

Inquiry into Housing Affordability and Supply in Australia

The House of Representatives Standing Committee on Tax and Revenue is enquiring into and reporting on the contribution of tax and regulation on housing affordability and supply on several aspects. This submission focuses on two of those namely:

- Examine the impact of current taxes, charges and regulatory settings at a Federal, State and Local Government level on housing supply;
- Identify and assess the factors that promote or impede responsive housing supply at the Federal, State and Local Government level.

Background

We are the owners and operators of a 14 room lodging house in Townsville for men down on their luck. These men are referred to us from agencies such as Red Cross and from the Townsville Hospital and the Qld Department of Corrections. We have been operating this premises for 12 years and in that time have seen many government and social enquiries come and go. We have a thorough understanding and expertise on housing affordability in this sector.

Without doubt there are two main factors preventing progress in the area of housing affordability. The first is the lack of a mechanism for investors to successfully invest in affordable housing. The second is the lack of willingness by senior public servants at the suggestion of new methods to address the issue.

Investor Title Mechanism.

There needs to be a way that investors could build and invest in lodging house style accommodation and at the moment there is not.

Lodging houses provide a way for individuals or couples to have the independence and privacy of their own space without the need for high purchase or rental costs that are above their budget. At the moment, a developer wishing to build residential investment unit accommodation is required to comply with local council requirements and State Land Titles Office requirements that have minimum size units and the provision of minimum facilities in order to have the ownership of an individual title. The result is that the smallest unit possible is too large to fit into a lodging house type model or other budget accommodation scenarios.

Lodging houses containing independent bedrooms with shared kitchen, lounge, bathroom facilities are a much better model than conventional strata title units for short and long term accommodation of those who make up much of our current accommodation crisis victims. However lodging houses are not an economic proposition for developers or investors because they currently cannot be split into multiple independent ownership in the way that a residential unit development can be.

If builders and investors could profitably build lodging houses with multiple titles, there would be more lodging houses and less homelessness.

There needs to be a model whereby developers can engage in the building of new or refurbished lodging houses for the investment by multiple investors. I believe I have such a model that is investor friendly and solves much of the accommodation affordability and homelessness issues.

Simple Company Model

Imagine a floor of a multi-storey accommodation building being designed in the format of lodging house. That is to say, a floor full of independent bedrooms sharing kitchen, lounge room and bathroom facilities (not dissimilar to the Air BnB style of accommodation). This lodging house floor could be part of a multi-storey building consisting solely of lodging house floors or it could be a smaller stand-alone building or part of a multipurpose accommodation or commercial building.

The entire floor would be built and Council approved and Land Titles Office titled as if it were one single residential unit (albeit with perhaps six bedrooms). The title could be in the name of a simple company. Imagine there were six different accommodation bedrooms on this floor and six shares in the company that owns the floor. Each share would have a room assigned to it. So the investors are shareholders in a company but with specific bedrooms assigned to them.

The rooms would be rented out in the normal lodging house rental model and monthly income (rent) from that room would be paid (as a dividend) to the shareholder whose class of share is assigned to that room.

All other aspects of the rental management would be the same as currently happens with rental of a block of units. That is to say, a real estate or rental agent manages the incoming and outgoing tenants, pays any expenses such as common area cleaning, repairs and maintenance and then pays the net income to the investors according to their rooms. Buying and selling your investment is a simple contract for the sale and purchase of shares in the company.

The astounding attractions to investors in this model are:

1. Firstly there will be that there is no stamp duty on the purchase of company shares. There is a very attractive upfront saving of over \$12,000 based on a \$400,000 investment and \$5,500 on a \$200,000 investment (not that one can buy a regular housing investment for \$200,000).
2. Furthermore, given that each room is likely to rent for around \$175 per week, for an investment of probably less than \$200,000 per room - you will receive a much better return than conventional rentals. For example if you bought two rooms you would be receiving \$350 per week rent on a \$400,000 outlay (a very good return). To do that in the normal unit or home investment environment you would probably have to spend over \$600,000 plus stamp duty etc.
3. Buying one room will be much cheaper than regular property investment thereby making property investment available to more people.
4. Investors also have the satisfaction of having contributed to the resolution of a social problem.

