Grounded

Federal Budget Submission

We write to you as advocates for a fairer housing market. Australian land prices have increased by $2.7 trillion in just the last two years. Since the 1999 halving of the Capital Gains Tax, land values have increased by 7.3 times.

The budget cannot afford this to continue with rental markets collapsing, single mums sleeping in cars and retirees finding refuge in caravan parks. The costs of a continued housing market failure continue to mount.

The typical housing development model appears unable to deliver a product that meets the needs of the bottom two quintiles of Australian society. Land prices over the pandemic era increased without pressure from immigration, reflecting how land prices always take the gains from income support and interest rate cuts.

With societal pressures building upon a demographic cliff, taxpayers need to ensure they are investing in the best value for money programs.

A better way is possible.

Context

Grounded is a new NGO established to advocate, incubate and accelerate the development of Community Land Trusts (CLTs) in Australia. This housing model recognises that **rising land values occur as the community develops.**

In order to maximise the public interest, a closed loop should be encouraged between community development and house (read: land) price inflation - where politically possible. With the significant influence of property interests at all three tiers of government, a micro loop can be closed within a Community Land Trust.

The CLT acts as a custodian of the land, ensuring that it remains **perpetually affordable**. In its purest form, the CLT model gives residents an advantage in that they only have to borrow for the housing component. Our preferred CLT model sees a modest yearly land rent paid to the Trust as recompense for land access. This saves the resident thousands in interest on the land component. Importantly it can also **reduce the deposit barrier by some 50 - 70%**. This is exactly what younger generations require.

Upon sale of the home, a share of the capital gains is paid to the Trust (known as a resale formula), ensuring that short term profit making is deterred. A covenant is then placed on the land and home to ensure the price remains at say 70% of the median market price.[1]

When including income distribution, health and wellbeing outcomes, the return on investment (ROI) for UK CLTs has been found at 3.1:1 over 30 years.[2] These are significant returns that the Australian community deserves, reducing budgetary pressures.

US CLT's have proven themselves as stable housing providers. After 50 years of operation, CLTs now pay little to no Loan Mortgage Insurance as the lease to valuation rate is often lower than 80%.[3] Additional factors contributing to Fannie Mae's support of CLTs include the lower foreclosure risk, coming in at 90% lower than the wider market.[4]

We are calling on the Federal government to seed the capability of CLT's throughout the many institutions of government.

Groundhog Day

Grounded sees the Albanese governments' focus on Help to Buy and the Regional First Home Buyers Guarantee as a continuation of the previous government's fallacy of housing 'accessibility' - rather than housing affordability. We fear that the price caps will likely be increased in the short to medium term, as they have been for similar stamp duty discounts (ie Victoria).

Luring more first home buyers onto the treadmill is only acting to put a floor under prices, at worst bringing unsuspecting buyers into a softening market.

Can this government please recognise that any policy acting as a demand side driver ultimately ends up as a seller's subsidy?

Help to Buy will cost taxpayers $329m over four years for a limited number of one-off purchasers. Once these properties are sold, the affordability aspect will be **lost to the open marke**t. Meanwhile,

[1] A number of CLT formulas exist including one that limits the housing price to the 3040 rule.
[2] Colquhoun, G, 'Housing by the community, for the community: an assessment of the value for money of community led housing in England (Sept 2020), Capital Economics, p 8
[3] Fannie Mae, Community Land Trust FAQ, p2.
[4] Georgetown Climate Center, 'Community Land = Community Resilience: How Community Land Trusts Can Support Urban Affordable Housing and Climate Initiatives' (Jan 2021), p 12

the rest of the market will have to compete with this new buying impetus, ensuring that home prices continue to head north as demand for government welfare services compounds. In another four years, government will have to find even more money for another short term fix.

Alternatively, a move towards CLTs will see superior returns on investment, **ensuring affordability in perpetuity**.

Another area of housing policy that requires immediate oversight is the move towards Build to Rent (BtR). This concept relies on the belief that supply will put downward pressure on rents, regardless of market power. Significant subsidy is required to make the concept feasible, and even then it is for those earning more than $71,000 in Sydney.[5]

BtR projects must have **mandated affordability outcomes**. It is not enough to expect trickle down housing supply to finally work. If governments across the board are going to support this type of development, they must recognise market power at play.

