

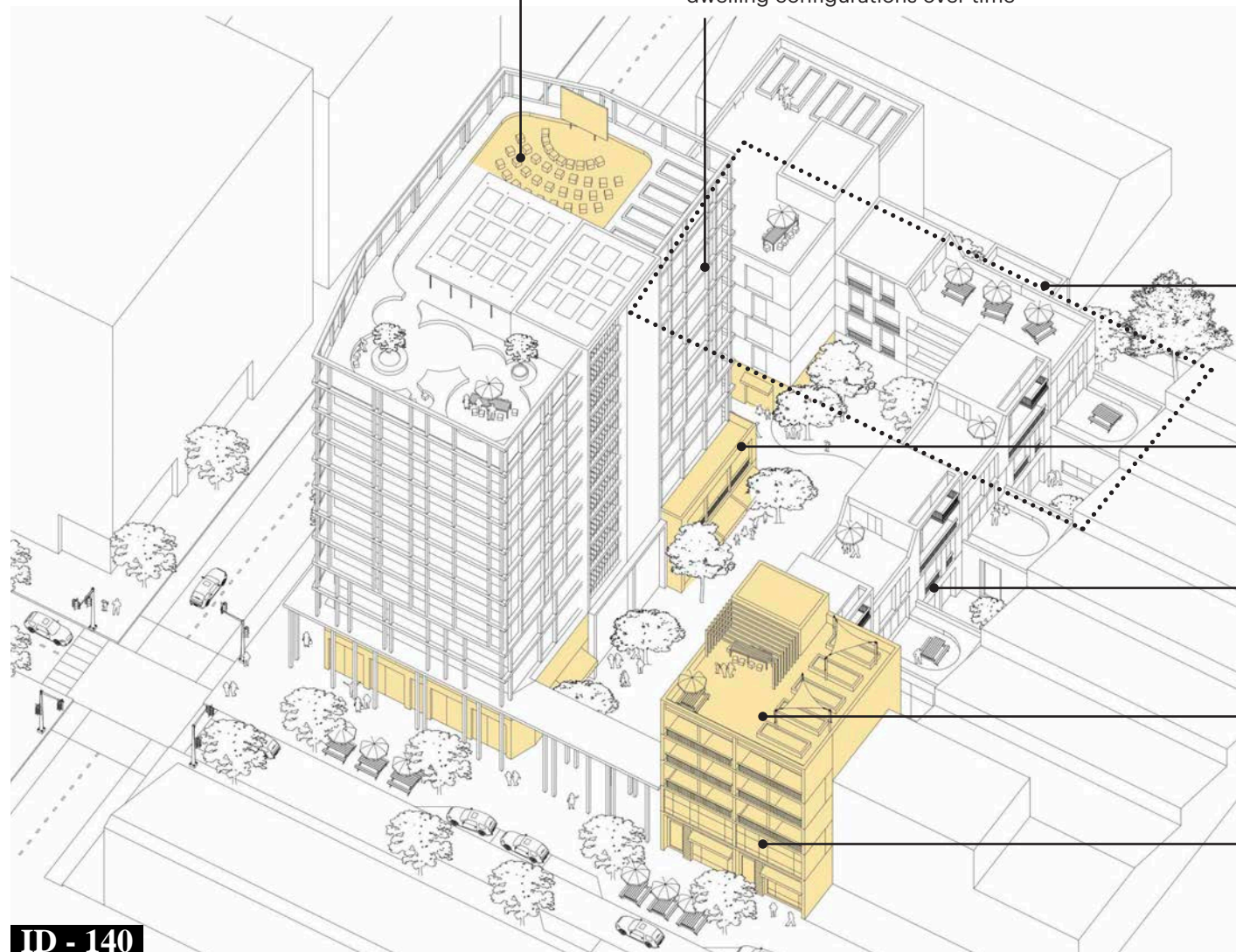
The Third Way: A Cooperative Affordable Rental Model for Sydney

Our proposal

The City of Sydney aims to achieve 7.5 percent affordable rental housing by 2030. In Zurich, 20 percent of all housing is delivered and managed by housing cooperatives, creating a 'third way' between unaffordable market rental and social housing models. Adapting this approach on City-owned land would increase the affordable housing supply, make long-term renting a viable option, and give back to the city in the form of shared amenity and an ecology of supporting creative uses.

A cooperative prototype

Prototype of an affordable rental cooperative on City-owned land in central Sydney, that gives back to the community as well as delivering affordable rental housing. Responds to planning controls that apply to sites in Green Square, Sydney.



