

NSW

Tony Hodgins

11 August 2003

10

Mr Gary Banks
Chairman
Productivity Commission
PO Box 80
BELCONNEN, ACT 2616

2993

CHAIRMAN'S
OFF:1CE

Dear Mr Banks,
Proposal for affordable housing

Recent house price increases have, impacted housing affordability to, the point where increasing numbers of people in our community no longer have the resources to purchase a house. As a parent I fear that my children will not have the opportunity I had to own a home. Many in our community share this view, and would welcome measures to improve house affordability.

I wish to put forward a scheme for affordable housing for your detailed consideration, and I would greatly appreciate your response and comments. The fundamental concepts of the scheme are outlined overleaf. The proposal combines existing structures, processes and systems, and is therefore capable of being readily implemented if supported by all relevant sectors. I have named the scheme "Landbank".

I would very much appreciate your consideration of this proposal and I very much look forward to receiving your comments.

Yours Sincerely,

Tony Hodgins

NSW
'LandBank' Proposal - July 2003

Tony Hodgins

An investor / investment institution purchases residential land, which is then leased to house owner/s to build or occupy houses in the traditional manner. The house owner retains the equity in the 'improvements' over the block of land he is leasing, while the investor retains the equity in the land. This simple concept is the basis of the scheme.

The lease would be similar to existing commercial leases for property, varied for this application. The lease would provide the house owner with unlimited tenure for security of occupation and finance, and would allow the house owner the right to purchase the land at any time. The house owner would pay annual lease payments, and an 'up front' cost to cover costs associated with setting up the lease. Both the annual and up-front costs could be adjusted to set various levels of 'affordability' and return to the land investor.

The benefit to the house owner is that they are able to purchase a new or existing home without having to source and service finance for the land component. The house owner would source and obtain finance and service the loan in the normal manner, with the house and improvements, and the "no limit" tenure of the lease, as security. The house and the lease can be sold or bought in the same manner as existing freehold properties.

Funding for the land would require sources of finance that initially can be fixed for long periods eg 5, 10 or 15 years. Investment could be pooled, or allocated to specific sites, depending on the source of funds available. Return on investment is the capital growth realised at the end of the term, or at the time of sale of the property. Annualised returns would have to be foregone in the initial period, however in time (eg say 5 years), as the pool grows, annual gains could be realised from rolling sales. (hence the name "Landbank"). The (State Government) Valuer General would determine the land value at the time of both purchase and sale, thus avoiding potential value disputes.

The difference between this concept and the 'split equity' principle being explored by the Federal Government is that the equity for both parties in this proposal is in the form of real, discrete, securable and tradable assets. Based on historical performance of property to date, both of these asset classes are expected to exhibit capital growth over time.

Based on the NSW Valuer General's figure for land prices in Sydney and Regional NSW, the lowest annual rate of growth in value for any 5 year period has been over 5% p.a. In many areas this is higher. This rate of return is favourable compared with most current capital guaranteed 'low risk' investments, and very favourable compared with many recent Superannuation investment returns.

Financial institutions currently hold funds invested by retired persons and pensioners, at interest rates of between 0% and 4% p.a. Much of this is in accounts set up to satisfy Federal Government 'deeming' provisions for pension entitlement. There are also a large number of non-retirement age persons with investments earning similar returns. This is a significant pool of funds that could be directed towards a scheme such as this.

Obviously banks and other lending institutions regard such funds as a significant contributor towards achieving their annual profitability, and would be loath to forgo this profit potential for the sake of this scheme. However, in the initial period, annual growth can still be accounted for on 'accrual' basis and, as stated above, the historical long-term performance of land price growth is quite acceptable in comparison to other low risk investments. As also indicated above, after a suitable period of time, it will be possible to introduce annual returns from rolling sales.

If lending organisations, and superannuation fund managers, collaborated to pool a proportion of their current low interest investment funds, then this would make available a significant amount of funds for investment in this scheme. It would also be a way for these organisations to be seen as good 'corporate citizens' returning some of their profits to the communities which support them, and in which their shareholders, management, staff and families live.

Many individuals with funds to invest would agree to the investment of part of their savings in such a scheme, or would be happy to invest in it directly, especially if they knew that this was directly helping their children and