BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Housing Policy Unit Manager
Social Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600
Via email: HousingConsultation@treasury.gov.au

20 October 2017

Dear Manager

Submission to the Treasury consultation into the National Housing Finance and Investment Corporation

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to make a submission to the Treasury consultation into the National Housing Finance and Investment Corporation.

The BCCM is the peak body for Australia's co-operative and mutual enterprises (CMEs). We seek to raise awareness of the current and potential contributions of CMEs to all aspects of Australian community and economic life. Information about the BCCM and the co-operative model, particularly as it relates to housing, is included in the body of our submission.

BCCM members include some of Australia's largest Community Housing Providers, which have grown out of the co-operative housing sector.

The tenant managed model of co-operative housing is the most common model of co-operative housing currently used in Australia. It provides thousands of low income Australians with the opportunity for empowering social housing options and for cost reductions in housing management costs.

However, the co-operative ownership model also provides an opportunity to create affordable, private market housing, especially for first home owners, last home owners and essential service workers.

The BCCM is supportive of the National Housing Finance and Investment Corporation. We take this opportunity to provide some general comments on housing co-operatives along with specific recommendations on the NHFIC and how it can best facilitate the development of affordable housing co-operatives. The BCCM supports the submission to this consultation by our member, Common Equity NSW, which provides more detailed comments on the structuring of NHFIC.

The BCCM welcomes the opportunity to provide further information or comment on any aspect of this submission at any hearings the Treasury may hold.

Yours faithfully

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Executive Summary

The Business Council of Co-operatives and Mutuals is broadly supportive of the National Housing Finance and Investment Corporation and its aims.

A number of BCCM members operate in the affordable housing space as Community Housing Providers (CHPs). The preference of these organisations is to use a co-operative housing model in order to maximise opportunities for tenant participation and inherent pathways to confidence, skills and economic empowerment. Housing co-operatives deliver economic efficiencies for housing providers, and frequently provides better social, health and wellbeing outcomes for residents.

Housing co-operatives are a well understood and entrenched business model in the provision of affordable housing across many parts of the world, and Australia can leverage growth of this model to address our affordable housing shortage.

Like all co-operatives, the business focus for a housing co-op is on its members, rather than a return of profits to shareholders or private investors.

Housing co-operatives can be especially powerful in the provision of affordable housing in the first-home-owner, last-home-owner and essential service worker sectors, in addition to their role in social housing provision (tenant managed models).

The BCCM makes the following recommendations in response to the consultation paper:

1. That a proportion of land released by all levels of Government be reserved for affordable housing
2. That State Governments be encouraged to increase the percentage of affordable housing required within new developments
3. That the National Housing Finance and Investment Corporation be able to deal directly with Community Housing Providers
4. That the National Housing Finance and Investment Corporation have an independent, skills based board
5. That the Federal Government work with providers of different home ownership models, including the co-operative model, to develop resources and model rules that facilitate replication of that housing ownership model in the community

Section 1: About the BCCM

The BCCM is the peak body for Australian co-operatives, mutuals and member-owned businesses. The BCCM represents a diverse range of businesses operating in sectors including agriculture, finance and banking, insurance, motoring services, health services, aged care, disability employment, education, indigenous services, housing and retail.

The BCCM advocates for recognition of the sector and for measures that create a level playing field between co-operatives and other businesses, including implementation of the recommendations of the Senate Economics References Committee report into Cooperative, mutual and member-owned firms.[1]

The following co-operative housing providers are members of the BCCM:

- Common Equity Housing Limited (based in Victoria)
- Common Equity NSW (based in New South Wales)

The operations of these organisations are discussed in Section 3.

BCCM banking members, such as Bank Australia and Teachers Mutual Bank, are providers of housing development finance and housing loans including to Australians who are marginalised in relation to housing (such as people living with disability).

Section 2: Co-operative and Mutual Enterprises (CMEs)

Co-operative and mutual enterprises are a significant contributor to the Australian economy: 8 in 10 Australian adults are members of at least one CME and annual turnover of the top 100 CMEs (excluding member-owned superannuation funds) reached $30.5 billion in FY2014/2015.[2] Together with mutual superfunds, it is estimated that the CME sector contributes up to 8 per cent of Australia's GDP.

