

Community Land Trusts & Mutual Housing Models
A research report for the Mayor of London

November 2004

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Greater London Authority
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As a research report for the Mayor of London this publication is a contribution to policy development and does not represent a statement of GLA policy.

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Preface

The year 1984 was a significant year for two campaigning community organisations on either side of the Atlantic. Both groups were dedicated to building communities that worked - regenerating their local neighbourhoods, making them a better place to live and ensuring that there was a supply of quality affordable housing. Both groups were grassroots organisations, rooted in and owned, controlled and sustained by their communities. Both groups had new and innovative plans that radically challenged how land and resources were traditionally allocated and developed. Most importantly, both groups needed and won the support of their political leaders. One group is the Burlington Community Land Trust in Vermont, USA. The other is Coin Street Community Builders, on the South Bank in London.

As the Leader of the Greater London Council (GLC), Ken Livingstone championed the cause of the Coin Street Action Group and their alternative human scale development for the old Oxo Tower and Coin Street site. Rather than a monolithic office development nicknamed the Berlin Wall, the Coin Street campaigners drew up plans featuring affordable co-operative housing, a new riverside park and walkway and integrated workshops, retail and leisure facilities. The GLC sold the 13-acre Coin Street site for a modest sum of £1 million to the newly incorporated Coin Street Community Builders. The political backing of the GLC and its Leader enabled financial support to be given to the Coin Street campaigners, getting this pioneering community development off the ground and setting in motion the sustainable regeneration of the South Bank site.

The Community Land Trust (CLT) in Burlington was incorporated in 1984 with \$200,000 seed funding from the City authorities and a pledge of continuing support. It was the first municipally funded CLT in the USA, and is now the largest and most well developed. The Mayor of Burlington Peter Clavelle saw housing as a basic right to which everyone should be entitled, rather than a speculative commodity. When looking for a housing model that provided for future generations as well as meeting current housing needs the city of Burlington opted to support the CLT model, and has not looked back. Again, it was political action by civic leaders that was crucial to the birth and continued success of the project.

Both in their twentieth year, Coin Street and Burlington CLT are proof that another way is possible. Both have succeeded in regenerating their local neighbourhoods and providing affordable housing, and both have won awards for their outstanding achievement and innovation in their community development work. Like Burlington, London has a pressing need for a supply of affordable housing, both now and for years to come. Despite differences in social policy the CLT model is as relevant here as it is in the USA, and a new model of affordable housing developed by CDS Co-operatives and based on the CLT concept combines the benefits of both the Burlington CLT and the Coin Street development trust model. Delivering permanently affordable housing on a co-operative basis whilst enabling members to benefit from the equity accumulation bestowed by home ownership, this new mutual model has the support in principle of the Mayor of London. What is now required is the financial commitment necessary to get a pilot demonstration project up and running.

Executive summary

This GLA report looks at the potential of CLTs and co-operative and mutual housing to address the housing needs of people on low and medium incomes, set against the background of the requirements of the London Plan and the strategic policy context of creating sustainable communities. The report specifically looks at the new mutual model of intermediate housing presented in the publication *Common Ground – for Mutual Home Ownership*. Published jointly by CDS Co-operatives and the New Economics Foundation, it is the latest report part-funded by the Housing Corporation to look at the CLT concept and its use and relevance in the UK. Unique to the report is a new hybrid mutual model of affordable home ownership for intermediate wage earners, incorporating key features of the limited equity housing co-operatives popular in Scandinavia together with the CLT concept widespread in the USA. The publication posits the development of a project in Newham.

The premise of *Common Ground* is that Homebuy and shared ownership schemes are oversubscribed and increasingly unaffordable. Geared towards people earning between £17,000 - £25,000 per annum the new mutual model was conceived partly in response to government funded initiatives aimed at enabling key workers to afford home ownership and its openness to innovative forms of tenure and also to the Mayor of London's vision of developing an entirely new intermediate market of affordable housing.

The Community Land Trust-Mutual Home Ownership Model

Based around the use of a CLT to permanently protect the public subsidy and guarantee long-term affordability, the model employs a shared-ownership housing co-operative as the vehicle to enable members to accumulate a withdrawable equity stake in their homes. Learning critical lessons from the experience of shared-ownership co-operatives at home and overseas, the report presents a robust and financially viable model that has the potential to prove more accessible and grant a better social return on public subsidy than current low-cost home ownership initiatives.

Gifted or discounted land is removed from the market and held in a CLT, a non-profit Industrial & Provident Society for Community Benefit or Community Interest Company democratically owned and controlled by its members and the local community. The CLT leases the land on a 99-year lease to a Mutual Home Ownership Trust (MHOT), a shared-equity bona fide housing co-operative. Membership of the MHOT bestows access to lower mortgages costs on a corporate rather than an individual basis together with the ability to accumulate an equity stake in the property that is paid out on departure proportionate to the amount they have paid in as well as taking into account rising local property prices. Monthly payments are flexible and based on 30-35 per cent of a member's income.

Community Land Trusts

CLTs own land in order to provide benefits to the local community. In the USA they are a flexible community tool for sustainable social and economic development, with the primary aim of providing affordable housing and helping people into home ownership. Central to a CLT's operation is its separation of the ownership and use of the land and restrictions on the resale price of the properties on the land. CLTs have attracted a lot of interest in the UK, and have

received public funding in the Highlands & Islands of Scotland. There is as yet no urban CLT providing affordable housing in the UK, although in Birmingham a feasibility study has looked at the applicability of CLTs and a recent study in Oldham has examined the potential for CLTs to contribute to housing market renewal. Development models based on the governance structures of a CLT are also underway in Wales and south west England.

Social housing and sustainable communities

Housing is higher up the political agenda today than it has been for a generation. With social housing in the UK at a crossroads, the development of a new intermediate sector has the potential to radically change the way we see publicly resourced housing programmes. This new mutual model is a potential solution to the perceived problems caused by the top-down paternalistic interventions of the past. Through its emphasis on community control and ownership of the resources central to neighbourhood regeneration, and taking into account the role housing co-operatives can play in building community capacity the model delivers on the government's objective to tackle social exclusion and create sustainable, balanced communities, as well as its new localism agenda, with its focus on community and consumer control of services. In his speech to the 2004 Labour Party Conference, the Deputy Prime Minister pledged to help more first time buyers into home ownership through driving down construction costs and making better use of public sector land in language suggestive of a CLT approach.

Possible problems

In the form of a large scale development the model would not of itself meet the London Plan target of a percentage mix of market, intermediate and social housing. However, unlike traditional shared ownership schemes the model delivers intermediate housing that is London Plan compliant, with the public subsidy in the form of the land locked in for future generations. An obstacle to the model might be restrictions on the disposal of public sector land and a belief that a greater quantum of housing, and in particular social housing, could be obtained through conventional development mechanisms, but this needs to be evidenced. Additional social and economic benefits like creating sustainable communities and providing for democratic control community over neighbourhood development are hard to quantify.

Support for the model

The model has won the support of key workers, housing professionals, community developers and local authorities. In a parliamentary Early Day Motion 125 MPs endorsed the mutual model. Kate Barker of the Bank of England's Monetary Policy Committee described the model as "particularly appealing because of the retained ownership of the land asset". The Housing Partnership, Housing Corporation, English Partnerships and NHS Estates are all supportive of the mutual model of home ownership. CDS Co-operatives have been in discussion with the Housing Partnership to consider proposals for two pilot building projects, worth more than £10 million, to test the CLT-MHOT model, and have received a £70,731 grant from Co-operative Action towards the cost of developing a legal and financial model. The Mayor has pledged his support for the model with a commitment to TELCO/London Citizens that the GLA and the London Development Agency will jointly fund a study to test the feasibility of a proposed pilot project to provide around 100 units of housing through a CLT-MHOT. The GLA has also looked at how the model could work in meeting the housing needs of black and minority ethnic groups and new migrant communities.

1 Strategic context

In the UK, publicly funded housing has been at the mercy of both political trends and market forces. The Right to Buy scheme saw much of the accumulated multi-billion pound public investment in affordable housing transfer out of the public realm and into private hands, as council housing was sold off at heavily discounted prices. Since 1980 there have been over 270,000 completed Right to Buy sales in London. The effect has been to not only deplete the stock of affordable housing, but to contribute to its downgrading in status. What was once a universal resource accessible to all as a choice of abode became increasingly residualised, suffering from chronic over-demand and under-investment and catering only to disadvantaged groups and those in acute housing need. For many people it is to be avoided at all cost, a stigmatised form of welfare that symbolises personal and social failure and which is associated with impoverished neighbourhoods and urban decay. For those with no economic muscle and subsequently no ability to access any forms of housing tenure at market rates it is the welfare safety net that prevents homelessness. For others, with low and intermediate incomes, social housing can be equally as inaccessible to them as private home ownership: they don't earn enough to enable them to purchase property in the market but are not sufficiently disadvantaged to acquire the necessary points to benefit from publicly funded provision.

1.1 The London Plan

London has an acute shortage of affordable housing. Since 1995 London's growing economy and population has created an intense pressure on housing provision, with an increased demand for housing that has not been matched by an adequate increase in supply. This has led to rapid house price and land value inflation, which has impacted particularly hard on low and medium income households and first time buyers. For example, between 1983 and 2002 London house prices and residential building land prices increased by 456 per cent and 624 per cent respectively. House price rises in London have powered ahead of the rest of the UK, and from 1995 to 2002 rose by 149 per cent compared to 87 per cent for the rest of the country. In recent years, house prices have escalated to record highs and as Kate Barker predicts in her report into housing supply, real house price growth is set to continue in the longer term even if housing supply increases. And the need for a sustained increase in the supply of affordable housing is reinforced by the Barker Review's recommendations.

The London Plan sets out a number of key objectives and targets relating to the provision of affordable housing, with an overall strategic aim that 50 per cent of all new housing should be affordable. With the aim of building at least 23,000 new homes per year, towards a target of 30,000 new homes annually, the 50 per cent affordability requirement means that up to 15,000 homes a year should be affordable. In the London Plan, affordable housing is defined as "housing designed to meet the needs of households whose incomes are not sufficient to allow them to access decent and appropriate housing". Affordable housing comprises social housing for rent, intermediate housing and in some cases low cost market housing. The Londonwide objective is that 70 per cent of affordable housing should be social housing, accessed on the basis of housing need, with rents no greater than target rents as set by the ODPM for local authority, housing association and co-operative tenants. The remaining 30 per cent should be intermediate housing: sub-market housing which is above target rents but is affordable by households on incomes of less than £40,000 per annum (as at 2003/4 but to be reviewed

annually). This means that out of all new housing provision, whilst 50 per cent would be at market rates, 35 per cent should be social housing and 15 per cent intermediate.

The Mayor of London identified the growing need for and importance of this new intermediate market in his speech to The Guardian's Key Worker Conference in February 2002, setting out his long term vision and belief in "the development of an intermediate housing sector in London as a vital strategic and economic issue." The GLA defines intermediate housing by price as a range of products including various tenures and forms of provision like shared ownership, sub-market rent and key worker initiatives that will deliver housing to people on incomes of up to £40,000. However, the GLA does not have the statutory powers to specify policies regarding allocations, so although intermediate housing is designed to cater for people whose needs are not met by social housing and who are unable to access market housing, there is nothing to stop people earning over £40,000 accessing intermediate housing if the borough does not have an appropriate allocations policy.

