Grounded

Community Land Trust Advocacy

SOUTH AUSTRALIAN BUDGET SUBMISSION

December 2023

Dear Treasury S.A,

Thank you for the opportunity to submit for budget and governance support to assist Grounded's mission - to provide more community led development (CLD) and therefore **perpetually affordable housing.**

We note Treasurer Mullighan's budget speech and his powerful statement that "home ownership has never felt further from their grasp."

Our perspective comes from a strong understanding of monopoly rents and their damaging effect on housing affordability. We note the experience from Victoria where 12 years of stamp duty discounts (SDDs) and 20+ years of first home buyer grants (FHBG's) have done little to reduce pricing pressures. **FHB mortgage sizes have continued to increase**.

In addition to the standard FHBG, we note South Australia has HomeSeeker SA and HomeStart Finance as additional vehicles to assist low to moderate income earners access home ownership.

The savings from the FHBG and SDD subsidies of $44,580, while promoted as cost savers, actually act as demand side incentives that enable extra bidding power. Instead of benefitting buyers, they act instead as a **seller's subsidy**.

Further, the SDD will see a transfer of revenue away from the state and towards banking profits. The pricing threshold of $650,000 will hold back the tide for a few years, until the threshold requires further increases.

The largest land supply increase in South Australia's history of 25,000 lots will be celebrated by supply siders, who recognise the increased value of their land banks. However, unless there is serious oversight of the supply rollout, it will be drip-fed to maximise profits.

Research released in 2022 showed how nine master-planned communities on the east coast manipulated supply aggressively when auction clearance rates and days on market increased. A **48.7% reduction in supply occurred** in order to place a floor under land prices.[1]

Developers no longer need to meet in a clandestine manner when they have similar data points being fed into their own algorithms.

Treasury SA and the Housing Minister **must have the same data points on their screen** whenever they meet with needy developers. Infrastructure gifts to developers should be held back until **appropriate supply rates**, at some 5% of the land bank, are met.

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[1] K Fitzgerald, [Staged Releases: Peering Behind the Land Supply Curtain](), p6, 2022

Decades of misinformation by well funded property lobby groups have egged bureaucracies on to believe that property developers prioritise home buyers **over their corporate economic interests**. However, their own CEO remuneration package, alongside fiduciary duties to both shareholders and financiers means that PR promises are easily pushed to the side.

We understand the property sector's concern that planning has become burdensome, but once planning approval has been given, there is little excuse for manufactured scarcity via drip feeding.

Likewise the **2% deposit for a HomeStart** loan is as if policy is written by the property lobby. With each and every property bubble crash, low deposit rates extenuate the bubble. With this land cycle pushing prices ever higher, we see that this policy framework has terminology to paper over the systemic risk. Such policies are part of the growing *housing accessibility* frame, supplanting what is really needed to stabilise the housing system - genuine *perpetually affordable housing*.

The 50% Land Tax Discounts for **Build to Rent Projects** are another sector that needs careful oversight. While initially touted as a much needed affordability and security of tenure reform to the rental market, the reality is that BTR is predominantly a high end luxury housing product that delivers neither. Tenants in a Fitzroy BTR were shocked as 12 months of expected long term, stable renting was nearing. **33% of tenants faced either a 9-17% rent increase, or were evicted**.[2]

This will be disheartening for renters who had hoped such BTR supply would deliver stable housing. Many would prefer to remain in stable affordable housing like they were promised.

A **minimum occupancy rate** calculated monthly would ensure such rental supply is putting downward pressure on rents. The high eviction and rental increase rate in the Fitzroy example requires further investigation, but perhaps **a maximum tenant turnover rate** would lock in stable supply for longer, curbing the ability to charge higher market rents to new tenants.

