LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON ECONOMY AND GENDER AND ECONOMIC EQUALITY
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Submission Cover sheet

Inquiry into Housing and Rental Affordability

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Inquiry into Housing and Rental Affordability

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The inquiry terms of reference imply a housing market failure in the ACT resulting in expensive and underutilised housing. This submission agrees there is a market failure and proposes a solution. The failure results in inflated housing values, vacant properties, inappropriate housing, and many residents living in areas far from their work, schools, friends and other regular destinations.

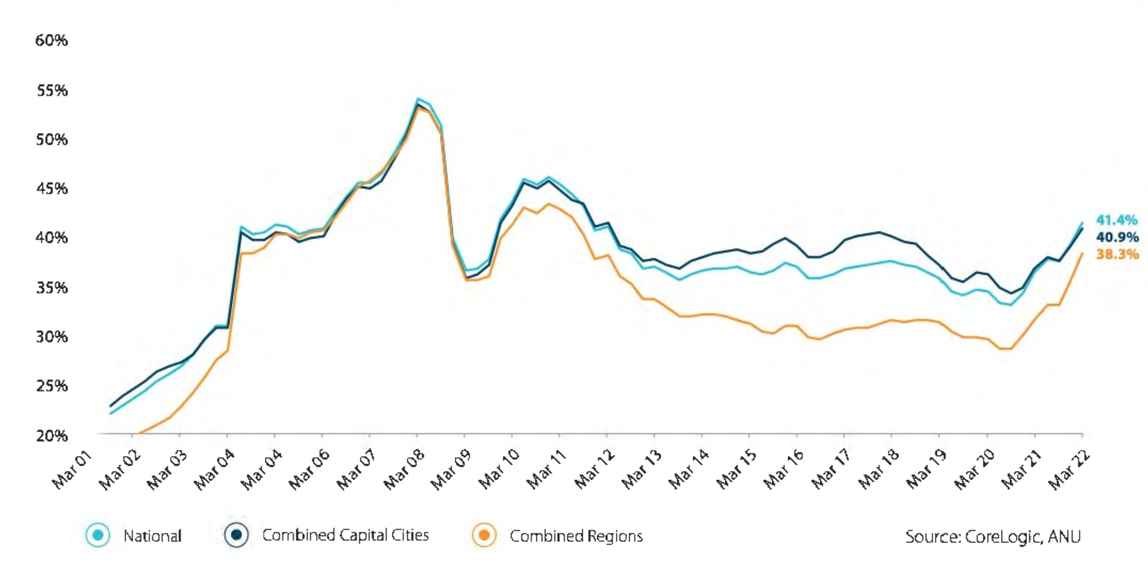
To address the multiple problems, governments can attempt to fix the existing housing market or encourage the development of competing housing markets that use Capital efficiently with ideas from Mutual Benefit Housing Cooperatives (MBHC). MBHCs offer an alternative to landlord investors, and modern technology provides an efficient, low-cost implementation.

Housing has become expensive because the housing market has become an investment market to maximise earnings from housing investments. To fix the problem, we can offer alternative markets to turn occupiers into investors in their housing and free Capital from unproductive stores of wealth.

The Symptoms of the Problem

The purpose of banks is to supply money for productive investment. Over the past 30 years, the banks have moved from 30% of their loans in housing to 60%. The banks have let us down in their quest for higher profits by increasing their earnings from unproductive asset price inflation. It has resulted in houses doubling in price for no increase in occupation value. The graph from Core Logic shows it in real terms; it now costs an Australian double the amount for the same house as it did twenty years ago.

FIGURE 5. PORTION OF INCOME REQUIRED TO SERVICE A NEW MORTGAGE - NATIONAL AGGREGATES



The government can address these symptoms by encouraging market competition. Unless government promotes and supports the new markets, the Banks will not move their finance to these more efficient markets.

The new housing markets will bring community benefits of lower accommodation costs and higher utilisation of the existing housing capital without collapsing prices.

The housing market has moved investment Capital to negative productivity. Increasing the price of a house above the inflation rate does not increase intrinsic value. Instead, it increases the banks' and existing investors' profits at the expense of occupiers and future investors. It is a shift in wealth rather than an increase in wealth. Unfortunately, **it decreases wealth because Capital is not used to increase wealth, and the cost of operating the Housing Market is double what it could be.**

Moving Capital via a loan is the cost of interest plus the cost of the Real Estate, conveyancing and government fees. The Capital sits in overpriced housing and occasionally moves in large amounts from the seller to the buyer, further reducing capital productivity. Governments can encourage markets that remove the cost of interest, reduce conveyancing and Real Estate costs and move Capital at twice the current rate.

This submission outlines how to create and operate housing markets to achieve these objectives.

Unproductive Capital

Unlocking Capital in overpriced houses frees Capital for productive purposes. One way to unlock Capital is to transfer some to occupants when they pay to live in the home. It doubles the capital transfer rate, meaning the same Capital is available for investment. Funding with a mortgage creates more Capital without increasing the assets to support it; hence mortgages reduce the productivity of Capital. Replacing mortgages will free up the existing Capital in houses to make the home more productive by reducing the cost of living with insulation, solar panels, or batteries.

Bank Debt compared to Community Finance.

A person wants to buy a house, and they borrow money from a bank to buy a home. To get the money, the bank borrows money from another bank or the Reserve Bank and puts it in their bank account. They buy a house the bank approves and look after the home without help from the bank. Over the life of a loan, interest costs as much as the loan, doubling the money transferred. Buying a home with the transfer of ownership incurs real estate, legal, insurance, and government charges.

Markets that use Bank Finance more than double the amount of money transferred to buy a home, meaning housing market productivity with debt is low because productivity is the money transferred to buy a product.

