

DATE OF INTERVIEW: 26/10/2016

Subject The Commons

Interview Location Melbourne, Australia

Interviewee



Jessie Hochberg (JH)
Chief Executive Officer, Nightingale Housing

Interviewer

Dr Josh Byrne (JB)
Research Fellow, Curtin University and the CRC for Low Carbon Living

Transcript

JB: Can you describe the Nightingale model to us?

JH: Sure, so the Nightingale model is based on five features, one is capped profits, the other one is transparency, environmental sustainability and involving purchasers in the process and the last one is creating a building which gives back to the community in which it exists. So, that is different from a traditional model in a lot of ways but just on that last point, the speculative development model that so many people are concerned about, their concerns are based around the fact that often these developments exploit the value of a particular place, the culture, a feel, and sell it for private profit. And Nightingale projects try to embed their projects in the community and give back and contribute.

JB: So how did the concept sort of originate?

JH: Like all good concepts I think it was a bit of an accident, there was no intention to end up where we've ended up now.

So, the concept originated with The Commons by Breathe Architecture which was the first architect driven project in a very long while, I think in Australia, certainly Melbourne, and definitely in the inner city.

And I think the concept was driven by the architect's frustration that there was not a lot of multi-residential housing being developed as housing, so not as homes for people but being developed as a financial asset. And so just out of, I think pure creative frustration, they set out to show that you could create a very sustainable, beautiful, I guess, kind building and that there would be an owner-occupier market for that.

The Commons, I'm sure you've already heard, was unbelievably successful, it won a gazillion, that's not an exaggeration, awards and Jeremy McLeod the Architect won a leadership prize in the sustainability field. So, he proved there was a market for multi-residential apartments for owner-occupiers. And then, it naturally progressed from there because people approached him and said we really loved what you did with The Commons, can you build us another apartment like that.

And so, he set out to do Nightingale One which carried on from The Commons in terms of financial model which, The Commons worked with an ethical developer and Nightingale was a group of Architects together developing the project without the developer. And when he started he had 11 people wanting apartments by the time he came to do sales, he'd been through the design process, there was 60, and today there's 1,500.

JB: 1,500 people on the waiting list?

JH: Correct.

JB: So, what's the plan to service that demand?

JH: Um, that's a really good question. So, the plan is, Nightingale housing exists to support other Architects to follow in the footsteps of Nightingale and to undertake their own Nightingale model projects. So the plan is to, I guess, empower both designers and other professions, who are professionals in the property industry to get together and say we can do better than what we're currently delivering in the market, and we can do that by removing potentially an individual or a large company whose only motive is profit, and we can get together and we can create projects where there is a profit and it's a reasonable profit, but there's also beautiful outcomes for home owners, the purchasers, the waitlist and for our cities and communities.

JB: Just go back a step, can you just describe the structure and relationship between Nightingale housing and then Nightingale One as a project so we understand the clarity of those two.

JH: Nightingale housing actually came after Nightingale One. There was a bit of a pilot project that existed before us and based on Nightingale One there were other architects who said we want to do projects like this. And so they got together as a group to support each other to undertake Nightingale model projects and evolved the model for each project and then Nightingale housing was born out of that group to become a support organisation for future Nightingale projects.

JB: And how many Nightingale projects are there now in the pipeline?

JH: As of last night we have about 19 projects which are licensed, and that's only very, very recently so actually under way there's about four or five, maybe six or seven.

JB: And outside of Melbourne?

JH: Yeah, so last night we licensed two architects in Sydney and there are also two architects licensed in WA.

JB: Can you talk us through some of the market and business case realities behind doing a project like this that is designed and delivered for owner-occupiers versus speculative market type model? What's the difference in a business case?

JH: The number one difference is really the settlement risk and how that effects the likelihood of getting financing and the likelihood of delivering a profitable project.

So in a traditional model you'll have a developer decide that they want to undertake a project, they might do some research, find a site and they'll purchase the site based on what their estimate of a very, you know, as much profit as possible, and if that satisfies them and what they require as a profit they might purchase it and undertake the project. And the whole way through the project they'll be looking at how can they reduce costs, but still market it and sell it. And then they get to a point where it's a trade-off, you know, how much can you reduce the quality or how high can you make the building where people will still want to purchase it, I won't say live in it because they're probably not the same thing. How can I market this to an investor market, um, I think it's around 80 percent of Australia's multi-residential homes are owned by investors, in some suburbs like Sydney or Ultimo, 98 percent of stock is owned by investors.

So, it's kind of this risky trade off where they think they'll be able to sell it versus Nightingale where we know if we create really good quality homes for people, that there is a strong demand, so we do 100 percent pre-sales and then banks say to us, ok, we understand the proposition, or the ethical banks we're working with and they agree to finance the project with a lower profit margin that we show very transparently.

JB: What was the genesis for the Nightingale model?

JH: So the genesis was first of all The Commons, and then Nightingale One which was really an accidental pilot project. So post The Commons being such an incredibly successful demonstration of... that there is a market for multi-residential homes in inner city locations that are sustainable and I guess, kind in the way that they approach design.

A group of purchasers, I think maybe just individuals approached the architect, Jeremy McLeod from Breathe Architecture, and said we want housing like this, we can't find anything like this in the market can you please build us something? So he goes, ok, I think that we can, um, I really want to try this project again and take all the learnings from The Commons and make it even better in Nightingale.

