

**INQUIRY INTO HOMELESSNESS AND LOW-COST  
RENTAL ACCOMMODATION**

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# The Mercury Centre

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The Director  
Standing Committee on Social Issues  
Parliament House  
Macquarie St  
Sydney NSW 2000

6 March 2009

Dear Sir/Madam

I submit the follow submission on behalf of The Mercury Centre Co-operative in relation to:  
**NSW Legislative Council homelessness and low-cost rental accommodation (Inquiry)**

The Mercury Centre ([www.mercury.org.au](http://www.mercury.org.au)) is a collaborative enterprise development agency which helps groups to build strong enterprises to meet a common need, where values and ethics are an integral component of their activities, and where recipients of the rewards from that enterprise may range from the group itself through to the entire community. The Mercury Centre promotes membership-based organisations where social capital and financial capital are of equal importance.

The Mercury Centre has developed a model for **shared equity housing co-operatives** in Australia that addresses:

- The Swedish model of co-operative home ownership and how it can be adapted to the Australian situation,
- How the Government and other stakeholders could support the initiative,
- Management and asset structures for immediate roll-out of the model.

It should be stressed that the model is *not* publically-owned, co-operatively managed housing but an alternative form of tenure that provides for private home ownership using the co-operative legal structure.

In relation to the terms of reference for the Inquiry into *Homelessness and low-cost rental accommodation (Inquiry)* we submit that the model of shared equity housing co-operatives we have developed could contribute to alleviating homelessness and increase the availability of key worker accommodation by:

- a. Providing an alternative, lower-cost model for private home ownership acquisition for Australians who have some private equity but who remain locked out of the housing market due to existing price barriers to the housing market; especially in areas of high population density such as city centres. This model is ideally suited to those people in secure employment on middle incomes required to be centrally located, such as key workers.
- b. Providing a model of low cost 'rental' housing outside of mainstream public housing, where the 'tenant' is recast as an 'owner/occupier' owing to their co-operative membership of the property; thus conferring the benefits of private ownership – autonomy and sense of ownership positively associated with social and individual well-being, without the costs normally associated with private home acquisition (shared equity co-operative housing provides for increased affordability through economies of scale and shared capital).
- c. Providing a model for mixed stakeholder, not for profit, housing development where the developer/s of housing stock could include; government (all tiers), community housing associations, member organisations (trade unions, peak bodies, clubs and associations), private developers and private individuals.
- d. Providing an alternative model for Australians to acquire housing more affordably, without resort to the social housing market, or private rental accommodation. Facilitating home ownership for those who are marginally excluded from the housing market has the concomitant benefits of lessening the pressure on private rental stock and social housing. Shared equity co-operative housing is mixed housing thus avoiding the concentrations of disadvantage found in social housing provision. Shared-equity co-operative housing grows cohesive communities by building social capital – the limitless potential of communities to benefit from sharing resources, common space and skills.

Mr Peter Gates, CEO of The Mercury Centre and Ms Melina Morrison, Senior Associate, The Mercury Centre, are available to expand on the shared equity co-operative housing model developed by the Centre. Herewith follows a summary of the scheme proposed:

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## **“The Petersham Model”© (1)**

### **- Affordable home ownership for Australians -**

#### Shared equity housing using the co-operative legal structure

### **Background**

The nation-wide crisis in home-ownership is widely documented. Inflated property prices, rental shortages and undersupply of housing stock are key features, and recent studies (2) confirm the situation is set to worsen. High purchase costs act as a barrier to entry to the private housing market for many Australians, not only the young, and increases the pressure on supply of rental stock. Longer term, the trend threatens the Australian tradition of high home ownership rates. Recent research by the Social Policy Research Centre, University of NSW (*“Home ownership as a (crumbling) fourth pillar of Social insurance in Australia”*, Bruce Bradbury and Judy Yates) suggests a decrease in private home ownership rates is positively associated with increased levels of poverty in the elderly (65+ age group). Public subsidy schemes, such as the First Home Owner Grant and social housing can alleviate, but not solve, the need for Australians from all strata to access affordable, sustainable housing.

Media coverage supports the assertion that there is a high level of community concern and a desire to find affordable solutions (3) as the bedrock for a healthy, functioning society. Housing reform is a key plank of Federal and state government agendas, including a recent Senate Inquiry into Housing Affordability. (4)

The co-operative route to home ownership is widespread, highly successful and well documented in societies as diverse as North America (1.2 million households live in properties owned and operated by co-operatives) (5), Canada, South America, United Kingdom, France, former Russian territories and Sweden (more than a third of the total population, some 3 million Swedes - reside in co-operative dwellings) (6). Australia, too, has a co-operative housing movement, but the predominate model - co-operatively managed, subsidised-rental housing – reinforces a perception that co-operative housing is social housing for economically disadvantaged and/or marginalised communities. Co-operative housing, as a mainstream path to home ownership, is yet to materialise in Australian society.

