

Community Housing Policy ABC System and General Eligibility

Adopted - Council 5 May 2006

1. Adopt the framework described herein, being Document A: Applicant Eligibility Criteria as its 'Community Housing Policy';
2. Set the Gross Household Area Median Income (AMI) at \$67,329 for the year 2006, to be adjusted on an annual basis, based on data available from Statistics NZ and adjusted for inflation;
3. Set the 120% AMI Band as the upper limit of eligibility for schemes in which the Council and its to-be formed Community Housing Trust are involved.
4. Acknowledge that the Policy will be amended from time to time as additional components are completed and put forth for review, in particular the addition of parts B: Builder/Developer Guidelines and C: Council-monitored Incentives and Retention Mechanisms.

To set the context, there are three tools which comprise the planning framework, referred to hereafter as the 'A-B-C Affordability System':

- A: Applicant Eligibility Criteria:** This introduces the key methodology based on assessing the gap between Area Median Income (AMI) and Median home price, proposes who is eligible, the terms of eligibility, the programme/schemes available to fill the gap and how people will access the schemes;
- B: Builder/Developer Guidelines for Community Housing:** This outlines the targets of affordability for housing units (unit value priced as a % of AMI); sets goals for development contributions of permanently affordable units to be owned and operated by the Community Housing Trust; and proposes a series of guidelines for units that are 'affordable by design';
- C: Council-monitored Incentives and Retention Mechanisms:** This establishes parameters for the role of the Community Housing Trust and its relationship to Council; establishes the jurisdiction of the various planning mechanisms that give effect to the builder/developer guidelines and planning incentives; discusses planning incentives that encourage new affordable units to be incorporated into all future residential (and perhaps) commercial development; and sets out the legal process for ensuring affordability is maintained over time through conditions of consent, covenants and other means. Many of the above require appropriate RMA and LGA jurisdiction, and once such jurisdiction is clarified, will become part of the District Plan through a Community Housing Plan Change, as well as through other legally-enforceable mechanisms.

Of this 'ABC Affordability System', only Document 'A' is attached here and recommended for inclusion in this Policy at this time. The other two documents, B and C

will be brought forward separately to Strategy Committee, and it will be recommended that the policy be amended over time to include parts B and C as they are formulated.

The proposed planning framework requires a series of decisions to give effect to the primary desired outcome: that being to establish an overall system that, over time, improves the affordability of both ownership and rental housing for the permanent workforce that are essential for local economic vitality and quality of life.

Planning Framework: System Methodology

The proposed planning framework sets forth the following key decision points:

1. That the Council publish an official District-wide AMI on an annual basis, based on existing data available from Statistics NZ and adjusted for inflation, and set bands based on percentage (%) of the AMI which will be used to set threshold eligibility for various housing schemes;
2. That the Council publish an official Median Home Price and Rents (MHPR) on an annual basis, based on existing data, and define this by unit size, home price, and unit rent;
3. That the core relationship to be monitored over time is the Gap between Area Median Income (AMI) and Median Home Price and Rents (MHPR)
4. That a variety of ways to address the Gap be thoroughly assessed, recognizing there is a need for a variety of approaches from the market, the alternative market, and a restricted market. Set forth are proposed schemes for homeownership at this time, with the need for future development of schemes for rental housing:
 - a. Currently Proposed:
 - i. Homeownership: Equity Gap scheme
 - ii. Homeownership: Accessing Community Housing Trust units
 - b. To be developed:
 - i. Rental housing
 - ii. Other schemes as necessary
5. That specific targets be established for:
 - a. The number and location of affordable units needed in the next 10 years, and
 - b. The units' levels of affordability (unit value priced as a % of AMI), with a methodology for adjusting price by unit size, amenity and location;
6. That further work proceed to establish the Community Housing Trust, with:
 - a. The roles of the Trust vs. Council clarified;
 - b. The criteria for selection of Trustees established;
 - c. A business plan to give effect to its vision through governance and management.

These steps are not necessarily to be done sequentially. This report is further organized in relation to the above numbered paragraphs. Attachment 1, referred to as "Document A' details the proposed Applicant Eligibility Criteria.

1. **Establishing the Area Median Income (AMI)**

a. What source data shall be used to set the Area Median Income?

Statistics NZ provided 2001 census data, collected at a mesh-block level, aggregated into Census Area Units. The NZ Remuneration Review, September 2005 documented a 3.5% annual wage inflation rate, and suggested this was consistent with the past several years performance. Thus, 2001 data were inflated using a simple multiple of 5 years X 3.5% or 17.5%; 2006 figures become 117.5% of the 2001 figures. A more accurate annual compounding would be used in future years, but given the somewhat rounded nature of the rearward estimate, such effect is minimal. Once 2006 census data are available, these figures will be adjusted to actual, with annual compounding of inflation by the NZ Remuneration Review wage inflation rate used for each year between census. At such a time as an annually-adjusted AMI becomes available from a Central Government agency, the QLDC would no longer need to publish its own.

b. Should the median be set for the whole district, or by grouping of Census Area Unit?

Attachment 2, 'QLDC Family Median Income-2006' shows a map of the district by Census Area Unit. Staff are considering recommendations to Statistics NZ that for the 2006 census, data be reported with additional mesh blocks included in particular Census Area Units. Further discussion of this topic is included below.

c. Should the Area Median Income be adjusted for household size?

