



City of Port Phillip (Final) Submission – Adopted 20-11-2019 Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing

Introduction

The initiative of the Minister for Planning to establish a Ministerial Advisory Committee on planning mechanisms for affordable housing is welcomed. This acknowledges both the imperative to increase the supply of affordable housing across the State, and the role and potential of the Victorian Planning System in making a meaningful contribution.

Victoria has an affordable housing crisis. Housing is becoming increasingly unaffordable with 2017 data suggesting that 1,700 new social housing units are needed just to maintain the current 3.5% of stock in Victoria.¹

Port Phillip, and the wider inner region of Melbourne, has become particularly unaffordable and is an area of concentrated homelessness.

- There is an estimated shortfall of 4,432 dwellings in the City (2016 figures).
- This shortfall is projected to increase to 6,540 dwellings by 2025, in the absence of any further supply.
- An additional 169 (moderate income) households were identified as being in rental stress in the private rental market, paying over 50% of income on rent (2018 figures).
- In October 2019, the Port Phillip 'by name list' identified 118 people sleeping rough in the municipality.

The City of Port Phillip and the inner region offers significant locational advantages for housing targeted at lower income and vulnerable households; providing access to public transport, jobs and an established network of social support services. Housing is also increasingly unaffordable for low income and workers, crucial to the region's economy. The Inner Metropolitan Partnership have identified affordable housing and homelessness as one of its three top priorities.

Increasing the supply of affordable housing is a key means to reduce social and economic disadvantage, promote social equity and ensure diversity within Port Phillip and the region. Over the last 30 years, Council has demonstrated its on-going commitment to growing affordable housing in the city. Through its current *In Our Backyard* affordable housing strategy, Council is seeking to invest \$30M to facilitate the delivery of new housing projects in the 10 years to 2025.

A holistic approach, across different sectors and all levels of Government, is required to address the scale of the affordable housing challenge; incorporating policy, funding/financing, innovative delivery models and supporting governance arrangements. The planning system is an essential part of the solution and needs to be further strengthened to ensure more affordable housing is delivered on the ground. To this end:

- Affordable housing must be regarded as essential infrastructure - a point already recognised by Infrastructure Victoria with affordable housing listed as one of the State's three top priorities.
- It is vital that there are planning mechanisms that offer certainty for delivering new affordable housing.
- Bold intervention is required by the Victorian Government. Current policy and mechanisms are not responding to the scale of the housing affordability crisis and this needs to be redressed without delay.
- There is an urgent need for the introduction of a mandatory state-wide planning mechanism, in addition to improving 'take-up' of the current system of voluntary housing agreements.

This submission is structured to demonstrate:

- The City of Port Phillip's policy position and commitment to growing the supply of affordable housing.
- WHY we need more effective planning mechanisms to deliver affordable housing.
- WHAT outcomes are important.
- HOW Council considers these outcomes can best be delivered.

¹ DHHS (2017) *Victoria's social housing supply requirements to 2036*

BACKGROUND - City of Port Phillip – Policy position and commitment to growing affordable housing

In Our Backyard – Port Phillip’s Affordable Housing Strategy

The City of Port Phillip, and its predecessor Councils, has a strong and long-standing commitment to increasing the level of affordable housing available in the municipality.

Through direct Council investment, establishing strategic partnerships and pursuing new funding streams, the *Council Plan 2017 – 27* aims for the delivery of diverse and innovative new affordable housing projects and a reduction in the risk of homelessness (Strategic Direction 1.2).

Council’s affordable housing strategy - *In Our Backyard* - provides the strategic framework for implementing this key initiative of the Council Plan. The strategy seeks to increase the supply and diversity of affordable housing, aligned to priority local housing needs (low income families, older people, key workers and singles at greatest risk of homelessness).