1.2 Creating sustainable communities

The Communities Plan (Sustainable Communities: Building for the future) launched in February 2003 by the ODPM is committed to reversing the damaging deep-seated trends of the past and acknowledges that sustainability is only possible where local communities play a leading role in determining their future development. As identified in the Communities Plan, key requirements of sustainable communities include "effective engagement and participation by local people, groups and businesses, especially in the planning, design and long-term stewardship of their community, and an active voluntary and community sector" as well as "a well-integrated mix of decent homes of different types and tenures to support a range of household sizes, ages and incomes". For London, the aim is to ensure that "communities are effectively and fairly governed with a strong sense of community".

Community empowerment features strongly in the Home Office consultation paper, *Building Civil Renewal: a review of government support for community capacity building and proposals for change*, which talks in terms of developing strong, active and empowered communities, "in which people are able to do things for themselves, define the problems they face, and tackle them in partnership with public bodies". Two essential ingredients to civil renewal are identified as active citizenship and strengthened communities. Active citizenship is defined here in terms of self-help, self-responsibility and caring for the community. Strengthened communities are achieved as a result of building community capacity, and through co-operation and solidarity being able to deal with problems of common concern. Case studies given as exemplary examples of strengthening communities include the award-winning Homes for Change Housing Co-operative in Hulme, Manchester.

An essential element of creating sustainable communities is ensuring that more private and social housing coexists side by side. Intermediate housing has a key role to play in building and maintaining mixed, balanced and viable communities and preventing socio-economic polarisation. The intermediate market helps support the local economy of an area by retaining and bringing in economically active people with disposable incomes who will use local shops and services and who through their involvement in and engagement with community organisations and social structures are able to help contribute to the social capital of the community.

At the 2004 Labour Party Conference John Prescott announced plans to develop this market and help more first time buyers into home ownership. In his speech to Conference, the Deputy Prime Minister pointed to how the average house price paid by a first time buyer in London had trebled since 1997 and how construction costs for social housing had risen by over 60 per cent so that the average subsidy needed to build each new housing association home in London is now £100,000. Aiming to achieve better value for money by making smarter use of public sector land and driving down construction costs, John Prescott challenged developers to build high quality homes for around £60,000 using the Modern Methods of Construction that in some parts of Europe had helped to reduce costs.

Central to the proposal is the setting aside of surplus public sector land to create homes for first time buyers, who pay only for the bricks and mortar and not the full cost of the land. The land itself is kept “in trust” and leased for affordable housing, with the buyer able to build up an equity stake in their home and move from part ownership to full ownership. When the owner sells and moves on they only take the equity stake with them, and in John Prescott’s words “we keep the land in the name of the people. It’s not an asset giveaway. We recycle the subsidy.” The full details are being developed by the ODPM, and whilst the scheme may mean that the state or one of its agencies retains the freehold of the land it could also be that the land is held in a CLT or similar structure.

1.3 Beyond community involvement

The government’s agenda to tackle social exclusion and promote active citizenship through self-help and the empowerment of local communities through building social capital has perhaps the greatest resonance in the social housing sector. Social housing is now seen as a fundamental component of wider strategies to promote local economic regeneration and the development of sustainable communities. And within the current debate there has been a gradual move away from the view of the tenant as passive consumer with limited avenues of participation to a realisation that the creation of sustainable communities involves a shift of power and the transfer of control. A key issue for government now is how it can intervene to help build community capacity and facilitate community empowerment.

Tenants of social housing have previously been perceived purely as consumers, and increasingly as recipients of welfare. Their responsibility, as Rodgers notes in *The Third Estate* “stops at the wallpaper”, and their rights amount to the expectation that the landlord will provide a decent standard of accommodation. Tenants have had little say in the management and upkeep of their dwellings and estates, and their relationship with their housing provider has been characterised by dependency and passivity. De-incentivised to maintain the value of their stock, and with restrictions on their ability to achieve meaningful change in their neighbourhoods, the assumption that all tenants want is quality service from their landlord has contributed to the current state of decay in much of our social housing.

However, since The Right to Manage in 1994 the momentum to involve tenants in the decision-making that affects their homes and neighbourhoods is gathering pace. As part of the Best Value regime in local government introduced in April 2000 all local authorities are required to negotiate a Tenant Participation Compact, with financial assistance to build tenant capacity

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available through the government's Section 16 Tenant Empowerment Grant Programme. New regulations governing housing associations have sought to increase tenant involvement and recent initiatives by the Housing Corporation have placed a greater emphasis on the involvement of tenants in controlling their own housing. The Communities in Control strategy, launched in 2000 had the aim of empowering tenants and promoting community control over neighbourhood initiatives. The Corporation's new Involvement Policy, in effect from April 2004, builds on this earlier strategy and demands that resident involvement is central to a housing association's corporate strategy, ethos and decision-making and that over the course of the next year they draw up a resident involvement statement in consultation with residents.

The Confederation of Co-operative Housing (CCH) was established in 1993 and is recognised by Co-operatives^{UK} and the Housing Corporation as the representative body for housing co-ops in England and Wales. In 2003 in partnership with the Housing Corporation CCH published an in-depth guide and website aimed at informing housing association tenants of what they could do if they wanted to take greater control over their housing. Moving beyond consultation and power sharing, *Taking Control in your Community* seeks to build human and social capital so communities have the capacity to take control themselves. The guide outlines options to achieve this that include Tenant Management Organisations and the community ownership of housing in the form of co-ops and via Community Gateway Associations and Community Land Trusts.

There currently exists the real possibility of a fundamental change in how tenants and communities affect control over their housing, and in the very form and shape of social housing itself. Co-operative and mutual housing could have a major role to play in meeting the increasing demand for affordable housing, and is seen in an increasingly favourable light by tenants, local community groups and policy makers at all levels of government. This is demonstrated for example by the support of the National Assembly for Wales for community mutuals as the preferred choice for stock transfers, and Preston City Council's development of the Community Gateway as a vehicle for community control of housing.

2 The Community Land Trust concept

In 2002 the Joseph Rowntree Foundation set up its Land Inquiry to investigate the issues surrounding land supply for housing in England. Its report, *Land for housing: Current practice and future options* found that there was a lack of effective mechanisms and institutions for land assembly and that interventionist planners rather than developers should have a leading proactive role. It noted that there was a clear need for structures that capture and protect the value of land within the community, and suggested that much could be learned from CLTs in the USA in their development of sites for affordable housing. The Inquiry believed that CLTs could operate within existing law in England to fulfil this function by ensuring land was available for social housing when needed, and that opportunities existed to use CLTs in the redevelopment of local authority estates.

Whilst CLTs are relatively new to the UK, experience from the USA demonstrates that over the past 30 years they have been highly successful in providing affordable home ownership for those on low incomes. Despite the very different social policy context in the USA, as a flexible civic tool responsive to local circumstances the adaptation and use of CLTs in the UK is being promoted in various parts of the country as a solution to some of the housing problems faced by urban and rural communities. There are currently a number of different ideas circulating as to what a CLT might entail in practice, and as yet there is no common approach as to how a CLT would operate and be initiated. Issues of membership, internal democracy, governance and composition of the board will be critical.

2.1 CLTs in the USA

CLTs were pioneered in the USA during the Civil Rights movement to enable African-Americans in the south to access affordable housing and farmland. Drawing inspiration from the land gift movement in India and the legal lease holding structures of the Jewish Land Fund in Israel, the early CLT model as developed by Robert Swann of the EF Schumacher Society sought to decommo-ditise land by removing it from the market and placing it into a regional system of mutual trusteeship. Land was held on a democratic basis with the value and use of the land retained for the benefit of the community. Acquiring a parcel of land through gift or purchase, the CLT develops a land use plan and then leases the site on a 99 year lease for the purposes agreed upon. Whilst the leaseholder owns the buildings and is able to capitalise upon the value of any improvements made to the property upon resale, the value of the land itself is excluded from the transaction as it remains in the ownership of the CLT, thus guaranteeing its status as an affordable resource for future generations and available for utilisation by the local community.

Swann's key innovation was to devise a tripartite organisational structure for sound local land management that aimed to preclude demutualisation through the balanced involvement of key local stakeholders. All residents in the defined area of operation would be eligible for membership of the CLT and would elect one-third of the board, giving the local community a stake and the ability to shape development. All leaseholders of CLT land are obligatory members and elect one-third of the board, giving leasehold members a strong voice but not overall control. These board members would then elect public representatives, including local officials

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and funders, professional experts and providers of housing and social services to make up the final third.

CLTs were originally conceived as a vehicle to achieve land reform, with the land both held in common and for the common good, thus enabling the community to meet a variety of social, economic and environmental needs and objectives. Some CLTs operate as conservation or environmental land trusts, but as rising house prices and interest rates began to push home ownership beyond the reach of low income people in the 1980s CLTs became increasingly used as a means to provide affordable housing. Across the USA the growth of CLTs has been in response to a number of pressures in various diverse communities, from inner city neighbourhoods to small towns and rural districts. In some growth areas where a rising population, economic investment and limited public housing subsidies for lower income families has led to local people being priced out of the property market in the areas where they live and work, CLTs have been developed to ensure a supply of affordable housing through the control of housing costs and resale prices by permanently limiting land costs and locking in public subsidies to benefit future homeowners.

Communities in other areas face the opposite problems, and where disinvestment and a decline in home ownership has led to chronic landlordism the primary goal may be to maintain owner-occupancy. Absentee landlords charge high rents whilst allowing their properties to decay, leading to run-down neighbourhoods and a weak local economy. If the community does manage to organise to improve the local area they run the risk of increased property values accruing primarily to the landlords. Likewise with areas on the cusp of gentrification, where regeneration initiatives and rising real estate prices serve only to make the area unaffordable to the people who live there. CLTs are a mechanism for local residents and the wider community to reverse neglect and abandonment through capturing any of the value they have worked to create, enabling them to help control and shape redevelopment whilst preventing speculation and without causing displacement.

The Institute for Community Economics (ICE) in Massachusetts has been a leader in the CLT movement since 1967, promoting a model dedicated to community development and affordable housing and homeownership, the main features of which were enshrined in federal law in 1992 in a definition of CLTs as “community housing development organizations” which are eligible for state funding. The ICE defines a CLT as “a democratically controlled nonprofit organisation that owns real estate in order to provide benefits to its local community – and in particular to make land and housing available to residents who cannot otherwise afford them.” Although there is considerable variation among the 130 organisations in the USA that call themselves CLTs, most of them incorporate the 10 key features found in the ‘classic’ model (see Appendix A).

CLTs in the USA come in many shapes and sizes and range from serving a single neighbourhood to an entire city or county. The CLT’s area of operation is shaped by numerous factors, including the interests of the initial founders, the housing needs of the community in question, the location of opportunities for project development and the activities of other housing and community development groups in the locality. Some CLTs began through the development of a single large parcel of land, whilst others evolved through the ad-hoc acquisition of smaller sites

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scattered throughout a particular area. Some buy undeveloped land and arrange to build new homes on it, and others buy land and buildings together.

A CLT seeks to balance the needs and interests of the individual with the interests of the community as a whole. It does this by separating the value of the land from the cost of the property on it. A CLT holds the freehold of the land in perpetuity, and leases it to the owners of the buildings on it, who are often individual home owners or co-operatives. It is this long-term ground lease that regulates the occupancy and limits the resale value of the property. Each CLT will formulate its own resale value. Typical of many CLTs is a shared appreciation resale formula, whereby upon resale the home owner benefits from a share in the appreciation of the house and the value of any improvements, whilst the CLT also benefits from any appreciation in the property. This enables the home to be kept affordable for the next homeowner, with the cost of buying a house reduced by 25-30 per cent below market rates.

The individual benefits from gaining access to home ownership, something that previously might have been beyond their reach. Homeowners are then able to build up a private asset, receiving a share in its appreciation through receipt of a net gain in equity upon reselling. When their equity stake is realised they are left in an economically stronger position than before, and are able to move more easily into the private property market. For the community, there is the benefit of a permanent supply of affordable housing, resale after resale. Public subsidy used to make the housing affordable is locked into the land beneath the housing and is continually recycled, with any increases in value enabling the CLT to expand, acquire more land and provide more affordable housing.

