

International Institute for Self-governance

Principal: Dr Shann Turnbull

John Hawkins, Committee Secretary
Senate Select Committee on Housing Affordability in Australia
Department of the Senate, PO Box 6100
Parliament House, Canberra ACT 2600

April 4th, 2008

Submission to the Senate Select Committee on Housing Affordability in Australia

Dear Senators

Halving the cost of housing

The cost of housing can be halved when the ownership of land/sites are separated from the ownership of housing. Land typically represent halve the cost of a home and its cost can be eliminated by allowing it to become self-financing from the uplift in community land values from development and the capture of commercial revenues.

The introduction of Community Land Banks (CLBs) by this means would democratise the wealth of cities on a sustainable basis without the need for government taxes or welfare.

It must therefore be concluded that the current system of land tenure is overwhelmingly the most important barrier to affordable home ownership in Australia. However this topic is not included among the seven listed of special interest in the terms of reference of the inquiry.

This omission can be explained by the fact that economists do not consider land tenure as part of their discipline. Also, the nature of land tenure is a subject now ignored by most other contemporary social scientists.

Five reasons why orthodox economists do not have the intellectual tools for analysing the problem is explained in my paper presented at the University of NSW last December as posted at http://papers.ssrn.com/abstract_id=1027864. My paper on 'Affordable Housing Policy: Not identifiable with orthodox economic analysis' has also been accepted for presentation this July to an economics conference in Cambridge, UK and to a meeting of the American Real Estate and Urban Economics Association in Istanbul, Turkey.

The paper identifies eight ways that CLBs can democratise the wealth of cities without government taxes or welfare. CLBs provide one of the three ways presented in my 1975 book for *Democratising the Wealth of Nations*, available at <http://cog.kent.edu/lib/TurnbullBook/TurnbullBook.htm>.

Housing is not affordable because economic values are inefficiently and inequitably allocated by the current land tenure system.

Halving the cost of housing

The existing land tenure system is inefficient and inequitable because:

- (i) Tax payer's expenditures on infrastructure like roads, water, power, schools and hospitals, etc. creates windfall gains for private land owners including commercial and/or foreign investors.
- (ii) Commercial investors in rental housing, shopping centres and all other commercial premises get overpaid from:
 - (a) Capturing the uplift in land values from infrastructure expenditures, and;
 - (b) Retaining ownership of their investment after obtaining a tax deduction for all its cost from depreciation allowances.

The overpayment of investors is inconsistent with the rationale for a market economy that is supposed to efficiently allocate resources. It also means that resources in the commercial sector of the economy are being significantly misallocated as shown in my academic paper referred to above. This matter that should be referred to the Productivity Commission.

Evidence is presented in my paper that many non-land development corporations acquire more wealth from uplift in land values than from trading goods and services. But this is hidden from economic statistics and conventional analysis. It also means that wealth and foreign exchange is being drained out of the economy on a significant but largely invisible basis through foreign owned corporations.

It makes overwhelming political sense for overpayments to domestic and foreign corporations to be captured to make home ownership affordable on a sustainable basis that can be achieved by introducing CLBs. Corporations cannot vote for members of Parliament but home owners and renters can.

My academic paper recommends that the condition for any State Government to release land for urban development and/or for the Federal Government to finance infrastructure expenditure be made conditional upon separating ownership of the uplift in land values so created from the ownership of improvements on land. CLBs provide way to achieve this objective when:

- (i) New land is being released for development;
- (ii) Redevelopment is undertaken of existing urban precincts and/or
- (iii) Existing unitary title system of urban land is converted to a CLB duplex title system.

The reason why residents would vote for and/or accept conversion of their existing land titles into the duplex title system of CLBs is because home owners and tenants together would obtain a pro-rata share of the economic value of all land sites within the CLB precinct. CLBs would be the size of a suburb or a political unit of a suburb to include sites occupied by domestic and foreign corporations, roads, parks, government agencies and churches and so on. If the non dwelling sites occupied say half the land area of the CLB then residents would capture twice the economic value of their land obtained with the current unitary title system. In addition, tenants in rental housing who currently do not obtain any economic value in land values would obtain shares in the CLB pro-rata to the area of land occupied by their dwelling and the period of their occupancy over the owner's depreciation period. In this way all voters gain greater wealth while the reported profits of trading corporations are not changed.

The cost of developing sites for trading corporations and investors in property would be reduced as they would not need to pay the cost of buying land. Land sites would be provided

Halving the cost of housing

by the CLB on condition that the ownership of any development on the site was transferred to the CLB or tenants at the same rate that their investment was written off for tax purposes. Because depreciation is a cost incurred in any event by all commercial investments, this condition does not change the reported profits of commercial operations. However, it allows surplus profits to be transferred to home owners and tenants to support half cost housing on a sustainable basis.

Government rental affordability initiative of March 10th will be counter productive

The initiative as set out in the Prime Ministers Media release of March 3rd 2008 to expand the “National Rental Affordability Scheme” is counter-productive. Three reasons are presented with remedies in my letter published by the *Australian Financial Review* on March 10th as set out below:

“A more Bankable Solution”

The tax incentives described in “Rudd expands housing tax credit scheme” (March 4) will aggravate housing affordability in three ways as it: (1) Allows investors to get overpaid for rental housing; (2) Provides an incentive for developers to bid up the price of rental housing sites; and (3) Crowds out home ownership construction and available homeownership stock.