Continual housing pressures are adding to mental health costs, domestic violence costs and acute health issues. Insecure housing has a flow on impact for educational and employment outcomes and a recent study showed that insecure tenure is linked to faster ageing.[3]

The **benefits of social and affordable housing** are significant and **until recently have been unmeasured**. The new Social Housing and Green Measures for Affordable Housing (SIGMAH) calculator quantifies the health, policing and community services savings that such housing can provide. They found a benefit of $27,500 per year over 40 years. This indicates that overall

[2] C Kelly, Build to Rent? The Melbourne apartments where tenants are getting kicked out or face ⅓ rental increases, The Guardian, 11 November, 2023.
[3] A Clair, E Baker, Private renting is making you age faster, October 2023

government expenditure can be reduced when stable housing is provided. These metrics must be more closely assessed when making budgetary allocations.

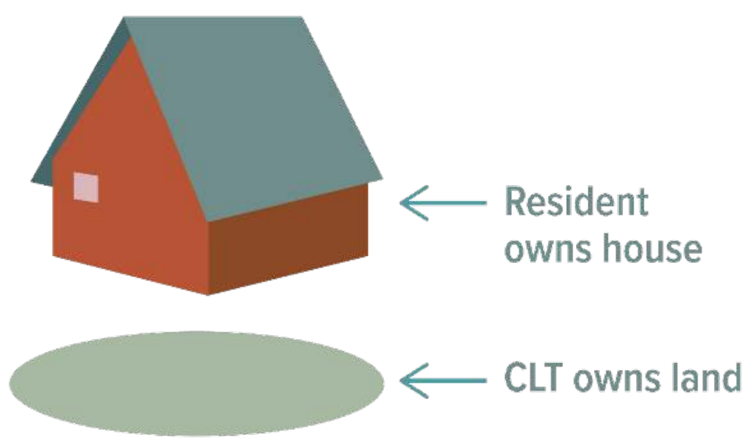
Building on this, the University of Washington's Health Olympics compares UN indicators on life expectancy, health spends per GDP and inequality. It finds that **inequality is the driving determinant** of health outcomes. It is time governments ensured they weren't being duped by self-interest rather than economic science.

South Australia has an opportunity to be **a national leader in housing policy** by shifting away from subsidies and initiatives that benefit developers and push affordability further out of reach. As the housing crisis continues to escalate, the policy framework appears to be sliding to housing *accessibility* rather than *affordability*. We need to focus on housing models that permanently correct the course of the housing market. As Alan Kohler recently emphasised, there needs to be a **realignment between housing costs and median household incomes**.[4]

Community Land Trusts are a useful housing vehicle South Australia urgently needs. They operate with a pricing lock that ensures land costs do not outstrip wage growth.

What is a CLT?

A Community Land Trust is a body established to maintain **perpetual affordability of land** and therefore housing. The resident owns the house, whilst the Trust acts as a custodian of the land.



[4] A Kohler, The Great Divide: Australia's housing mess and how to fix it, November 2023

This is managed by a tripartite board made up of ⅓ residents, ⅓ neighbours & community minded people and ⅓ civics (retired MPs, academics). A strong constitution ensures that the **privilege of land ownership is recognised and acted upon** to ensure that once project costs are paid down, land leasing fees can ***assist the funding of more affordable housing.***

The financial structure behind the Trust is that the land is leased by residents, based on a percentage share of the annual municipal site valuation.[5] This rises slowly in time in accordance with wage growth.

At the point of sale, a capital gains like tax, called a resale formula will see some 60 - 75% of **the gain shared with the Trust.** This suits the liquidity requirements of both the Trust and resident.

A third oversight factor can be incorporated by ensuring any sale price is set at **30% of the median area income**, capitalised over 20 years.

The combination of these 3 payment structures act as **an affordability lock**, ensuring that any philanthropic or government funding is not lost, and is instead recycled back to the common good.

We see it as a matter of urgency that **any affordability program incorporates some form of affordability lock** in order to ensure a public interest outcome occurs over time. The market power enjoyed by property holders is so alluring that trickle down housing supply will rarely occur.

As mentioned above, one only needs to look at the **Build to Rent** outcomes as compared to promises. The example of tenants in a Fitzroy BTR receiving the shocking news that **33% of tenants faced either a 9-17% rent increase, or were evicted**, according to media reports.[6] This replicates what we have witnessed in the northern hemisphere.[7]

This will be disheartening for renters who had hoped such supply would deliver stable housing. There are many who would love to move into stable affordable housing.