The AMI is often adjusted by household size, varying from the personal median income to a household of two with no children, up to households of five people. Such an adjustment facilitates wider eligibility and acknowledges widely varying circumstances for different households, but does add significant complexity to eligibility determinations. Further, it requires access to a pool of accurate data that is statistically relevant. It is important to note that the relatively small pool of 2001 census data available suggests that this method not be used initially, and re-evaluated after the 2006 census data are published.

The chart below shows the maximum available detail when the Area Median Income is adjusted by household size and Census Area Unit. Note that "Option A" shows the AMI adjusted only by Household Size, with "Option B" showing both Household Size and grouping by Census Area Unit.

2006 AREA MEDIAN INCOMES (AMI): based on 2001 Census data + a 3.5%/yr inflation for 5 yrs

117.5%

Source: NZ Renumeration Review Sept 2005 & Strategic Pay March 2005

Census Area Unit	Area FAMILY Median Income	Area PERSONAL Median Income	Household: Couple w/ No Children	Household w/ One Child	Household w/ Two Children	Household w/ Three+ Children
Option A: One AMI for the District						
Queenstown-Lakes District	\$67,329	\$35,152	\$64,837	\$64,379	\$72,877	\$78,157
Hourly wage if full-time (40/hrs/week)	\$32	\$17	\$31	\$31	\$35	\$38
Option B: AMI by 3 areas in the District						
Area 1: Wanaka, Cardrona, Hawea, Albertown, Luggate, Makarora						
Area 1 Median	\$60,030	\$29,881	\$54,070	\$55,083	\$63,215	\$75,893
608304 Hawea	\$52,835	\$27,840	\$52,450	\$40,304	\$53,794	\$61,020
608800 Wanaka	\$59,479	\$28,865	\$55,941	\$58,785	\$62,295	\$70,620
609029 Matukituki	\$67,778	\$32,937	\$53,820	\$66,161	\$73,555	\$96,040
Area 2: Glenorchy & Kingston (similar issues in each)						
609012 Glenorchy = Area 2 Median	\$58,447	\$29,162	\$51,951	\$60,165	\$63,518	\$66,872
Area 3: Greater Wakatipu (including Gibbston, Jacks Point, urban and rural areas of the Basin)						
Area 3 Median	\$73,098	\$38,567	\$70,903	\$73,894	\$77,234	\$79,722
609301 Queenstown Bay	\$63,719	\$33,556	\$62,079	\$63,736	\$68,337	\$72,508
609200 Arrowtown	\$65,781	\$36,183	\$63,498	\$63,466	\$65,495	\$79,206
608700 Frankton	\$67,338	\$36,387	\$64,872	\$68,636	\$74,952	\$59,462
609023 Sunshine Bay (Incl Fernhill)	\$68,364	\$39,057	\$70,353	\$61,853	\$70,788	\$78,724
609302 Earnslaw (N side Frankton Arm)	\$73,522	\$38,879	\$72,922	\$72,876	\$70,970	\$89,933
609028 Lake Hayes (EX Lake Hayes Estate)	\$78,962	\$40,480	\$82,591	\$94,624	n/a	\$84,122
609022 Kelvin Heights	\$80,262	\$40,271	\$72,220	\$81,520	\$95,499	\$88,394
609026 Skippers (Wakatipu Basin & LHE)	\$86,835	\$43,719	\$78,686	\$84,443	\$94,597	\$85,427

Note: Area 1,2,3 Median is the average of median incomes for the CAU's comprising the Area

Reasons for and against Option A: setting one AMI for the district, and Option B: setting three areas in the District are as follows:

Options:	A: AMI by District Median only	B: AMI by Census Area Unit
	Should the Council publish one chart annually of AMI for the District?	Should the Council publish 3 AMI charts annually, one for each of the 3 Areas as grouped by Census Area Unit?
Reasons For:	1. simplest method	1. common sense for local area; encourages people to live and work in the same area
	2. encourages people to live and work in different areas of the district	2. facilitates relationship to median home price, if also done by same area
	3. 'leveling effect' for the district; population #'s are small, variations in household size by area may not be relevant	3. grouping reflects areas in which people naturally commute (view Glenorchy & Kingston independent of each other and of Greater Wakatipu)
Reasons Against:	1. may create inequities - review policy annually for issues	1. more complicated to monitor
	2. may be inaccurate in areas of the district with highest growth	2. smaller samples mean anomalies may need further analysis
		3. may be confusing to the public

d. How shall % AMI levels be defined in bands?

Following the above recommendation to implement Option A with one District-wide AMI not adjusted for household size, the next step is to establish the % of AMI target bands to determine the level of income that can be earned to be eligible. Bands are defined as follows:

Targeting Bands	
Upper	149%
Band Level	140%
Lower	130%
Upper	129%
Band Level	120%
Lower	110%
Upper	109%
Band Level	100%
Lower	90%
Upper	89%
Band Level	80%
Lower	70%
Upper	69%
Band Level	60%
Lower	50%

e. What band level should be used as an upper limit of eligibility?

In an ideal market, a median income household would pay no more than 30% of their monthly income toward monthly repayments on a median priced home, or if renting, in monthly rent. Variations in housing quality, size, and location then make up the key factors in housing choice.