For developers the attractions are:

1. That the structure will be easier to build because less bathrooms, kitchens, carpark etc are needed for the same number of bedrooms. Preliminary discussions I have had with a quantity surveyor indicate that the cost of construction of the residential unit model as compared to the lodging house model would be \$1,800/square metre as compared to as little as \$1,300/square metre which is a drop of 28%. New two bedroom units in Townsville are currently advertised at \$400,000 and rent for \$330.00 per week. On that basis two rooms in the lodging house model would have a purchase cost of \$241,200 and would rent for over \$350 per week together – a very attractive return for investors and by association therefore a very attractive model for developers. Investment in a lodging house room would be a far cheaper outlay for a far better return on investment.
2. Furthermore with less money needed by investors to invest, it will be easier for the developer to pre-sell enough to satisfy bank financing requirements.
3. Developers also have the satisfaction of having contributed to the resolution of a social problem with the corresponding rise in community admiration.

A variation of this model would be to have a Government Department such as Child Safety or Department of Corrections own or long term lease a floor and use it for their clients and one room could be an office for the social workers to not only carry out their own administrative work but also keep an eye on their clients rather than travel across town as is the current position. At the moment it is common for state housing departments to have to pay for motel accommodation which is more for a night than the lodging house model would be for a week !

Simple Body Corporate Model

Another investment and title model would be to use a very simplified version of the current strata title or body corporate model common in each state. Again imagine a floor of a multi-storey accommodation building being designed in the format of lodging house as above.

The entire floor (or multiple floors) would be built and Council approved and Land Titles Office titled as a simplified strata title body corporate where every two bedrooms represent one title and the common facilities are common property title. Each two unit title would be in the name of individual investors. Investors are familiar with the body corporate strata title system and the simpler the system, the more investors it would attract.

The same astounding attractions to investors and developers stated above (except the stamp duty advantage) apply to this simple body corporate model.

Conclusion

So a title ownership system that:

- ✓ is more economical and profitable for developers to build;
- ✓ is more affordable for investors so it attracts more investors;
- ✓ which in turn creates more demand for developers to build more;
- ✓ is clearly a way to provide more affordable stable accommodation for those currently excluded from the rental market and it will also benefit the building industry.

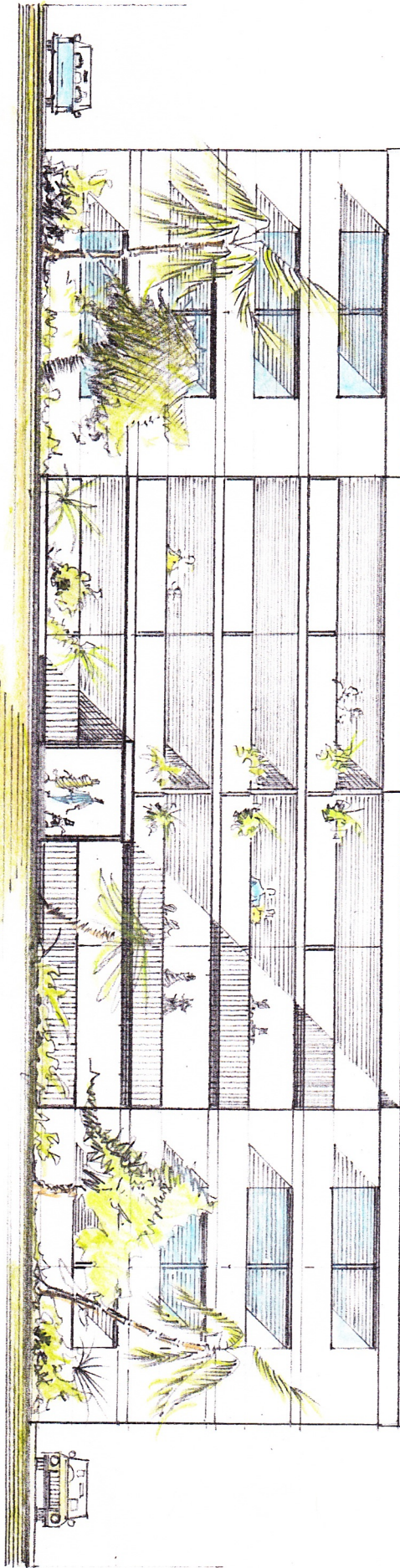
The Authors

As the operators and owners for 12 years of a 14 room lodging house in central Townsville, we have seen many talk fests about the accommodation crisis. Sometimes we see politicians determined to find a solution.