A **minimum occupancy rate** calculated monthly would ensure such rental supply is putting downward pressure on rents. The high eviction and rental increase rate in the Fitzroy example above requires further investigation, but perhaps **a maximum tenant turnover rate** would lock in stable supply for longer.

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[5] A number of potential CLT models are available that ensure the stewardship of land over time.
[6] C Kelly, Build to Rent? The Melbourne apartments where tenants are getting kicked out or face ⅓ rental increases, The Guardian, 11 November, 2023.
[7] R Burns, Try Renting from Wall St, 2018

Much of this missing housing supply is for low to moderate income earners - **the missing moderates**. Interventions that specifically target this cohort will reduce the growth in demand for social housing, homelessness services and affordable rentals. Options such as CLTs will help to stabilise local housing markets and ensure that essential workers have access to housing in suitable locations.

CLTs will assist the missing moderates by **reducing the deposit gap**. By only having to borrow for the improvements (i.e. dwelling), a CLT resident may only require a deposit of $50,000 instead of a $150,000 deposit. This will help to reduce local rental pressure, with missing moderates who once could afford their own homes with a $50,000 deposit, now able to enjoy **security of tenure.**

CLTs deliver a significant **3:1 return on investment** in the UK when health, wellbeing and income distribution benefits are factored in over 30 years.[8] With less spent on land, there is more headroom for development **designed for our climate altered future**. This could include a fire bunker in bushfire prone regions, or hurricane proof housing.[9]

The UK CLT Network has helped facilitate the growth of CLTs from just a handful to 587 - just since the GFC.[10] Similar growth is happening in the US, with major donations from super philanthropist Mackenzie Scott adding to the impetus. [11] [12] In Australia, there are numerous groups working to establish CLTs and with a few minor changes to housing policy, we could see the establishment and accelerated growth of the CLT sector **within a few short years.**

The nature of the CLT model sees **the development cost shared** between funds raised by the Trust (often via government and philanthropy) and the resident (via mortgage). This delivers a **scalable return for government investment** that operates in the knowledge that any future property sale has an affordability lock in place. The affordability lock is ensured with a triple check process. The CLT formula can include a monthly land lease, a resale formula (with an agreed split in gains between Trust and seller) and a legally enforceable covenant that limits prices to 30% of the median income earner in the region. **One government subsidy can therefore assist a lifetime of affordable housing.**

Community Land Trusts (CLTs) and community led housing projects can also provide a much more effective way to **incorporate local factors** seen as essential to that location. Such connections have the potential to inspire contributions from philanthropists as well as local MPs. This compares to government run shared equity programs that struggle to capture the heart and soul of a community.

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[8] Colquhoun, C. Housing by the Community, For the Community, 2022
[9] Applegate, A. CLTS are Building Disaster-Resilient Neighborhoods, 2022
[10] UK CLT Network, Policy & Vision, 2023
[11] Cohen, J. Mackenzie Scott Gives $10m affordable homeownership in Seattle, 2023
[12]7 Menderson, J. Historic Contribution, 2023

HomeSeekerSA's accommodating equity threshold of 'assets less than $643,500' for a home valued up to $480,000 suggests that community interest is lower than it could be.

We also note an increase in listings with 'exclusive shared equity offers', which in reality means developers are meeting the HomeSeeker affordability cap of $479,250 by requiring residents to enter into a 25% shared equity purchase with HomeStart Finance. Is this because the market is **unable to deliver housing within the affordability cap** or another example of the market finding ways to use policy levers to maintain maximum profitability?