CMEs are generally incorporated and regulated under one of two legislative regimes:

- State or Territory-based Co-operatives National Law (the CNL)[3]

- The Commonwealth Corporations Act
  A co-operative or mutual which is formed under the Corporations Act must have an appropriate company constitution in order to be considered a CME.

The distinguishing feature of all CMEs, regardless of what legal form they use, is that they are owned by their members and operate for member benefit. Member benefit can mean a wider range of social or non-financial benefits compared with the financial returns enjoyed by a shareholder. Membership is tied to contributing to or making use of the CME; this ensures the CME is made up of people who share its common purpose.

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[1] http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/Report
[2] Business Council of Co-operatives and Mutuals, National Mutual Economy Report 2016, 17. http://bccm.coop/wp/wp-content/uploads/2016/11/BCCM-NME-Report-2016.pdf
[3] The Co-operatives National Law has been adopted in all States and Territories except Queensland. Western Australia has adopted consistent legislation.

Section 3: The Co-operative Housing Model

Co-operatives are focused on delivering a wide range of economic, social and cultural benefits to their members. In the provision of affordable housing, this can give them a competitive advantage over housing providers that are primarily seeking a return on investment. Some key features of housing co-operatives are as follows:

- Incorporated entity with limited liability of members
- Primary purpose is provision of secure, high-quality and affordable housing to members and any surpluses generated are reinvested into this purpose
- Usually has a minimum of five members
- Can have a low or high level of common facilities, or even be across multiple locations in a suburb
- Varying levels of property management and maintenance are undertaken by members, reducing the financial cost of tenancy or occupation costs
- Capital value of dwellings may be set by market prices, or restricted to CPI or some other measure

Co-operatives allow the creation of a formal, limited-liability business structure which can operate on a not-for-loss basis[4], rather than the primary goal being profit maximisation, wealth creation or a capital value increase.

Appendix 1 to this submission is a copy of "Breaking Through the Affordability Ceiling", a discussion paper produced for the Housing Affordability Roundtable sponsored by Common Equity Housing Limited and bankmecu. This paper provides further detail on a range of possible business structures for housing co-operatives.

Possible applications of the co-operative housing model:

Examples of co-operative housing developed to serve interest groups includes Stucco, the student housing co-operative of the University of Sydney. This enables the circulation of residents in and out of the co-operative according to need without loss of affordability of access (since the shares can retain par value and not accrue capital gain over time).

Since housing co-operatives may operate across multiple locations, they can provide a unique housing solution for essential service workers. A development for graduate nurses, firefighters or police could be built in a central location – for example, near Parramatta in Sydney's central suburbs. These dwellings could be a mix of type (semi-detached town houses, apartments, etc) which allow the varying family structures of the staff to be catered for. Near Sydney's major hospitals, police and fire stations, the co-operative could build a number of smaller units, which can be used by the staff when on duty. Access to these smaller units would be provided as a benefit of membership of the co-operative.

Whatever the life-stage of its occupants, the co-operative model provides an alternative to buying into a land and house package (managed, usually, by one or two developers) or into an apartment complex (also managed by a developer). This is discussed further under Recommendation 2, below.

[4] This is distinctly different from the formal "not-for-profit" status some businesses, including some CMEs operate under. A close analogy may be a strata structure, where a body corporate is formed and strata fees are levied on owners to ensure ongoing maintenance work can be undertaken. In this sense, a strata is not-for-loss (i.e. it must operate in a manner where invoices for maintenance can be paid), even if it needs to commission special purpose levies from time to time. However, it does not operate in a manner to create a profit to be returned to the owners.

Section 4: Co-operative housing in Australia

Co-operative housing has existed in many parts of Australia for decades and is currently most prevalent in the social housing sector. However, there are also a number of stand-alone affordable housing co-operatives that are part of the private (market) housing sector. In this way, housing co-operatives are an important part of both the social and the private housing sectors.

Social housing rental co-operatives

There are 177 social housing rental housing co-ops across Australia providing over 3,000 homes, with the majority in Victoria (2,700) and NSW (nearly 500).

Common Equity NSW (CENSW) was formed in 2009 as the peak body and the registered housing provider (Tier 2) under the National Accreditation System supporting 33 housing co-operatives across NSW.

Common Equity Housing Limited (CEHL) formed in 1986 is Victoria's largest Housing Association and is both a provider and developer of affordable housing. The CEHL co-operative housing program involves 111 individual co-operatives, which house in-excess of 5,000 tenant-members in 2,200 properties across Victoria. CEHL assets are valued in excess of $800 million.