The HOPE Strategy recommended setting eligibility for homeownership schemes at 120% of AMI. Should the target level prove incorrect, it can be adjusted on an annual basis. When the 2006 census data is available, it will be valuable to consider what % of the overall population are captured by the various targeting bands, and may require re-adjustment at that time. Few households below the 80% AMI band will be able to afford homeownership, unless market conditions change substantially, or substantial subsidy is provided.

For rental housing, the standard target level recommended by the HOPE strategy is 60% of AMI and below. Further work is needed before a corresponding Rental Housing Scheme can be put forth.

For the proposed Homeownership Schemes, a 120% band is considered viable as the upper limit of eligibility (to 129%).

Consideration has also been given to whether the Area Median Income should be published as 'Gross Income' (before tax) or 'Net Income' (after tax). At the median, the gross vs. net comparison is as follows:

Gross to Net: Tax Calculation at median income

	Start	End	Tax Rate*	Tax
\$	-	\$ 38,000	20.7%	\$7,866
\$	38,001	\$ 60,000	34.2%	\$7,524
\$	60,001	\$ 67,329	40.2%	\$2,946
		-\$18,336	total tax	\$18,336
Net Income	\$48,993	<i>avg. tax rate 27.2%</i>		

*w/ACC Earner's Levy at 1.2%

The HOPE Strategy goal is clearly to ensure that housing be affordable to a household not spending more than 30% of their income on housing. Similarly, research with lenders finds that when Net income is used, a factor of up to 45% of net income is a standard used for measuring affordability. As shown by the following table, the two measures are very similar, with the 30% of gross figure lower than the maximum that banks would expect people to spend.

	27.2%		41.3%	Debt Service Ratio
NET:				
Post-tax	\$48,993	\$ 942	\$389	Available for Debt Service
	Annual	Monthly	Weekly	
Gross:				
Pre-tax	\$67,329	\$1,295	\$388	Available for Debt Service
			30.0%	Debt Service Ratio

As a result, there is little net effect on a household's projected housing-related outgoings if either the gross or net Income factors are used, so long as the calculation requires use of no more than approximately 41.3% of the Net income or 30% of the Gross income for debt service costs.

Applying the targeting bands to the AMI for the District provides the following results in respect of actual Gross and Net incomes:

		Area HOUSEHOLD Median Income	
		GROSS Income	NET Income
		(Before Tax)	(after Tax)
Upper Median	129% AMI	\$ 87,526	\$ 63,719
	120% AMI	\$ 80,794	\$ 58,818
Median	100% AMI	\$ 67,329	\$ 49,015
Lower Median	80% AMI	\$ 53,863	\$ 39,212
	70% AMI	\$ 47,130	\$ 34,311
	60% AMI	\$ 40,397	\$ 29,409
	50% AMI	\$ 33,664	\$ 24,508
	40% AMI	\$ 26,931	\$ 19,606

The recommendation is to adopt a Gross Area Median Income for the entire District, and to defer further consideration of adjustments by household size until a review of the 2006 Census data can be undertaken.

2. Establishing the Median Home Price and Median Rent (MHPR)

Initial research has been conducted for the purpose of establishing a median home price and rent that would pertain to dwellings of an average size, grouped by unit size and type, yet source data reviewed to date does not easily allow for such detail. Further research is required to establish a median figure that can be supported by data, that excludes luxury dwellings, visitor accommodation, and units of an above average size and that facilitates price data by unit size and by census area unit. As a result, the Equity Gap examples below are based on a home/unit purchase price between \$300,000 and \$500,000, levels for which there appear to be product available in the marketplace, and that households would qualify for based on the Applicant Eligibility Criteria proposed.

3. The Gap between Area Median Income (AMI) and Median Home Price

The core relationship to be monitored over time is the Gap between AMI and the "amount" of housing a household can buy by spending 30% of its gross income on housing, and the income it takes to buy/rent the median-priced home.

Until accurate data is available for establishing the median home price, the following is an indication of how the Gap is calculated in the current marketplace, assuming a 7.8% fixed mortgage rate for the conventional loan, and the Equity Gap in the form of either a deferred interest Soft Second Loan of a Shared Equity contribution.

From the examples below, it appears that the methodology of defining the gap between that which a household can afford on their own and a median price for two and three bedroom units or homes below \$500,000 will prove effective. If the gap widens beyond the 25%-30% currently, then additional schemes will be needed to address the issue. It is strongly recommended, that this methodology be utilised, as it addresses the key concerns of the HOPE Strategy and is one that the Council's Monitoring Strategy can consistently report on year after year.

	80% AMI Band	100% AMI Band	120% AMI Band
A Household with a Gross Income of	\$ 47,130	\$ 67,329	\$ 87,527
By making monthly repayments of	\$ 1,430	\$ 1,683	\$ 2,188
Can Afford to purchase a home priced at	\$ 285,000	\$ 337,000	\$ 440,000
Paying a deposit of	(11,440)	(13,466)	(17,505)
With a mortgage of	(188,060)	(222,434)	(290,495)
Leaving a GAP of	\$ 85,500	\$ 101,100	\$ 132,000
Gap as % of house price	30%	30%	30%

Attachment 1, 'Applicant Eligibility Criteria', further describes how the gap calculation will be applied to a household's application for housing. Following a review for basic eligibility as meeting the 120% AMI income band, application of the income test and asset test calculates the specific gap needed to acquire the target housing unit. This eligibility and individual gap calculation would be completed by the organization managing the community housing portfolio, most likely the Community Housing Trust.