Affordability thresholds must also be enforced to ensure that desperate public needs are no longer ignored. Minimum occupancy rates in BtR are one way to ensure supply is delivered (monitored via abnormally low water consumption).[6] Inclusionary zoning of 50% for affordable rents should be ensured. **Issues of data privacy** in the proptech industry must also be closely monitored.

A better example would be to look at the **ACT land rent scheme**.[7] Operating since 2006, a 2% land rent is paid into consolidated revenues across some 800 dwellings. This is akin to a Public Land Trust. Revenue starved governments at all 3 levels could look at this model as a way to deliver on affordability whilst earning a return. Further improvements on this model can be made.

My past work in studying vacant land and housing,[8] alongside the staging of releases in master planned communities,[9] makes it clear that land is a monopoly. Government policy must recognise this undeniable fact and refine its thinking accordingly.

We propose the following policy reforms.

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[5] H Pawson et al, Build to Rent - Product Feasibility and Potential Affordable Housing Contribution, APO, 2019

[6] K Fitzgerald, Speculative Vacancies 10 - The Persistant Puzzle, Prosper Australia, 2020.

[7] ACT Treasury, Land Rent Scheme

[8] ibid

[9] K Fitzgerald, Staged Releases report - Peering Behind the Land Supply Curtain, Prosper Australia, 2022.

The Federal government to encourage land donations to CLTs with a tax incentive.[10] This could be based on existing incentives for land donations to environmental land trusts.[11] Donations of land to Community Land Trusts would be capital gains exempt. Additionally, a tax credit or deduction can be provided in exchange for the land, based on fair market value.

The Vacant land interest deduction must be expanded to include company structures. In 2018, a Treasury consultation on Enhancing the integrity of tax deductions in relation to vacant land was undertaken. The consultation paper stated “This is to address integrity concerns that deductions are being improperly claimed for holding vacant land where the land is not genuinely held for the purpose of earning assessable income.”

Whilst the imperative was made clear, the draft consultation found: “The measure also does not apply to corporate tax entities, managed investment trusts, public unit trusts and unit trusts.” The law passed[12] but only acted to impinge upon small-time land users. Those with already considerable market power were in effect protected by the change.

This must be rectified with vacant land interest deductions removed **from all corporate entities**. This will reduce the impact of staging lot releases to manufacture scarcity rents.

Cost savings of CLTs compared to Help to Buy

NIFIC’s role acting as guarantor in the Help to Buy scheme reduces both Lenders Mortgage Insurance whilst enabling a 5% deposit. This is costing $80m p.a to help 35,000 access housing. The everyday Australian does not understand that this is another example of a policy that will push the price of housing higher across the board for the hundreds of thousands trying to break into the market.

Investing that same amount in the CLT movement could develop permanently affordable homes representing the best practices in shared equity. Government investment in the sector would not spill over to inflate the wider market thanks to the cap on CLT prices. Over time the sector could grow to a significant size, helping reduce pressures in both the private and public housing sectors.

Conservative modelling shows that 650 permanently affordable homes could be built over four years of concurrent funding at a similar $320m budgetary cost. With blended finance at a conservative 50:50 ratio this could grow to 3,100 properties over 8 years.

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[10] MP F Caputo, Petition to the Government of Canada, 2023.
[11] ATO, Claiming conservation covenant concessions, 2020
[12] Treasury Laws Amendment (2019 Tax Integrity and Other Measures No. 1) Bill 2019, Legislation, p14.

With land rental payments at 4% of the site value, revenues of between $6 - $12m p.a are possible after 4 years. After 8 years, a potential total revenue of between $80 - $160m is possible.[13] Affordable housing could be self funding and non-inflationary, with affordability locked in. Subsidy retention is both possible and scalable.

Help to Buy is catching leaks under a dripping tap whilst CLTs are planting seeds for the labour-friendly future of housing.

NIFIC

The National Housing Finance and Investment Corporation (NHFIC) should be encouraged to support the seeding of Community Land Trusts by developing relevant supportive policies and incentives.

NIFIC should enable a **Community Housing Fund** - with a CLT focus, opening up the line to smaller players than established community housing providers. It is crucial we see more for-purpose developers enter the market. A program to support such industry development is essential.