Both CENSW and CEHL are federally registered companies and governed by Boards of Directors. The Directors are a mix of elected directors from individual housing co-operatives and technical experts in law, accounting, town planning, property development and insurance.

Individual housing co-operatives are separate legal entities comprising of tenant members. CENSW and CEHL develop, own and lease properties, and work together with individual housing co-operatives to deliver a high-quality housing solution.

Common Equity Housing SA (CEHSA) provides administrative and regulatory support to community housing co-operatives and associations and their members, while advocating for the protection and growth of the co-operative and community housing sector.

Co-operation Housing – based in Western Australia – is a community housing provider registered with the Western Australian Housing Authority, and meets the authority's registration and compliance requirements on behalf of their member housing co-operatives.

The key benefits of co-operative housing in the social housing sector include;

- Efficiencies and labour savings created by active tenant involvement in management and maintenance[5]
- Better health and wellbeing outcomes
- Low rent arrears rates
- Lower maintenance costs arising from property damage
- Higher tenant satisfaction
- Tenant skill development and empowerment
- Strong sense of community and support networks created
- Greater pride by tenants in their properties[6]

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[5] A 2015 NSW labour survey showed the co-operative model being 20% more efficient to operate than the average Tier 1 provider and 47% more efficient than the average Tier 2 provider. This reflects the value of volunteerism embedded into the co-operative model.

[6] More information on the models of Co-operative Housing can be provided, as well as evidence regarding improved health and social outcomes.

The organisations described above were initially created to provide regulatory oversight for individual housing co-operatives, which were gradually brought under various new State regulatory frameworks. CEHL has achieved considerable success in gaining access to additional housing stock through the divestment of such stock by the Victorian Government.

Stand-alone affordable housing co-operatives

There have been a number of developments of private (market) stand-alone housing co-operatives in recent years and interest in the model is growing.

The AGEncy Project, based in and around the inner-city suburb of Balmain in Sydney, seeks to create accommodation for local residents to

> *"…live actively and independently 'together', as they grow old*".[7]

The AGEncy Project aims to provide a service allowing people to buy into a development where those people each have individual houses, villas, townhouses or apartments with an intention and commitment to sharing some common facilities and management duties.

The Narara Ecovillage Co-operative, on the Central Coast of New South Wales, is located on the 64-hectare site of the former Gosford Horticultural Institute. There are currently more than 55 families living in the development, with an eventual aim of providing homes for more than 300 people of all ages.

Narara has recently been granted a licence to operate an integrated water system – the first of its kind in NSW for a community enterprise. This licence allows the development to provide its residents with drinking water from the community's own catchment and dam, treat all sewage and provide recycled water for use in the development.

Narara has also been successful in attracting $1.15 million in funding through the Australian Renewable Energy Agency to develop a smart micro-grid within the development[8].

In Western Australia, **the City of Fremantle has been exploring opportunities for a Baugruppen model development** (this model is discussed further in Section 5) on a single, council-owned site. **The University of Western Australia is collaborating with the Western Australian government's development agency, LandCorp, to develop a 2,000-square metre site using the same model**.

All four projects use or are considering use of the co-operative structure. Each of the projects are also designed to provide affordable housing in geographic regions where the cost of private development of housing stock may be otherwise unaffordable for potential residents.

Also worth considering are the Nightingale developments in suburban Melbourne.[9] Using a Baugruppen model, the Nightingale organisation works with purchasers, architects and project managers to develop and build property. The purchasers are involved in the planning process, effectively creating their own development.

[7] https://the-agency-project.com/about/
[8] https://arena.gov.au/projects/narara-ecovillage-smart-grid/
[9] http://nightingalehousing.org/

Section 5: Co-operative housing overseas

The co-operative business model, including its application to housing, is generally better understood in foreign jurisdictions compared to Australia.[10]

Scandinavian countries have some of the best statistics for both housing affordability and co-operative housing programmes:

- Norway[11]
  15% of total housing stock has been built by housing co-ops and "independent housing co-ops" (i.e. those not affiliated to a co-op housing association)
  16% of the population is a member of a housing co-operative
  40% of the housing market in Oslo is in a housing co-operative owned development
  The Norwegian Government provides no financial incentives for private development, such as co-operative housing