4. Schemes to Address the Gap

At this stage of development, the Document A: Applicant Eligibility Criteria includes further discussion of primarily Homeownership schemes. In general, two types of schemes, 1) shared equity and 2) soft-second loan are offered in that document as a way to address the Gap. In general, their benefits are discussed below:

	For Equity Gap Source		For the Applicant/Employee	
	Pro	Con	Pro	Con
Shared Equity	Market Risk: If market appreciates, value of % share increases	If market depreciates, value of % share decreases	If market appreciates, value of % share increases	If market depreciates, value of % share decreases
	Maintenance & Improvements: no benefits	Responsibilities may be complicated	Equity partner may share cost	You only receive partial value at sale for improvements you make
	Administration: no benefit; may engender loyalty from employee	Admin more complicated than loan; may complicate employee/employer relationship	May engender loyalty from employer	may complicate employee/employer relationship

Soft- Second Loan

<p>Market Risk: If market appreciates, you receive no benefit</p> <p>Maintenance & Improvements: No role in maintenance or improvements</p> <p>Administration: clear roles & responsibilities as specified in loan agreement; may engender loyalty from employee with few complications</p>	<p>If market depreciates, you risk no loss, unless it depreciates below combined loan value</p> <p>No role in maintenance or improvements; property may not be well maintained</p> <p>Need to separate administration of loan from Human Resource management</p>	<p>If market appreciates, you receive all benefit as your loan values are fixed</p> <p>Freedom with all maintenance & improvements</p> <p>Administration: clear expectations as specified in loan agreement; easily understood costs/benefits</p>	<p>If market depreciates, you still owe loan values and may lose your deposit value</p> <p>Responsibility for all maintenance & improvements</p> <p>Employer less likely to make HR decisions based on impacts to loan, as loan is more separate than an ownership stake in the house</p>
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Future reports to the Strategy Committee will propose further refinement of these schemes.

5. Establishing Targets

Staff will proceed with development of 'Document B: Builder/Developer Guidelines. Future reports to the Strategy Committee will propose further refinement of this Policy to adopt Document B.

6. Community Housing Trust

It should be noted that the roles being developed for Council and the Trust in improving housing affordability in the District must be considered in the context of a wider picture of market, being one that includes free market, alternative market and restricted market activities. Council and the Trust are foreseen to largely work in the restricted market context, acknowledging that the market, through alternative financing products, may be able to assist households with making a home affordable to them. In addition, Central Government has a large role to play in ensuring that quality housing is available for those least able to provide for themselves. The HOPE Strategy largely positioned a role for the Council and Trust to serve the large number of workers who would be able to take care of their housing needs without any assistance were it not for the unusually high housing prices in the District.

Document **A**

PROPOSED Applicant Eligibility Criteria for Community Housing

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Document **A**

PROPOSED Applicant Eligibility Criteria for Community Housing

(Note: the following criteria have been drafted to apply to all affordable/community housing programs to be offered by the Council and/or its Community Housing Trust. References to 'Trust', and 'Council' will be adjusted following the decision on which of these is the appropriate operating entity.)

To be eligible to participate in community housing programs (hereafter referred to as the "Programme"), applicants must meet the following set of requirements. These are designed to ensure fairness and equity among applicants, and to ensure that the wider goals of the Housing Our People in our Environment (HOPE) Strategy are achieved.

1) General Requirements

- a) Participation in the Program is limited to a Household with at least one member, who is and will remain a New Zealand Resident or Citizen
- b) Applicants shall agree that all information provided on the application is true, correct, and should any information provided be found to be of a false or fraudulent nature, the Council/Trust reserves the right to reject the application, terminate the applicant's participation in the program or take any other action that is legally available.
- c) Applicants will be required to certify their agreement to abide by the program requirements for the duration of their participation in the program
- d) Applicants consent to an annual re-certification of the information provided in the application, which includes but is not limited to verification of household income
- e) Household Income and Household Assets form two of the central eligibility factors for the Programme. The Income Test and Asset Test are utilized in the Gap Analysis, and are defined as follows.
- f) Income Test:
 - i) Applicants are eligible for the Programme if their Household Income **does not exceed the 120% of the Area Median Income (AMI) band for the Queenstown-Lakes District**, and as adjusted annually by the average wage inflation rate. See: Attachment A: "**Targeted Area Median Income Levels by Household Size**"