Communal roof terrace able to be commercially leased for events as part of a cross subsidy strategy

Flexible, efficient floorplate residential slab building with load bearing facade to enable a range of dwelling configurations over time

Basement mobility hub of 1000sqm with electric share vehicles and hire scooters and ebikes for use by members and the broader neighbourhood

Two level childcare facility with mews outdoor space secure during hours of operation and open to the public outside of hours

Work/live lofts and larger family dwellings with direct front doors to a semi public garden mews

Boutique hotel with integrated first floor co-working facilities and social enterprise restaurant

Ground floor small retail tenancies owned and managed by the cooperative to support a dynamic mix of uses typically excluded from speculative development

The model

Financing

In Zurich, cooperatives run on a non-profit 'cost rent' model. Projects are typically developed on public land, and financed through a combination of member equity, low-interest loans, and commercial mortgages. Rents are set per square-meter, by amortizing the cost of development, ground rent, maintenance, and capital repayments over a 60-year period. The model allows cooperatives to translate savings on developer margins and interest rate reductions into cheaper rents (approximately 20 percent below market rate), and secure affordability in perpetuity by insulating rental stock from long-term price inflation.

Ownership and management

When located on public land, the municipality retains freehold title under a building rights agreement, which also provides a lever to shape development outcomes and ensure social equity is

preserved. At the end of the 60-year term, building ownership reverts to the city. Units in a cooperative development are available to all on a rental basis, though residents must become a member of the cooperative—and therefore co-owners in the development with voting rights in the governing assembly—by purchasing a refundable equity 'share'.

Tenure

As a non-market version of build-to-rent free of investor imperatives, cooperative housing allows a form of private rental occupancy that mixes security and flexibility. Regardless of wider policy settings, cooperatives can move 'beyond compliance' with standard tenancy arrangements, offering open-ended leases and long-term rent stabilisation built into the financial model. Cooperatives are also able to facilitate movement within, or between buildings, to abide by

minimum occupancy rules for different sized units, ensuring the allocation of housing resources meets shifting needs at various life stages.

Design

Cooperative projects generally involve an architectural competition, leading to high quality design outcomes that elevate standards sector-wide. The absence of market risk allows for greater typological innovation and flexibility, a more participatory design process, and a long-term view that encourages a focus on improved building performance, environmental sustainability, and durability. Cooperative projects also employ sensitive design strategies to offer a range of shared amenities and mix of uses that engage with the street and recreate the diversity and dynamism of urban life in microcosm.

BENEFITS OF OUR PROPOSAL



AFFORDABILITY AND DEMOGRAPHIC DIVERSITY
Fixed rents grow increasingly affordable over time and residents are curated to ensure social inclusion



A MICROCOSM OF THE CITY
A mix of uses brings vibrancy to the neighbourhood, while commercial rents cross-subsidise residential tenancies



LIFELONG HOUSING
A range of housing typologies are offered, allowing residents to move within the cooperative as needs change



ENVIRONMENTAL SUSTAINABILITY
Fossil fuel free housing, on-site mobility hub with shared vehicles, and exemplary thermal performance



BUILDING OF COMMUNITY
Self-managed shared facilities and services and active resident participation create a sense of community



DESIGN EXCELLENCE
Experimentation is enabled through design competitions, the use of multiple architects, and knowledge sharing

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How the model works in Zurich

Access to public land

While the model can remove existing properties from the speculative market, cooperatives in Zurich continue to benefit from 'right of use' access to public land for new projects, supported by active municipal housing policies aligned with popular mandates (30 percent of cooperative housing is on city-owned plots). This includes a form of value capture on redeveloped brownfield sites—where the city acquires parcels as a 'tax' on rezoning and on-leases them to cooperatives—and in-fill strategies on underutilized land like tram depots and parking lots.

Preferential Financing

Zurich cooperatives enjoy access to a range of preferential instruments that reduce overall development costs (and hence rents), assist with 'start-up' capital and bridging finance, and provide mortgage guarantees that lower equity requirements. These include a federal 'Revolving Fund' extending low-interest loans for land acquisition, a 'Solidarity Fund' managed by the national cooperative umbrella organization, and low-interest financing from the pension fund of the City of Zurich and a dedicated bond-issuing institution backed by the national government. The municipality also purchases share capital in individual cooperatives.

Tenant Protections

The strong protections embedded in cooperative projects reflect the orientation of Zurich's entire rental sector, which is designed to support long-term tenure. Tenancies are usually open-ended, and can only be broken by landlords on narrowly prescribed grounds. Rents are moderated by 'second generation' controls that apply to all units, with the onus on landlords to justify increases due to higher costs or renovations. Cooperatives introduce additional mobility into this system by allowing individuals or families to change apartments without sacrificing the benefits of a length-of-tenure discount.

