

THE ACT LAND RENT SCHEME – SUMMARY

May 2009

Background

The ACT land rent scheme was introduced on 1 July 2008 as one of the 62 initiatives of the ACT Affordable Housing Action Plan.

The ACT operates under the Crown Lease system. As such, all land held privately is owned by the Territory government, and leased to the “purchaser” (lessee) for an upfront capital amount. Leases are renewable 99 year leases and may be transferred to another lessee at any time.

Under the land rent scheme, households are able to lease land at a reduced price by making periodic payments to the ACT Government. Households will not be required to borrow for capital payment on the Crown Lease, and will only need to fund the purchase or construction of a home on the land rent block. The scheme is expected to be used as a means for some households to advance their entry into homeownership. Investors and builders are also interested in the scheme as a way to minimise their holding costs on land. Land rent is not a ‘rent to buy’ scheme.

Under the land rent scheme, lessees will be issued a Land Rent Crown Lease. The lessee’s name will be on a Land Rent lease, giving them title to the land. A lessee under a Land Rent Lease has the same rights and privileges as a lessee who holds a traditional Crown Lease, and households renting the land will be able to undertake all the same activities as those who have purchased a Crown Lease. The Land Rent Lease is a perpetual renewable lease. Other than the requirement to pay land rent, it is the same as a standard 99 year Crown Lease.

Any new block of land released by the Land Development Agency is available for land rent. The Government will not place a quota on the number of blocks available for rent, and the blocks are not situated in any particular location. Construction on land rent blocks (as with any residential construction on new blocks in the ACT) must commence within one year of settlement, and must be completed within two years.

Calculation and payment of land rent

A household’s annual land rental payment is calculated as a percentage of the unimproved value of the block of land.

Two rental rates are available.

- A discount rate, currently calculated at 2 per cent of the unimproved value of land, is available for lessees with an annual gross income of \$75,000 or under, who do not own any other property in any State or Territory in Australia and who reside in the dwelling on the rented land as their primary place of residence. The \$75,000 income limit increases by \$3,330 for each dependant child (up to a maximum of five children).
- A standard rate, currently calculated at 4 per cent of the unimproved value of land, is available for all other lessees, including builders and investors.

The land rent rate is adjustable to the change in a household's income. If a lessee's income increases above \$75,000 during the year while they are on the discount rate, land rent payments at the standard land rent rate will be required to commence. However, the standard rental rate will not commence until 1 October. In contrast, in the event that a lessee's income *decreases* below \$75,000, the land rent rate will immediately be lowered to the discount rate, once the Revenue Office has been notified of the change in income.

As land rent payments are based on the unimproved value of the land, the amount of land rent payable may change annually. In the event that the UVL reduces, land rent payable will also reduce. Should the UVL increase, the land rent payable will also increase, however, that increase is capped at Average Weekly Earnings. This is to ensure that the lessee is not burdened with an extreme increase in land rent at any one time (for example, in circumstances where the unimproved value increases by 20 per cent, land rent payments will be capped at AWE and may only increase by around 5 per cent). In essence, households will benefit from a drop in land values, but are protected from sharp spikes in land values.

Similarly, if a lessee who is on the discount land rent rate becomes no longer eligible for that rate, the land rent will increase to the standard land rent rate, but any increase will be capped at AWE.

Households participating in the land rent scheme will be sent quarterly statements for the payment of their land rent from the ACT Revenue Office. Households may choose whether to pay weekly, fortnightly, monthly or quarterly. The preferred method of payment is through the direct debit system.

The ACT Commissioner of Revenue has agreed to provide details of land rent payments and amounts owing to institutions providing loans for construction or purchase of homes on land rent blocks to ensure that lending institutions are aware of any arrears or late payments of land rent.

Purchase or transfer of land rent leases

The policy and the administrative arrangements for land rent provide flexibility for purchase and/or transfer of land rent leases.

There is no requirement for a land rent lessee to "purchase" the land from the Government at any time, and households may continue to participate in the land rent scheme for as long as it suits their personal circumstances.

In the event that a lessee chooses to pay out the land rent lease (purchase their block of land) and convert the lease to a regular Crown Lease, the price paid for the land will be the current market value at the time the application to purchase the land is lodged. For all intents and purposes this can be considered to be the unimproved value of the land.

At the sale or transfer of a land rent block, the house and land are transferred as one property. The purchaser can then choose to continue to land rent (this would be

achieved through a simple transfer of the land rent lease) or to “purchase” the property outright (by converting the land rent lease to a regular Crown Lease at settlement). In this circumstance, the purchaser would pay the unimproved value of the land to the ACT Government, and the value of the house to the seller.

Default of mortgage by land rent lessee

In the event that a land rent lessee defaults on their mortgage for the house situated on the land rent block, the lending institution may take possession of the property and sell it to recover the outstanding debt. The lending institution would be responsible for setting the reserve price. The ACT Commissioner for Revenue has agreed that the government would share the costs of the sale (such as conveyancing and agents fees) with the lending institution.

The lending institution could elect to sell the property as a regular house and land package, or alternatively, could offer it to the market with the option for the new purchaser to continue the land rent lease.

The Government does not hold a mortgage over the property. However, when a land rent lease is transferred or converted to a regular Crown Lease, any outstanding payments associated with the land, including outstanding land rent payments and rates, would need to be met. This is the same treatment that is applied to traditional Crown Leases. The ACT Commissioner for Revenue has the discretion to waive any outstanding land rent arrears.