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Financial Services Taxation Unit
Corporate and International Tax Division
The Treasury
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Via email: affordablehousingtax@treasury.gov.au

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Dear Manager

**Submission in response to exposure draft regarding
increasing the supply of Affordable Housing**

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to provide a submission in response to the exposure drafts of the *Treasury Laws Amendment (Reducing Pressure on Housing Affordability Measures No. 2) Bill 2017* and the *Income Tax (Managed Investment Trust Withholding Tax) Amendment Bill 2017*.

A number of BCCM members operate in the affordable housing space as Community Housing Providers (CHPs). The preference of these organisations is to use a co-operative housing model in order to maximise opportunities for tenant participation and inherent pathways to confidence, skills and economic empowerment. This provides a lower cost and economic efficiencies for the housing providers, and frequently provides better social, health and wellbeing outcomes for residents. Housing co-operatives are a dominant business model in the provision of affordable housing across much of Europe and North America, and Australia has the opportunity to leverage growth of this model to address our affordable housing shortage.

Our submission is structured as follows:

1. About the BCCM
2. About co-operative enterprises and housing models
3. Response to exposure draft legislation

The BCCM is happy to provide further information about the co-operative housing model, their role in the provision of affordable housing and as Community Housing Providers, and the advantages for their tenant members.

Yours faithfully

Melina Morrison
CEO
Business Council of Co-operatives and Mutuals

1. About the BCCM

The BCCM is the peak body for Australian co-operatives, mutuals and member-owned businesses. The BCCM represents a diverse range of businesses operating in sectors including agriculture, finance and banking, insurance, motoring services, health services, aged care, disability employment, education, indigenous services, housing and retail.

The BCCM advocates for recognition of the sector and for measures that create a level playing field between co-operatives and other businesses, including implementation of the recommendations of the Senate Economics References Committee report into cooperative, mutual and member-owned firms.¹

2. About Co-operatives enterprises and housing models

Co-operative and mutual enterprises (CMEs) are a significant contributor to the Australian economy: 8 in 10 Australians are members of at least one CME and annual turnover of the top 100 CMEs (excluding member-owned superannuation funds) reached \$30.5 billion in FY2014/2015.² Together with the mutually-owned superfunds, it is estimated that the CME sector contributes 7 per cent of Australia's GDP. There are approximately 29 million memberships of CMEs in Australia.

The vast majority of CMEs are incorporated and regulated under one of two legislative regimes: the State/Territory-based Co-operatives National Law (the CNL)³ or the Commonwealth Corporations Act. Whether a company under the Corporations Act is a co-operative or mutual will depend on its constitution.

The distinguishing feature of all CMEs, regardless of what legal form they use, is that they are owned by their members and operate for member benefit. Member benefit can mean a wider range of social or non-financial benefits compared with the financial returns enjoyed by a shareholder. Membership is tied to contributing to or making use of the CME; this ensures the CME is made up of people who share its common purpose.

Co-operative rental housing has existed in many parts of Australia for decades, traditionally centered on the social housing end of the property market. There are 177 rental housing co-ops across Australia providing over 3,000 homes, with the majority in Victoria (2,700) and NSW (nearly 500).

Common Equity NSW (CENSW) was formed in 2009 as the peak body and the registered housing provider (Tier 2) under the National Accreditation System supporting 33 housing co-operatives across NSW.

Common Equity Housing Limited (CEHL) formed in 1986 is Victoria's largest Housing Association and is both a provider and developer of affordable housing. The CEHL co-operative housing program involves 111 co-operatives and houses in excess of 5,000 people in 2,200 properties across Victoria, with an asset value in excess of \$800 million.

¹http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/Report

² Business Council of Co-operatives and Mutuals, National Mutual Economy Report 2016, 17.
<http://bccm.coop/wp/wp-content/uploads/2016/11/BCCM-NME-Report-2016.pdf>

³ The CNL has been adopted in all States and Territories except Queensland. Western Australia has adopted consistent legislation.

Both CENSW and CEHL are registered companies and governed by Boards of Directors. The Directors are a mix of tenant members bringing expertise of co-operatives and other technical experts covering disciplines such as legal, accounting, town planning, property development and insurance.

Individual housing co-operatives are separate legal entities comprising of tenant members.