CLTs offer the government and the Australian public the **most cost-effective affordable housing model available**. They provide competitive returns on investment in terms of public investment, affordability and social cohesion. Unlike demand-side subsidies such as the First Home Owners Grant (FHOG), any initial government subsidy to establish a CLT is retained within the CLT structure and **the benefits remain available for future residents**. CLTs have a proven track record overseas, particularly in the US in relation to their robustness during the Global Financial Crisis (GFC).[13]

Grounded needs your support to enable faster uptake of CLTs via:

- Working towards a **statutory definition** of Community Land Trusts
- Further innovation in property titling, which shouldn't be hard in the home state of Torrens Title. CLTs require the land to be separated from improvements. Victoria has done some good work in this space via their Ground Lease Model. The ACT also has this capacity under the ACT Land Rent Initiative.
- Supporting a CLD **start up fund** - possibly funded out of the AirBnB Cap n trade policy and a redirect from FHBG and SDD.
- Introduce Grounded to the relevant contacts within Renewal SA and the Office for Regional Housing, where a CLT may suit the drive of a local town to encourage key workers to lay down roots, where key workers can access housing with a much smaller deposit.

Staged releases & master planned communities

The coordinated oversight of Renewal SA to develop a pipeline of housing and associated infrastructure to meet the housing needs of South Australians is commended. The Greater Adelaide Regional Plan consultations and recent land swaps with Federal government are further examples of state government forward thinking.

However, there are words of caution. This begins by recognising that land ownership delivers considerable market power to those that control 'location, location.' The tax and planning acts should counter this power. In the absence of this recognition, there needs to be a concerted

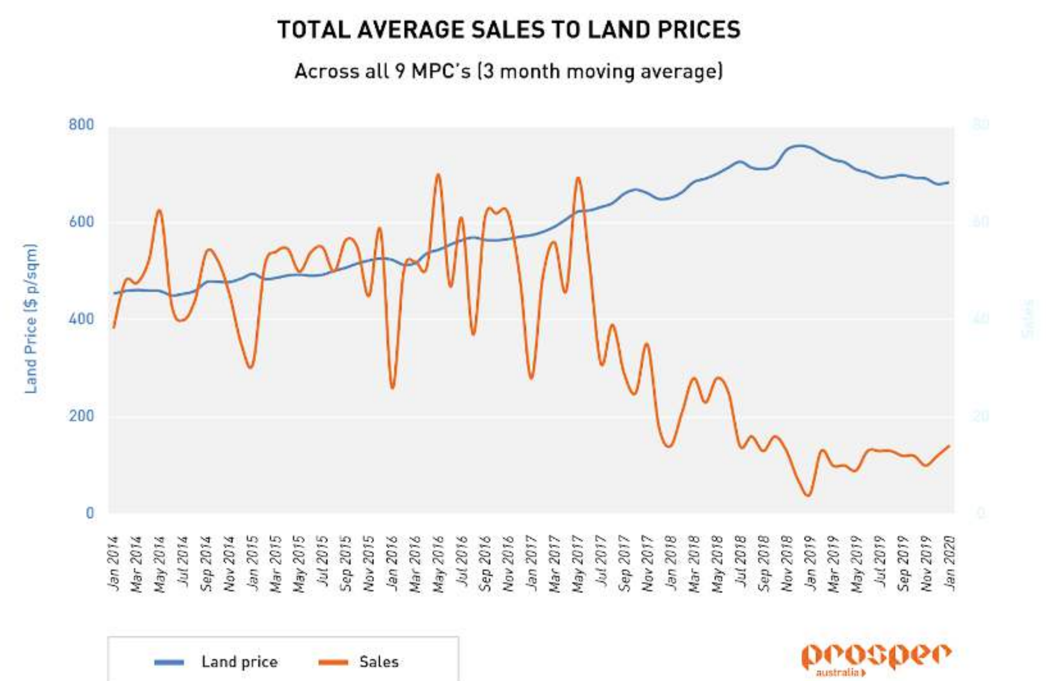
[13] Thaden & Rosenberg, Outperforming the Market - Delinquency & Foreclosure in Community Land Trusts, 2010

effort that **any state owned land be used to champion community led housing** (CLH) that has a *for-purpose* rather than a *for-profit* focus.