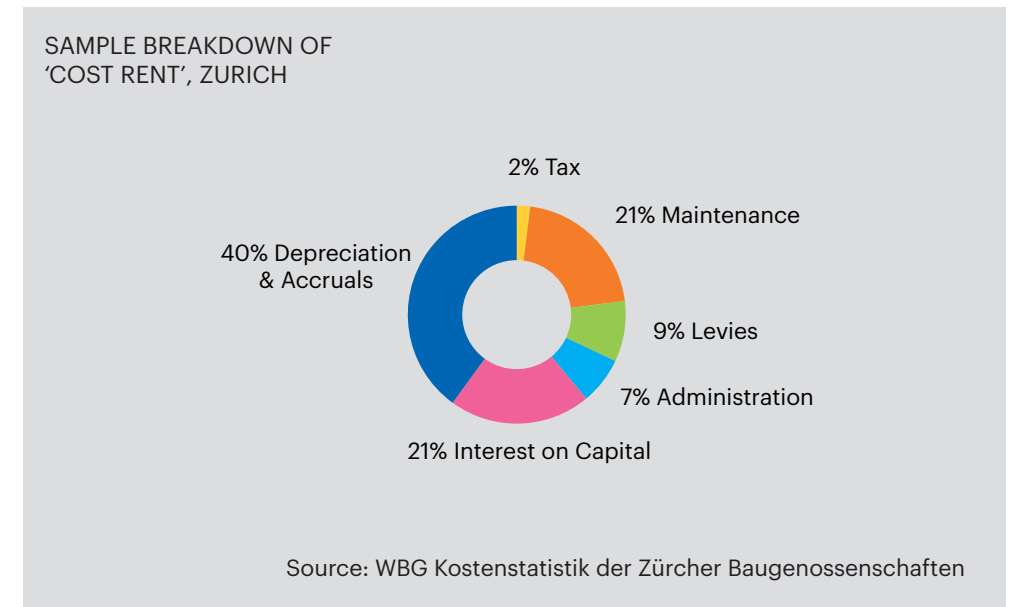
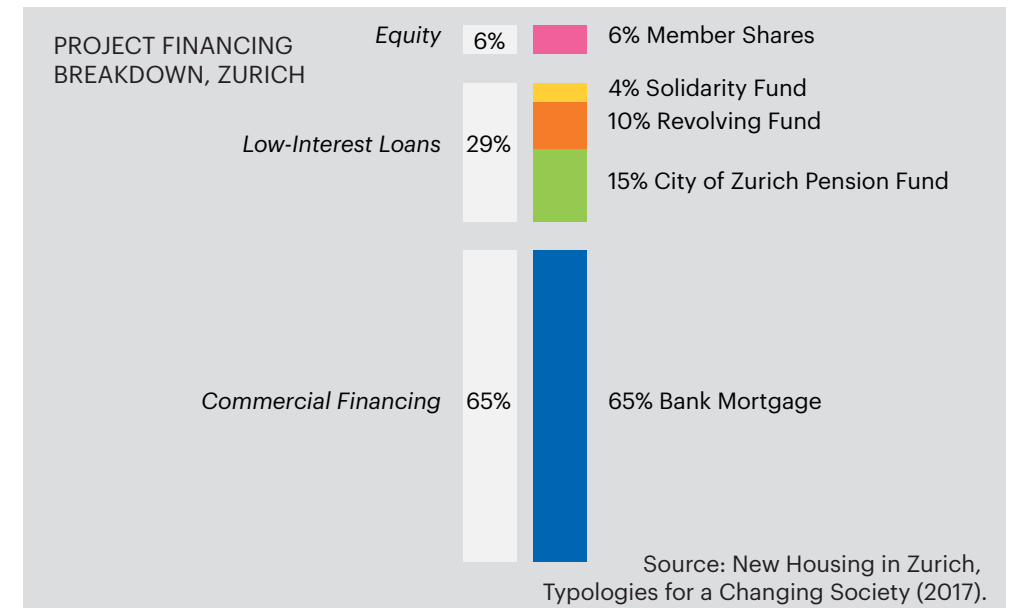
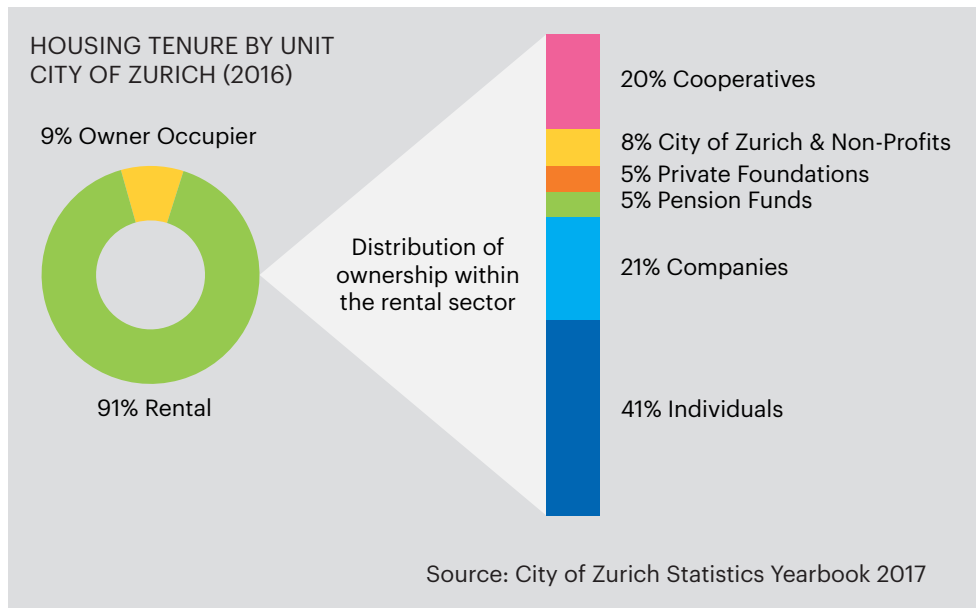
Broad societal support