So, he went to his colleagues in the architecture community and said, I think I want to create something even better and I think there's a market for it. They supported him and they raised equity to purchase the site, which we can see here now which is Nightingale One. So, like I said, he started with 11 potential purchasers but by the time he got through design and heading towards sales there was 60 and there's only 20 units in this building and now only a few months later we're at 1,500 people waiting, hoping to get Nightingale style apartments.

JB: And can you just take us through the business model of how this is going to work and how this is different to more speculative development?

JH: So right at the start you need equity to start a project and maybe purchase a site and Nightingale raises equity from impact investors who agree to capped profits. So those impact investors they want a financial return on the money they've invested and we set that rate at a capped rate of 45 percent total return on equity, which on an average 3 year project is about 15 percent return per annum, which is pretty good, but not excessive, not 30, 40, 100, 200 percent, so it's all transparent and it's capped. Those impact investors, which there's many in a project, normally around 25, I say usually, we've only tried it a few times. I'm sure it will change as the model evolves, they allow a project to purchase a site and begin a design.

And then, where the model also differs, we then speak to the potential purchasers and we show them what the costs might be per square metre, what the designs might be and we ask for their feedback through a participatory design survey. We ask them how they want to live, what's really important to them, do they need a bath, do they need a second bathroom, how important is light in their bathroom and we allow them to make informed decisions.

The key there is informed, because we've given them real pricing around what those decisions mean. So, then we continue on with the design, and once we get to sales with the demand we feel very confident because we've designed homes for people and how they want to live, that there will be 100 percent sales and this allows smaller banks from the social impact sector like Social Enterprise Finance Australia to invest in the financing. They are also impact investors in that they require a financial return but also a social and an environmental return, so, we work with impact investors throughout the process.

JB: So there's clearly a big demand for this type of housing, what are the biggest challenges to prevent its broad roll-out?

JH: The biggest challenges are, I would say the number one challenge is access to land. And that is because Nightingale housing which, um, I guess the model in a way is a social enterprise because it returns profit but it also has these other aims and goals, sustainability, social inclusion. And it is in direct competition with the speculative investor market and the speculative development market who take punts that they can achieve maybe very poor quality, maybe small apartments that don't cost a lot and make huge profits. But we know, we've already set our criteria strictly that we can't make ridiculous profits, so that kind of handicaps us in a way in purchasing land, I'd say that's the number one thing.

JB: And I understand that you're one of the purchases into Nightingale One?

JH: I am, I was one of those first few who knocked on Jeremy's door and said please build me a home, I can't find anything in the market and I was lucky enough to be drawn from a ballot to purchase at this site.

JB: And for someone buying their first home, what's driving you personally towards this kind of housing model?

JH: Um, I'd say critically the number one thing is trust. I trust that the home that I've purchased will be delivered in a sustainable way using quality materials, that corners will not be cut, and I also understand that the building's been developed with long term affordability and maintenance in mind. So I won't be stuck with something which needs hundreds of thousands of dollars because corners were cut very early on in the process to increase the profits.

I've also seen the finances transparently and I understand and that everyone is either making their service fee or a fair and reasonable profit but no one is exploiting the purchasers to make huge profits, and also the sense of community.

So, I've already met all of my neighbours, I feel very connected to them, they're very lovely. And I've had input in the design process, in that my feedback's really been taken on board in things that are really important to me in terms of price or design features. It's not designed by committee, you know, we don't get to make final calls on little elements of it but the things that are really critical like light in certain rooms, or major price decisions have been but back in the hands of the purchases so we can create our own homes.

JB: I guess with financing being one of the main challenges to get this model up, where do you see most of the finance coming from and what are some of the limitations around that?

JH: Um, that's a really good question. So, we assume that it was a small network of people who really care about the urban development outcomes, the environmental outcomes and the social impact of housing or it's the lack of housing or the unaffordability of housing, but it's actually this huge group.

So, it started off being very much driven and financed by architects, but as people have come to be familiar with the model, the networks of people and the types of people that have come to us and said we want to become impact investors has been huge. And from people that you would not expect, like traditional developers, who kind of understand that the current model isn't quite working and want to be involved in a future model, or investors from other sectors like tech, who really like this model. So the investment has come from... people are coming out of the woodwork and really supporting the model through being investors.

JB: And I believe the resale of the apartments are capped? And I guess the idea there is to try and lock out the speculators? As someone buying their first home, that's no concern to you, you weren't getting any other advice that you should buy somewhere else that would appreciate?

JH: Trying to get me to say what my parents are saying, what are you doing? So, it does appreciate. But like everything else with the Nightingale model it's transparent, and it's fair and reasonable. The reason that there is a restrictive covenant on the titles is to stop people exploiting Nightingale's efforts and flipping the house a week later and making a hundred grand, wouldn't that be nice? So, what the restrictive covenant does is, it says that you can sell the apartment at any time but you can sell it for the price you paid plus capital improvements plus the average market uplift in the area. So, there is profit but like everything else it's fair and transparent and reasonable.

JB: Are there any sort of Generational trends who are buying in to the Nightingale or is it a mix of ages or mainly young people?

JH: It's a mix of ages, in this particular project it's predominately people who are maybe early 30's. So maybe who have had a bit of time to save for a deposit but who weren't able to purchase into other market housing and who also want to be close to the CBD for work reasons or family reasons. But there's also older people, so it is cross generational, there are a couple of downsizers but critically all of them are owner-occupiers who want to form a community and contribute to that community.