Algorithms offer an edgy advantage to a developer's business model, sculpted to scrape housing data such that they gain first mover advantage. Such market know-how leads to a convergence of data points, such that the industry can act in concert without the need for covert meetings.

This was demonstrated in the analysis of nine master planned communities over the last decade in the Staged Releases report.[14]

In mid 2017, with clearance rates falling across the country and days on market rising, the following reduction in supply occurred across nine unrelated developments controlling 110,000 housing opportunities.



A **48.7% reduction in supply occurred in just a few months**. Prices continued unabated.

Government has shown no interest in acting upon this breach of the social contract. Literally hundreds of press releases have been written by the property lobby saying that supply will make prices more affordable. However, no office bearer is holding them accountable.

[14] Fitzgerald, K. The Staged Releases report - Peering Behind the Land Supply Curtain, 2022

Based on this insight, recent interest rate rises could be expected to result in tightly managed supply levels in master planned communities. Algorithms collecting data on falling clearance rates and rising days on market will have dictated a similar supply withdrawal to what we witnessed in 2017 - right at the time such supply could affect prices.

One could brand this behaviour as akin to an algorithmic cartel.

We recognise that developers have to meet fiduciary duties to shareholders and banks, alongside their own self-interest as CEO's. However, these should not outweigh the social contract of rezoned supply delivering on affordability. Housing policy has not acted accordingly to ensure an effective public interest outcome.

We advocate that staged release frameworks should include set supply rates so that the development is completed in 20 years. Built to Rent projects should be required to maintain 90% occupancy rates with both affordability and tenure security locks embedded.

The Aldinga Arts Eco Village in the City of Onkaparinga provides an example of **greenfield development done better**. As a community title eco-village development with 181 lots, they are an example of community led housing. While continuing to achieve the original collective vision of 'caring for the earth, caring for people; living creatively - together', one of the acknowledged challenges the village faces is the lack of affordability for incoming residents. Replicating a similar community title development but with a CLT structure, would mean that not only do houses remain affordable for future residents, but the **land lease payments would enable expansion** of the CLT over time.

Similarly the Bowden brownfield redevelopment is a leading example of **urban renewal that combines sustainability, liveability, community activation and a range of price points and tenure options**. We hope that the Toohey's redevelopment site - another well located site with public transport options, bike paths and adjacent to the parkland ring, builds upon any lessons learnt at Bowden to provide a diverse range of housing options, particularly those that meet the missing moderates and provide perpetually affordable outcomes.

Locals First - AirBnB policy

Communities need some say on what **a reasonable percentage of visitor accommodation** is in their town. For too long we have let the market decide. The results for those who may have missed out on the property game have been harrowing.

Greater Adelaide has seen a 28% increase in AirBnB listings to 4,341 over the last year. The latest PropTrack figures show that Adelaide and regional SA have the lowest rental vacancy rates at just 0.65%.[15] Surely these figures have some correlation.

[15] Brown, J. Adelaide and regional SA have lowest vacancy rates in the country, Oct. 2023

The increasing mobility of capital, alongside the professionalisation of property management, property styling and property apps to streamline long distance management has seen rapid change thrust upon many South Australian communities. When short term rentals (STR's) are added to the pressures of holiday homes in **curtailing the supply available to a community**, the impact on housing requires a serious change of perspective.

AirBnB returns are significantly outperforming the rental market, incentivising investors to switch supply into this unregulated field. *"When compared to a long-term rental on Domain.com.au for a similar property advertised at $700/week, the MadeComfy property* ***outperforms by 60.1%*** *in the six months to March 2023."*[16]

As long as the market can deliver higher returns via short term holiday letting, these properties are **highly unlikely to return to the long term private rental market.**