- Sweden[12]
  22% of the total housing stock is owned through co-operative housing, with 50% of that owned by the two largest housing co-ops
  15% of the population lives in a housing co-operative development
  The largest housing co-op development is 1,033 units

- Denmark[13]
  20% of housing stock is held by 121 different housing co-operatives

Switzerland and Austria also have strong housing co-operative sectors:

- Switzerland[14]
  Housing co-operatives represent 57% of the non-profit housing sector
  Largest co-operative, located in Zurich, has 5,000 dwellings, with the average size 138 dwellings
  Most co-operatives offer some form of complementary service, such as childcare, health care or social services
  Housing co-operatives often have restrictions on the occupation of residents
  Co-operative housing sector is of sufficient scale that it issues its own bonds

- Austria[15]
  One central, independently run body regulates all housing co-ops and limited-profit companies, of which membership is mandatory
  18% of total housing stock and 33% of multi-family housing stock has membership of this body
  Housing co-ops can access long term and low interest rate public grants or mortgages that cover between 20% to 60% of the construction costs
  Specific government legislation regulates "limited profit housing", under which most housing co-ops operate

The German experience is interesting to note, given the re-unification of the country in the early 1990s. This has created a series of policy settings which have been only (relatively) recently enforced[16]:

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[10] For example, a recent survey commissioned by the Business Council of Co-operatives and Mutuals indicated that while 85% of respondents were members of at least one CME, only 12% recognised that they were a member of such a business.
[11] http://www.housinginternational.coop/co-ops/norway/
[12] http://www.housinginternational.coop/co-ops/sweden/
[13] http://www.housinginternational.coop/co-ops/denmark/
[14] http://www.housinginternational.coop/co-ops/switzerland/
[15] http://www.housinginternational.coop/co-ops/austria/
[16] http://www.housinginternational.coop/co-ops/germany/

First housing co-op founded in Hamburg in 1862
A recent Expert Commission recommended that the Government should put in place measures, whether financial or legislative, to ensure the development of more housing co-operatives
5% of total housing stock is in housing co-operatives
6% of the population lives in co-operative housing
More than 10% of housing completions in 2013 was through co-operative housing developments

English speaking countries have strong histories of co-operative housing:

- Canada[17]
  For two decades from the early 1970s through to the early 1990s, the central Canadian Government financed the building of thousands of housing co-operatives through three successive programmes
  During the 1980s, the three largest provinces also created finance programmes for housing co-operatives
  Government support can be accessed for up to 50 years
  Average size of most developments is around 60 dwellings
  Residents do not take an equity share; rather, they have guaranteed tenure

- United States of America[18]
  Housing co-operatives have existed since the late 1800s
  More than half of housing co-ops are located in New York City, where a market-rate co-operative model is usually sponsored by for-profit developers
  Under this model, some of the dwellings within an apartment block are owned by the members of the co-operative
  The Federal Government provides a mortgage insurance program for developers
  Owners who buy into a co-op housing development are given personal income tax deductions for mortgage interest

In all of the countries noted above, co-operative housing has been an important part of the total housing stock for many years. This has led to an entrenched position for the model. It is also worth noting that the model is particularly common in major cities – up to 40% in the case of Oslo.

Different countries use government policies and settings in various ways, from Norway which has no Government incentive for any type of private developments, Switzerland where the sector is of sufficient scale and organised in such a way that it is able to issue its own bonds, to the United States where owners of co-op housing are able to make a tax deduction for their mortgage costs.

Of considerable interest is the Baugruppen (literally, “building group”) model, which was developed in Berlin. By 2011, it was estimated that around 43% of housing in Germany was owner-occupied, a historic low. In the Baugruppen model, a group of future owner-occupiers pool financial resources to purchase a block of land and work with architects to design a dwelling specific to their needs. This negates the increased price of a developer-built dwelling by removing the developer’s profit.

In the first development of its type, the R50 (named for its location at Ritterstrasse 50, in Berlin’s Kreuzberg district) was completed with working services and completed common spaces; individual dwellings were provided with plumbing and electrical points, but no fittings. This allowed each apartment to be finished by each owner to their own specifications, either as they saw fit, or through contractors.