The UK national government has provided such a startup fund to now see 500 CLTs in action, providing over 17,000 dwellings. £300m was initially earmarked for investment over 6 years, assisting 7,000 dwellings.[14] The UK also benefits from some 17% of homes produced by for-purpose Housing Associations (2018/9).[15]

NIFIC should act as **lender of last resort** for CLTs, lowering risk and expanding lending options. In the Netherlands, social housing corporations have remained largely independent of the state since 1995. This has been enabled by three layers of guarantee, the last by government. Layers two and three have never been called upon.[16]

Under the Regional First Home Buyers Grant, part of an eligible regional first home buyer's loan from a Participating Lender is guaranteed by NHFIC. This enables an eligible home buyer to purchase a home with as little as 5% deposit without paying Lenders Mortgage Insurance.

We need this guarantee for CLTs.

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[13] See Grounded's complete CLT formula.
[14] Tom Chance, Extend the Community Housing Fund to help this emerging sector bloom, Housing Today, 2019
[15] Committee for Sydney, Bringing Affordable Housing to Scale, p17, 2022
[16] BCCM, Supplementary Submission #64 to the Falinski Inquiry, 2022.

Superannuation

In terms of financial support in the affordable housing industry, the superannuation industry's involvement in affordable housing must not come at great cost to the public purse. The 6% ROI they are expecting ensures again that another policy will be more costly than if community led housing models such as CLTs were encouraged.

Superannuation CEOs must be convinced that the maintenance of their social licence outranks the need to deliver member returns.

CLTs will in time be seen as **the low risk element in a diversified investment portfolio**. The certainty of land rents meet that demand. The aforementioned very low US foreclosure rates reflect the importance CLT residents take in meeting their land and housing obligations.

Economies of scale from a well developed super investment stream would recognise that lower returns are offset by well being factors such as lower social dysfunction, crime and divorce. Once the superannuation industry accepts that these intangibles add to our common wealth, the lower financial returns can be **offset against the higher social dividend.**

With the fastest growing cohort of homelessness occurring amongst over 55 single women, super's investment in perpetually affordable CLTs could be seen as a way of repaying **the advantages men have held** with higher wages.

Planning related incentives

Additional considerations could be made via:.

1. Dedicated CLT planning legislation around federal infrastructure hubs **where new titles can be created**, with incentives for states to come onboard via state based funding streams.

2. Incentives for federal and state governments to give third market housing providers **first option to buy any public land sales** (deterring privatisation of scarce public sites).

3. A federal density bonus (floor space ratio) incentive to states providing higher densities for CLTs. ie allowing 2 additional floors for any community led development.

4. A working group to build upon the learnings from the history of NSWs Multiple Occupancies titling, alongside **the capacity to now live off-grid for solar, septic and water**.
    a. How can we inspire rural CLTs to become affordable housing & farming hubs? Particularly in the face of Air BnB restructuring their towns?

5. Retirement Village and Caravan Park Shared Occupancy Titles are being reconfigured by Federal & State Governments, as **Affordable & Social Housing Shared Equity Tenancies.** Can Grounded be involved in this process as a representative of the public interest?

Land supply analysis

The National Housing Supply and Affordability Council must consider what happens once rezoning has been approved. At present there is **not one government agency** in the country looking at this issue.

Both Queensland and Victoria have made significant attempts to improve land supply in the development pipeline, alongside the speed of approvals.

Victoria has more than doubled the supply pipeline from 150,000 lots to an average 350,000 lots over the last decade.[17] Despite this, land prices have increased by 64% in real terms. The VPA's Greenfield land supply 2021 report finds that growth areas such as Hume/ Mitchell have 32 years of short term supply. According to Plan Melbourne, this is more than double the supply required for affordable housing.

However, land prices in Hume are more expensive than neighboring growth areas such as Whittlesea or Wyndham - with supply rates of 17 and 12 years respectively.

According to the Victorian Valuer General, Hume's vacant home block prices were valued at $400,000, Whittlesea's $375,000 and Wyndham's $318,000.[18]

This suggests that government reliance on the for-profit development model to deliver affordability is misconstrued. Federal funding of $500 million train stations in growth areas only act to inflate surrounding land values. Furthermore, the influence of such infrastructure gifts have not been studied as to **their influence on supply rates**.