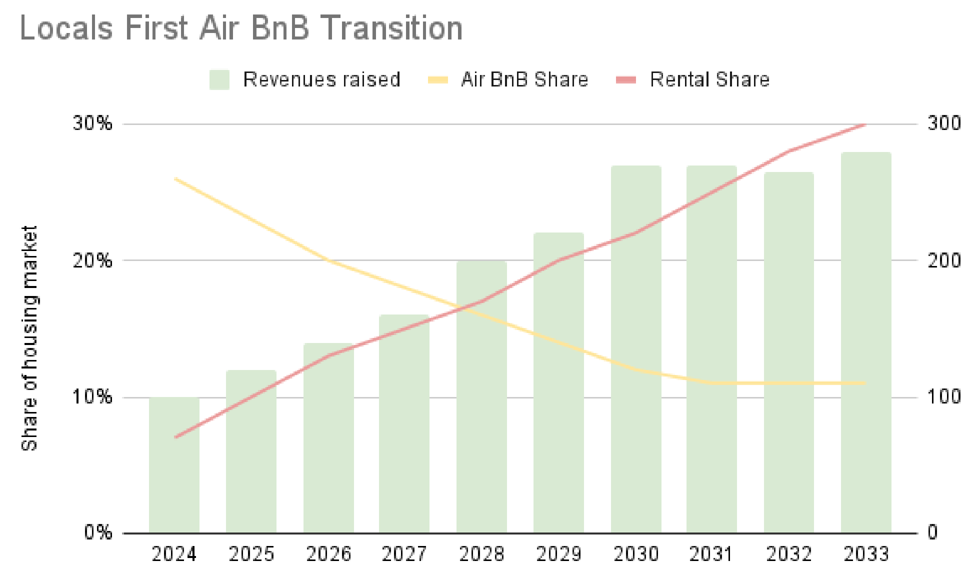
Government must recognise that AirBnB returns have had a significant impact on rental supply, particularly in tier 1 tourism towns. The state government must mobilise to enact planning law that **prioritises the rights of local communities first.**

The Locals First policy would develop **a Long Term Rental supply objective** compared to the present situation. A three year median of rental supply pre-2015 is to be calculated (when AirBnB came to prominence).

As an example, the typical proportion of rental dwellings is about 30% of all homes. This would be compared to the current supply of rentals. In Alexandrina long term rentals are 17.8% of all dwellings, down from 21.2% (2011). At present, AirBnB's are just 37% of the LTR supply. However, we would be monitoring this closely as more STR listings will be incentivised by the elaborate returns.[17]

A pathway would then be drawn between the two, aiming to return long term rental supply near to where it was circa 2015, relative to population growth.

[16] Made Comfy, What is the Earning Potential on Sites like Air BnB, *2023*
[17] AirDNA and ABS Census Quickstats.



South Australia would be required to create **a zoning for short term rentals**. This STR zoning right would be *auctioned off*. The revenues would be hypothecated towards housing - preferably in the CLT sector.

Over time the amount of STR zoning rights would be **tapered downwards**, inferring that more stock would be freed up for rental. By doing this over time, AirBnB investors will have time to switch their focus. A related precedence exists in Sao Paolo, where the auctioning of development rights occurs.[18]

We feel this policy would have **a more immediate impact on rental supply** than an AirBnB levy or cap on the number of rental days. Many tier one tourism hot spots only require a 50% occupancy rate to make a 300% return on the long term rental market. Similar outcomes are occurring in tier 2 towns such as:

- Yankalilla - $50K revenue per STR dwelling (-9% y.o.y), 43% occupancy
- The Flinders Ranges - $53K revenue (-28%), 59% occupancy
- Alexandrina - $57K revenue (-18%), 47% occupancy

Some oversight is necessary to measure **the extent of market power enjoyed**. It appears there are two cohorts of AirBnB landlords - those that own 1-2 properties and those that own 10+.

The Locals First policy delineates the problem in black and white and provides a **clear pathway back towards long term rentals**. Tourism towns deserve the right to ensure the long term survivability of their town. The number of AirBnB sites must be capped and traded to ensure a fairer distribution of housing assets occurs in communities that bring great joy to visitors.

[18] Davis, R, The Benefits of Auctioning off Development Rights, 2021

Further Government Incentives

Community Land Trusts and related community housing operators need access to cheap land. However, there needs to be an understanding of **how land taxes work**. The Affordable Community Housing Land Tax Exemption, announced in 2020 would be ripe for review. Was the reduction in land taxes simply capitalised into a higher sales price? Did this **reward sellers?** We hope there were preventative measures in place to ensure this didn't occur.