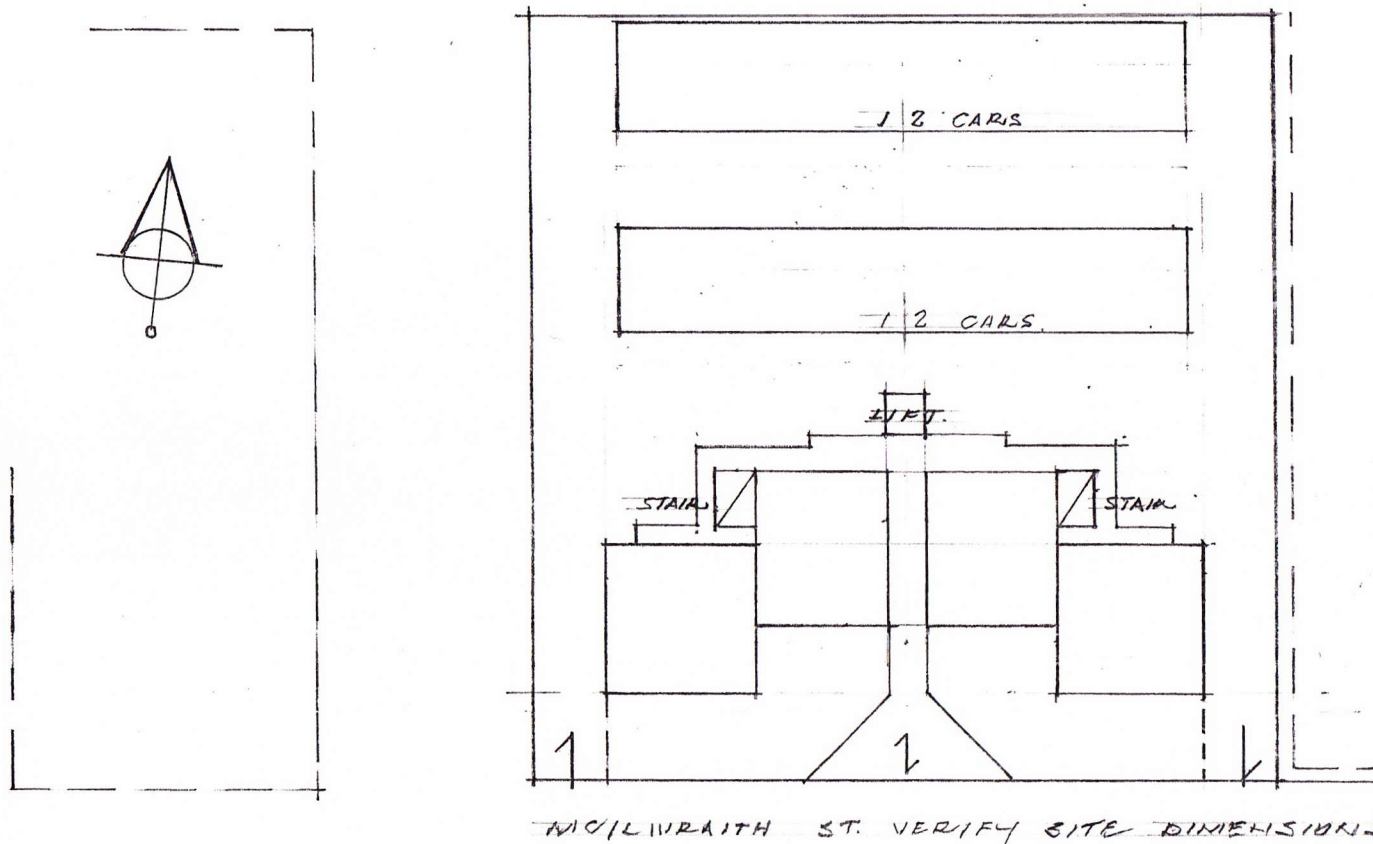
These politicians fail because there is not a suitable title model to attract private sector investment and because senior public servants do not want to try something new and stifle the idea in a manner worthy of the Yes Minister TV character, Sir Humphrey Appleby. This has been told to me directly by a senior department head.

In addition to operating the lodging house, we also own and operate a commercial legal practice which practices in the property development area and so we have the combined experience and knowledge necessary to make this submission with authority.

We would gladly offer our experience to meet with any department's representative to progress this idea to achieve positive results at the earliest opportunity.