- ii) Housing is deemed 'affordable' if the Household spends a maximum of 30% of their gross income on rent or mortgage (principal and interest) repayments. In some cases, primarily where household income is above the median, and where the household can support conventional lending, a maximum expenditure of 35% of gross income may be acceptable.
 - iii) If the applicant wishes to include a person in their Household whose primary relationship is that of a flatmate, the applicant must state this relationship in their application form. In this case, Household eligibility will still be based on the AMI target for the primary household size. The primary lender's underwriting criteria can take the flatmate rent into consideration when determining the income necessary for repayments. This situation would only be considered desirable if it allows an applicant to qualify, and if the flatmate situation is temporary (i.e. will only apply during the first 1-2 yrs of eligibility).
- g) Asset Test:**
- i) Applicants who currently own their primary residence are viewed as suitably placed in the housing market, and therefore not in need of the assistance provided through the programme.
 - ii) Households who have assets that would enable them to purchase a home in the district without the use of Council assistance will not be eligible. Applicants consent and agree to provide details of all assets at time of application in order to determine whether programme assistance is necessary to achieve the Household's housing goals.
 - iii) Applicants cannot own any other residential property in NZ or overseas at time of settlement, and cannot own or be in the process of borrowing funds to purchase a rental property. Households may be deemed to be ineligible if a household member, via a trust or other mechanism, has an ownership share in other residential or commercial property, or other significant assets (i.e. share portfolios), subject to the assessment of the asset as part of test ii above. Applicants will be encouraged to discuss their situation with staff, which may need further consultation with the review committee prior to making a decision.
 - iv) Applicants must demonstrate adequate assets to make the required deposit contribution. At time of application, these may come in the form of a property or other investment owned outside of the district for which the household would be required to commit to sell and apply the proceeds toward their primary residence in the district.
 - (1) For Households with no dependents, the expected deposit contribution is 15-20% of one year's Household Income;

(2) For Households with dependents, the expected contribution is 10% of one year's Household Income.

h) Gap Analysis:

Levels of assistance will be based on the minimum amount needed to secure adequate housing by eliminating the gap between what the household can afford, and a residential unit appropriate for the household size.

2) Homeownership Programme

The objective of the Program is to facilitate first-time homebuyers who are working in the District to be able to live in the District on a long-term or permanent basis. The Homeownership Programme is achieved through two primary mechanisms: Units owned by the Community Housing Trust (Section 3.6), and the Equity Gap Scheme (Section 3.7). The benefits to the purchaser are that: The deposit gap is reduced/ eliminated; Borrowing costs are reduced; and entry into the housing market is facilitated.

- a)** In addition to the general requirements, applicant Households must have at least one member:
 - i) who is a first-time home buyer in the District or re-entering the ownership market after having been out of it;
 - ii) who has been employed for 12 months or more and remains employed on a Full-time basis in the District with a Registered Employer.
- b)** The property must be used exclusively as the applicant's Primary Residence. The property may not be rented to another party, except for a period of up to 28 days (consecutive) in a given year.
- c)** Applicants will be required to obtain financing for their home purchase through a commercial lender, and will be subject to the lender's standard loan underwriting criteria.
- d)** Applicants shall consent that the Council/Trust and Lender may share information with each other regarding the Application
- e) Eligible Property:** Residential or rural zoned property located in the Queenstown-Lakes District which meet the following criteria:
 - i) established house on a single section serviced by road, power and water;

- ii) with a minimum size of 70 square meters and a maximum size of 180 square meters (excluding balcony, car park and external stairs);
 - iii) freehold property; cross lease; or Unit Titles (as qualified below);
 - iv) leasehold property, which is perpetually renewable. The next right of renewal and the date upon which the lease rent is reviewed should be at least 5 years from the date of approval.
 - v) Unit Title property which meets the following criteria:
 - (1) purpose built for residential occupation (not a conversion)
 - (2) common area is limited to driveway and grounds
 - (3) self contained (no shared facilities such as kitchens and bathrooms)
 - (4) own individual entry/stairs/access
 - vi) The property purchase price must be supported by a registered valuation, acceptable to the commercial lender and Council/Trust, and the property must have a LIM Report which at time of settlement contains no outstanding issues of any significance;
 - vii) The property purchase price cannot exceed 120% of the median home price as published by Council/Trust on an annual basis;
- f) Unacceptable property types:**
- i) commercial or industrial property
 - ii) special rural property (e.g. farms or vineyards)
 - iii) unit in a hotel/motel
 - iv) unit in a serviced or managed (excluding body corporate) complex
 - v) hotel/motel conversions
 - vi) flat-owning company share properties
- g) Purchasing a leasehold interest in a unit owned by the Council/Trust**
- i) For the 5% of units at Jacks Point resulting from that development's Stakeholder Agreement, a preference is granted to applicants working on the construction and development of Jacks Point, and after construction, those working at Jacks Point. Unit affordability targets are detailed in the "Unit Size by AMI Targeting Worksheet" as agreed to by Council and Jacks Point.
 - ii) Specific requirements for other developments to be detailed separately.
- h) Equity Gap Schemes for use in the private housing market**
- Two schemes, Shared Equity and Soft Second Loan are available to fill the gap between a home at or below the median price and the conventional loan plus deposit available to the applicant.