[17] http://www.housinginternational.coop/co-ops/canada/
[18] http://www.housinginternational.coop/co-ops/united-states-of-america/

Since that first development, the model has continued to grow in popularity. There are now numerous examples of developments where both the financial and design considerations have been created in a co-operative manner.

Section 6: Response to the consultation paper

The Business Council of Co-operatives and Mutuals welcomes the Federal Government's interest in affordable housing, and supports the majority of the consultation paper.

The BCCM believes that the Federal Government can create a welcome boost to the provision of affordable housing stock in Australia, and can provide the opportunity for co-operative housing to flourish.

Recommendation 1:
That a proportion of land released by all levels of Government be reserved for affordable housing

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The BCCM notes that the consultation paper is silent on some important pragmatic matters. One of the primary points is regarding the ability of Community Housing Providers or affordable housing developers to purchase land for development.

Typically speaking, when land is released by a State Government for new development, an agreement is entered into between that State Government's land development agency and a number of housing developers, where only those developers are able to offer to build houses within that development.

When individual land parcels are released in suburban settings, State and Local Governments often seek to maximise the purchase price for that land. It could be argued that this is only right: where a Government sells an otherwise public asset, it should be seeking to gain the highest recompense for the loss of that asset.

This view is frequently the cause for later community angst when a developer, having purchased the land, attempts to maximise their profit by gaining development approval for what many in the local community consider to be an "over-development".

There are various Government schemes which seek to make market rental affordable for those on low to medium incomes, including the National Rental Affordability Scheme referred to at Recommendation 1, above. The BCCM believes that rather than Governments providing a rebate for affordable rent, they forgo some of the initial revenue for the sale of land released for development and reserve a portion for affordable housing development.

Recommendation 2:
That State Governments be encouraged to increase the percentage of affordable housing required within new developments

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A recent comparison of various programmes implement by each State indicates that the current mix of policy settings is generally failing to improve housing affordability.[19]

The NSW Government's goal of 2% of new developments being affordable housing would seem to be too low, given the number of all households, not just low-income households as discussed in the consultation paper, which are in housing stress.

[19] https://theconversation.com/some-states-do-better-than-others-on-affordable-housing-we-can-learn-from-the-successes-84508

This figure of 2% could only ever be a consideration for a development where a minimum of 50 dwellings are being constructed – in which case, a single dwelling would be set aside for affordable housing.

The BCCM understands that only 2 Sydney metropolitan councils – the City of Sydney and the Willoughby City Council – have been given the ability to collect the alternative affordable housing levy. In every other council, the levy is simply not-collected.

Recommendation 3:
That the National Housing Finance and Investment Corporation be able to deal directly with Community Housing Providers

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The BCCM has previously called for the Federal Government to deal directly with Community Housing Providers. This could help ensure the viability of some housing co-operatives where subsidies need to be generated within the individual program in order to support lower income households.

Recommendation 4:
That the National Housing Finance and Investment Corporation have an independent, skills based board

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The BCCM calls for the board of the National Housing Finance and Investment Corporation to be a skills-based board independent of Government. We note that independence is likely to be the intention of the Government through its proposition that the agency will be a Corporation.

The Corporation will require clear terms-of-reference from the Government. The objectives are currently not sufficiently clear to provide enough guidance on key strategic and operational decisions which could prevent sub-optimal resource allocation.

Recommendation 5:
That the Federal Government work with providers of different home ownership models, including the co-operative model, to develop resources and model rules that facilitate replication of that housing ownership model in the community

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As noted in Section 5, the co-operative housing model is well understood in many overseas jurisdictions. And, as was noted in Section 4, it has been used in Australia. However, over the last few decades, the model has slipped from corporate, departmental and community memory.

If the Federal Government believes that different models of ownership have merit there should be some investment in the creation of model rules, advertising for the different models to raise public awareness, as well as resources for those who are interested in pursuing these models.

Breaking Through the Affordability Ceiling

National Housing Affordability Roundtable

11.30am - 2.00pm • Tuesday 25 February 2014

RACV City Club, Level 2, Bourke Room 2,
501 Bourke St, Melbourne

Executive briefing

Alternative forms of home ownership

The Business Council of Co-operatives and Mutuals (BCCM) invites you to a Housing Affordability Roundtable sponsored by Common Equity Housing Ltd and **bankmecu** to discuss and promote alternative housing tenure models that have the capacity to reduce the costs for those wanting to enter the housing market. The models under discussion include tested and successful co-operative approaches (although largely unknown here) that have facilitated the development of affordable housing sectors in other jurisdictions.