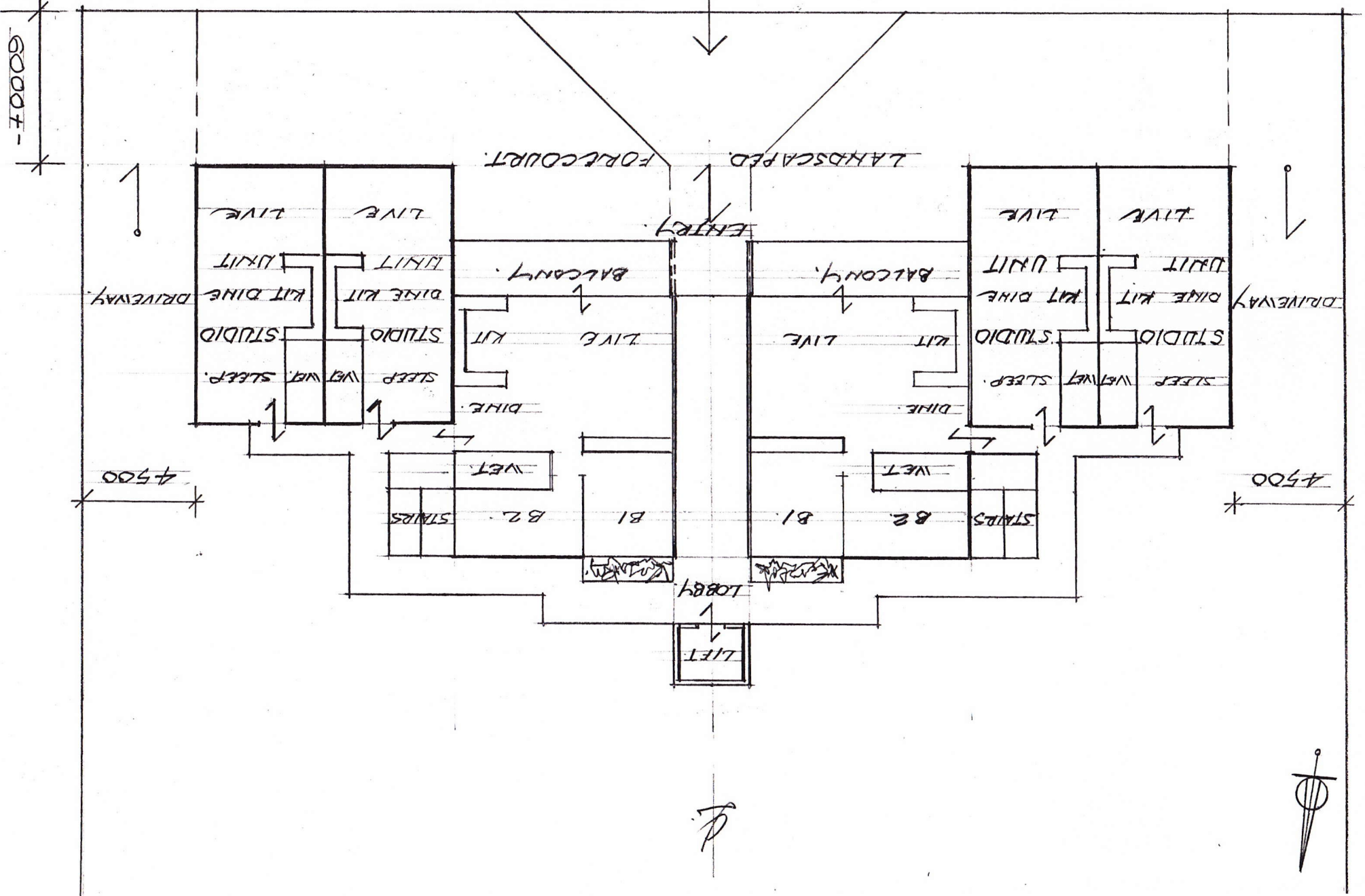
ELEVATION TO MCILWRAITH STREET
PRELIMINARY FOR J.D. & C.V.R. BY RHE.
PROPOSED MULTI-LEVEL RESIDENTIAL
R.A. PETERSON & R.A.I.A. Architects. SCALE 1:200