In Our Backyard is the third phase in Council’s significant involvement in affordable housing over the last 30 years:

- PHASE 1: Council as developer of community housing (1985 - 2006).
- PHASE 2: Establishment of the Port Phillip Housing Trust and partnership with Port Phillip Housing Association (now HousingFirst) (2005 - 2015).
- PHASE 3: Strategic partnerships under *In Our Backyard* (2015 - 2025).

Council adopted *In Our Backyard - Growing Affordable Housing in Port Phillip 2015 -2025* in April 2016, with the Primary Goal being ‘to grow the supply and diversity of affordable housing in the City of Port Phillip to address priority local housing needs, including for the most disadvantaged and marginalised.’

In Our Backyard identifies seven policy levers available to Council to support delivery of the strategy, with Policy 5 focusing on the potential offered through the Victorian Planning System and the application of planning mechanisms to deliver new affordable housing:

- POLICY 1 – Provision of a property pipeline and supporting cash contributions to deliver new community housing projects, through an Expression of Interest process.
- POLICY 2 - Inclusion of community housing on divested Council land (as a component of private development on suitable sites).
- POLICY 3 - Facilitate redevelopment of public housing estates, to realise a social benefit through increased yield, diversity and quality of housing.
- POLICY 4 - Facilitate leveraging of property assets in the Port Phillip Housing Trust (PPHT).
- POLICY 5 - Apply planning mechanisms that encourage the private sector to deliver new affordable housing.
- POLICY 6 - Facilitate the delivery of affordable housing by others (Commonwealth and Victorian Governments, philanthropic foundations, ethical investors, charities, the private sector and community housing organisations).
- POLICY 7 - Support research to foster innovative housing models that achieve a broad spectrum of affordable housing products.

In Our Backyard sets an ambitious **target of 920 new social housing units over the 10-year life of the strategy**. This reflects Council’s aspiration to maintain the proportion of social housing in the municipality at the 2015 level of 7.2 per cent (of total housing stock), recognising the crucial role it plays in ensuring a diverse and inclusive community.

Meeting this target requires delivery of housing across the seven *In Our Backyard* Policy Levers, including a projected 120 units via direct contributions of Council land and cash, however, relies heavily on the implementation of effective affordable housing planning mechanisms, including at Fishermans Bend.

Strategy 3 of *In Our Backyard* is the 'Implementation of Planning Mechanisms' under which Policy 5 seeks to 'Apply planning mechanisms that encourage the private sector to deliver new affordable housing'.

Specific Actions under Policy 5 are to:

- 5.1 *Identify 'best practice' international and Australian planning mechanisms that have been successful in delivering long term affordable housing.*
- 5.2 *Partner with the Victorian Government to develop planning mechanisms that can deliver social housing and other perpetual affordable housing as a component of private development based on the following principles:*
 - broad-based – to ensure equity and viability, and maximise the extent of housing delivered
 - transparency – to create certainty and predictability in relation to the requirements of the development sector, including an appropriate lead time for implementation
 - maintaining affordability in perpetuity
 - feasibility – having limited material market impact on housing investment and affordability
 - targeting contributions to registered Housing Associations and Housing Providers
 - flexibility – option for the provision of units or 'in-lieu' financial contributions.
- 5.3 *Apply planning mechanisms to require, facilitate or provide incentives to increase the supply of social and affordable housing supply, with the aim that 20 per cent of new dwellings within multi-unit developments are 'affordable'.*
- 5.4 *Investigate the development of planning scheme provisions that incentivise the delivery of social and affordable housing without compromising design quality or amenity (such as floor space ratios in association with development bonuses).*
- 5.5 *Investigate the application of planning mechanisms in Fishermans Bend, in collaboration with the Victorian Government and the Fishermans Bend Ministerial Advisory Committee. This aims to meet Council's Fishermans Bend affordable housing target of 20 per cent affordable housing, with at least 30 per cent of this housing being community housing that is owned and managed by registered Housing Associations or Housing Providers.*

These Actions aim to deliver the following outcomes and benefits:

- The private sector delivers affordable housing to meet planning requirements that are applied across the City.
- Potential for 20 per cent of all new dwellings within multi-unit developments to be delivered as affordable housing, including a significant component of social housing.
- Maintains social housing levels at 7.2 per cent of Port Phillip's total housing stock.
- Achieving community diversity within Fishermans Bend through delivery of 20 per cent affordable housing as part of its overall housing mix.
- The portfolio of units vested in local community housing trusts is substantially increased, providing greater leverage for further development.