- i) **Shared Equity Scheme:** Shared equity exists where the ownership, and thus the equity in a property is shared between two parties. The equity partners in this case are the applicant as homebuyer and the Council/Trust as an equity investor. A conventional lender is also involved for financing the balance of the purchase price.
- (1) The two parties jointly purchase the property as “tenants in common” or other legally suitable form, which means that each owns a fixed share of the equity in the property.
 - (2) The Council/Trust may invest an amount not to exceed 30% of the purchase price of approved property. The amount will be determined based on the lowest possible amount required to fill the gap in equity resulting from the Gap Analysis, and the Income and Asset tests described in the previous sections of this document. The final amount of the Council’s equity share is based on the purchase price of the property, the income of the borrower, and underwriting advice provided to the Council from the primary lender.
 - (3) Approved property will require a current valuation from a registered valuer and a LIM report – these reports will be at the expense of the purchaser.
 - (4) The purchaser will be responsible for all maintenance and property costs (i.e. rates, insurance etc). These will be covered in a separate maintenance agreement.
- ii) **“Soft Second” Loan Scheme:** So named in that it is second in position to a conventional loan, and ‘soft’ in that repayments are deferred until sale or refinancing of the property. This scheme reduces and/or postpones the costs of servicing the second Council/Trust loan, through a Low/Discounted Interest Rate and/or Interest Only Loan
- (1) **General:** The purchaser will be responsible for arranging their own borrowing of a first trust deed mortgage from any lender. This mortgage will be the first charge against the property, with Council/Trust’s interest in the property ranking second in priority. Monthly repayments of the Soft Second Loan will not be required, and therefore will not be counted by the primary lender in assessing the applicants borrowing capacity.
 - (2) **Low/Discounted Interest Rate:** This option is self explanatory and could be applied to a standard table mortgage or an interest only loan. (NOTE: If the reduced interest rate is offered directly from the employer to the employee, Fringe Benefit Tax (FBT) will certainly apply to that portion of the interest cost which is below market rates. This is a direct additional cost to the Employer and will apply at the rate of 49 - 64% of the benefit depending on the income level of the recipient.)
 - (3) **Interest Only Loan:** This option offers a loan without progressive principal repayments. Interest is charged at predetermined intervals but

the principal is repaid in one lump sum at an agreed future date. Generally interest only loans are offered for shorter terms than table mortgages. Unless the loan interest is discounted per above, market based interest rate will apply (based on prescribed FBT rate).

- i) Repayment and Resale Control:** The Council/Trust will continue its investment in the property through either of the Equity Gap schemes, as long as the Applicant remains employed by a Registered Employer, which shall be verified on an annual basis.
- i) Should the employee cease employment with their Registered Employer, Council/Trust will require that its investment be repaid within a timeframe specified in the Equity Gap agreement, unless the employee takes a new
 - ii) position at a rate of pay not in excess of 140% of local area median income (AMI), with another Registered Employer.
 - iii) Full flexibility will be available to enable the applicant to make voluntary payments without penalty at any time.
 - iv) The purchaser has the ability to sell their share of the property at any time, with the Council retaining right of first refusal to purchase the unit, or to allow a new buyer to qualify under the Equity Gap schemes. If the Council/Trust declines to exercise its option, the unit shall be sold at a fair market value, documented by a registered valuation, with the Council receiving
 - (1) proceeds equal to its share of ownership if Shared Equity scheme
 - (2) loan principal plus accrued interest, if the Soft Second loan scheme.
 - v) Resale control of units owned by the Community Housing Trust requires that the Applicant re-sell their unit to the Trust, based on value as established by a registered valuer, subject to adjustments as specified in the unit Purchase and Sale Agreement.
 - vi) The applicant may voluntarily increase their equity share. This will involve buying out all or part of the Council share (based on current market valuations) at nominated time intervals (i.e. 2 yearly). These terms will be established through negotiation, and referenced in either a Shared Equity Agreement or Soft Second Loan Agreement.
 - vii) Starting in year 3, if no voluntary repayments have been established, the Council may require a review with the Purchaser, and establish a plan to increase their ownership, with an aim for the purchaser to buy out the Council/Trust share, if the following conditions exist:
 - (1) Household income has increased above 160% area median income band
 - (2) Percentage of household income servicing the first trust deed has dropped below 15% (with dependents) or 20% (without dependents).
 - viii) If by year 10, no schedule is in place for stair casing the Purchaser's share and removing the Council from its tenants in common or loan position, the Council reserves the right to require that the property be refinanced such that the purchaser is the whole owner of the unit, with no Council involvement.
 - ix) Should the primary mortgage be repaid, Council's share of ownership shall also be repurchased, or a schedule established for its repurchase.

3) Rental Programme:

- i) To be further specified at a future time.

4) Application Ranking

- a) At this time, applications will be reviewed and processed on a first-come, first-served basis. A balloting or ranking score system is under development. Should demand exceed supply, such a ranking system may be necessary and would be proposed for adoption at a future time.