Queensland has the most thorough analysis of land supply on the eastern seaboard, tracking the entire production pipeline through their *Residential land supply and development series*. They include the statewide gazetting of land (residential lot approvals), through to approvals for headworks, lot completions, statewide and council approved zoned capacity (as yet unbuilt). They also monitor lapsed lot zonings which have not been built out.[19]

Queensland had a higher supply potential per capita with 457, 135 dwelling lots in the development pipeline in 2012.[20] By 2022, the broadacre supply was sitting at 402,555 lots in SEQ, with the study scope expanding to include the rest of the state and a total of 607, 750 lots.

[17] Victorian Planning Authority, Melbourne Urban Development Program Report - Greenfields, 2022.
[18] Victorian Valuer General, Guide to Property Values 2021.
[19] Queensland Government Statistician Office, Residential land supply development, 2022.
[20] Queensland Treasury, SEQ Broadhectare study profile, 2013, p2

However, developers in Queensland were found to be rolling out supply at a rate that would see their oversized estates **take 65 years to reach completion** (see Springfield, Aura & Yarrabilba).[21] Removal of the interest deduction capacity would apply competitive pressure to bring those lots to market more rapidly.

Compounding the supply impasse, Queensland developers still have the capacity to apply for a land tax subdivision discount of 40%.[22] This acts against the stated priority of supply putting downward pressure on prices.

Conflicting policy objectives like this litter the Australian housing policy mix and must be addressed.

Vacant land interest deductions could be nuanced to only be available for developers who deliver some 5%+ of available supply per year. As indicated in the Staged Releases report, across the 9 master planned communities and 110,000 rezoned lots studied, the supply rate was just 3.4%.[23]

In particular, the **ACCC must be directed to investigate** the behaviour of developers in a softening market. As is typical of market driven behaviour, supply is often removed as conditions improve for affordable outcomes. Some 47.8% of supply was removed from the 9 master planned communities in mid 2017, as auction clearance rates softened.[24]

We cannot critique this behaviour as these are market forces at work, but we can critique government policy that is orientated as if developers are good samaritans delivering supply in a competitive market.

The focus on supply has only acted to maximise developer market power, rather than enhance competitive pressures. It must be time an Albanese government investigated this market abuse.

Government must ask - if for-profit supply cannot deliver affordability in a softening market, when can it? What is a fair return for the public when quantifying the infrastructure provision alongside the stated public policy aim of supply delivering affordability? Has a risk matrix been developed incorporating this profit motive?

A systemic analysis must also include the financial sector. Developer intentions to reduce land prices can be undermined by the role of banks threatening a margin call on the remaining land bank. This must be recognised and examined in detail. How can a fairer balance be struck between the credit creation advantages of a rising land market, and the ability to allow clearing in a softening market?

The ACCC should investigate **the role of developer algorithms**. Relevant data points include:

- Clearance rates
- Days on market

[21] Fitzgerald, Staged Releases.
[22] https://www.qld.gov.au/environment/land/tax/exempt/subdivider-discount
[23] Fitzgerald, Staged Releases, 2022, 5
[24] Fitzgerald, Staged Releases, 6

- Stock of approved buyers
- Pricing growth.

It is likely that developers do not need to meet in a clandestine manner to discuss profit maximising strategies. Land release strategies are likely to be based on similar data points feeding similar algorithms, so collusive behaviour can occur without direct contact.

In summary, the Supply and Affordability Council must be commissioned to monitor supply levels **'behind the rezoning curtain'** in its State of the Nation's Housing Report.

The extent of such unbridled market power makes it vital that the Federal government does all it can to support for-purpose developers who see housing as a human right, rather than a yield driven asset class.

Conclusion

The Albanese Government has a unique opportunity to return housing as a human right. With the politics so tricky, a step towards Community Land Trusts acts as a useful mid-step.

As demonstrated, the ROI is significant. We believe CLTs can be much more effective than both Help to Buy and Build to Rent. Affordability can be locked in alongside subsidy retention, ensuring that precious federal funding becomes a base for both public wealth and wellbeing.

This could be a signature Albanese policy showing true leadership in a space riddled by policy fraud.

Labor policies must reflect an advantage to labor - not land. Those who own land have a huge advantage over anyone owning a business or earning a wage. Let's chart a pathway back to common sense with Community Land Trusts.