



ST.KILDA
Community Housing Ltd

Submission
to the Affordable Housing Working Group:
Issues Paper

March 2016

1. Introduction

St Kilda Community Housing (SCH) welcomes this opportunity to contribute to the work of the Affordable Housing Working Group. As the Issues Paper rightly points out, affordable housing is of paramount importance in people's lives in terms of providing security in the long term and improving employment, education and health outcomes.

SCH is a community housing provider registered in Victoria and has been providing community-managed rooming house accommodation across St Kilda for more than 30 years. SCH now manages 20 rooming houses with 337 residents at capacity.

Since 2011, SCH has also managed a social enterprise which undertakes all the maintenance for the properties as well as for a number of other community housing agencies and other external bodies. A primary aim of the social enterprise is to provide employment for SCH residents – the vast majority of whom have come to us from homelessness and who are living on benefits.

Since 2011 more than 30 residents have found employment through the social enterprise. Given the success of the social enterprise, SCH has been looking at housing models that could assist those residents with a pathway out of rooming houses and into more long-term and appropriate housing. SCH is particularly concerned to develop housing models that break the current dichotomous housing market of renters and purchasers.

A further impetus for doing so is to provide opportunities for some of our residents to re-engage with their families – especially their children. Rooming houses are not an appropriate environment for children.

One of the problems experienced by our residents once they gain employment is that they then are generally ineligible for public housing in Victoria as this is now reserved almost exclusively for those who are most in need. Community housing associations accept some higher income tenants for programs such as NRAS, but demand far outstrips supply.

Furthermore, the private rental market here in St Kilda is out of reach for most moderate income earners. For example, a two-bedroom flat in St Kilda commands rent of between \$400 and \$450 a week. For a worker on \$60,000 per annum, with take home pay of \$918 per week, this amounts to almost 50% of their income, which pushes them into housing stress.

It is in this context that SCH has been developing a Community Land Trust (CLT) with assistance from the Lord Mayor's Charitable Foundation. SCH believes that CLTs may provide one answer to the growing housing affordability

problem being experienced across our major cities. The remainder of this submission sets out what a CLT is and how it can work for low to moderate income earners and how governments can assist with scaling up the model. However, we would also like to emphasise the critical importance of public housing and remind the Working Group that the Productivity Commission found public housing to be the most cost-effective housing model for low-income people. Unfortunately government policies since the mid-1980s have led to a concentration of disadvantage on the public housing estates which is making public housing unsustainable in the longer term.

2. The Proposed Model

A Community Land Trust (CLT) is a new form of housing tenure in Australia that aims to maintain housing affordability in perpetuity for low to moderate income earners. The model has been working in the United States for more than eighty years, the largest of which is the Champlain Housing Trust in Burlington Vermont, managing over 2100 properties.

One main purpose of a CLT is to assist people living on low to moderate incomes to gain access to home ownership. A second purpose is to assist those people, such as key workers, to gain access to home ownership in the areas where they work but where the housing has been unaffordable.

In cities such as Melbourne the high cost of inner urban housing is being driven by the escalating cost of the land – rather than the cost of the actual housing. In a CLT, the land is held and owned by the CLT. Therefore a prospective homeowner in a CLT only has to pay for the bricks and mortar. For example, the median price for a two-bedroom unit in St Kilda is \$550,000. If it is assumed that \$50,000 is paid as a deposit, the fortnightly mortgage repayment on a loan of \$500,000 over 25 years with an interest rate of 5% would be \$1348.

However, if the cost of the land of \$300,000 is removed from the purchase price, then the fortnightly mortgage repayment on a loan of \$225,000 (10% deposit of \$25,000) with an interest rate of 5% would be \$606. For our person earning \$60,000 the proportion of weekly income spent on housing would drop from 73% to 33%. This brings a form of home ownership within the grasp of people on below average weekly earnings – the same group of people who are currently locked out of access to subsidised housing, whether public or community-managed.

When a person purchases a property through the CLT they enter into a long term arrangement (up to 99 years) to lease the land on which the property stands from the CLT. The amount charged in this lease (known as a “ground lease”) is generally very modest and only amounts to about \$25 a month in some of the CLTs running in the United States.