Given the rising costs of home entry and the persistent debates over the causes and solutions to alleviate the problem the BCCM believes it is critical to bring hitherto lesser known models into play.

It is intended that the Roundtable will generate a ‘live’ response with a ‘blueprint for action’ an anticipated outcome.

The purpose of the Roundtable is to bring together a range of people with expertise in developing housing to identify and refine models of housing development and the necessary legal and financial frameworks that will significantly reduce the cost of entry into secure housing for first homebuyers priced out of the current housing market.

The Roundtable will explore ideas currently discussed under numerous headings including Community Land Trusts, Equity Housing Co-operatives and Intentional Communities with the expressed purpose of guiding pilot projects to put to the market place.

Housing prices beyond the reach of many

There is mounting evidence that the costs of housing are continuing to increase and there are many people who are effectively being priced out of the housing market. Traditionally there are two dominant types of tenure in Australia, home ownership, financed by individual mortgages, or private rental, which together account for about 95% of Australian households.

Home ownership still remains the Australian dream, as it offers ongoing security where owners can remain and engage in their communities, and long term cost reduction as mortgage payments reduce over time and eventually stop. There has also being a strong sentiment that any investment in real estate is a secure investment and that land and house prices do appreciate over time. There are also favourable tax incentives with profits on the sale of one’s primary place of residence being exempt from capital gains taxes.

There is a deep psychological attachment to home ownership as it achieves status, stability and security and long term cost reduction compared with renting. There are also significant costs that home owners bear beyond the initial purchase price that are often not highlighted when considering the real costs of housing including rates and charges, owner corps fees for apartments, maintenance expenses, mortgage fees and insurances.

The percentage of people purchasing their own home has declined over the last decade due to rising prices and particularly the high entry costs to home ownership.

Some are looking to rental housing as being the more affordable option particularly because of the low entry costs, typically a rental bond equivalent to one month rent plus one month of rent in advance.

The major downsides of renting are that renters do not enjoy long term security with tenure at the call of the owner. It is 'dead' money and rental costs continue to increase as opposed to decrease for home owners. In Victoria, residential tenancy leases are limited to five year maximums but are typically offered on one year terms with the owner able to give notice periods as short as 60 days if they wish to sell, renovate or occupy the properties themselves or 120 days without any reason.

Also renters do not have any access to property appreciation or the capacity for self funded value added improvements to the property though they may pay rent for considerable periods or be very conscientious in maintaining the upkeep and subsequently the value of the property.

Home ownership is becoming more difficult and the demand for private rental continues to place pressure on supply and pricing of well located private rental dwellings.

At the same time landmark research undertaken by The Co-op of the 19-27 years demographic (The Future Leaders Index) revealed the aspiration to home ownership is persistent with over 70% of respondents expressing that home ownership was as important to them as it was to their parents but over 80% concerned about their ability to be able to afford to purchase a home.

The challenge is to develop an alternative form of tenure that will reduce the cost of entry and ongoing costs, yet retain most of the benefits of home ownership such as security of tenure and the capacity for self funded improvements to properties whereby the resident rather than the owner retains some of the added value of improvements.

There has been some significant progress through the strata title concept that have reduced the cost of providing homes usually in more sought after locations through increased yields and the concept of sharing some space or amenity through owners corporations.

The retirement village model, featuring multiple unit developments and long term leaseholds has been widely adopted to reduce the housing costs for retirees wanting to downsize but has not been made available to younger people or those still in the work force.

Exploring new models

The aim of this paper and the proposed Affordability Roundtable is to explore and pilot alternative types of tenure that will significantly reduce the entry cost to housing whilst achieving similar benefits as home ownership and the potential to unlock social capital growth in co-operative arrangements.

The alternative is for properties to be developed and owned by not for profit entities that will forgo the traditional developers' margin and also bring the benefits of scale development, innovative designs, delivery expertise and increases shared usage of many facilities as demonstrated to some extent in strata titled subdivisions.

The owning entity will be willing to offer long term leases to the operating entity on a cost recovery rather than a profit driven basis.

The operating entity will sell shares to individuals wanting to live in the complex based on the price set by the owning entity.