Burlington Community Land Trust is the largest and most developed CLT in the USA and was the first to secure municipal funding. It has over 2,500 members, with a diverse property portfolio that includes over 240 units of housing in rental apartments and eight co-operatives, 370 shared-equity and resale-restricted single family homes and condominiums and 98,000 square feet of commercial property that provides office space for a credit union, emergency food store, legal aid center and multigenerational center. It has total assets of over \$22 million, an annual operating budget of over \$1.5 million and employs 28 members of staff. Its success in delivering permanently affordable homes for people on low and medium incomes is documented in a report produced by the Burlington CLT in May 2003, *Permanently Affordable Homeownership. Does the Community Land Trust Deliver on Its Promises?*

Prior to this study there was no quantifiable evidence of the effectiveness of CLTs in securing permanently affordable home ownership. Burlington CLT, with its large portfolio of properties and significant number of resales was in the position of being able to assess how effective it had been in delivering and balancing the individual and community benefits attributable to the CLT model. As the first systematic, data based evaluation of the model's effectiveness, the Burlington Report looked at all the past resale data that was available concerning the 97 owner-occupied houses and condominiums resold through the CLT between 1988 and 2002. The findings are impressive.

Over the period studied the public subsidies invested in making the homes affordable not only remained in the houses at resale, but also increased in value, from \$1,525,148 (an average of

\$15,723 per home) to \$2,099,590 (an average of \$21,645 per home). The affordability of the homes improved over time, with an average home affordable to a household earning 62 per cent of Area Median Income (AMI) on the initial sale becoming affordable to those earning 57 per cent of AMI on resale. Whilst wealth was retained within the community, public subsidies increased in value and affordability improved, the CLT also helped people build wealth themselves through a return on their initial investment. The annualised rate of return across all 97 resales averaged 17 per cent, which for the average CLT homeowner selling after five years translated into a modest net gain in equity of \$6,184. Within six months of re-selling and leaving the CLT, 74 per cent of former CLT homeowners were able to purchase their next home on the open market.

2.2 CLTs in the UK

Community stewardship of the land is not an alien concept in the UK, with most land in England and Wales classified as common land until the enclosures of the 18th and 19th century. Indeed the first recorded example of a CLT, Colton Parish Lands Trust in Staffordshire was created by a private Act of Parliament in 1792 as a defence against enclosure and is still in existence today. It is perhaps ironic that the roots of CLTs in the USA are said to date back to the traditions of the early New England settlers who brought the practice of the 'commons' over with them. Land reform has been a key demand of progressive political campaigning since the Peasant's Revolt in 1381. Democratic control of the land was key to the Diggers manifesto during the English Civil War, and community land ownership was central to the original vision of the Chartists with the launch in 1846 of the Chartist Land Plan. The father of co-operation, Robert Owen, advocated the creation of sustainable Villages of Co-operation and Unity for the poor and unemployed, and John Ruskin's original idea for a National Trust is not too far removed from the idea of stewardship of the land for the benefit of the community.

It is no coincidence that CLTs in the UK began in Scotland, with feudalism and the unique concentration of land ownership ensuring that the issue of land reform was high on the political agenda. Community land ownership made the headlines with the buyout of the North Lochinver Estate by the Assynt Crofters in 1993 and the establishment of the Isle of Eigg Heritage Trust in 1997. Since then, the CLT movement has received technical and financial support with the creation of the Community Land Unit at Highland & Islands Enterprise in 1997 and the Scottish Land Fund in 2001, which has assisted more than 60 communities to acquire land. The Land Reform (Scotland) Act 2003 provides a framework for the support and development of the growing number of CLTs north of the border.

In England, parallels can be drawn between the CLT concept and the many development trusts and social enterprises working to regenerate local communities, like the community development organisation Coin Street Community Builders. However, although these groups are committed to community development, in many cases the CLT model as practised in the USA offers a more co-operative approach, with a greater emphasis on local community membership, empowerment and democratic stewardship of the assets.

Initiatives looking to develop and pilot the CLT model and its use in creating mutually-owned and affordable housing are taking place at a local level in communities around the UK. The Land for People Conferences in September 2003 and May 2004 sought to bring together the many

people and organisations promoting and developing various CLTs and similar models. For example, Stonesfield Community Trust in Oxfordshire was established in 1983 with an initial endowment of a quarter acre of land by the local authority as a response to the shortage of affordable housing in the village, and is able to let its homes at 25 per cent below market rates. In Stroud, Gloucestershire, the successful development of co-housing, along the lines of the housing model widespread in Denmark and Holland has stimulated the interest in CLTs, and Stroud Common Wealth, the local development trust is looking to create a CLT and pilot the CLT-MHOT model as presented in *Common Ground* on a former hospital site and ancestral home of Beatrice Webb.

The High Bickington Project is a scheme to develop a farm previously owned by Devon County Council for the benefit of the community. Ownership of the farm would transfer to a Community Property Trust, a de facto CLT with membership open to local people, and a remit to develop affordable housing, workspaces and community facilities. It has chosen to use a mutual home ownership model to provide affordable housing with resident equity shares and a similar scheme is also being adopted in Radstock in Somerset. As a way of enabling communities to benefit from the collective ownership of land and property whilst retaining control over its use and development the CLT model has a lot to offer in terms of rural regeneration.

However, although a growing number of people, organisations and local authorities are familiar with and supportive of the CLT concept, there are no fixed assumptions as to their role and remit, nor how they would be constituted and function. In Birmingham a feasibility study posited how a group of CLTs might operate in an inner-city environment whilst proposals for how a CLT might help to regenerate a part of Oldham were unveiled in April 2004.

2.3 The Birmingham Feasibility Study and Oldham Beyond

Research sponsored by CCH, Birmingham City Council and the Housing Corporation into the feasibility of CLTs was published in June 2002, and looked at how a CLT is able to help benefit residents, local authorities and other agencies including Registered Social Landlords (RSLs) through the community control of local assets. Within the Birmingham context, and the specific needs of three areas of the city, the report found that the CLT had the potential to play a wide variety of roles and deliver many benefits to the diverse communities in question. The report included draft illustrative rules for a CLT, and looked in detail at how they might work and what they would do.

The feasibility study recognised that CLTs were a flexible and powerful tool, capable of harnessing the collective financial power not available to its members as individuals. CLTs represented a new way of partnership working, acting as an honest broker and drawing together key players already involved in community regeneration. Their functions might range from developing and managing community facilities and working with RSLs in redeveloping mixed tenure estates to generating funding for private sector renewal and providing an alternative to conventional models of equity release for low income home owners. In this instance the CLT would help people unable to afford urgent repairs and refurbishments by assuming the freehold of their property in exchange for a leasehold and access to the available equity needed to carry out improvements.

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CLTs provide local authorities with a new option for implementing their Asset Management Plans and Capital Strategies. They enable councils to have a continuing and shared role in the development and management of assets, whilst engaging and involving local residents in the major decisions that affect their area and helping to connect strategic aims to action within local communities. Encouraging community co-operation in neighbourhood renewal, CLTs can ensure that the local community benefits from successful interventions to improve an area through capturing the increased land and property values. The report also looks at how the model could help Birmingham City Council with its approach to private sector renewal and how it could function as a community-led delivery vehicle for investment.

Key findings regarding how a CLT could operate include:

- A CLT needs a business plan that includes its aims and objectives, what it intends to deliver and quantifying what resources it will need. This will be used to establish credibility with the community and other partners, and to raise finance. It was essential to have a vision of how community control of local assets could improve the quality of life in a neighbourhood.
- A CLT must offer people greater control over their lives than can be achieved through traditional organisations, and adds value to the renewal process only if it achieves greater credibility than existing organisations. It should not duplicate roles already carried out by others.
- Its credibility would be enhanced if it adopted a non-profit-distributing mutual model owned by its members and registered as an Industrial & Provident Society with the Financial Services Authority. Its rules must give it wide powers to acquire, develop and manage assets for the benefit of the community. Whilst charitable status for a CLT is unlikely, it could be possible for CLTs to be RSLs.
- A group structure, with local CLTs as subsidiaries of a parent CLT would enable the CLT model to be adapted to meet various needs and perform a range of roles in different communities. This model would also benefit from intra-group VAT relief.
- As a non-public body the CLT can take advantage of its status to raise private finance without the constraints faced by local authorities. As well as conventional loans secured on its assets, as an Industrial & Provident Society the CLT could seek to raise loan stock.

Building on the ideas developed in Birmingham, the use of a CLT has also been proposed as a delivery vehicle for a Housing Market Renewal (HMR) pilot project in part of the Oldham Pathfinder area where the housing market is in decline. Leading a team charged with developing an overall vision for the regeneration of the borough, URBED (Urban and Economic Development Group) included in its 'Demonstrator Masterplan' for the Werneth/Freehold area of Oldham an idea to use a CLT as an innovative way to invest in the area's low-demand and low-value terraced housing stock. As well as an alternative to traditional housing improvement grants the CLT would also be able to provide the framework for important decisions on clearances (It was estimated that 40 per cent of the area's housing stock would need to be demolished).

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Under proposals in the URBED report the CLT is envisaged as a membership-based mutual enterprise, performing a role akin to that of a building society, with people coming together and sharing their resources in order to meet their common need. Parallels are also drawn with credit unions, in that the CLT is legally accountable to its members through a common bond, which in this case is a specifically defined geographical and demographical community. People join the CLT and invest part of their property's equity in it, benefiting in return from economies of scale and access to funds otherwise denied to them individuals.

Both parties will also profit from any uplift in values as the neighbourhood becomes more attractive, and following a successful intervention and rising house prices a well capitalised CLT would be in a position to borrow against its assets in order to fund other development work. Funds and assets are thus continually recycled within and at the direction and disposal of the community and are prevented from being either channelled out of the local area or translated into private capital gains. By maintaining an equity share in certain properties it would be possible for the CLT to start to play a role as a housing provider and preventing displacement by ensuring that there was a permanent supply of affordable housing and homes for part-ownership. It is hoped that if successful in acquiring a portfolio of properties and cleared land the CLT could find itself in the position of a strategic landowner, able to use the yields from its property investment as a way of regenerating a local community whilst providing a democratically accountable means for that community to be involved in and have ownership of the decisions over its economic development.

3 Co-operative and mutual housing

Co-operative and mutual housing provision in the UK has a long history, but has always occupied a space outside of the mainstream, squeezed out by municipal and voluntary provision. To its detractors it is often regarded as no more than a historical curiosity. Today, less than 0.5 per cent of the UK's total housing stock is owned or managed by co-operatives. Of the 1,925 housing associations registered with the Housing Corporation, 246 are co-operatives providing around 15,000 homes in England. Whilst the majority of housing co-ops own and manage fewer than 15 homes, they can range in size from no more than a few units to the 1,200 properties owned by Tenants First Housing Co-op in Aberdeenshire, the largest fully mutual co-op in the UK. More homes are managed co-operatively through Tenant Management Co-operatives (TMCs), and since the Right to Manage in 1994 over 170,000 council tenants have formed Tenant Management Organisations (TMOs), the majority of which are TMCs.