The ground lease that the home owner enters into will include a clause setting out the re-sale formula for the property when it is sold. This re-sale formula will not be the full market price for the property because the land is never included in the price.

By regulating the re-sale price, the affordability of the property is ensured, whilst the owner makes a modest capital gain. The lease will also stipulate that the property can only be purchased by people on low to moderate incomes.

The re-sale formula works in the following way, if it is assumed that a CLT homeowner retains 25% of the appreciated value:

The CLT home owner paid the CLT \$250,000 for the home

At the time of purchase the market value of the home (without land) was appraised at \$250,000

When the CLT home owner wishes to sell in say 5 years time, the market value of the home is appraised at \$350,000.

25% of \$100,000 is \$25,000 – this represents the capital gain.

The purchase Option Price (ie the discounted price at which the CLT home owner can sell) will therefore be \$275,000.

In this scenario, the owner also gains any monies that they have paid down on the principal of the loan. Clearly the equity gains in CLT home ownership are modest. However, the purpose of a CLT is to provide all the advantages of home ownership – such as stability and security of tenure – coupled with affordability. CLTs represent a particularly affordable way for low to moderate income earners to gain a toe hold on home ownership and potentially move into the mainstream home ownership market over time. In the United States, for example, upwards of 25% of CLT purchasers move out and into the open housing market using their gains from the CLT as a deposit.

A low to moderate income earner benefits because they get access to housing in a location where they were previously locked out. This will enable key workers – nurses, hospitality staff, hospital cleaners, and so forth, to live much closer to where they work. The savings on transport themselves add to financial stability.

The home owner enjoys most of the usual benefits of home ownership – the property can be bequeathed to children, there is security of tenure and the right to exclusive use of the property. The home owner can also realise the capital gain from any improvements made to the property.

A CLT can also be very flexible when an individual's circumstances change for whatever reason. For example, if a home owner can no longer afford the mortgage re-payments, many CLTs have arrangements in place that allow a form of shared equity. This means that if the individual has already paid for 50% of the property they can still be entitled to that 50% equity but can convert to

renting during the hard times. There is also the possibility of moving from renting initially to buying, with some of the rent already paid counting towards the purchase. This degree of flexibility is especially attractive for those whose current incomes might be very low but whose circumstances may improve over time.

3. Roles of Government, Investors and Not-For-Profits

Governance of CLTs is generally undertaken in the classic model with one-third CLT residents, one-third local community representatives and one-third experts. The CLT itself is a not-for-profit entity. SCH believes that the community housing sector is best placed to undertake the auspicing role initially for CLTs because a large number of community housing agencies have charitable and DGR status, which allows access to philanthropic funding.

SCH sees the role of government as the enablers of the CLTs most commonly through the release of government-owned land upon which the CLT can be built. The CLT represents a risk-free opportunity for governments because at no point is ownership of the land removed from the public domain. This also provides the opportunity for any spare land on existing larger public housing estates to be utilised for CLT purposes.

Recently there has been talk of a number of mechanisms that can be established to engage investors in affordable housing. For example, Andrew Tyndale has put forward the concept of an Affordable Housing Financing Corporation from whom superannuation funds could purchase \$2.5 billion in bonds which would fund the building of 10,000 new homes¹. In return the federal government would pay over a decade \$1 billion in coupon payments on those bonds to the superannuation funds. This model is similar to that outlined in the Issues Paper regarding The Housing Finance Corporation in the UK, which guarantees loans for both affordable rented housing and affordable home ownership.

The role of various bodies and the different types of funding required depends very much on the stages of development required for the CLT.

Essentially, four distinct categories of funding will be required:

- Initial seeding money to enable the start up of the CLT and the development of a local entity. The estimated costs are around \$50,000, with much of the money being expended on the development of the legal instruments. However, much of this will be a one-off cost that can be shared with other CLTs down the track. SCH expects that this would be funded primarily through the philanthropic sector.

¹ "A banker's plan for low-cost housing" *Financial Review* February 26th 2016.