These three problems could be overcome by respectively: (1) providing the tax incentive to investors in rental properties only if they write off the ownership of their investment at the same rate they write off their investment for tax purposes. This will not affect the investor’s rate of profit and so provide no disincentive but avoid investors being over paid with income after they have recovered all their investment from depreciation cash flows. (2) Ownership of rental housing is separated from the ownership of the rental housing sites so windfall gains created by the value of land being increased from community improvements can be captured by the community to avoid giving investors a free ride of surplus profits. (3) Giving tenant’s co-ownership of the investment properties they rent at the same rate that the investor writes off their investment for tax purposes.

However, a much more effective way of making housing affordable is not to target rental housing but to adopt the second recommendation for whole suburbs. This would aggregate all land sites and allow land to become self-financing from rents received from the business sector. As land represents around half the cost of buying a home, the creation of Community Land Banks in this way would half the cost of housing on a long term sustainable basis.

Yours faithfully

Comments on the terms of reference barriers to affordability: Seven items “a” to “g”.

a. The taxes and levies imposed by state and territory governments;

These represent second order issues in relationship to considering how the land tenure system impacts on housing affordability.

The CLB land tenure system would eliminate land taxes for home owners as the CLB owns the land. As noted in my academic paper, a CLB could provide residents with a dividend on the shares obtained from the net rents received from commercial operators after paying its operating costs including the self-financing expenses of the land.

Halving the cost of housing

b. the rate of release of new land by state and territory governments;

The rate of release could be expedited by introducing CLBs as the cost of providing infrastructure to service the release of land can be taken over by the CLB.

c. proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;

Any government welfare is counterproductive because it will result in market forces increasing land values and making housing less affordable.

The cost of providing welfare to first home owners and/or increases in tax deductions for providers of rental housing could be eliminated by introducing CLBs.

d. the role of all levels of government in facilitating affordable home ownership;

The role of all levels of government in financing urban sites, services and infrastructure should be made conditional upon adopting a CLB land title system to avoid the inefficiency and inequity of public money generating private profits and less affordable housing.

e. the effect on the market of government intervention in the housing sector including planning and industrial relations laws;

All government welfare with the existing land tenures system is counterproductive in the longer term and can only provide short term amelioration to favoured political clients of government. Orthodox economic advisors in government and to the government do not have either the information or analytical tools to comprehensively analyse the problems for the five reasons set out in my academic paper.

f. the role of financial institutions in home lending; and

While CLBs would on average halve the value of retail housing finance they would increase wholesale funding opportunities introduced from the need to make CLB land sites self-financing. Funding stress on home owners would be substantially reduced and the risk exposure for their financiers reduced. CLBs provide a new type of financial intermediary for distributing and sharing financial risks between and over individuals, locations and over time.

Mature CLBs could obtain the resources to directly finance residents into home ownership. The possibility of CLBs creating their own local currency and banking system is considered in my recent refereed article and a book chapter. Refer to: 'A framework for designing sustainable urban communities', *Kybernetes: The international journal of systems, cybernetics and management science*, pp. 1543–57, October 2007 (based on a Working Paper, available at http://papers.ssrn.com/abstract_id=960193) and 'Financing urban communities with sustainable energy dollars', in *Urban Energy Transition*, Peter Droege, (ed.), pp.121-40, Elsevier Science Publishers, Oxford, 2008 (based on Working Paper, http://papers.ssrn.com/abstract_id=980027).

g. the contribution of home ownership to retirement incomes.

Halving the cost of housing

CLBs would increase financial security by halving the personal liabilities required by individuals to secure their home without and debt and for tenants it would eliminate debt in acquiring their dwelling. The reduction and/or elimination of debt would increase household incomes before or after retirement.

CLBs create self-governing communities where low income residents can obtain support by bartering their services to reduce the costs of their neighbourhood.

In addition, all residents of CLBs would increase their wealth from holding CLB shares. Residents moving from “garden” suburbs to those with a large proportion of industrial and/or commercial development could well obtain dividends from the CLB shares to augment their retirement. In this way addition retirement incomes could be obtained by citizens who failed to accumulate adequate private superannuation income.

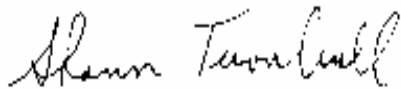
Concluding remarks

The seven perceived barriers to housing affordability listed above all represent second order problems to the barrier created by the current inefficient and inequitable land tenure system.

The Federal government should invite each State and Territory to propose pilot projects to develop and test the CLB land tenure system. Greenfield or redevelopment sites that are planned to accommodate a rich mixture of residential and commercial developments provide the most attractive situations. The CLB site needs to be sufficiently large to capture internally most of the economic values generated externally to any single site within its precinct. Ideally the CLB should be sufficiently large to have a population that can support its own educational and health facilities and retirement homes. This would allow the visible structures of a CLB to be sustainable over generations and also support intergenerational integration within the community.

This submission may be made public and the author would welcome the opportunity to discuss its contents in person

Yours faithfully



Shann Turnbull PhD
Principal

Optional Appendix:

‘A more bankable solution’ *The Australian Financial Review*, Letters, Monday, p. 61, March 10th, 2008, illustrated with a cartoon.