The Mercury Centre (7) believes affordable home ownership is the right of all classes and strata of society. We see a new paradigm for co-operative housing in Australia in addition to that, which exists today.

Co-operative models of home ownership provide the mutual benefits of 1) increased affordability through economies of scale and shared capital and 2) social capital – the limitless potential of community to benefit from sharing resources, common space and skills.

The success of the co-operative housing model in Sweden - widely regarded as having the world's most successful system where co-operative housing is purchased as market rate co-operative homes, traded on the free market with the full value of any capital gain flowing to the outgoing co-operative member - is worth considering because it illuminates the potential for Australia to develop its own system and points to key factors in growth and sustainability, including:

1. Economic viability of participants: This model of co-operative housing requires individuals with demonstrated economic viability indicated by the ability to save towards the purchase of a property. It is ideally suited to those in secure employment on middle incomes who have accumulated some equity, but who remain locked out of the housing market.
2. An alternative form of private tenure: Co-operative ownership should confer similar rights to freehold property ownership. Co-operative housing can satisfy the Australian aspiration for individual home ownership. Co-operative owners have the right to reside in their property exclusively. They can improve, let or dispose of their property through sale or inheritance. Co-operative ownership may accommodate the accumulation of capital gain (or loss) subject to the market and the rules of the co-operative. <sup>(8)</sup>

### **A solution for all**

Shared-equity housing co-ops encourage diverse, mixed-income communities. They do not discriminate between social strata, class, ethnicity or age. Participants are limited only by their economic capacity to 'buy into' the co-operative – as with the free market (and unlike social housing which can concentrate socio-economic disadvantage).

Co-operative ownership requires no more than the desire to purchase a property as a 'member-owner'. Residents do not purchase their own unit - they purchase stock (also called shares or membership certificates) in the housing co-op. <sup>(9)</sup> A leasehold or occupancy agreement gives the member-owner a legal and exclusive right to occupy their house or unit. <sup>(10)</sup> The financial obligations of the housing co-operative, including mortgage payments, real property taxes and management and maintenance costs are passed on to the member as a monthly levy; but the economies of scale, democratic control and member-ownership means that levies are invariably lower than surrounding market rents.

Co-operatives benefit from the desire of home-owners to care for, manage and improve their property. Unlike private rental or social housing, co-operative residents have a stake in the whole property. Over time, this economic imperative can evolve into a culture of collective responsibility, as in Sweden where good citizenship (looking out for your neighbour, picking up litter, sharing resources) is a way of life.

Housing co-operatives teach democratic behaviour. Co-operatives are managed by a voluntary board elected by the members. Residents can be involved directly or indirectly (one member, one vote) in the management of their property. However, unlike strata bodies, where the incentive to co-operate is limited by the individual owners rationale of “what’s in it for me?” co-operative boards are led by the collective imperative – “what’s in it for us?”

Services and resources can be developed for the benefit of the entire co-operative because they are mutually owned. Some social groups like the elderly, the working family, single-parent families and children can derive specific benefits from community-based living where services and resources are shared. In Sweden, where more than a third of the national population lives in co-operative housing, creative solutions to common needs range from car and boat pooling to shared recreation facilities such as saunas, swimming pools, children’s playgrounds, tennis and basketball courts. Larger co-ops offer on-site nurseries, aged cared facilities, yoga clubs, home composting, BBQ areas, loading docks, marinas, common laundries, bike storage, green energy supply and wireless internet services.

### **How might it work? “The Petersham Model”**

Mutual housing associations are set up to build and manage co-operative housing. They provide rolling stock of affordable housing for potential member-owners. In Sweden, the largest co-operative housing association and a major non-profit housing developer, HSB, has more than half a million members. A ‘home-savers’ account allows members to queue for co-operative housing many years in advance.

Australia has no HSB equivalent, therefore shared-equity housing co-operatives must use the capital provided by their member-owners to finance the initial development, refurbishment or purchase costs of housing stock. “The Petersham Model” developed by The Mercury Centre takes account of the need for start-up capital in Australian shared-equity housing co-operatives. “The Petersham Model” is developed as a template for co-operative home ownership Australia-wide and takes account of the particularities of the Australian situation.

## **“The Petersham Model” – brief overview**

There are five components of the model.

### **1. Membership**

Members buy a membership share, pay a joining fee and invest acquisition capital in the co-operative. The co-operative pools the capital and is able to borrow to acquire housing. The member/owners own a part of the co-operative rather than the housing itself. Their equity is in the co-operative not in an individual property.

We propose single and joint membership but not corporate membership. The co-operative would be able to set rules to ensure compatibility of the members.