The situation in Britain contrasts sharply with other European countries like Sweden and Norway, where the co-operative sector accounts for 17 and 14 per cent respectively of the total housing stock, and Turkey where there are 40,000 housing co-ops with some 1.8 million members. In the US, two per cent of housing is co-operatively managed, with co-op housing units providing for three million people. Co-op City in New York provides 50,000 homes and has the largest mortgage in the world. In terms of non or sub-market housing, in Canada co-operatives are the largest non-profit housing provider, whilst in Germany two-thirds of all social landlords are *Genossenschaften*, co-operatives backed by community organisations who control a third of the social housing stock. In the UK recent trends have favoured the growth of large housing associations at the expense of the smaller co-operative sector, although in Scotland housing co-ops play a much larger role in the provision of social housing, with over half of the housing association sector tenant controlled. However, the consolidation of the housing association sector and the ensuing fallout presents opportunities for smaller community-based housing associations and co-operatives to achieve growth themselves, along the lines of the sustained growth of BME housing associations since the 1960s.

3.1 What are housing co-ops?

Like any other co-operative enterprise run for the benefit of its members, the legal form for a housing co-operative is for it to be incorporated as a Bona Fide Co-operative under the Industrial and Provident Society Act 1965, and registered with the Mutual Societies Registration team at the Financial Services Authority. Many housing associations are also registered under the Industrial and Provident Societies Act 1965, but unlike co-operatives are constituted as a Society for the Benefit of the Community (commonly known as Community Benefit Societies), and can often be charitable in nature. Thus constituted, a housing co-op is a legal entity in its own right, limited by guarantee and with a written constitution set out in its Rules. The co-op is run according to one member, one vote, and will be managed either by General Meeting (for smaller co-ops) or for larger co-ops by a Management Committee, elected by the membership. Management Committee members are volunteers, they cannot be paid for their services and nor can they profit in any way from the work of the co-op.

Co-operative housing tenure in the UK is in a unique position, straddling as it does the public, private and independent non-profit sectors. Some housing co-ops access Social Housing Grant,

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whilst others offer market rate housing. The range of housing co-ops can be said to occupy space along a linear spectrum of varying degrees of mutuality, with some owning and controlling the housing stock themselves, and others solely concerned with the collective exercising of the management rights. Housing co-ops also find themselves in an anomalous position with regards to conventional landlord and tenant law, as the co-op member is both a tenant and a member of the co-op that grants the tenancy rights.

Defining characteristics of a housing co-op:

- Voluntary organisations, where membership is open to all without discrimination.
- Democratically controlled organisations, with elected representatives accountable to their membership.
- Member economic participation means that members contribute to and control the finances of the co-op, allocating any surplus to further the co-op's development and supporting any other activities prioritised by the membership.
- Autonomous, independent self-help organisations.
- Emphasis on education and training to build the capacity of the membership.
- Work in partnership with other co-ops and community organisations.
- Dedicated to the sustainable development of the communities in which they are rooted.

Co-operative housing in Britain first emerged as an offshoot of the co-operative retail movement, with the Rochdale Equitable Pioneer Society building and providing housing for rent in the 1860s. The Pioneers also established the Co-operative Building Society, later to become the Nationwide. With its tradition of home ownership it is reasonable to argue that in the UK mutuality in housing had its greatest impact with the rise of the building society movement, and through mutual aid and the pooling of resources working people were able to finance the construction and purchase of low cost housing. However, through the 20th century co-operative housing appeared in a number of manifestations, and the movement enjoyed a renaissance in the 1970s.

Early initiatives existed in the form of tenant co-partnership, a model designed to combine the benefits of renting and home ownership, and to promote a co-operative ethos within an estate of mixed-income groups where tenants would take an interest in their housing and local community. This was realised in the design and construction of the Garden Cities prior to World War One, with Hampstead Garden Suburb one of the most celebrated co-partnership estates. Although the Housing Act of 1919 enabled tenant co-partnership societies to access public funding, co-partnership societies failed to make the tenure accessible to people on low incomes and it was local authorities that dominated the construction of social housing. Initially successful, co-partnership ultimately proved unstable, and the mix of outside shareholders and tenants created pressures to demutualise, with the model deforming over time into owner-occupation and private rental.

The next wave of co-operative housing occurred in the 1960s with co-ownership, a form of tenure configured on the Scandinavian co-operative housing model. Promoted by Harold Campbell, National Secretary of the Co-operative Party and later Director of the Greater London Secondary Housing Association, the model found favour with the Conservative Government as a

way into owner-occupation for people who could otherwise not afford it. Under co-ownership members could build up a stake in the property and qualify for a Premium Payment or equity share payment on leaving. Co-ownership was aided by the creation of the Housing Corporation in 1964 with a remit to promote and fund such schemes with £100 million of Treasury funding and £200 million from building societies, and also benefited from the introduction of MIRAS in 1967 and reforms which reduced the length of leases and the amount of the initial deposit.

Between 1961 and 1977 across the UK 1,222 co-ownership societies were formed, producing over 40,000 units. However, the schemes were constrained by a top-down approach with scant regard for their co-operative ethos, no provision for the education and training of members and a downplaying of the role of members as the collective owners. Following the 1980 Housing Act most societies decided to dissolve and sell to their members, leaving only 31 co-ownership societies today registered with the Housing Corporation. As a form of tenure co-ownership proved to be unstable, poorly adapted and with no design features to prevent demutualisation. Key lessons learned from the co-ownership experiment led Campbell to develop a new, less-complex model that combined the benefits of renting and owner-occupation in the form of shared ownership co-operatives, the leading example being Glenkerry House in the London Borough of Tower Hamlets.

The majority of housing co-ops today are either permanent tenant ownership co-ops (also known as Par-Value Co-operatives or non-equity co-ops) or Tenant Management Co-ops.

Ownership Co-ops are democratically owned and controlled by their members, who have a nominal share in the co-operative, which is returned to them at the same (par) value when they leave. These co-ops are fully mutual, meaning that all members are tenants and that all tenants are members, and the co-op owns the housing in which the members live. The majority are at least partially funded through the Housing Corporation, although co-ops not registered as RSLs raise finance through mortgages and by issuing loan stock.

Tenant Management Co-ops (TMCs) involve the co-operative managing the housing in which the members live whilst ownership of the housing stock rests with the social landlord. TMCs can also include private leaseholders, and are often not fully mutual as some tenants may not wish to join the co-operative.

Self-build Co-ops involve members contracting to work together to build their own homes, often but not always owning them individually. The past twenty years has seen an upsurge in the numbers of self-build co-ops, and although usually small scale initiatives they have led to some of the most innovative and environmentally sound housing developments.

Short-life Co-ops evolved in London and other urban centres as a response to acute housing need. Members occupy on a temporary basis housing leased from social or private landlords, which would otherwise have remained empty.

Resident Management Companies (RMCs) are a kind of cousin to housing co-operatives that have developed within the private sector. Whilst residents own the individual leases to their flats they collectively own and are responsible for the management of their communal areas.

Referred to as flat management companies by Companies House, records suggest that there are at least 43,000 of these common parts quasi-co-ops.

Commonhold is a new form of co-operative tenure in the private home ownership sector and was established by The Commonhold and Leasehold Reform Act 2002. This market value mutual model enables people living in flats to own their homes individually and the whole property collectively, through membership of a Commonhold Association, to be registered like RMCs at Companies House and governed by a Commonhold Community Statement. The provisions of the Act were introduced in September 2004, and whilst likely to be adopted primarily for new developments they will also give existing leaseholders the right to collective enfranchisement and the joint purchase of their freehold, a necessary first step towards conversion to Commonhold.

Other mutual housing providers include **Community-Based Housing Associations**, which are similar to housing co-ops in their aims of seeking to promote community ownership and control, but which include non-tenant members on their Board.

New models of mutual housing include the **Community Housing Mutual** and the **Community Gateway Association** that have been developed as alternative options for local authority stock transfers. Work is also underway in looking at how co-operatives could provide safe, secure and affordable housing for students.

3.2 The case for co-operative housing

For over 25 years housing co-ops have had a largely successful track record in providing quality and affordable housing, on a basis that seeks to empower local people and help build sustainable communities. People join and establish housing co-ops for a number of reasons, from simply needing somewhere comfortable to live at a reasonable price, to wanting to improve their current standards of accommodation and services or to make a difference to their local community and environment through an increase in the level of control over their home and its surroundings. Other reasons may be a commitment to common ownership, an ideological belief in the values, principles and philosophy of co-operation, and a desire to put these beliefs into practice.

As membership organisations co-ops aim to deliver a range of practical benefits to their members, and as well as providing effective and efficient management of social housing they can also bring a range of social and economic benefits to the wider local community. Member benefits are numerous. Within the co-op's financial framework members are able to exercise control of their rents and service charges, ensuring value for money and directing surpluses to improve their housing environment. Members can control the quality of the repair service by choosing contractors, and a responsive housing service is largely guaranteed by managers being directly accountable to the membership. Through an emphasis on education and training for members and staff, co-ops help people to harness untapped talents and to learn new transferable skills. This helps contribute to wider community capacity building, reducing dependency through collective self-help and enabling people to strengthen their abilities by dealing directly with and having control over some of the issues that impact on their lives.

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Socially, housing co-ops give people a real stake in where they live, fostering a culture of self-responsibility for their immediate environment. This helps create communities where people know, respect and assist each other, reducing incidents of vandalism and anti-social behaviour. Housing co-ops can also play a lead role in developing a sense of community, creating an affinity to and identification with a particular neighbourhood and the people who live in it. According to data from the British Household Panel Survey published in the *Regional Futures and Neighbourhood Realities* report (commissioned by the National Housing Federation as part of their 'iN business for neighbourhoods' initiative) in answer to the question "What makes a neighbourhood a good place to live?" most respondents (56 per cent) placed greatest importance upon a "friendly community".

Public sector housing should be at the forefront of facilitating these friendly communities, and as organisations rooted in the local community it is housing co-ops that are perhaps best placed to inculcate this community culture. Whilst many community organisations have come and gone, housing co-ops have demonstrated their resilience and longevity, helping create stable and inclusive neighbourhoods. Often involved in organising child care, social activities and other community initiatives and social enterprises like credit unions, food co-ops and community cafes, housing co-ops can play a key role in the provision of facilities open to other groups within the local community.

However, until a three-year qualitative study by Price Waterhouse into the comparative performance of housing co-ops demonstrated their efficiency, effectiveness and value for money vis-à-vis the leading social housing providers, the benefits of co-operative housing and tenant control were largely anecdotal. Commissioned by the Department of the Environment, *Tenants in control: an evaluation of tenant-led management organisations* was published in 1995 and looked at the costs and benefits arising from housing co-ops, and whether the benefits were worth the investment. TMCs and Par-Value Co-ops (PVCs) were found to produce significant and worthwhile benefits and able to deliver superior value for money. TMCs had been successful in delivering improved housing management services, which was attributable to the involvement of tenants in the management of their homes. PVCs performed as well as, or better than the very best mainstream providers, delivering quantifiable financial benefits as well as unquantifiable but very real social and community benefits. The report concluded that "the most effective organisations were those whose members had greatest control over their housing management, finances and environment."

Other studies have confirmed these conclusions. In 1999 the Housing Corporation commissioned the Office for Public Management to review resident controlled housing. *Models of Resident Controlled Housing* found that the establishment of a TMO often lead to improvements in the management of local authority estates, and that resident involvement through TMOs helped turn around the reputation of estates, reducing turnover and voids and making them more popular places to live. PVCs were found to have higher levels of satisfaction among their tenants than those in other forms of social housing, with co-ops capable of generating and sustaining a strong community spirit based on self help and mutual aid. It concluded that resident control brought benefits in terms of better housing management, capacity building and community sustainability and urged the Housing Corporation to work with

the housing co-operative movement to draw up a framework within which mainstream RSLs can provide support to co-ops, for both development and management services.