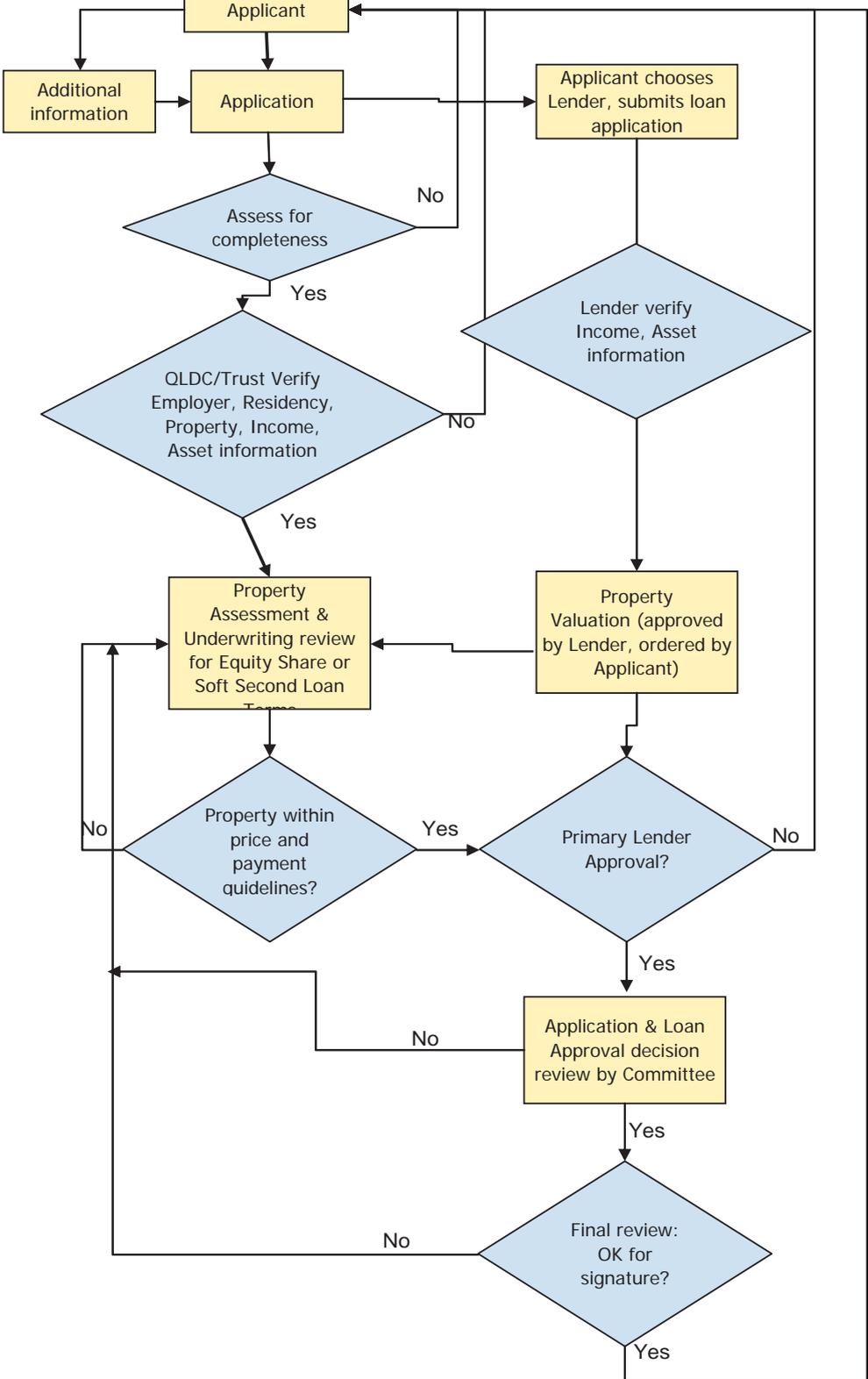
5) Application Review and Approval

- a) Applications will be reviewed by a Council/Trust policy analyst for completeness, and for confirmation of Residency and Registered Employer. All Income, Asset and lending criteria will be reviewed by Applicant's chosen lender.

- b) A staff report will be prepared for review by the designated committee, with a recommendation to approve or deny the application.

- c) The chart on the following page is a guide for the application review process:

Equity Gap Application Review Process



6) Attachments

- a) Targeted Area Median Income Levels (2006)
- b) Equity Gap Scheme Examples: The examples demonstrate income and deposit requirements for sample homes, and work equally whether the shared equity or soft second loan schemes are applied.

7) Definitions

- a) Assets: All bank, investment, real property, or other assets owned by any member of the Household.
- b) Full-Time Employment: Defined as 30 hrs per week or more.
- c) Household: may include a single individual or a family, which may comprise a legally married or de-facto partnered couple, and their children (aged 18 or under) who are under legal guardianship of the individual or couple and other dependents who normally occupy the same primary residence. It is acknowledged that households may also include elderly parent(s) or adult children, and the inclusion or exclusion of these members income when calculating 'Household Income' as defined below will be reviewed on a case-by-case basis.
- d) Household Income: all income earned from gainful employment, or received from investment, public benefit, superannuation or other source, of any Household member.
- e) Primary Residence: defined as the place of daily residence for all household members. A Household may have only one Primary Residence.
- f) Registered Employer: an employer who has registered with the Trust, and listed on the "Registered Employers" list as published from time to time, and certifies that its employees are 'locally employed' as required by these guidelines. Registered Employers are deemed such for having made a contribution to the Community Housing Trust (requirements of such contribution to be specified separately), and include:
 - i) Any District-based unit of local, regional or national government, including but not limited to NZ Police Force, NZ Fire Service, Queenstown-Lakes District Council, and its related entities and other entities which may be added from time to time;
 - ii) Any medical centre, hospital, ambulance service, or emergency response entity;
 - iii) Any public or non-profit school;

iv) Any private employer

Attachment A:

Targeted Area Median Income Levels (as adopted for 2006)

Area: Queenstown-Lakes District

		Area HOUSEHOLD Median Income		
			GROSS Income (Before Tax)	NET Income (after Tax)
Homeownership	Upper Median	129% AMI	\$ 87,526	\$ 63,719
		120% AMI	\$ 80,794	\$ 58,818
	Median	100% AMI	\$ 67,329	\$ 49,015
	Lower Median	80% AMI	\$ 53,863	\$ 39,212
		70% AMI	\$ 47,130	\$ 34,311
		60% AMI	\$ 40,397	\$ 29,409
		50% AMI	\$ 33,664	\$ 24,508
		40% AMI	\$ 26,931	\$ 19,606
Rental				