Similarly, every time land tax thresholds increase in value, it focuses the purview of investors on land that is valued less than the threshold. The object of land tax is to ensure that the naturally rising value of location, location is curbed in affordable communities. **Land tax deters speculative behaviour by reducing the capitalisation rate.** Instead, the inverse has occurred with a **speculative focus on communities that should be protected**. This leaves economic rent on the table for higher sales prices and therefore interest on future loans, available to land speculators.

Public land disposal policies must prioritise any sales **towards for-purpose development**. They should be given the first right to tender, particularly with the paucity of public land remaining. Savvy governments and councils will recognise that a leasehold arrangement could be developed with CLD, whereby land lease fees could go to **funding further government projects**, rather than the community borrowing from the finance sector.

To ensure that South Australia contributes to building a strong, smart, cleaner, regenerative economy, Grounded recommends greater support should be provided to emergent market ecosystems, including the affordable housing, impact investment and social enterprise ecosystems. This must be undertaken in the same innovative manner that the tech ecosystem was given a major boost through the creation of the **enormously successful Lot 14 precinct.**

We believe that the South Australian government should continue its drive to deliver better outcomes for those who haven't aced the land game. The money spent on FHBG and SDD should be **segued towards a Community Led Housing Fund** to assist the nascent community-led development sector. Additionally Grounded recommends that the South Australian government and Housing Australia **create a funding pathway for CLT pilot projects.**

We need Housing Australia and entities such as [HomeStart Finance] to facilitate the creation of a mortgage instrument that can be used by residents to buy into a community led CLT project. The **funding pathways** will start small, but with a perpetually affordable focus there is no reason it could not grow over decades to a similar size of Sweden's.

Importantly, any widening of the affordable housing mandate should ensure that any future sales have **an affordability lock**. This means that the CLT places a legal covenant on the sales price such that prices could not increase faster than the median wage growth for the area. This should also be extended to any mandatory inclusion zoning policies.

Conclusion

The Malinauskas government has the potential to be innovative by genuinely representing the needs of future home buyers. With decades worth of land earmarked for development, the question is whether that pipeline will be used to further replicate current market failures or **lead South Australia towards a fairer, more equitable housing future.** What could best practices deliver with $300m p.a? How many new homes could that self-fund in a decade?

What could South Australia take from the Swedish example, in the post war housing shortage, a decision on Government borrowing taken by the Riksdag (Swedish Parliament) provided opportunities for municipalities to build good housing for everyone through the public housing companies owned by each municipality.[19] The buildings were light and spacious with surrounding playgrounds and green open spaces. These were followed by child care centres, libraries, and housing for older people, which were integrated into and created lively urban environments.[20]

Twenty years later, the government again intervened due to an acute housing shortage and through government funding, these public housing companies built over a million homes in ten years. This not only eased the housing situation but improved the standard of living. There continue to be over 300 public housing companies, owned by local municipalities and managed as limited companies.[21]

Thirty percent of Swedes live in rental housing and over half live in public housing - municipality owned rental housing. It provides good service, predictable housing costs and an opportunity to be involved in own housing determination. The Swedish example demonstrates **80 years of financial viability.** It continues to deliver quality housing, responds to local housing needs and is able to innovate in response to emergent issues such as increasing construction costs **without the need for ongoing public subsidies**.[22]

We encourage you to delve deeper into the Community Land Trust movement and wider affordability pressures by reading our Housing and Homelessness submission and Greater Adelaide Regional Plan submission.[23]

For more information:

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[19] Sveriges Allmannytta, Public Housing in Sweden
[20] ibid
[21] ibid
[22] Private correspondence with Sveriges Allmannytta's Per Spollander reveals that the rent is charged on land values, not land price (which include speculative pressures). 28/4/23
[23] Grounded, Housing and Homelessness Submission, 2023.

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