CENSW and CEHL develop, own or lease properties, and work together with individual housing co-operatives to deliver a high-quality exemplar housing solution.

Common Equity Housing SA (CEHSA) provides administrative and regulatory support to community housing co-operatives and associations and their members, while advocating for the protection and growth of the co-operative and community housing sector.

Co-operation Housing – based in Western Australia – is a community housing provider registered with the Western Australian Housing Authority, and meets the authority's registration and compliance requirements on behalf of their member housing co-operatives.

The key benefits of co-operative housing include;

- Efficiencies and labour savings created by tenant involvement⁴
- Better health and wellbeing outcomes
- Low rent arrears rates
- Lower maintenance costs due to lower property damage
- Higher tenant satisfaction
- Tenant skill development
- Strong sense of community and support networks created
- Greater pride by tenants in their properties

More information on the models of Co-operative Housing can be provided, as well as evidence regarding improved health and social outcomes.

⁴ A 2015 NSW labour survey showed the co-operative model being 20% more efficient to operate than the average Tier 1 provider and 47% more efficient than the average Tier 2 provider. This reflects the value of volunteerism embedded into the co-operative model.

3. Response to discussion paper

The Co-operative Housing sector generally welcomes the initiatives by the Federal government to stimulate investment into affordable housing, including these tax incentives. The sector notes that while the proposed legislation creates no specific benefit to housing co-operatives, it does aim to create a general benefit to the CHP sector which will be beneficial to those BCCM members who operate in this space.

The sector notes the following points:

- There is a risk that tax concessions on capital gains could – perversely – stimulate more speculative demand rather than promoting long-term build to rent models that would be preferable
 - We note that the proposed required period for holding the property for affordable housing is only 3 years
 - A minimum of 5 years, but ideally 10 years, is recommended by the co-operative housing sector
 - A 10-year period will be beneficial to the community and has been used in the past
 - Holding housing stock for longer periods such as 10 – or even 5 – years, especially in markets with high capital returns such as Sydney and Melbourne, could still be an attractive proposition for some developers
 - The change to CGT policy incentive is built on the premise that any property in question will be sold
 - Should investors sell property at the end of the 5- or 10-year period, tenants will still be forced out to make way for free market buyers or market renters and will be left without suitable accommodation
 - This is likely to be exacerbated should the 3-year proposal be accepted
- Our modelling (subject to rent assumptions and individual taxation circumstances) indicates that the lower income that an investor would receive would need to be offset by an additional capital gain in the order of 4% per annum (for the duration that the property was provided as affordable rental) in order to be equal enough to incentivise an investor to lease the property to a CHP at a lower than market rate
 - While Eastern capital cities in particular have enjoyed long run capital gains in excess of 5% per annum, this is not so in other markets, particularly regional, and therefore the acceptance of this initiative is highly likely to only occur in Sydney and Melbourne.
- Rather than 10% additional capital gains tax relief, we feel that this should be more in the order of 20% to 25% to truly make the initiative acceptable across the national housing market and make a difference in increasing supply of additional affordable housing
- We believe investors should be required to engage CHPs and use the specific demographics on which that CHP focuses as part of the delivery and ongoing management of this stock
 - This would ensure community benefit can be maximised by allocating tenancies to a CHP's target households

- Institutional investors could be further incentivised to take up this opportunity if they can access lower cost land from Government or other sources
 - The co-operative housing sector has previously called on the Federal Government to provide a register of surplus Commonwealth land which is under consideration for housing use
 - This will allow CHP and developers to start considering additional infrastructure requirements and suitability for affordable housing

- Generally, the sector has some reservations that State Governments could use the Federal Government's schemes to further entrench CHPs within those State Government's policy aims
 - For example, the Victorian Government requires that participants in the *Homes for Victoria* suite of social and affordable housing initiatives, opt-in to the Victorian Housing Register which requires the allocation of 75% of vacancies to highest-needs groups
 - There can be no doubt that this is an admirable aim for the Victorian Government
 - However, it could put at jeopardy the overall objectives of the individual CHP, or, as is the case for our sector, the viability of some housing co-operatives where subsidy needs to be generated within the individual program in order to support lower income households
 - We believe that there should be the opportunity for CHPs and developers to be able to work to develop additional affordable housing without the requirement to operate within a State's policy settings