In 2002 an Oxford Brookes University and HACAS Chapman Hendy study commissioned by the ODPM evaluated the performance of TMOs in England. *Tenants Managing* found that TMOs provide an effective service in terms of their aims and objectives, and in most cases are doing better than their host local authorities and equal or surpass the top 25 per cent of local authorities in England in terms of repairs, lettings, rent collection and tenant participation. Improvements to an estate's appearance and to the quality of life in an area were some of the main achievements creditable to TMOs, and TMOs themselves felt that their biggest benefit was in developing community spirit.

Many TMOs were found to have gone beyond their original remit and played a key role in developing community and social activities and facilities for residents, as well as taking a robust approach to anti-social behaviour and engaging in preventative work through the provision of activities for young people. As the report concludes, TMOs provide "a model of what can be achieved by local people in socially excluded communities where training and support is available. They strengthen the case for the development and support of community-based organisations with control over the provision and management of local services. TMOs also provide useful, transferable examples of good practice in developing community empowerment and control."

Research into community ownership and tenant management in Scotland reached the same conclusions, with the 3 University Study in 1998 recommending that the community ownership model be adopted more widely. In 2000 *The People's Republic of Yoker* a case study of Speirs TMC, the oldest tenant management co-op in Britain, dramatically demonstrated the success of tenant control in stark contrast with adjacent council-controlled properties at the other end of the street. Although benefiting from equal amounts of capital investment, the council-managed properties suffered from vandalism, abandonment and ultimately demolition, whilst the TMC has succeeded in tackling social exclusion and ensuring that local residents can fully participate in society.

The CCH's report *Tenant Control & Social Exclusion* found that all the tenant-controlled organisations studied had given tenants a sense of control over their neighbourhoods and their future, all scored highly against the Social Exclusion Unit's criteria for a good community and all had a significant impact on crime and the fear of crime. The larger organisations also contributed to tackling either health or employment issues.

Housing co-ops, however, do have their critics. The unique tenure of co-operative housing alienates some social housing tenants and housing professionals, as fully mutual housing co-ops are exempt from many aspects of housing law that apply to other social landlords. Housing co-ops do not grant secure tenancies like local authorities or assured tenancies like housing associations, leaving them with the flexibility to set their own tenancy conditions. This can be of benefit to the co-op, especially in terms of evictions and dealing with unco-operative members, but is sometimes seen as a major downside to co-operative housing, especially when compared with the high levels of security afforded by local authority housing. Of course, some people

might also argue that the exemption of housing co-ops from the Right to Buy is a similar downside, but others might see it as a sensible bulwark against demutualisation.

Another area of contention involves allocations policies. Housing co-ops are arguably right to be able to want to vet applications for membership, as safeguarding the physical and ethical integrity of the co-op and its property is paramount and the adoption of purely needs-based allocations policies can be seen as a threat to this. Admitting a member who as a carpetbagger is intent on the demutualisation of the co-op is as serious a threat to its survival as an individual with a long history of anti-social behaviour and pyromaniac tendencies. Difficulties exist however when co-ops are in receipt of Social Housing Grant, and are under an obligation to accept allocations. When interviewing prospective members, housing co-ops duly emphasise the rights and responsibilities inherent in membership of a co-op, and the need to undergo education and training sessions prior to and upon joining. By refusing membership to the more problematic individuals nominated from local authority lists, for example in order to prevent freeloading, housing co-ops are sometimes accused of creaming off the better tenants, leaving local authorities and housing associations having to provide for those with a greater range of needs.

Within the sphere of social housing, attitudes to the democratic control of housing can often be shaped by the belief that co-ops are vulnerable to control by cliques, and are at risk of becoming insular and exclusive. Whilst it would be hard to levy the charge of exclusivity against a housing co-op which lacks an independent allocations policy and takes local authority nominations, it could however be argued that this is precisely what weakens the member involvement in housing co-ops, leading to problems with freeloaders and running the risk of control by a minority. Factionalism and low levels of participation can indeed be a threat to the good governance and organisational stability of a co-op, but rules and regulations do exist to protect the internal democracy of a co-op. For example, a small group is unable to hold a meeting and pass policies unacceptable to the majority of members without giving them the opportunity to oppose such changes.

And the traits and behaviour that can pose a threat to the sustainability of a co-op, including apathy, corruption, favouritism, freeloading, lack of accountability, secretiveness, oligarchy, failure to declare conflicts of interests, and the desire to dominate and dictate are obviously not unique or specific to co-operatives. Sometimes they will manifest themselves in a co-operative environment, as in the ongoing saga between Clays Lane Housing Co-op and the Housing Corporation, and most recently in the alleged case of maladministration regarding transfer applications against members of the Redwood Housing Co-op at Coin Street. However, disputes among individuals are likely within any group, and this simply happens to involve what is possibly the most prestigious low-cost housing in the UK complete with spectacular views across the Thames.

A further consideration regarding the development of co-operative and mutual housing models involves the distinction between what can be termed 'top down' and 'bottom up' models. Whilst many co-ops have evolved as a local response to an unmet need, essentially through grassroots organisation and collective action, top down models of mutuality need to have effective strategies to build support and promote member participation and ownership of the initiative.

As autonomous and voluntary membership organisations, care needs to be taken with regards to what could be seen as externally imposed organisation, and community capacity building and educational work is often crucial in laying the foundations for a co-op's success.

Other potential disadvantages relate to the size, scale and practical operation of housing co-ops. Setting up a co-op for instance, can involve significant costs in terms of the necessary input from residents, external support and monitoring, and the process itself can be slow and laborious. It can also involve a lot of hard work, and is reliant on people working together and co-operating. But the advocates of co-operation believe the benefits to be well worth it, and that an emphasis on collective self-help and looking after and respecting your housing, your neighbours, your local environment and your community is something that has been missing from public housing programmes in the past. Perhaps these are the vital ingredients that are needed to ensure that the communities of the future are able to avoid the mistakes of the past.

3.3 Mainstreaming co-operative provision

Perhaps one of the major reasons co-op housing has remained on the margins is that past government policies towards housing and regeneration have not sought to promote community empowerment in a meaningful manner. Bureaucratic indifference, prejudice and an ignorance of the proven ability of co-operatives to build community capacity and deliver community involvement have stymied the role co-operatives can play in these efforts. A regulatory and investment regime that is skewed towards ever-larger providers and which in the past has been lukewarm to tenant control has not helped in the development of co-ops. The lack of a comprehensive legal and administrative framework for co-operative housing also presents numerous practical difficulties and headaches for establishing and administering housing co-ops.

Advocates of co-operative housing believe that people should have the right to become a member of a housing co-op where it is the preferred choice of tenure, and that this right should be available to all. The lack of diversity within the affordable housing sector means that the co-operative housing option is denied to many potential consumers. With no information, education and training opportunities and no knowledge of the possibility and practicality of forming housing co-ops, people are effectively prevented from exploring the potential housing co-ops may have in meeting their needs.

Alternatively, co-operative housing is likely to thrive in an environment where skilled and dedicated service agencies are able to provide specialised support. Over the years there has been a reduction in the number of these agencies, and the lack of resources for promoting and publicising the co-operative option has severely constrained the sector's ability to stimulate new demand. It is also essential that service agencies like CDS Co-operatives in London are skilled and well-resourced, as poor service can impinge on tenant motivation and lead to structurally unsound co-ops liable to failure.

Within all businesses and institutions there is the risk of failure and the potential to make mistakes. Poor management is a key reason for failure in the housing co-op sector. Co-ops have sometimes run into difficulties when they have failed to distinguish between control and management. As with any enterprise, sound business management is vital to the success of a

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housing co-op, and whilst overall control remains in the hands of the members, employing staff or contracting with a service agency is often seen as preferable to voluntary self-management. A good management and service agency must not only have the necessary skills but must also be able to relate to the co-op's objectives, so as not to undermine the control the members exercise. However, it must also be strong enough to provide robust advice when difficulties do occur, and to be prescient and capable of warning against unwise decisions by the co-op board.

Poor education is another key reason for failure, and if the co-operative does not provide quality induction, education and training sessions for its members then there is likely to be a lack of understanding as to what a co-op is all about, how it functions effectively and what the responsibility and obligation of its members are. This can lead to a decline in tenant involvement, and dangerously undermine the co-operative ethos of the organisation.

History and experience also demonstrate that the development of housing co-ops is often conditional on a supportive political environment, where public policy towards co-ops is not ambivalent or hostile and there is instead a constructive and positive approach to co-operative housing development in local, regional and national housing strategies. Unfortunately, the ability of co-operative housing to contribute to the regeneration of local neighbourhoods and in tackling social exclusion and building sustainable communities has been continually overlooked. This is being rectified. The main messages from the Social Exclusion Unit's consultation on the framework of the National Strategy For Neighbourhood Renewal identifies the valuable role co-operatives can play in supporting business development, managing social housing, and as credit unions and community retailers. From the successful experiences of Poplar HARCA in the London Borough of Tower Hamlets to WATMOS Housing Co-operative in Walsall, local authorities are beginning to acknowledge the positive impact mutual housing models can have and the benefits they bring.

Although the sector remains small and disadvantaged, there has never been a better time for co-op housing to state its case and bring its wealth of experience to bear in helping deliver affordable homes, tackling social exclusion and creating sustainable communities. The values that underpin the operation of any co-operative enterprise are an inherent and intrinsic part of a housing co-op's identity, nature and vision. The framework of principles within which a co-op puts its values into practice are a vital component of its success, and together with sound business management and good practice are crucial to community regeneration and sustainability (see Appendix B).

It would be foolish to argue that co-operative and community ownership offers a panacea to the socio-economic problems found in many of our towns and cities. But co-ops and mutuals are in a prime position to help deliver affordable housing and sustainable communities, and are part of the solution in terms of neighbourhood regeneration and fostering a culture of civic engagement. With moves underway to fund organisations other than housing associations in delivering low-cost home ownership and to extend the scope of non-RSLs to act as providers, both the registered and non-registered co-operative housing sector could play a key role under the Sustainable Communities Plan.

3.4 New mutual models

Exciting opportunities exist for future co-operative and mutual development, for example in the Community Housing Mutual as endorsed by the Welsh Assembly Government and the Community Gateway Association as pioneered by Preston City Council. Both are mutual models of housing provision that represent a democratisation of the traditional housing association, and both demonstrate how through processes and structures residents are able to affect control over their housing and neighbourhoods.

The Community Housing Mutual was developed in Wales by Mutuo, the co-operative movement's think tank in consultation with representatives of tenants, funders, local authorities and the National Assembly for Wales as a community-orientated alternative to Large Scale Voluntary Stock Transfers that have been perceived by many as a process of privatisation. The purpose of the model is to ensure that residents have a constitutional stake and a stronger voice in the management and ownership of their housing, with the engagement and empowerment of residents central to the organisation's activities. The board of the mutual comprises three stakeholder groups, including tenants, local authority representatives and community representatives. The National Housing Strategy, *Better Homes for People in Wales*, says that the model facilitates the development of a sense of ownership and "a real sense of participation and involvement by the tenants. It also avoids any sense of some remote or unaccountable organisation owning and running the properties".

The Community Gateway Association (CGA) was also developed by the co-operative movement as a means to receive stock transfers. It can either manage council stock as an Arms Length Management Organisation (ALMO), or take ownership of it like a housing association. The CGA is also a process, a means of approaching the selection and delivery of various housing options that maximises the opportunities for devolving power to tenants and leaseholders where that is what is wanted. This provides opportunities for community empowerment and creates the basis for sustainable community involvement. Although the CGA was initially targeted at stock transfers it can be applicable to any community organisation, and is evolving as a means to facilitate community involvement in areas other than housing.