The legal framework for cooperatives is outlined in the Civil Code and supported by Federal Housing Office regulations and a constitutional right to housing. With a 100-year history, the model is a long-established part of the housing system and administrative barriers to entry are relatively low. Meanwhile, broad community awareness and support means cooperatives can access a pool of member capital far in advance of site acquisition and planning approval (and without expectations that membership will necessarily lead to residence in a realized project).

Projects like Mehr Als Wohnen and Kalkbreite dispel the myth of cooperatives as a fringe phenomenon and demonstrate the ability to deliver large volumes of exceptional quality, and perpetually affordable housing.

Fundamentals of Zurich housing

Zurich is a renter society. The success of the city's cooperative movement has been shaped by a combination of community-led initiatives, popular support, and favourable government policy. But cooperatives have also benefited from system-wide approaches to regulating rental housing and the financial infrastructure available to provide low-interest loans.



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How we adapt the model

In order to enable the implementation of a successful cooperative housing model at scale in the City of Sydney, there are a range of land access, planning, financial and legal factors which require addressing. These include both opportunities over which the City of Sydney has jurisdiction, but also opportunities that would require advocacy with the state and federal government.

Access to public land

There are opportunities to utilise City of Sydney land for the creation of prototypes, however the access to broader tracts of State and Federal land within the City, would dramatically increase the impact. Cooperatives can work closely in joint venture with public land managers to deliver joint venture projects which maintain ownership of scarce land assets, retaining the equity as well as a long term cash flow.

Access to private land

There is an opportunity to utilise Floor Space Ratio bonuses, or Voluntary Planning Agreements in order to both-support the competitiveness of cooperatives in acquiring private land, but also to encourage mixed tenure developments within larger precinct masterplans led by a private developer. The masterplanning developer can then benefit from deploying the cooperative as a 'pioneer', creating an instant community within a less desirable area

undergoing transformation.

An opportunity in Sydney also exists within ageing housing stock, particularly flat construction from the post-war era. The cooperative model can be utilised to facilitate the purchase of existing buildings, or function as a distributed cooperative that holds apartments and other facilities across a number of buildings in the area.

Financing

As a non-profit, public interest housing provider, a cooperative may be able to register as an Affordable Housing provider similarly enables access GST exempt status and access to long term low interest construction finance. Learning from the Zurich context, there is an opportunity for to access low-interest loans through the use of bonds such as EGW in Zurich. While negative gearing will have a positive impact on the affordability of homes for purchase, modelling demonstrates that it is likely to have a negative impact on the supply and affordability of available private rental housing. Cooperative housing could both benefit from the redistribution of funds saved from the winding up of negative gearing, whilst directly responding to the need for alternative models to deliver supply of affordable rental.

What are the next steps?