2018 Review of *In Our Backyard*

A review of *In Our Backyard* was conducted in 2018 to identify ways to accelerate the delivery of housing outcomes, responding to the changing context, including limited Government funding and new sector opportunities. The review highlighted:

- Social Housing is regarded as 'essential infrastructure', fundamental to the welfare of all communities. From a social perspective, it promotes and improves employment, educational and health outcomes. From an economic perspective, it is a driver of participation and productivity as well as consumption, investment and savings in the economy.

- There is significant unmet housing need in the City of Port Phillip and this is unacceptable.
- The 920-unit target (based on maintaining 7.2% social housing) represents only a small portion (14%) of actual need (which requires an increase of 6,540 units by 2015).
- Social housing is primarily the role of Federal and State Governments, however Council can and should play a role, and is a willing and trusted partner ready to work with all tiers of Government, developers and stakeholders to address housing need throughout the municipality.
- Council will retain its focus of *In Our Backyard* on providing housing for higher needs groups and the development of permanent housing infrastructure.
- Achieving the target of 920 additional social housing units by 2025 will be challenging under current arrangements.
- A fresh approach is required to address this need in a timely and cost effective way.

The review proposed strategies to improve the effectiveness and accelerate the delivery of new affordable housing via:

Strategic leveraging of Council's investment

- Moving from a project by project to a program approach, to reflect a longer-term, integrated package of measures. This includes commitment to an Investment Portfolio to then leverage maximum investment from the State and Commonwealth Governments, and the philanthropic and private sectors.

Broader Partnerships

- Opening *In Our Backyard* to more participants, to create an environment where greatest value is produced from the investment of Council land, cash and staff resources, whilst ensuring that the capability and capacity of local housing organisations is developed throughout this process.

Realising Planning Opportunities

- Revisiting planning controls to increase the delivery of new affordable housing, through developing a comprehensive 'inclusionary zoning' policy and pursuing opportunities to capture the value created by planning approvals.

Current Affordable Housing Initiatives

Development of policy, delivery models and planning mechanisms

Council has a range of project initiatives underway, together with key partners, to progress the delivery of affordable housing through the planning system. In summary, these include:

- Development of a Municipal Planning Strategy and Planning Policy Framework to update and strengthen local policy, to support the delivery of affordable housing through both planning scheme amendment and planning permit processes.
- Inner Metropolitan Partnership initiative: Investigation and development of planning mechanisms to enable affordable housing through the planning system (includes development of a regional housing needs assessment methodology).
- Inner Melbourne Action Plan initiative: Investigation of a Private Market Affordable Rental Housing Delivery Model for Use in Negotiating Voluntary Planning Agreements (delivery by PWC).
- Fishermans Bend Taskforce (DJPR) initiative: Affordable and Social Housing - implementation and delivery advice for Fishermans Bend.
- On-going participation in an Inter-Council Affordable Housing Forum.

Delivering Affordable Housing at Fishermans Bend

The delivery of affordable and social housing at Fishermans Bend has been a key focus of Council's advocacy efforts over the past 8 years. Providing affordable housing is crucial to achieving a diverse and inclusive community at Fishermans Bend, including housing provision for key workers.