- Development finance towards the cost of the land purchase (where necessary) and construction costs, is a new build, or for the purchase of pre-existing properties. This is the phase that will require initial up-front funding either directly through governments or through an intermediary akin to The Housing Finance Corporation or the Affordable Housing Finance Corporation.
- Long term mortgage loans if rental homes (ie if the CLT operates rent-to-buy schemes) and access by vendees for retail mortgages to finance part purchase. The potential pitfalls here are discussed under barriers to implementation.
- Bridging and revenue financing to help the CLT itself pay its initial bills at handover and a revenue reserve for contingencies.

The funding required from governments is short-term because once the CLT is fully functioning it is able to continually recycle any initial subsidy received. Therefore one of the great benefits of this scheme is, unlike other housing affordable schemes such as NRAS, where the subsidies continue and compound for ten years, each CLT will only require a one-off subsidy as the CLT will generate its own revenue streams through sales, fees and ground leases.

4. Two Scenarios For Scaling Up

The model becomes independent of government over time with the following scenarios

Scenario1:

- Government allocates \$20,000,000 to a CLT
- CLT purchases 50 properties @ average price \$400,000
- CLT separates off the land and resells to eligible purchasers at \$200,000
- CLT purchases 25 properties with results of the sale and sells on
- Then 12 properties, 6 properties, 4 properties, 2 properties and 1 property

At the completion of the exercise the CLT has generated 100 affordable housing units at a cost \$200,000 per unit and secured the affordability of those 100 properties for future sales while retaining the value of the land at the original purchase price.

Scenario 2:

- Government allocates \$20,000,000 to a CLT and makes available land for development
- CLT develops 70 units on the land for sale to eligible purchasers at cost of construction (\$285,000)
- Constructs a further 70 units from the sales and repeats the process

The annual subsidy required for this model to work would be the increase in the cost of construction or CPI. This model could repeat indefinitely as long as the government was able to make suitable land available and a subsidy for CPI was available, approximately \$800,000 annually for 5 years to enable the CLT to generate sufficient reserves from the ground leases to accrue.

5. Operational Design Elements

A CLT is an excellent vehicle for a pilot project. SCH has been exploring two ways by which to establish demonstration projects for potential investors. The first method is the purchase of land and housing through the open market. The example given earlier demonstrates how a flat in St Kilda can be made affordable for key workers, such as teachers, emergency workers, hospital workers and so forth.

The second method is a demonstration project on a public housing estate. This would take two forms. One would be to refurbish existing units and then enable the residents to invest in them. Far from this comprising a sale of public housing assets, it could be argued that this is simply restoring the security that public housing tenants enjoyed in the immediate post-war period. This would bring affordable part ownership within the grasp of some of those living on statutory incomes. The second component is to better utilise the land surrounding the estates by building over the car park areas and converting them into CLT properties for key workers. If successful, this could be scaled up across metropolitan Melbourne with no loss of publicly-owned land.

6. Barriers to Implementation

There are currently a number of barriers that make CLTs harder to establish in some jurisdictions than in others. The first barrier relates to the separation of the ownership of the land from the ownership of the title. Only in the ACT is this the dominant form of ownership. Having long term leases as a legal mechanism would require modification of the Residential Tenancies legislation across the country. Under the respective RTAs in Victoria, NSW and Tasmania, there can be exemptions based upon the term of the lease but this is not necessarily so for other jurisdictions. One mechanism for overcoming this barrier would be for one jurisdiction to become the lead jurisdiction for national legislation, for example as Queensland did for the Australian Health Practitioners Regulatory Authority.

Other barriers include obtaining mortgages for the lease rather than the title. Research undertaken by the University of Western Sydney² has shown that the land rent scheme of the ACT has proved successful in attracting finance from

² L. Crabtree et al, The Australian Community Land Trust Manual, University of Western Sydney 2013. p. 171.
<http://imap.vic.gov.au/uploads/Strategy%20Documents/The%20Australian%20CLT%20Manual%2020130409.pdf>

two second tier financial institutions. Because the CLT sector is so small there is currently no incentive for the larger banks to become involved. However, successful demonstration projects may go some way towards changing this.