The joining fee would be substantial, we propose \$5000, and used as working capital. Each member would buy a share - again at a meaningful rate of \$10,000. Both amounts are to stress message of value of joining.

The member must invest a minimum amount of acquisition capital in the co-operative. This would be via Capital Housing Units with a value of \$1000 each and each member would buy a minimum of 50 housing units at a value of \$50,000. Members can buy more Capital Housing Units over time. The legal instrument would be co-operative capital units or CCUs.

Membership would entitle the member to the “right to occupy” a specific portion of the real estate.

### **2. Occupancy**

There is always a cost to occupy a property. If you own your own home, there is forgone interest from the money that is invested in the home. If you rent, there is the rental payment. If you have a mortgage you are paying for the use of someone else’s money.



In this model, the member pays the occupancy cost through a member agreement and lease. The cost of the lease is reduced by the equity invested by the member. It is possible to have no leasing cost if the investment is large enough.

The lease quantum is derived from two rates which are set at the start of each year at market rate using standard benchmarks. These are:

- The cost for the occupancy for each of the housing units
- The rate of return on the investment units

The lease rate is the difference between the two. The larger the investment, the lower the leasing costs. The occupancy calculation is available to all members providing transparency.

The benefit of this approach is that the leasing process provides certainty and predictability of cost, and the market rate of leasing can be adjusted over time as the co-operative increases its capital base.

### 3. Property Acquisition

The starting point is a number of members sufficient to purchase a block of units. Over time, the co-operative would acquire additional buildings. These residences would be a mix of types – units of various sizes, town houses, stand alone houses.

The co-operative can buy strata units in adjacent buildings, even from existing owners under mortgage stress, who could join the co-operative.

There are many possibilities and approaches with property acquisition including green field development and conversion of existing buildings. The potential exists in time to take the HSB path and become a property developer, creating quality housing to meet the needs of the members and potential members at the right price.

### 4. Property Management

All properties (including an owned home) require maintenance and someone to organise it. There would be a yearly maintenance and management levy on the member/owners. The levy would be cost driven not profit driven. Property management would be organised by the co-operative. It may be outsourced dependant on the size of the co-operative. There is potential for a number of housing co-operatives to pool their maintenance and management needs into a second tier co-operative.

## 5. Social Capital

With the co-operative form, you get more than just housing, you get a stake in the system. The co-operative form and nature allows shared services to be established to benefit the member/owners. Things like a loading dock, a place for delivery and pick up during working hours, wireless internet servicing members, bulk purchasing, storage facilities, car pooling. There are many opportunities for getting value out of working together.

### **More about the co-operative**

#### A. Exiting

Member can exit the co-operative at any time. The joining fee is not refundable but the share and the investment can be refunded by the co-operative provided it does not affect its capital needs.

One of the many benefits of the model is that the co-operative becomes the market place. If a member wishes to leave, the co-operative arranges the transfer between the old and new member dependant on the capital needs of the co-operative. Because there is no property changing hands, there is no stamp duty or legal fees on the transfer of membership.

As the model becomes known, the co-operative will become a desired place to live and have prospective members waiting to join. The value of the investment would be preserved and not be at the whims of the market or who turns up at the auction - no fire sales. It would also mean little waiting.

#### B. Other activities

These co-operatives would undertake commercial activities that arise as a by-product of their housing work.

#### C. Sharing Capital

We propose that some of the increase in capital value of the assets of the co-operative be distributed to members. This will see credit given for the length of membership and the value of investment converted into a form of frequent flyer points which would be used to allocate Capital Housing Units representing the increase in value.

#### D. Legal requirements

The co-operative legal structure is flexible and may be changed and adapted as needed by its member-owners. The co-operative is a trading co-operative with shares - registered under the NSW Co-operatives Act.

#### **Where to from here? Conclusion**

We believe we have built a viable and sustainable model that has value from day one. The model is a long-term housing solution that provides quality living, accessible to the mainstream, in flexible ways, by developing a number of co-operatives. Each co-operative would grow to a size to sustain mixed residential unit types, professional staff and the capacity to develop housing stock.

The genesis for the model was an event known as the *Living Co-operatively Symposium* subtitled '*Affordable Housing – Sustainable Communities*' held in February 2008 [www.mercury.org.au/lc/](http://www.mercury.org.au/lc/). The Symposium was initiated by one of the team from The Mercury Centre, Suzanne Henderson, and brought together a consortium that included the University of Technology Sydney, Marrickville Council, Parramatta City Council, the Co-operative Federation of NSW and ARCH.

We intend to develop the model further including financial modelling and commence the process of seeking institution support.