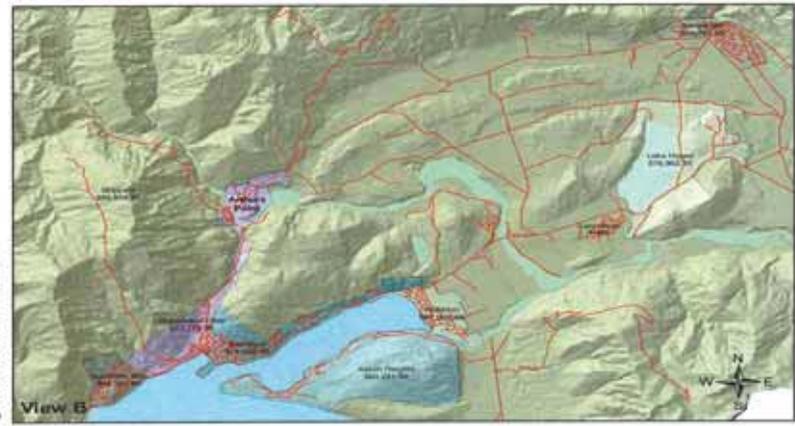
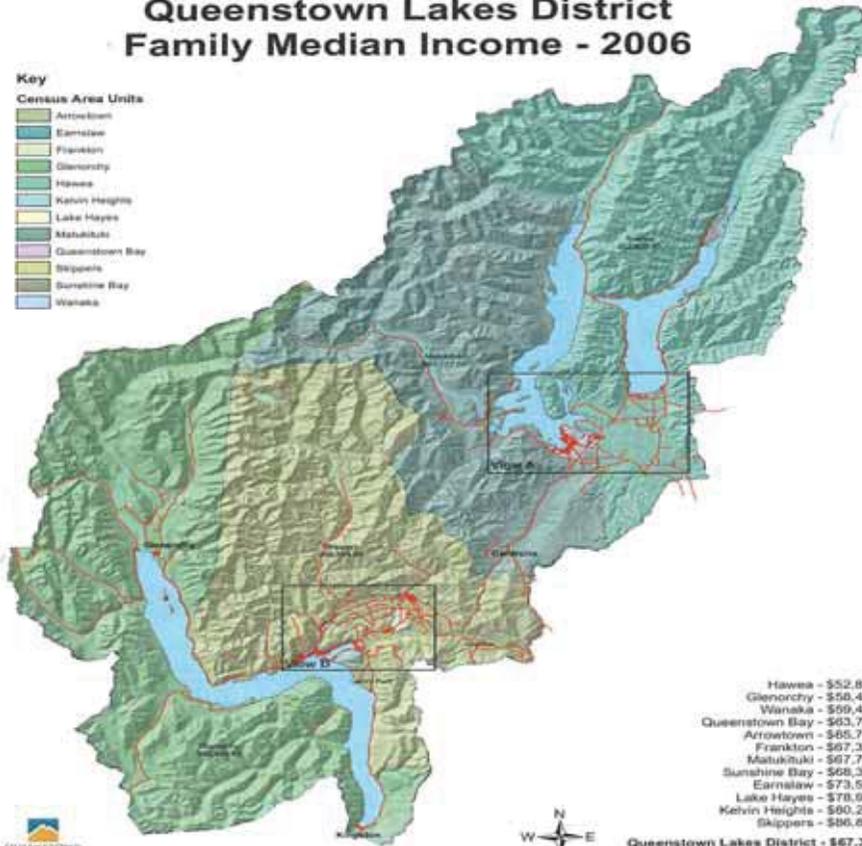
Attachment B: Equity Gap Scheme Examples

Summary

	80% AMI Band	100% AMI Band	120% AMI Band
A Household with a Gross Income of	\$ 47,130	\$ 67,329	\$ 87,527
By making monthly repayments of	\$ 1,430	\$ 1,683	\$ 2,188
Can Afford to purchase a home priced at	\$ 285,000	\$ 337,000	\$ 440,000
Paying a deposit of	(11,440)	(13,466)	(17,505)
With a mortgage of	(188,060)	(222,434)	(290,495)
Leaving a GAP of	\$ 85,500	\$ 101,100	\$ 132,000
Gap as % of house price	30%	30%	30%

Queenstown Lakes District Family Median Income - 2006

- Key**
Census Area Units
- Arrotown
 - Earnslaw
 - Frankton
 - Glenorchy
 - Hawea
 - Kevin Heights
 - Lake Hayes
 - Matukituki
 - Queenstown Bay
 - Skippers
 - Sunshine Bay
 - Wanaka



Hawea	\$52,835
Glenorchy	\$50,447
Wanaka	\$59,479
Queenstown Bay	\$63,719
Arrotown	\$65,781
Frankton	\$67,338
Matukituki	\$67,778
Sunshine Bay	\$68,364
Earnslaw	\$73,522
Lake Hayes	\$78,962
Kevin Heights	\$80,282
Skippers	\$86,639
Queenstown Lakes District	\$67,329

