participants before they purchased their home in MAP. As some respondents are exhibiting difficulties managing basic expenses it is recommended greater scrutiny of finances of applicants and additional support budgeting would benefit future applicants.

Overall, the high levels of housing satisfaction and financial resilience reported in this survey suggest that occupants of MAP continue to benefit from their move to MAP. While increased housing costs are cause for concern for some households, they are accompanied by high levels of self-reported financial management and feelings of well-being among participants. Future projects may benefit from even greater explanation of on-going housing costs to participants.

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