Essentially the CGA provides an overarching framework for public sector housing in which people have room to choose what options to explore in their local community and neighbourhood. Through a sliding scale it enables members and tenants to determine how they engage with decision-making and the level of involvement and control that they are comfortable with. Over time, as confidence, expertise and experience grows, members will be able to increase and extend ownership and involvement, eventually staircasing up to full ownership of the housing stock and their estates. At the heart of any CGA is a Community Empowerment Strategy, and Preston City Council has been working in partnership with tenants and residents on such a Strategy to develop the proposed CGA as a vehicle to receive and renew the Council's stock of 6,500 homes. Depending on a successful ballot in the winter of 2004, it is hoped that the proposed transfer to the CGA will take place in September 2005.

4 Common Ground – for Mutual Home Ownership

Common Ground – for Mutual Home Ownership by CDS Co-operatives and the New Economics Foundation details the housing conditions, needs and aspirations of workers on average earnings in both the public and private sectors in London and the South West. It looks at the housing market in London and the current approaches and emerging solutions to tackling the shortage of affordable homes. Central to the report is the presentation of a well researched and highly detailed radical new model of mutual housing, designed to guarantee perpetually affordable housing for low and medium wage earners. As part of the Thames Gateway, *Common Ground* argues that Newham is an ideal area of opportunity for piloting the new model and helping to achieve affordability both in the here and now and for future generations.

The design of the model itself is seen as a response to a specific challenge laid down by the GLA to develop innovative new forms of limited-equity housing investment models and to the Mayor of London's vision of a new intermediate housing market, perceived as a vital strategic and economic issue for the capital. Although initially targeted at key workers, and with the assumption in London of an annual salary range of between £17,000 - £25,000, the model would work equally well for all intermediate wage earners, and for those earning above this income bracket. (It would also work for those on lower salaries, but would require more subsidy). The key worker concept itself was viewed negatively in the fieldwork interviews, and the report's authors believe the idea needs to be seriously reviewed. Key worker initiatives are by definition of limited eligibility, and the GLA would like to see the model developed without reference to key workers.

4.1 Low Cost Home Ownership

A starting point for the research is the oversubscription and growing limitations of current Low Cost Home Ownership programmes like Homebuy and the various shared ownership schemes available. Homebuy is a government funded scheme operated by selected RSLs for people who cannot afford to buy their homes on the open market and is available to existing tenants of local authorities, housing associations and people on housing waiting lists. Through an interest-free equity loan equivalent to 25 per cent of the value of the property the scheme aims to help people move into home ownership and thus free up the social housing stock for others in housing need. Shared ownership schemes often have wider eligibility criteria, enabling people to purchase part of a property (often 50 per cent, but between 25 and 75 per cent) and to pay rent on the remaining share to a housing association, with the ability to acquire further shares and eventually staircase up to full ownership. Homebuy is now also offered to targeted public sector workers, with Key Worker Homebuy offering interest free equity loans of up to £50,000 and loans of up to £100,000 available under the London Challenge Key Teacher Homebuy scheme. Shared ownership schemes are also offered under the Key Worker Living scheme.

Demand for both Homebuy and shared ownership schemes is very high, although they are often only a realistic option for dual income households. In many London boroughs the minimum equity proportion for the mortgage element and the payment of rent on the RSL's share of the equity can put shared ownership schemes beyond the reach of most people on low incomes. Whilst under these schemes the initial subsidy is returned together with a percentage of the increase in value when the home is sold, there is no guarantee of preserving future affordability.

One-off capital gains accrue to the vendor, but market values will mean that the house may be rendered unaffordable to those next seeking to benefit from the programmes. Although some RSLs have taken to acquiring a golden share in a shared ownership property this is not common practice, and indeed denies the option of staircasing up to full ownership.

Current initiatives are not focussed on increasing the supply of intermediate housing, and without the mechanisms to preserve the initial public investment and lock-in the commitment to affordability, any measures taken will be characterised as short-term one-off interventions in the market, vulnerable to the leakage of public subsidy and with limited life spans. This has created the need to look for new models to develop intermediate housing, and was one of the reasons behind John Prescott's proposals to create £60,000 homes by keeping the land on which the property is built "in trust" and "in the name of the people" within some form of common or public ownership.

4.2 Why a mutual solution?

A co-operative form of low cost home-ownership was investigated and theoreticised as past and present evidence had demonstrated the effectiveness of mutual forms of tenure in addressing market failure. Practical benefits intrinsic to the limited or shared-equity model of co-operative housing include:

- Reduced interest payments through corporate financing. Borrowing is corporate, not individual, leading to reduced interest on borrowing costs for new housing acquisition and avoidance of arrangement and transaction costs implicit in individual mortgage loans.
- Loan structured to give resident long-term certainty over interest rate risk and the level of future repayments, as recommended by David Miles in his report on the UK Mortgage market.
- Control of costs through collective management. Resident participation in management can reduce overheads with pressure to achieve best value in professional management fees.
- Tenure can be kept simple and flexible with low transaction costs on entry and exit through an assignable repairing lease ensuring residents can move in quickly and easily.
- Supports the gradual ownership of property rather than land through provision for the accumulation of equity stakes and their repayment under a preset and transparent resale formula. At the same time, depreciation is dealt with through a service payment covering repairs and maintenance.

Investigating the scope for mutual solutions in the intermediate market, the report presents a robust new form of tenure: a hybrid between renting and owning that bears some resemblance to shared ownership but which is structured as a limited-equity co-operative. Drawing on the forgotten past experiences of these co-ops in the UK and examining what critical lessons can be learned from their successes and failures the report also identifies key features of similar forms of limited-equity co-operative tenure which in Scandinavia and North America have proved a popular choice in meeting the growing demand for intermediate housing.

The report draws particular inspiration from Glenkerry House, a 14-storey tower block in London E14 that is run as a community leasehold co-op, with the London Borough of Tower Hamlets as the freeholder. Registered in 1978 as Glenkerry Co-operative Housing Association the co-op

bought a 99 year lease from the former Greater London Secondary Housing Association with grants from the Housing Corporation, the GLC, equity sales to members and a loan for the residual amount from the GLC. As stipulated in the lease no more than 50 per cent of equity can be bought by individuals, with sales of the equity not on the open market but at the district valuer's valuation.

As the model did not allow staircasing to full ownership it failed to win the support of the then government and the potential inherent in the shared-equity co-operative form to deliver affordable housing remained untapped. However, the model has been working successfully for more than a quarter of a century and its key features of shared-equity, self-management, and a dual asset-lock against demutualisation that protects the initial public subsidy made it an ideal case study when developing a new model of shared-equity co-operative housing.

The new model presented in the report is designed to deliver stable, long term affordable housing. To do this, it had to meet five key conditions:

- The housing provided is specifically for the long-term and must conform to normal spatial, build and design standards.
- Cost must be related to the means of the occupier: no more than 30 per cent of salary for those earning under £16,000 to a maximum of 35 per cent of salary for those earning above £23,000.
- Housing structure should be able to secure low-cost finance.
- Any subsidy provided should be locked in for the benefit of future residents.
- Payments made by the occupier should generate an equity stake, based on both capital repayment and equity appreciation, thus enabling the occupier to gain entry to the private property market.

4.3 Affordability and protecting the subsidy

In order to be affordable it was recognised that some form of subsidy was needed, and that affordability is only possible if the subsidy is broadly equal to the value of the land. The model focuses on what can be achieved where the land value can be used as the main form of subsidy, in that high land values rather than construction costs are the main obstacles to be overcome. Land costs in parts of outer London can range from between 40-60 per cent of the house purchase price, and assumptions made for the land and construction costs in Newham although not based on substantial evidence are intended to be broadly representative of the situation in parts of the borough and of the right order to illustrate the model. For example, a 1-bed flat in Newham is valued at £115,000, with a build cost of £63,480 and an assumed land value of £51,520. For a two-bed flat valued at £145,000 the costs are £72,726 for construction only and £72,274 for the land. Subsidy in the form of land should be seen as securing a social return rather than achieving a cash return, although the subsidy could take any form, including land substantially below market value as a result of Section 106 agreements.

Protecting the subsidy and preventing it from leaking out into one-off capital gains for individuals is paramount, and entails restrictions on the sale and sale price of the property. However, this is considered to be incompatible with a form of tenure that facilitates a cash payment on exit from the scheme and entry onto the rungs of the housing ladder. The model is

unique in aiming to square the circle of the long term provision of affordable housing through the protection and recycling of the original subsidy with the ability of members to accumulate and withdraw an equity stake. It does this through the dual use of a CLT and a shared-equity housing co-operative. The CLT acts as a mechanism to protect the initial subsidy in the form of the land that the property is built on. The CLT holds the gifted or discounted land for community benefit outside of the market, and through this permanent removal of the land into a CLT the costs of homeownership both now and in the future are massively reduced. The housing co-operative is the vehicle for granting occupation rights and enabling the occupiers to participate in equity growth.

4.4 Key features of the CLT-MHOT model

Community Land Trust

Non-profit tax-exempt membership organisation, open to all members of the local community and democratically owned and controlled by key stakeholders. Acquires and holds land in a specified geographical area, retaining it as a public asset in order to ensure the permanent affordability of housing and other community developments on that land. The CLT provides an asset-lock on the subsidy, preventing demutualisation through privatisation, whilst its governance structure ensures a balance of local and community interests, guaranteeing the involvement of key stakeholders like the local authority. The GLA feels that issues surrounding the CLT's governance, internal democracy and how it will be held democratically accountable to the local community will be critical, and need to be explored in considerable further detail. It is suggested that a tripartite board structure is adopted along the lines of the models in the USA, with a third of representatives elected from the CLT membership, a third from the MHOT membership (and other future users of CLT land) and a third from local stakeholders like the local authority, community development groups and relevant experts and professionals.

Mutual Home Ownership Trust

A bona-fide fully mutual co-operative society that leases land from the CLT under a 99-year ground lease and partners with the CLT to develop, own and manage multi-residential buildings. It holds equity in the buildings and issues tenancies to the residents, who are also its members, and thus its managers and owners. Membership of the co-op is restricted to homeowner occupiers who own shares in the society, each having one vote. The MHOT operates in accordance with the Seven Co-operative Principles, ensuring it is a bona fide co-op with full accountability to all members, that genuine ownership of the co-op and control of day-to-day decisions about the running of the co-op is vested in the members and that there is a budget for training and education.

Rights of occupation

Governed by membership of the co-op and by a contractual shared-ownership and full-repairing lease. As a fully mutual co-op and thus excluded from statutory tenancy provisions the lease precludes the granting or assignment of occupation rights to persons other than members and the MHOT is able to create a form of tenure that permits limited-equity interest to be assigned under Landlord and Tenancy law rather than sold, saving on legal and other transactional costs. Any payment of growth in the member's equity stake on exit from the MHOT is also tax exempt. Self-repair reduces collective repair costs and encourages care for the property.

Corporate mortgage finance

For the construction of new housing and negotiated on the basis of low cost rates akin to RSL developments (variable rate lending available to RSLs at 0.65-0.85 points over the base rate). Mortgage ideally raised on a low-start basis over 25-30 years, where repayments rise according to a formula based on inflation, and are weighted so that they are lower in the early stages and higher at the end. A corporate mortgage achieves more competitive rates, avoids mortgage set-up costs for homeowners and keeps outgoings within 30-35 per cent of net salary levels. Options outlined for the model include a capital index linked mortgage that would be attractive to pension funds, as it would guarantee affordability and an acceptable long term rate of return for institutional investors.

Equity Units

A new market is created in property equity, with units of equity acquired incrementally through a Property Unit Trust structure, enabling members to build up an equity stake in their home on a mutual, shared ownership basis. Units of equity reflecting the collective build cost of the MHOT's property are assigned to individual members, according to their income, which they finance through their payments. When a member leaves they assign their equity to incoming members, if they can afford it, or it is re-assigned to current members whose incomes may have risen. Within the MHOT there is a dynamic pressure to increase the number of equity units financed as incomes rise, with the MHOT having the capacity to place equity with members.