The City of Port Phillip's Submission to the Fisherman's Bend Advisory Committee (Amendment GC81) identified social and affordable housing as a 'priority outcome', advocating for:

- At least 6 per cent social housing (community and public housing), maintained in perpetuity.
- 20 per cent of all housing to be affordable to low and moderate income households, including social housing, private rental and home ownership models.
- Planning mechanisms offering certainty that a range of affordable housing products will be delivered

The Fishermans Bend Urban Renewal Area: Options for delivery of Affordable Housing report (Judith Stubbs & Associates 2013 commissioned by Places Victoria) found that planning mechanisms are essential to ensure delivery of affordable housing, with only 1.3 per cent of new housing likely to be affordable to all households.

Without government intervention, it was projected that the private housing market will exclude:

- all very low and low income renters and purchasers, comprising small households with singles and couples and family households with children
- all moderate income renting and purchasing family households
- two thirds of small moderate income purchasing households
- one third of small moderate renting households
- low income wage earners and key workers.

Council commended the State's Fishermans Bend Framework for:

- inclusion of an affordable housing target, directed at low to moderate income households.
- use of development incentives (via a Floor Area Uplift mechanism) to facilitate the provision of social housing as the defined 'public benefit'
- exploring establishment of an affordable housing trust mechanism, and provision for cash-in-lieu contributions to offer flexibility to the development sector
- commitment to pursuing additional planning mechanisms, which could operate in tandem with the FAU incentive scheme.

Council's submission, however, emphasised that the Framework and supporting planning controls needed to go further to create certainty over the delivery of social and affordable housing at Fishermans Bend through:

- *Specifying an affordable housing Target of 6% social housing and 20% overall affordable housing.*
The submission highlighted that a six per cent social housing target is needed to reflect (and maintain) the existing level of social housing across the inner region. A 20 per cent target for affordable housing overall (inclusive of the 6% social housing) will encourage a broader spectrum of housing products (for low to moderate income households), including affordable rental housing (e.g. 'Build to Rent' and 'Rent to Buy') and affordable home ownership models ('Shared Equity Housing' and 'Community Land Trusts').
- *Use of both incentivised ('opt-in') and mandatory (inclusionary) planning mechanisms, to achieve certainty that affordable housing will be delivered and encourage a diversity of housing products.*
The submission argued that mandated (inclusionary) affordable housing controls are standard internationally and increasingly common place in renewal areas across Australia. Council recognised that planning requirements for affordable housing must not create an impediment to investment at Fishermans Bend, and suggested the option for a staged introduction of mandatory requirements to provide transparency and to minimise market impacts in the short term, while a broader based regional wide mechanism is established.
- *Establishment of an affordable housing trust to protect affordable housing 'unit' contributions in perpetuity (as well as provide flexibility for 'cash-in-lieu' contributions).*
A future trust arrangement would provide for multiple partners and enable leveraging of contributed assets to maximise the growth of affordable housing. Council welcomed the opportunity to work with the Victorian Government to develop this option further.

PRIMARY SUBMISSION -

WHY we need more effective planning mechanisms to deliver affordable housing

The scale of the affordable housing problem is significant and deepening

The planning system has the potential to make a meaningful contribution to the much-needed additional supply of affordable housing, as evidenced in other parts of Australia and overseas countries (such as the US, UK and Canada).

- Preliminary analysis for Metropolitan Melbourne shows:
 - 231,238 households are currently in need of affordable and social housing. There is a gap of 182,260 affordable and social homes in current supply. Thirteen per cent of all households need affordable and social housing.
 - 20,429 people are experiencing homelessness.
 - By 2036, 338,040 households will need affordable housing reflecting a shortfall in current supply of 289,062 dwellings. This is an increase in demand for social and affordable housing by 106,802 over the next 20 years.
- In the City of Port Phillip:
 - 7,598 households (homeless, very low and low income) were in need of social housing in 2016 (including 2,686 households living in social housing).
 - This equates to a net shortage of 4,432 social housing dwellings in the City (2016 figures).
(Source: SGS - 'In Our Backyard' Review 2018)
 - An additional 169 (moderate income) households were in rental stress in the private rental market, paying over 50% of income on rent.
(Source: *City of Port Phillip Housing Needs Assessment & Allocations Framework*, Beverley Kiger & Associates 2019).
 - The housing affordability problem is continuing to deepen with the cost of private rent and home purchase increasing faster than incomes, resulting in housing costs far exceeding the 30% benchmark ratio of rent / mortgage costs to household income. Less than 1% of private rental housing is affordable to low income households.