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#### End notes:

1. "The Petersham Model" © is the property of The Mercury Centre, 2009 [www.mercury.org.au](http://www.mercury.org.au). All rights reside in the author and no part of the model may be copied or reproduced without the express permission of The Mercury Centre.

2. Reports include: *Models of perpetually affordable homeownership: report and case studies from the United States of America*, Dr Louise Crabtree, Urban Research Centre University of Western Sydney, June 2008; *Households under stress: The why, who, where and where to of housing unaffordability*, Bill Randolph, City Futures Research Centre, Faculty of the Built Environment UNSW, 2008.
3. Events include: *Living Co-operatively – Affordable housing, Sustainable communities*, Sydney 13-14 Feb 2008 [www.mercury.org.au/lc/](http://www.mercury.org.au/lc/) ; *Sustainable Living Festival*, Melbourne 20-22 Feb 2008 [www.slf.org.au/festival/](http://www.slf.org.au/festival/)
4. [http://www.aph.gov.au/SEnate/committee/hsaf\\_ctte/report/b01.htm](http://www.aph.gov.au/SEnate/committee/hsaf_ctte/report/b01.htm)
5. The United States has a vibrant and active co-operative housing sector, with over 1.2 million households living in properties owned and operated by co-operatives; in 2004, over 400 000 of these households were in limited equity or zero equity co-operatives (Saegert and Benitez 2005; Davis 2006).
6. Sweden is widely regarded as having the world's most successful co-operative housing system. More than a third of the total Swedish population reside in co-operative dwellings. Co-operative housing is the default form of ownership for flats and units. Flats are purchased as market rate co-operative homes which can be traded on the free market with the full value of any capital gain flowing to the outgoing co-operative member.
7. The Mercury Centre is a not for profit co-operative that specialises in building collaborative enterprises through consultancy, research, information, advice and training [www.mercury.org.au](http://www.mercury.org.au)
8. Co-operative Housing Corporation Bylaws spell out the individual member's relationship and obligations to the cooperative. Also, the bylaws specify the duties of the cooperative's board of directors and the transfer value and other procedures relative to the sale of stock.
9. Stock, Membership Certificate or Shares represent the tenant-stockholder's ownership interest in the cooperative housing corporation.
10. Occupancy Agreement — sometimes called a proprietary lease — is the contract between each member and the corporation, which gives the member the right to occupy a unit, participate in the governance of the co-operative and receive tax benefits and equity increases in return for financial and participatory support of the co-operative.

Mercury Biographies:

**Peter Gates**, CEO, The Mercury Centre Co-operative

Peter Gates has been involved in collaborative enterprise for many years including a lengthy period on the board of one of Australia's largest financial co-operatives. Peter was an Associate of the joint UTS/CSU Australian Centre for Co-operative Research and Development (aka ACCORD).

Peter is co-founder of the Australian Social and Ethical Accountability Centre, a private consultancy working in the field of social and ethical accounting. During the second half of the 1990s, Peter led skills and leadership training programs for the Credit Union Foundation Australia in a number of Pacific countries working with grass-roots credit unions. Prior to joining The Mercury Centre, Peter had a long career in telecommunications.

**Melina Morrison**, Senior Associate, The Mercury Centre Co-operative.

Melina Morrison is associate editor of ICA Digest ([www.ica.coop/publications/digest/index.html](http://www.ica.coop/publications/digest/index.html)) the flagship bimonthly publication of the International Co-operative Alliance ([www.ica.coop](http://www.ica.coop)), the peak body for co-operatives worldwide, and associate editor of CCC eNews ([www.business.uts.edu.au/cacom/news/cccenews.html](http://www.business.uts.edu.au/cacom/news/cccenews.html)), Australia's only online forum that combines the co-operative, community, not for profit and social economy sectors. Melina Morrison co-convened the recent national housing symposium, '*Living Co-operatively*' ([www.mercury.org.au/lc](http://www.mercury.org.au/lc)), Sydney (13-14 February 2008) which examined co-operative solutions for Australia's affordable housing crisis. As a senior associate of Sommerson Communications (Third Sector communication specialists), Melina has wide experience engaging the media in promoting ideas on development of social capital.

## **Overview of The Mercury Centre**

The Mercury Centre specialises in building collaborative enterprises through consultancy, research, information, advice and training.

They describe collaborative enterprise as a group of people working together to achieve a common goal. The recipients of the rewards or dividends from that effort may range from the group themselves through to the entire community.

They started life as the Asia Pacific Centre for Co-operatives Research Training and Development. The Centre was formed in 1990 with the support of the International Co-operative Alliance and the Co-operative and Credit Union sectors within Australia.

They have grown from a training organisation to one that works with clients to build stronger communities. Co-operatives continue to be an important part of that work. They have a particular interest in continuing the work of ACCORD and bringing together the people who care about co-operatives in Australia.