This unitisation of equity enables the close gearing of asset acquisition to income, so that those on higher incomes fund more units of equity, thereby allowing lower income workers entry to the MHOT and ensuring that members receive benefit from the subsidy on an equitable basis. It is also sufficiently flexible for members to trade down their equity holding to take account of changes in personal circumstances and priorities, for example additional dependents. Unitisation of equity could be a stimulus for the growth of the MHOT and enable it to provide additional homes (see Appendix C).

Affordable and equitable housing payments

Shared ownership payments are based on 30-35 per cent of salary. Someone on £23,000 per annum will pay more of their net salary towards housing costs than someone on £18,000 but will also earn equity stakes at a faster rate.

Resale formula

Easily understandable method of valuing equity stakes when a member wishes to sell and leave the co-op. This aims to balance the interests of the member in receiving a fair share of their investment with the long term provision of affordable housing. The resale formula to be based on either an agreed index of local property market values, or an index of building costs.

Deposit

Members to pay an initial deposit of 5 per cent of the units of equity they are financing, subject to review to maintain affordability in relation to earnings. This provides a reserve to limit negative equity problems for the co-op, acts as security against arrears and demonstrates personal financial commitment to the housing model.

4.5 How the model would work in practice

CLT established and takes ownership/freehold of the land.



MHOT set up, to which all occupiers will belong and which will let and manage the housing. Leases land from CLT, and builds homes under building licence from CLT.



MHOT raises finance for building costs using guarantee from the Co-operative Housing Finance Society Ltd, at rates available to RSLs.



Residents' payments to the MHOT must first meet the costs of outgoings: management, maintenance and cleaning etc. It is intended that loan would be structured so that the affordability of monthly repayments would be guaranteed with the risk of interest rate fluctuations minimised.



Residents' payments collectively cover the mortgage, equating to 30-35 per cent of their salary. Payments as percentage of salary are a cost effective and equitable use of subsidy: outgoings must be affordable but should not be reduced beyond a certain point. Scheme set up on the basis of an average level of payment per week. For viability, payments must be counter-balanced by occupiers at all levels.



Residents can reduce outgoings by taking over responsibility for management and maintenance, or opt for external management.



On leaving residents take with them an equity stake, made up of their initial deposit, an amount equal to the equity in the property repaid as a result of their repayments, plus 90 per cent of any growth in the market-linked value of the units of property equity they financed whilst they lived in the MHOT. It is proposed that the remaining 10 per cent of this capital appreciation is retained by the MHOT to create an asset reserve, helping drive down borrowing costs by lowering mortgage default risk.



MHOT makes payment to departing members by topping up total loan to the original value plus inflation.



On leaving, members assign their lease to incoming member through the MHOT, enabling redistribution of equity units to new and current members and eliminating void losses.

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As the GLA defines intermediate housing as a product affordable at a certain price, and is unable to specify anything about allocations, unless a borough has a specific allocations policy there is little to prevent abuse of the system and no way of analysing the beneficiaries of the schemes. There is also no comprehensive way of keeping track of what happens to intermediate housing. Unlike Homebuy, new shared ownership units qualify as intermediate housing in terms of affordable housing output under the London Plan, but if after the initial purchase the property is sold at market rates in the long run this only serves to undermine the Plan, as units of intermediate affordable housing over time become market rate housing, eroding both previous output levels and current levels of stock. And whilst it is true to say that the equity loan plus any growth due to house price inflation is repaid to the RSL on the sale of a shared ownership property, there is no guarantee that the RSL will reinvest the amount in new intermediate housing, and the funds may disappear into other areas of provision.

Although this may be set to change, at present there is no means of ensuring that the intermediate housing being produced is London Plan compliant, with little direction over what is being produced, where it is being produced, for whom it is available and for how long it remains affordable. Unlike many other tenures and schemes categorised as intermediate, the CLT-MHOT model of intermediate housing is able to meet all of these requirements. Partly devised to meet the Mayor's vision for a new intermediate market, the model is targeted at the intermediate income brackets specified in the London Plan, and the close gearing of asset acquisition to income means that those earning more have to fund more units of equity thus enabling people on lower incomes to become members. Unlike other forms of intermediate housing, this unique mechanism also obliges MHOT residents who experience an increase in income to purchase additional units of property equity, ensuring that the benefit received from the land subsidy is distributed equitably and providing the means for the model to grow organically.

The land subsidy itself is continually recycled through the CLT, with the intermediate housing units in the MHOT remaining affordable in perpetuity, unlike shared ownership schemes that enable staircasing up to full ownership and the eventual disposal of the property on the open market. The political importance given to preventing an asset giveaway was demonstrated by the announcement by the Deputy Prime Minister of the need to make better use of public sector land through the provision of affordable housing where the public sector keeps the freehold "in trust", thus ensuring future affordability. This directly reflects the *raison d'être* of the CLT and its mission to maintain affordability, prevent social polarisation and promote sustainable communities.

A further obstacle to the adoption of the model may arise from restrictions on the disposal of public sector land. Although the London Plan recommends that "Boroughs should explore the development of sites in their own ownership to maximise their contribution to affordable housing provision, including the possible provision of land to housing associations on a nil cost or discounted basis," pressures exist on public bodies to ensure that they maximise the financial value of any land they dispose of. Critics of the CLT-MHOT model may argue that more can be achieved in terms of social and intermediate housing for the same amount of land using traditional methods, for example through the disposal of the land to a developer or RSL who might be able to deliver a greater quantum of intermediate housing and social housing. However, there is no evidence to demonstrate that the CLT-MHOT model will produce less

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housing units overall, and a feasibility study of the model would need to include a comparative analysis of the financial pros and cons of the scheme, identify any gap in provision and assess the level of any gap.

And even if a gap in provision is identified as likely, the key questions to be answered would be whether any gap is more than compensated for by the model's delivery of intermediate housing that is London Plan compliant, and its role in developing social capital and creating sustainable communities. Furthermore, how quantifiable a benefit is the use of a CLT to facilitate the community control over the shape and development of a local neighbourhood, taking into account the government's new localism agenda? If it is simply a question of free land, then naturally it can be argued that there may be other ways to make the best use of it. But when the government itself is looking at affordable housing models that involve public retention of the freehold and shared-equity affordable housing, who is to say that the disposal of public sector land to a CLT does not represent the best value?

4.7 Evaluation of the model against GLA criteria

Criteria	GLA requirements	Pros	Cons
Tenure	Owning and/or renting options appropriate to the needs of likely occupiers and the strategic needs of London's stock.	Meets London's strategic need for affordable intermediate homes and Mayor's vision of new intermediate housing market. Unlike Homebuy is London Plan compliant and generates additional housing stock. Innovative vehicle to enable equity accumulation and route into private home ownership.	Model not designed to deliver social housing. However, transfers out of social housing into scheme should increase availability of social housing stock.
Period	Properties should remain within the definition "affordable" for as long as possible (eg through a degree of equity retention). Schemes in which properties move into the market sector within 10 years would not normally be considered.	Through use of CLT to capture initial public subsidy and prevent demutualisation, properties remain affordable in perpetuity.	Initial public subsidy in the form of gifted or discounted land required.
Cost to occupier	Properties should be affordable to households earning £15,000- £40,000 a year, without delivering housing costs in excess of 35% of net income, or 40-45% if all housing costs such as Council Tax are included.	Model designed to cater for annual incomes of between £17,000- £25,000, with payments equitably geared to range from 30% to a maximum of 35% of net salary depending on income.	Envisaged deposit of 5% of housing unit costs on entry to scheme.
Management	Good housing management to retain scheme quality and attractiveness, plus nomination arrangements (both initial and relets/resales).	External or self-management options. Self-repairing lease keeps costs down, nature of co-operative ownership, deposit and equity stake puts onus on occupiers to maintain attractiveness of scheme.	No mention of local authority nomination rights - would need to be discussed with partner local authority.

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Criteria	GLA requirements	Pros	Cons
Demand, type of occupier	Evidence of likely scheme take-up, eg employer contributions, and type of workers envisaged.	Housing Requirement Study demonstrates that there is demand for the type of housing this scheme will create. Fieldwork and focus group interviews among low and medium income workers show strong support for model.	Initially targeted at key workers, but can be broadened to accommodate all low and medium incomes.
Supply	Likely source of units.	All units are to be new-build, increasing supply of intermediate affordable housing.	
Planning	Likely acceptability to borough and GLA planners.	Mayor has indicated support for model. Expression of interest shown by some boroughs.	Does not meet London Plan targets for mixed market, intermediate and social housing developments.
Sustainability	Relationship with local area – tenure mix etc.	Delivers on government objective to create sustainable communities. Ensures permanent supply of affordable intermediate housing in local area and prevents side-effects of gentrification	
Design Quality	Schemes should adopt high design standards and provide long-term desirable and accessible housing.	Housing to be Egan compliant to keep costs down, achieve good environmental standards and deliver homes that are economic to maintain. The EcoHomes designation should also be used and is achievable if the necessary prior investigative, specification and design work is carried out.	

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Criteria	GLA requirements	Pros	Cons
Capital Costs	Whether any economies of scale or method, eg fast-track construction.	Egan compliant, with opportunities for standardisation, pre-fabrication and modularisation (Modern Methods of Construction). Local and regional design components could also keep costs down and standards high.	
Risk analysis	A scheme should have a rigorous risk analysis, identifying key risks and how to mitigate them.	Key risks like falling land values, rising market rents, interest rate rises, inflation and deflation identified. Initial strategies to mitigate them built into scheme and work underway on detailed model.	More thorough risk analysis and feasibility study of a specific pilot model would be needed.
Partnerships	Any one agency is unlikely to have all the skills required.	Range of partners would be needed, including CDS Co-operatives, LDA, Housing Corporation and local boroughs.	
Legal and financial issues	Schemes will need careful consideration of capital and revenue costs (including transparent identification of any public sector costs, scheme cashflow, etc) and clear legal structures to ensure schemes deliver what is promised.	Good initial assessment of key legal and financial issues, including funding for scheme and legal issues concerning the tenure. Work by CDS Co-operatives currently underway to produce detailed financial and legal model.	More work needed on fiscal issues and tax implications.

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Criteria	GLA requirements	Pros	Cons
Additionality	To what extent would the scheme provide additional housing beyond what would otherwise be developed during the Plan period? Schemes that rely simply on a diversion of public subsidy or sites from social rented development will not be supported.	Scheme would produce intermediate homes that are London Plan compliant, within provisions of the London Plan and beyond lifetime of Plan. Use of CLT ensures subsidy is continually recycled and unlike current intermediate housing remains permanently affordable. Unitisation of equity could be stimulus for the organic growth of the MHOT and capacity to provide additional homes.	Other uses of land may be able to produce more affordable housing than CLT-MHOT model. This would need to be quantified in a feasibility study.
Governance	Additional requirement to safeguard good governance and community participation.	CLT is flexible, and can be adapted to suit local requirements. Membership is open to the local community. Tripartite board structure ensures good governance and community involvement.	Membership and governance issues need to be explored further, including the CLT's constitutional structure and internal democracy. A useful reference point might be the membership of NHS Foundation Hospital Trusts.
Remit of CLT	Additional requirement to promote wider role for CLT.	CLT should have a wider remit than solely providing housing based on the CLT-MHOT model, and should seek to develop and steward additional social infrastructure and community facilities.	Development and Business Plans for the CLT will need to be developed, including potential for growth and expansion and identification of the CLT's geographical catchment area.