If our proposal is successful and

progresses to a second phase, we would look to undertake the following targeted research:

- Engage with Common Equity NSW and Common Equity Housing Limited in Victoria regarding the legal context of cooperatives, and the ability to leverage existing Institutions with access to low interest construction finance.
- Explore possibilities for GST exemptions through establishing the non-profit status of a cooperative housing provider as well as other tax or levy exemptions which present barriers.
- Further explore the threshold expectations with the City of Sydney's Property Services officers, including value and rate of return expected for a long term ground lease with City of Sydney to secure affordable rental housing.
- Explore opportunities as per the City of Zurich to embed the City of Sydney as a shareholder in the cooperative to leverage available equity but also retain a contribution to decision making within the cooperative.
- Develop a site specific feasibility for the three provided sites, with expert input from property advisors, using the model developed for the generic Green Square site for the purposes of this preliminary submission.

Draft financials

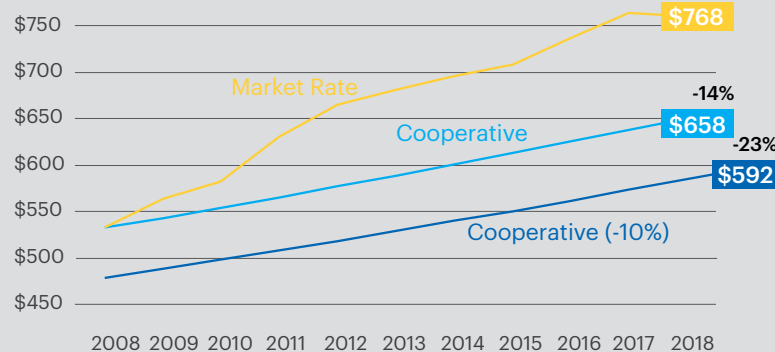
The adoption of the Zurich model within the Sydney context can achieve a 20 percent reduction on current market rent on a two bedroom apartment in the first year of operation. The affordability benefit increases over time as the dwellings are protected from speculation within the private rental market.

	ZURICH SCENARIO	SYDNEY SCENARIO
LAND AREA (FSR)	6400sqm (1.5)	3000sqm (4.5)
GROSS FLOOR AREA	<ul style="list-style-type: none"> • 10,500sqm Total • 9600sqm Residential • 900sqm Communal 	<ul style="list-style-type: none"> • 13,500sqm Total • 10,250sqm Residential • 3,250sqm Non-residential
LAND COST	CHF 16,640,000	AUD \$15,000,000 (Theoretical freehold value, determined as basis of Ground Lease with City of Sydney maintaining long term ownership.)
DWELLINGS	120	124
TOTAL CAPITAL INVESTMENT	CHF 59,740,000	AUD \$79,985,000
FINANCE STRUCTURE	<ul style="list-style-type: none"> • Equity of the Cooperative 5.4% (1.5% interest rate) • Equity of the City of Zurich 0.6% (1.5% interest rate) • Loan of the Cooperative 4% (1.5% interest rate) • Revolving Fund 10% (1.0% interest rate) • Loan Pension Fund of the City of Zurich 15% (1.0% interest rate) • Bank Mortgage 65% (1.5% interest rate) 	<ul style="list-style-type: none"> • Equity of the Cooperative 6% (1.5% interest rate) • Low Interest Affordable Housing Loan 34% (3% interest rate) • Senior Debt Bank Mortgage 60% (7% interest rate)
MORTGAGE DURATION	60 Years	60 Years
ANNUAL FINANCE COSTS	CHF 821,425	AUD \$4,247,205
ANNUAL FINANCE COST TO MAXIMUM RENTAL	35%	51%
MAXIMUM BUILDING RENTAL (interest rate x capital investment + depreciation x building insurance value)	CHF 2,306,125	AUD \$6,338,810
MONTHLY NON-RESIDENTIAL CROSS-SUBSIDY	NA	AUD \$308,900 (Hotel, Office, Retail, Child Care)
MONTHLY RENTAL PER DWELLING (average 70sqm)	CHF 1,280	AUD \$2,340
WEEKLY RENTAL PER DWELLING (average 70sqm)	CHF 350	\$580

High-level hypothetical feasibilities comparing a typical Zurich cooperative to a prototype Sydney scenario located on City of Sydney land within Green Square.

- Zurich scenario based on data from New Housing in Zurich, Typologies for a Changing Society (2017).
- Sydney scenario based on data from developments in Waterloo / Alexandria.

10 YEAR MEDIAN WEEKLY RENT COMPARISON
2 BEDROOM UNIT, CITY OF SYDNEY



Source: NSW FACS Rent and Sales Report (Issues 80-124)
Cooperative rent projection assumes annual 2% inflation adjustment