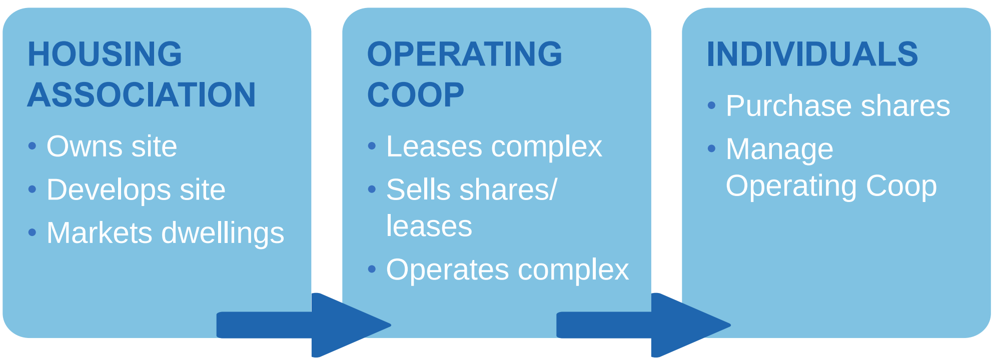
It is anticipated that the initial entry costs for a new dwelling can be reduced by 20% to 25% of costs of standard like single dwelling purchases. This price could be reduced even further if land is available below market value through land trust or philanthropic mechanisms.

The model has the potential for developing high levels of community engagement amongst members who would have mutual interests in the success of the operation of the complex and retaining its value and marketability.

The necessity of a formal legal operating entity such as a co-operative requires all residents to be actively involved in the operation of the complex and has the potential to dramatically reduce individual's costs in areas such as purchasing maintenance and equipment as well as other social benefits.

Whist the model is not intended to be limited to 'intentional communities' different developments have the potential to be designed and marketed for particular cohorts or interest groups.

The model



A site is purchased by a not for profit Housing Developer (Housing Association) and an agreed number of dwellings are constructed on the site.

The site including the dwellings are leased on a long term basis to an entity that is owned and controlled by those wishing to buy a long term lease to a dwelling on the site. Let's call this entity the operating entity (OE) and it would be ideally set up as a co-op or a mutual and take on the traditional responsibilities of an owners corporation in strata title subdivision but would have additional responsibilities as the leaseholder of the complex from the owner (Housing Association).

Individuals would purchase the lease of individual dwellings from the Operating Entity by buying a share in the operating entity, which in turn would pay the full cost of the development to the owner.

Each purchaser would be an equal shareholder in the operating entity and that share would entitle them to occupy a specific dwelling in the complex as well as use of all common areas and facilities.

Similar to Owners Corporations the Operating Entity would need to establish a fee structure for leaseholders to cover costs of the upkeep and maintenance of common areas and shared facilities.

Consideration could be given to include external fabric of dwellings dependent on type of construction.

Individual leaseholders would be responsible for upkeep of internals of dwellings.

Developments could be done in line with standard development practices with the developer (HA) responsible for site development and constructing of the dwelling. Marketing of dwellings could be either of completed dwellings or 'off the plan' increasing the ability to customise dwellings to meet purchasers' preferences.

Purchasers would be purchasing a share in the operating entity including a long term lease that would retain a commercial value.

Selling your share/leasehold

Individuals would have the right to sell their share/lease to any eligible individual with limited capacity for the other shareholders or operating entity to restrict any sales.

If a buyer cannot be identified within an agreed timeframe (for example six months) the shareholder has the right to sell their share/lease back to the owning entity (HA) at the price established by an agreed mechanism. (See sharing property appreciation section).

The responsibility for selling or leasing the dwelling then reverts to the owning entity.

The role of the developer

The developer will need to bring its development expertise to the fore to reduce the total costs and also to deliver the completed homes in a cost efficient manner.

The developer forgoes its development margin but must recover all the costs of the development including land purchase, holding fees, construction costs, construction financing costs through the sale of leaseholds. Development margins are typically a 15% to 20% in most development scenarios.

Multi-scale developments should reduce costs of individual dwellings.

There is a need to further explore innovative use of shared spaces to reduce costs. Simple examples commonly achieved on commercial developments include shared driveways, car parking, garages and lifts.

Costs can be further allayed by innovative usage of other facilities that could be successfully shared depending on the scale and marketing of the development. Examples are shared open space, shared gardens, shared storage facilities, sheds and equipment, laundries, visitor rooms etc.

