

ACT Land Rent Scheme

Background

The ACT Land Rent Scheme was devised by the ACT Government to improve housing affordability. It allows eligible borrowers to rent land from the government to build a home on so that the customer only needs to finance the home construction.

Cost Calculation of Land Rent Commitment:

The ACT Government charges an on-going rent to the borrower in lieu of the borrowers purchasing the land. The Government applies the following rent charges:

From October 1st 2013, the Land Rent Charge is 2% of the unimproved value of land (UVL), charged quarterly.

Eligibility for Land Rent

To be eligible for Land Rent the customer(s) must meet all 3 eligibility criteria as listed below;

- ✓ Customers must meet the gross household income threshold criteria (see table below)
- ✓ Customer must not currently own any property (It does not matter if they have previously owned a property they are only excluded if they currently own a property)
- ✓ Customers cannot rent out the property or reside in another property as their primary place of residence. (Note that they are able to sublet rooms provided the new land rent property is their primary place of residence)

No. of dependent children	Gross Income Threshold
0	\$160,000
1	\$163,330
2	\$166,660
3	\$169,990
4	\$173,320
5 or more	\$176,650

As the land rent charge can vary based on the contract date entered, and that rent will increase in line with land values, Bank Australia assess all loans at the 4% rent charge.

Using a worked example of land valued at \$200,000 the rent cost will be:

\$200,000 @ 4% = \$8,000 p.a. As a monthly commitment this equates to \$667 per month. This amount is to be included in the income servicing as an expense

Security Payment Requirement

For contracts entered into after the 01st of October 2013, the security payment is now \$2,000 only.

The security payment is paid by the customer at the time they sign a contract for a block of land with the LDA.

The security payment protects the Land Development Agency in the event that a customer enters into a contract for the purchase of land and, in breach of the contract, refuses to complete the purchase. The security payment will be retained by the LDA to offset the costs of holding and reselling the land.

For those purchasers who do not breach and fulfil their obligations to settlement, the security payment will count towards the first year of land rent. Meaning there will be no additional administrative hurdles or extra costs incurred by genuine purchasers.

Staff can review common ACT Land Rent Scheme questions using the following link:

http://www.economicdevelopment.act.gov.au/buy-land-and-build/affordable_housing/land_rent

Application Process

The following points must be noted in addition to standard assessment and contracting procedures and guidelines for construction loans:

- Customer must complete the ACT Government Privacy Statements ;
- Maximum loan amount of \$500k ;
- Minimum 2 bedroom dwelling ;
- Maximum term 25 years;
- Maximum LVR 90% plus capitalised LMI ;
- Minimum 10% deposit towards construction costs ;
- Where the LVR (refer below for calculation of LVR) is greater than 85% borrower must demonstrate minimum 5% deposit is from genuine savings ;
- Stamp duty costs apply against the value of the land
- LMI is required when the LVR exceeds 80% as per Standard lending procedures ;
- Where a loan exceeds 70% LVR, the assessor can make recommendation to waive the LMI ;
- Loans below 70% LVR may be approved without LMI if the risk is appropriate ;
- Serviceability to include the 4% land rent payment to ACT Government, applied as a monthly expense ;
- Standard conditions for construction loans apply (Note that progress inspections by a licensed valuer are required at all stages ;
- Standard serviceability guidelines apply;
- Standard loan products, interest rates and fees apply ;
- Loan must be principal and interest repayments (bridging or interest only is not allowed) ;
- Supporting collateral security can be offered to secure ACT Land Rent Loans.
- The supporting security must be acceptable and meet standard guidelines of the bank and the underwriting guidelines of the mortgage insurer

Security

Security is a first mortgage registered over the ACT Land Rent Crown lease.

Valuations and Loan to Value Ratio (LVR)

The current Australian Property Institute (API) format provides a breakdown of house and land values. For valuations of Land Rent Scheme properties the valuer should exclude land value from their assessment and provide an on completion value of the dwelling.

Valuation requests will need to clearly state that the property is subject to the Land Rent Scheme and a reference included in the valuers final report confirming that the valuation has been made on this basis.