Alternative Housing Markets—Occupy and Buy

Occupy and Buy Housing Markets (OBHM) are markets formed by a community of homeowners agreeing to buy and sell homes from each other. While they are buying and selling a home, the community holds the title to the home. If a community member decides to leave the home, they can buy the title and take the house out of the market or another person can join and pay to buy and occupy the home.

While the home is on the market, no interest is paid, and no title is transferred. A market where the exchange of money takes a long time reduces the cost of operating the market. It removes the need for interest and transfer of ownership costs. It allows the productive use of existing Capital to make the home energy efficient.

To set up an OBHC, owners of dwellings sell the title to their house to the OBHC market and, in return, receive Community Capital. All people with Community Capital in the market are joint owners, and owners get the same fixed return on their Capital unless they are occupiers. Occupiers receive no return on Community Capital up to the value of the occupied dwelling. They get a return from occupying the residence. The government can facilitate and reduce the cost of title transfers to and from an OBHC.

Community Capital is Capital everyone can create by prepaying for accommodation. The Capital earns a return on investment by giving the holder a discount when using a prepayment. Investors get a return on investment by selling their prepayments to occupiers for the total price. When occupiers pay, they receive the 50% of the prepayments released.

Non-distributing cooperatives are an appropriate organisation structure to own and govern OBHMs. There can be competition in OBHMs because they are easy to create. A person can be a member of many OBHMs as an occupier and an investor. The governing body of the OBHM sets the return for an investment of Community Capital. For example, an investment return of double the average Australian Superannuation allocated pension will attract existing landlord investors and Banks.

Possible Rules for an OBHM

Without government regulation, OBHMs can set their own rules through private contracts. The following is one set of rules.

The minimum price of occupation is 25% of an occupier's income, and 50% of each payment becomes Community Capital available for further investment. Investors get an investment return that lasts twice as long as the average Australian Superannuation indexed allocated pensions. The minimum occupation price on the property is 50% of the return on investment.

Assume the return to investors is an inflation-adjusted fixed 3.5%, the dwelling has a Capital value of $1,000,000, the minimum rent is $35,000 per year adjusted for inflation, and the owner of Community Capital receives a 7% indexed return on their initial Capital for 28 years.

To acquire properties, OBHM sells Community Capital to any investor. OBHMs buy existing properties by converting house equity into Community Capital.

When the occupants have paid the house value, they will pay 2% of the house value. If the home increases in value or the occupier no longer has the Community Capital equivalent to the house value, they will return to paying 25% of their income.

Occupants treat the homes as though they had the full title, and the rules of the OBHM must, at a minimum, follow the community rules for neighbourhoods and home occupancy.

Selecting Buyers

The highest bidder in a competitive auction buys the house in an investment market. In an OBHM, the price is the same for all buyers, and the OBHM sets a return on investment to match the investment market. If there are many buyers for a property, the OBHM will develop rules to select the buyer. A possible method is to choose the buyer randomly from those who obtain the most value from the occupation.

Summary of advantages of OBHM Markets

OBHMs:

- Double the transfer rate of Capital to buy or sell a home.
- Low-cost to operate an OBHM market.
- Investors and occupiers share the savings.
- Capital becomes available for investment twice as fast as the existing housing market.
- Occupiers are selected based on the value to the occupier rather than their wealth.
- Many occupiers can share the ownership of a dwelling, encouraging multiple occupancies.
- Reduce transfer costs.
- Increased competition in housing markets.
- The operation of an OBHM housing market is open and transparent.

Questions

Without regulations, OBHMs must set their own rules and answer the following questions. The following are possible answers.

Who provides the money to purchase properties, and what do they get in return?

Existing owners of properties supply the properties. OBHM is a housing market where sellers or potential sellers put properties into the market. Once into an OBHM, the house will likely stay there for the foreseeable future.

What if an occupier loses their job and their income drops?

Occupiers pay a percentage of their income, so their payments can rise and fall. However, most occupiers will pay more than the minimum as they receive a higher return on investment than most other investments available to the general public.

What if an occupier cannot meet the minimum payment?

If an occupier cannot pay the minimum amount and has no equity in the home, the OBHM will help them find a lower-cost house.

Who manages the property?

Occupiers manage the properties as though they owned them outright. The OBHM acts like a body corporate and provides some services.

What happens when an occupier has paid for the property?

The occupier can leave their property in the market and continue to pay to occupy.

Can an occupier sublet?

All occupiers who pay become part owners of the property and build up equity in the property. For example, all payers build separate equity accounts in a shared house. A parent living in a granny flat would build equity with occupation payments.

What if the OBHM becomes insolvent?

OBHM is a market, and unless it takes on debt, it cannot become insolvent. The value of properties can drop, and the distribution of losses is an internal matter.

Who decides the house value?

House valuations come from other sales in other markets and independent valuers.

Can an occupier make additions to the house they are buying?

An occupier treats the house as though they owned it outright. The OBHM will have rules around whether OBHM will supply the funds, but the rules will relate to whether the occupation value of the house increases.

Can Community Capital be sold?

Yes, to another member or to the OBHM.

How is good governance ensured?

Clear rules that apply to all and transparency with privacy are the best guarantee of good governance. Government support for governance through regulation will help.

Can an occupier take the property out of an OBHM?

When the occupier has paid for the dwelling, there is no restriction on the transfer of title. When the investors still own part of the dwelling, OBHM has to agree to it.

Who pays for repairs?

It is usually the OBHM, but it may depend on the repair.

Can an occupier move to another dwelling and take their equity with them?

Yes. OBHM make this low-cost and easy to do. Occupiers can move to another OBHM and sell their Community Capital and move it to the new OBHM for a small fee.