Housing Associations such as CEHL have completed numerous multi unit developments that have demonstrated that individual unit costs can be reduced considerably and that social and community outcomes can be achieved through thoughtful design and use of shared areas.

Sharing property appreciation with leaseholder

Whilst it is assumed that over the longer term property prices will continue to appreciate this is not guaranteed but it is possible to establish models where leaseholders agree to forgo any capital appreciation or agree to share any capital appreciation with the owning entity.

In the first scenario investors would be guaranteed the return of their initial investment when they wish to depart and the owning entity would make a profit (or loss) if the market value of the leasehold changed over time.

Alternatively the parties could agree to share the profit or loss as the market value changes.

This could be under a simple formula distributing the change of value between the parties in an agreed ratio.

It would be advantageous if any profit derived by individuals through the sale of their share could also be capital gains tax exempt as per sale of primary place of residence but this would need to be considered by the ATO.

Legal structures

People are not familiar with purchasing a long term lease and certainty must be assured that they will have a marketable asset if for whatever reason they want to sell their share/leasehold.

It is essential that purchasers have the right to sell their lease at their discretion with minimal restrictions as per any house or apartment buyer.

The guarantee that after an agreed length of marketing the owning entity would purchase the share is something that is not available in the open housing market.

Documentation would need to be developed to ensure the integrity of the master leasehold of the complex to the operating entity.

The operating entity would have to be responsible not only for the good management of the complex but also ensuring all dwellings are responsibly maintained and ample funds are set aside for cyclical maintenance obligations.

The legal structure of the operating entity would need to be documented though existing Co-operative and Owners Corporation legislation providing a framework that could easily be customised to meet the proposed functioning of the operating entity.

There needs to be requirements for shareholders to meet their obligations to both the operating entity and also their financiers that can trigger a buy out by the owning entity if they are not being met.

Accessing and securing finance

Again lending institutions would need to be agreeable to the model and making finance available to potential purchasers.

The security would be offered by the Owning Agency.

It is assumed that the owning entity is an established Housing Association, regulated by the State Government Housing Regulator and with an established loans portfolio with financial institutions.

If a borrower defaults on their loan, their lease would be terminated with the owning entity paying out the value of their lease and effectively purchasing their share in the operating entity, with the borrowing institution having first call on funds to the value of the outstanding loan.

In effect the finance institution lends funds to the owner to develop the site. These loans are effectively transferred to individual investors as they buy a share in the operating entity but the owning entity provides the necessary security to the financier.

Depending on the financial situation of the owning entity (HA) there could be some flexibility insofar as a purchaser could negotiate to buy a leasehold at a discounted price and agree to rent the balance of the property directly from the owning entity if they could not immediately raise the full capital cost of the lease. It would be assumed that the purchaser would still intend to pay for the full cost of the share when their financial position enabled them to do so.

CASE EXAMPLE:

The model could be applied to developments as small as three dwellings on a site up to much larger developments such as multi storey complexes.

A site is purchased and 10 dwellings are constructed on the site. The total cost of the development to the HA is $3 million. The HA leases the site to a co-op or mutual organisation (Operating Entity) and individuals are able to purchase a share in the Operating Entity for 1/10 of the total costs of the completed complex.

This would mean that individuals would need to pay $300,000 for their long term lease of the property.

The assumption is that the HA, by providing the leasehold to the Operating Entity at cost can provide a dwelling that individually would market for closer to $400,000 if it was marketed as a traditional house and land package.

The purchasers would need to access finance to raise the $300,000 but could use their share in the Operating Entity as their security. The Operating Entity can 'sell' the share to the Owning Entity if the shareholder does not meet the obligations of their lease including satisfying their financier requirements.

The Operating Entity would need to set an appropriate fee structure to meet all operating and maintenance costs as per any owners corporation.

The purchasers would be equal shareholders in the Operating Entity and have responsibility to contribute to its successful functioning. As per an owners corporation this can be done through voluntary contribution or contracted to a professional agency.

The level of involvement and the sharing of common areas would be self determined by the shareholders of the Operating Entity.

The Owning Agency would guarantee to step in if any shareholder wishes to sell (or defaults on their obligations) and effectively buy back the share and assumed the voting right of the shareholder until a new buyer is contracted.