Appendix A Key features of CLTs in the USA

Non-profit, Tax-exempt corporation

Independent, not-for-profit corporation, often eligible for federal tax exemption because activities have a charitable objective, like providing affordable housing.

Community Base

CLTs operate within a defined geographical area, and are guided by and accountable to people who live within that specific locality. Any adult living within the area defined by the CLT as its targeted community and who supports its goals is able to become a voting member and stand for election to the board.

Resident Control

Two thirds of the board of directors are nominated by, elected by and composed of people who either live on the CLT's land or who reside within the geographical catchment area.

Balanced Governance

Control of the CLT's board is balanced and diffused to ensure that all interests can be heard, and no one interest is able to dominate.

Dual ownership

The land is owned by the CLT on behalf of the community whilst another corporate entity or individual homeowner has ownership of the buildings.

Leased Land

Parcels of land owned by the CLT are leased to individual homeowners through long term renewable ground leases. Lessees usually pay a relatively small fee for the use of the land (for BCLT it is \$25 per month).

Perpetual Affordability

The CLT retains an option to repurchase any properties located on its land, with a resale price formula contained in the ground lease. This is designed to give current homeowners a fair return on their investment, whilst enabling future homebuyers access to housing at an affordable price.

Perpetual Responsibility

The CLT has an abiding interest in what happens to the properties on its land, with responsibility for safeguarding the condition of the housing and continuity in home ownership opportunities. Absentee ownership is prohibited, subletting strictly regulated and the CLT has the right to intervene where homeowners have failed to maintain their homes or make the necessary payments on mortgages and utility bills, etc.

Expansionist Acquisition

CLTs are engineered towards growth, with an aim to expand their landholdings and property portfolio.

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Flexible Development

As a community development tool, CLTs are able to provide for a wide variety of land and developments, from housing and parks to community facilities services.

Appendix B Co-operative Principles

Co-operative Principles as defined by resolution of the Centennial Congress of the International Co-operative Alliance on 23 September 1995.

Definition

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

1) Voluntary and Open Membership:

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2) Democratic Member Control:

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Women and men serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3) Member Economic Participation:

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4) Autonomy and Independence:

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensures democratic control by their members and maintain their co-operative autonomy.

5) Education, Training and Information:

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6) Co-operation among Co-operatives:

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7) Concern for Community:

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Appendix C Equity release and land value capture



Common Ground - for Mutual Home Ownership

Equity release and land value capture and recycling mechanisms in Mutual Home Ownership Trusts

1. The Housing Partnership has requested this briefing note to explain how land value is captured and recycled in Mutual Home Ownership Trust (MHOT) projects.
2. In order to do this it is necessary to understand the detail of how we propose that property equity is held within a MHOT and how equity growth is released to a departing member.
3. The long lease under which mutual home owners gain occupancy rights will set out the arrangements for each member to finance, through an initial 5% deposit and the monthly payments they will be obligated to make under the terms of the lease, part of the cost of building the housing owned by the MHOT. The member's monthly charges will be set at the affordable level of 35% of net income. The amount they pay will finance the repayment of part of the common mortgage taken out by the MHOT to fund the build cost. The members share of the mutually owned property portfolio will be expressed as 'units' of the total equity value of the portfolio: (say, £1,000 value units of equity, although to create even greater flexibility in trading units of equity the unit value may be set at £500, £250 or even £100; an issue that will be addressed in the pilot projects).
4. Units of equity reflecting the whole of the build cost/value of the MHOT's property portfolio must be assigned to individual members and financed by them through their deposits and monthly payments. So if one member can only afford to finance (say) 80% of the build cost another member would need to be found whose income enables them to fund units of equity equivalent to 120% of the build cost of a similar dwelling. What this mechanism of unitising equity does is to distribute the benefit of the land provided at nil cost for mutual home ownership not equally among members, but equitably according to their income.
5. When a member leaves they assign their equity and occupancy rights in accordance with the scheme for equity assignment set out in the lease. The lease links the value of equity assigned to the local housing market in which the MHOT is operating. In order to ensure that units of equity are assigned at the correct market price, the MHOT's consent to the assignment must be obtained in accordance with the terms of the lease; such consent to assignment not to

be unreasonably withheld. The MHOT also pays to the outgoing member any equity growth to which they are entitled.

6. The assignment of all the outgoing member's units of equity can be to a new member who takes the assignment of all the equity financed by the outgoing member with the assignment of the lease, if they can afford to do so. Alternatively some of the equity units held by the outgoing member can be assigned to existing members and the balance assigned to the incoming member at a lower affordable cost. This ability to assign part of the equity units financed by an outgoing member to existing members and a lower affordable number of units of equity to an incoming member effectively recycles the value of free land and makes access to the housing provided by the MHOT affordable in the long term to future generations of members.

7. Therefore, when a member leaves, some of their units of equity can be assigned to existing members whose monthly payments will increase to finance the additional equity they are purchasing. The remaining units of equity will be assigned, with the occupancy rights in the lease, to the incoming member at a lower more affordable cost. So, for example, a member may have started financing 70 £1,000 units of equity when they became a member. During their occupancy the outgoing member's income has risen and they will have bought an additional 30 units of equity. When they leave they will need to assign 100 units of equity at the then market rate calculated by reference to the local or sub regional market index referred to in the lease. 40 of their units may be traded, by assignment, to the pool of existing members able to increase their equity holding in the MHOT because their incomes have risen, allowing 60 units of equity to be assigned at a lower affordable monthly cost to the incoming member.

8. This ability to split the equity assigned by an outgoing member between existing members whose incomes have risen and new members is advantageous to the outgoing member and to new incoming members. Outgoing members have an easier task of assigning their lease because they can assign some of their equity to existing members and the balance to the incoming member. New members can obtain housing and an equity stake in their home at a lower monthly cost. Of course, if an outgoing member can find an incoming member willing and able to finance the whole of their equity stake and the MHOT does not have existing members able to increase their equity stake, the outgoing member will be entitled to assign the whole of their equity to an incoming member able to finance the purchase. This is the same position as any other property owner trading their property equity in the market; equity which can, of course, rise or fall in value depending on the condition of the market in which it is being traded.

9. The obligation of the MHOT to regulate the assignment of equity units and occupancy rights in accordance with the lease provisions will be ensured by the terms of the head lease between the Community Land Trust (CLT) and the MHOT. If the MHOT were to breach the provisions of the equity and lease assignment terms set out in the head lease, the sanction available to the CLT would be to charge the MHOT a rental value for the land. This is a powerful incentive for the MHOT to operate the equity and lease assignment scheme as intended. It also builds-in accountability to the original land owner who provided the land at nil cost to the MHOT members and to the wider community through the retention of the ownership of the land by the CLT and their membership of it.

10. Mutual Home Ownership is designed to ensure that there will be a positive dynamic pressure on members of the MHOT to increase the number of units of equity they are financing if rising income enables them to do so, up to the limit of 35% of net income. While we aim to create a culture in which existing members are willing to accept the assignment of additional units of equity as and when their income enables them to do so, we will reserve the right, in the terms of their lease, to require them to finance additional units of equity to enable new members to accept the assignment of leases at an affordable monthly cost. This will be achieved by requiring members, as an obligation of their lease, to supply details of their income each year to the MHOT. This will allow the MHOT to call on existing members to buy additional units of equity from outgoing members if they can afford to do so. This will ensure that the value of the land that has been provided at nil cost to the MHOT is recycled to new members as the incomes of existing members rise.

11. It is these arrangements that provide the land value capture aspects of the scheme. If members fail to comply with the obligation to provide full income disclosure or refuse to pay increased monthly charges to finance additional equity units the sanction available to the MHOT and/or the CLT is to charge such members a lease rental value for the land. The land rental charge is a sanction to be used only if a member fails to comply with their lease obligation to buy more equity as their income rises.

12. Our aim is to create a culture of equity unit acquisition as incomes rise that is accepted by members as an integral part of the MHOT arrangements. If this is achieved, over a large regionally based portfolio of built-property assets, it is likely that an internal market for trading units of equity will evolve. The logical place for this trading of equity within the rules of MHOTs, if the scale is large enough, is the Internet. However, the capacity of the MHO to 'put' equity with members in the same way as a listed plc company can call on shareholders to subscribe to a rights issue will ensure that the MHOT has the capacity to recycle the value of land to incoming generations of occupants.

13. The unitisation of equity has another advantage. It allows a member to trade-down their equity holding in the event of specific circumstances arising. So if a two income household becomes a one income household because of relationship breakdown or the birth of a child, units of equity could be sold to lower monthly outgoings if a purchaser can be found.

14. In effect, what these arrangements achieve is to make the value of the land that has been provided at nil cost to the CLT and leased to the MHOT an 'income related subsidy'. This is modelled on the experience of co-operative housing systems in other countries, particularly Canada where co-operatives operate a rent-geared-to-income subsidy system.

15. Through these equity unit and assignment mechanisms the value of the land is captured and recycled through generations of occupants. There is, however, another dimension to the value capture aspects of mutual home ownership.

16. This other dimension relates to what happens if a member's income rises to such an extent that they can afford the finance the full market value of their home. Whilst it is unlikely that a member will decide to remain in a MHOT when they can afford to buy outright on the

open market, it is possible that a member may be sufficiently content and engaged in their community that they do not wish to move into the open home ownership market when their income enables them to do so. The 'income to monthly payment' provisions in their lease, through which the MHOT can require existing members to acquire additional units of equity, could lead to members on higher incomes financing a sufficient number of units of equity such that the total value of the equity units they are financing equals the open market value of the home in which they are living. What, in effect, such a member would be doing is to receive no land-value-to-income subsidy. In such a situation the value of land provided at nil cost to residents will have been fully 'captured' by the MHOT and it will have the capacity to acquire additional land and build more homes. To ensure that this captured land value is dynamically used for the provision of affordable housing for future generations, the head lease between the CLT and the MHOT will require that such 'captured value' is transferred back to the CLT and used to acquire additional land for the provision of additional MHOT owned housing.

17. These arrangements prevent the land becoming an ongoing subsidy to those whose incomes have risen and who no longer need the benefit of land at nil cost to them. They also ensure an ongoing provision of affordable mutual home ownership homes.

David A Rodgers
EXECUTIVE DIRECTOR

CDS Co-operatives
30 July 2004

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Internet Resources

Co-operatives

CDS Co-operatives

www.cds.coop

Confederation of Co-operative Housing

www.cch.coop

Co-operatives^{UK}

www.cooperatives-uk.coop

International Co-operative Alliance

www.ica.coop

The Co-operative Party

www.party.coop

CLTs in the USA

Burlington Community Land Trust

www.bclt.net

EF Schumacher Society

www.schumachersociety.org

Institute for Community Economics

www.iceclt.org

CLTs in the UK

Highlands & Islands Enterprise

www.hie.co.uk

High Bickington Project

www.highbickington.org

Land for People

www.landforpeople.org.uk

URBED

www.urbed.com

Community Development

Coin Street Community Builders

www.coinstreet.org

Development Trusts Association

www.dta.org.uk

People for Action

www.peopleforaction.org.uk

Taking Control in Your Community

www.communitiestakingcontrol.org

TELCO/London Citizens

www.telcocitizens.org.uk

Housing

Housing Corporation

www.housingcorp.gov.uk

ODPM

www.odpm.gov.uk

Preston City Council CGA

www.preston.gov.uk

Welsh Assembly Government

www.wales.gov.uk

Land Rights

Caledonia Centre for Social Development

www.caledonia.org.uk

International Land Coalition

www.landcoalition.org

The Land is Ours

www.thelandisours.org

Research

Joseph Rowntree Foundation

www.jrf.org.uk

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