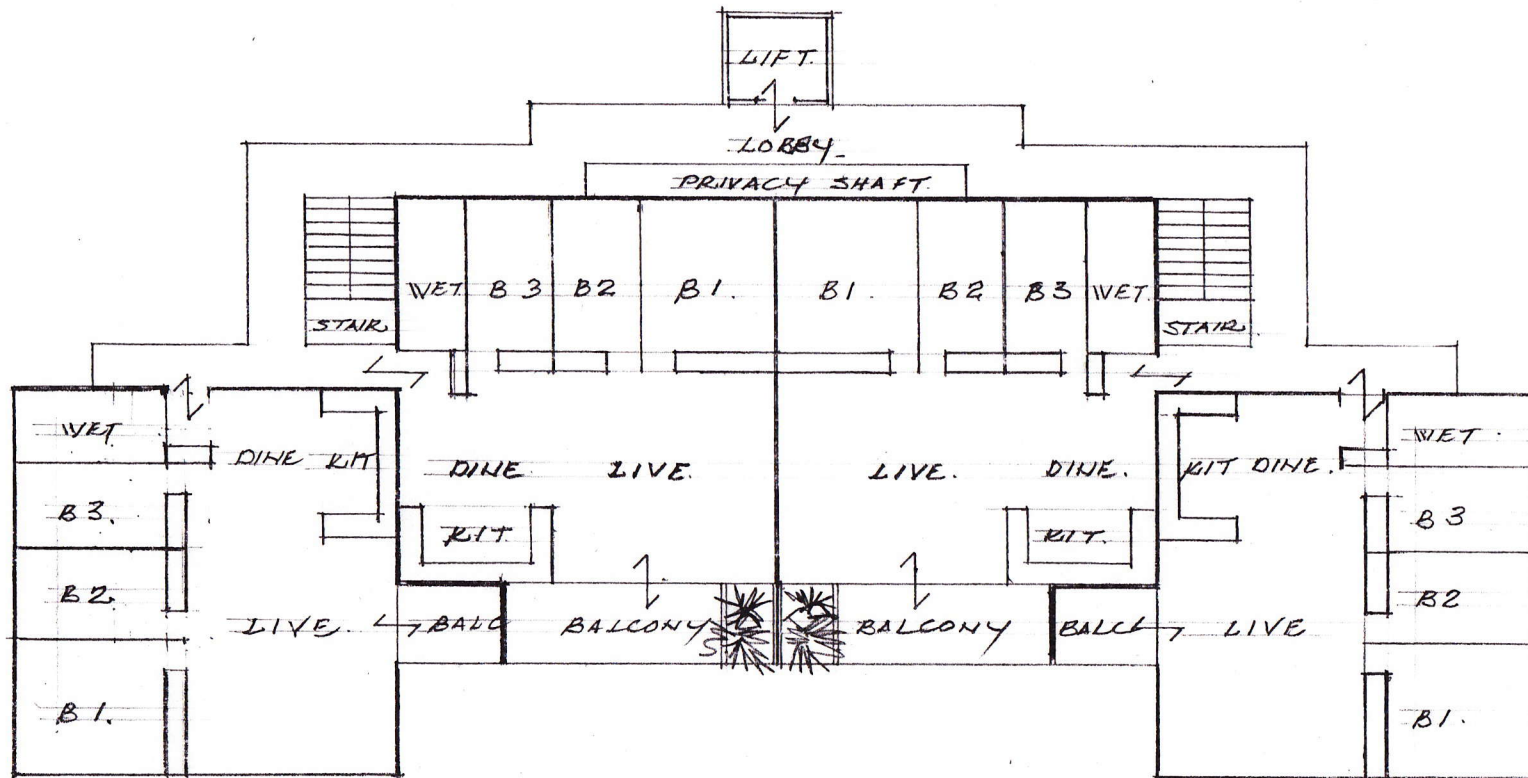


SITE PLAN AT LEVEL 1 SCALE 1:500.
PRELIMINARY FOR J.D & C.J.R. BYRNE
PROPOSED MULTI-LEVEL RESIDENTIAL.

FLOOR PLAN LEVEL 1. SCALE 1:200
PRELIMINARY FOR J.D. & C.J.R. BYRNE.
PROPOSED MULTI-LEVEL RESIDENTIAL.

MOILWRAITH STREET.
LEVEL 1: 2 x 2 BED RMS & 4 STUDIOS.

