

PRESENTATION TO THE IMAP COMMITTEE MEETING OF 11 MARCH 2011 ON THE OUTCOME OF THE CITY OF PORT PHILLIP RESEARCH PROJECT: AFFORDABLE HOUSING DEVELOPMENT MODELS

In May 2010 the IMAP Committee decided that:

- I should present the outcome of the CoPP research project, Affordable Housing Development Models
- after it is finished and approved by Council.

The study has now been approved for public release on 28 February 2011.

This presentation summarises

- the study's findings and
- how the City of Port Phillip is considering pursuing one of the models.

The project comprises a study prepared by the consultants, Affordable Housing Solutions.

It aimed to investigate the key models of affordable housing that:

- Targets the income spectrum that generally ranges between very low/low income to high income cohorts
- i.e. that falls between social (public and community) housing and market rate private housing
- Where this income spectrum is increasingly finding it difficult to find affordable private rental housing or achieve home ownership.

The four models investigated were:

1. Private sector finance in the context of the National Rental Affordability Scheme (NRAS).

- NRAS is a Commonwealth scheme
- encouraging developers to build rental housing that is rented at 20% below market price for 10 years
- often in partnership with community housing organizations that manage the housing
- in return for receiving a Commonwealth and State subsidies for that period.

2. Partnerships with private developers

- The various permutations partnerships between local government, private developers and community housing developers can take involving affordable housing

3. Shared equity housing

- Where purchasers obtain equity in their homes

- by sharing the overall cost with an equity partner in the form of a financial institution or government backed provider.

4. Rent-to-buy schemes

- That assist renters to move to home ownership.

The investigation included the potential role for any **local government incentives** considered important in supporting the models.

The study provided:

- A broad, preliminary investigation and
- Provided five principles to be used by Council officers to assess if there are any suitable models for Council to pursue or support.

The **principles** are:

1. The intervention **should not replace the role of another level of government**. However, a small intervention may leverage action from other levels of government.
2. Any intervention should have a **measurable benefit to the municipality** and in particular to the current and future constituents.
3. Any local government contribution **should leverage further investment from the public and private sectors**, thereby multiplying the overall economic and social benefits to the municipality.
4. **The value of the intervention is captured for future generations** by ensuring that any incentives or contributions are not simply a windfall to the first generation of recipients of the affordable housing.
5. Above all it is essential that **the municipality is not exposed to commercial risk** through the affordable housing initiative.

This assessment found that:

Re. Private sector finance:

- There is no specific, new role for Council apart from continuing to encourage private sector finance such as the NRAS
- through partnerships between private and community housing developers on an opportunity basis and
- advocating to the Commonwealth and State Governments for programs such as NRAS.

Re. Partnerships with private developers:

- The study provides select examples of innovative partnerships that will be useful to promote.
- Facilitation, but not direct involvement in partnerships, is an appropriate role for local government due to:

- Restrictions under the Local Government Act (s 193 on entrepreneurial activity) and
- the role of regulated Housing Associations.
- Council can continue to support partnerships through:
 - its facilitation and brokerage role and
 - support provided to the Port Phillip Housing Trust, e.g. provision of underutilised land.

Re. Rent-to-buy schemes:

- This is not a suitable role for local government for reasons such as:
 - Exposure to commercial and legal risk,
 - An inability to capture perpetual affordability benefits without a windfall gain for the first generation of beneficiaries and
 - therefore an inability to measure ongoing community benefits.

Re. Shared equity housing:

- This is a role most appropriate for Commonwealth and State Government.
- It is difficult to capture perpetual affordability benefits (the windfall gain to the first purchasers)
- and measure ongoing community benefits.
- There will also be commercial risk.

However, **Community Land Trusts** (or CLTs) as a form of shared equity housing:

- Captures perpetual affordability benefits through affordability restrictions at the resale of dwellings.
- Consequently, it was recommended to Council that there be further investigation to support the establishment of CLT's in Port Phillip...
- through supporting the preparation of a manual that will provide a practical guide on how to establish CLTs.
 - The manual in turn will facilitate the leveraging of other public and private investment through the establishment of CLTs.

CLTs involve:

- Trust entities (eg. groups of residents or community housing organizations) securing land,
- maintaining ownership over the land and
- renting or selling the dwellings (bricks and mortar) to households under Ground Leases.

- These Ground Leases include affordability formulas that balance limited equity gain with maintaining perpetual housing affordability.
- When an owner occupied dwelling is sold, the equity is shared between the CLT and the seller due to limitations placed on resale prices set by the CLT.

CLTs are common in the USA and to a lesser extent the UK but are yet to be established in Australia.

There is a lack of experience and guidance as to how to establish CLTs under the Australian legal, taxation and finance systems.

The support that Council is considering providing is to contribute funding through its 2011/12 budget process for the preparation of the manual on how to establish CLTs.

This manual will provide practical guidance and model documents such as

- The various models that CLTs have taken overseas
- A case study relevant to Australian conditions
- Financial modelling
- A model ground Lease
- Model mortgage instrument and
- the necessary tax status of a CLT (PBI and GDR) and how to achieve that status.

Subject to raising the necessary total funding for the research project, the manual will be prepared in 2011/12 by:

- the University of Western Sydney
- in collaboration with the specialist law firm, Derek Mortimer and Associates.