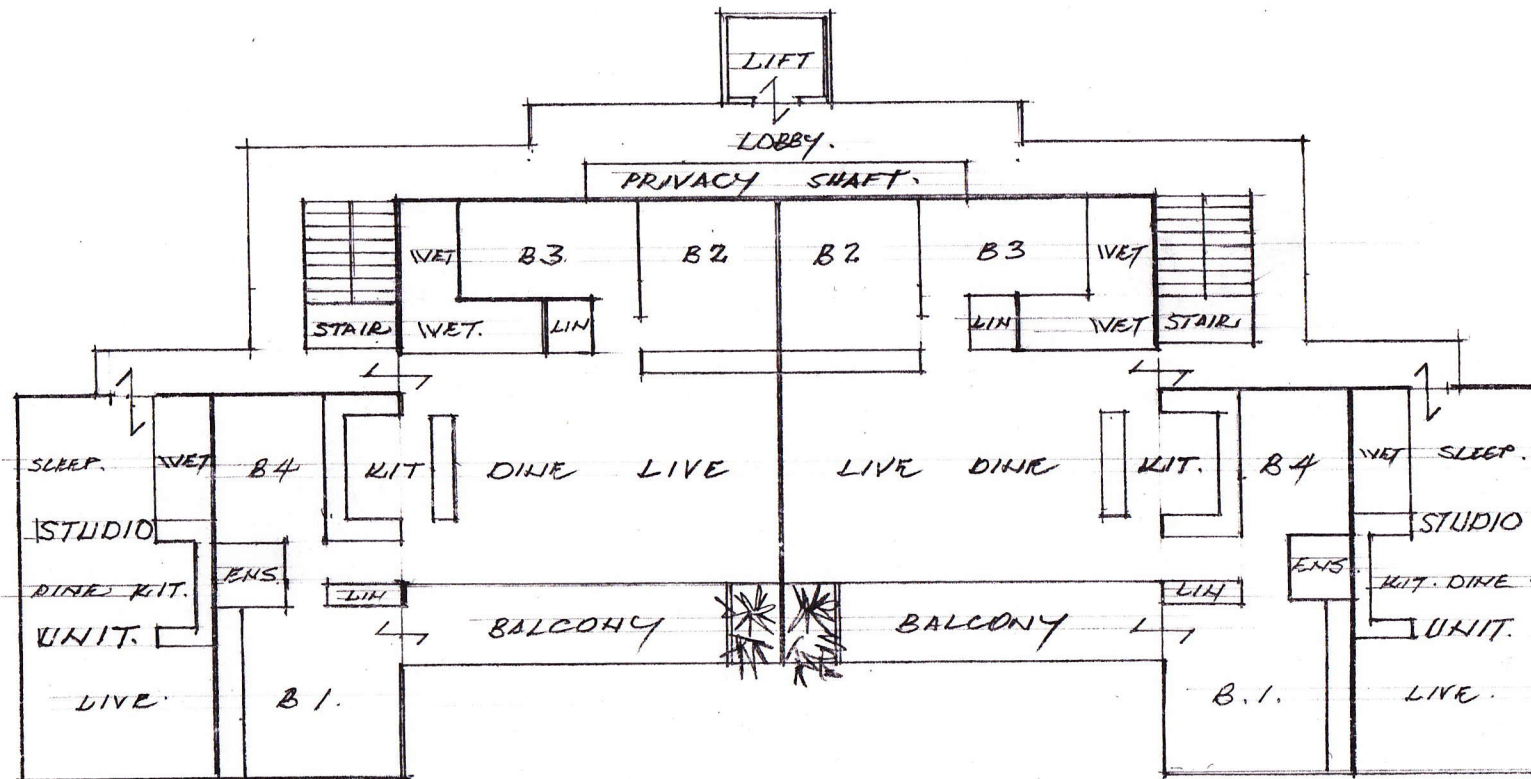




MCILWRAITH ST.

LEVEL 2 & 3 • 4 X 3 BED RMS.

FLOOR PLAN LEVEL 2 & 3. SCALE 1:200.
PRELIMINARY • FOR J.D & C.J.R. BYRNE.
PROPOSED MULTI-LEVEL RESIDENTIAL.



MCCILWRAITH ST.

FLOOR PLAN LEVEL 4. SCALE 1:200
PRELIMINARY FOR J.D & C.J.R. BYRNE.

LEVEL 4. 2 X 4 BED RMS & 2 STUDIOS. PROPOSED MULTI-LEVEL RESIDENTIAL.