The need for affordable housing is a broadening - across the spectrum of very low, low and moderate-income households

Council's *In Our Backyard* strategy recognises the need for affordable housing to address very low, low and moderate income households, with the *Planning and Environment Act 1987* 'the Act' requiring the planning system to also respond to housing need across this spectrum.

- The housing affordability problem was previously contained to low income households, but now extends to moderate income households experiencing limited access to rental housing (and ownership). The consequence of this trend is that households seeking home ownership often stay for long periods (or permanently) in the private rental market. In Port Phillip, as elsewhere, this increased demand for private rental housing contributes to an increase in private rent levels, increased housing stress, a greater demand for social housing, or long-term residents being forced to leave the municipality to find affordable housing.
- Private rental housing is now unaffordable to all households up to the lower 60 - 70% of the income range, and home ownership is unaffordable to persons in the lowest 70% of the income range, with median priced houses or units generally being only affordable to persons in the highest 10% of the income range (source: *In Our Backyard* 2016).
- Over the last 10 - 20 years, this has meant the lack of affordable private housing has broadened from affecting the lower 50 - 60% of the income range in 1995, to affecting the lower 70% of the income range in 2015.

- The priority housing needs groups requiring social and affordable housing in Port Phillip currently comprise:
 - Persons who are homeless / sleeping rough
 - Older persons, particularly older single women
 - Families, including larger families requiring 3 or more bedrooms.
 - Low income wage earners
 - Single young women aged 15 - 25 years
 - Singles at greatest risk of homelessness.

(Source: *City of Port Phillip Housing Needs Assessment & Allocations Framework*, Beverley Kiger & Associates 2019).
- This broadening of the affordability creates the imperative for new affordable housing products and delivery models to address a wider range of needs (i.e. across the spectrum of very low, low and moderate-income households as defined in the Act). Increasing affordable housing across the spectrum will:
 - Reduce costs to Government – The provision of stable, affordable and suitable housing for ‘high risk’ persons, such as persons with a mental illness or younger persons experiencing homelessness, will reduce the cost to government of providing health, justice and welfare services.
 - Benefit the inner region and local Port Phillip economy, through access to low income and key workers e.g. hospitality and health workers.
 - Enable long-term residents are able to remain in their local community / localities.
 - Reduce bottle necks in housing supply along the spectrum; more affordable housing for moderate income households will ultimately increase the supply of social housing for the more vulnerable.

The take-up of the current voluntary system is low and is unlikely to deliver the quantum and spectrum of affordable housing needed. Greater certainty of affordable housing supply is needed.

- Whilst recent amendments to the Act have given additional impetus to the role of the planning system in facilitating affordable housing, voluntary agreements have been available as a way for Councils to negotiate affordable housing outcomes for several decades.
- In practice, voluntary agreements have resulted in very limited affordable housing being delivered within Port Phillip. Despite planning scheme policy and provision being in place, for Fishermans Bend, only 27 social housing units (across five developments) and one discounted rental unit (70% of market value for 20 years) have been negotiated. To date, no affordable housing has actually been delivered. (Attachment 1 provides a detailed review of affordable housing policy and provisions applying to Fishermans Bend, highlighting current issues and learnings.)
- Delivery of social housing at Fishermans Bend is reliant on development ‘uplift’ provisions that require a social housing contribution of one unit for every nine additional units allowed over the baseline dwelling density.
- More broadly, the current voluntary system across Port Phillip and Melbourne can be expected to only deliver housing for moderate income households that require less ‘subsidy’. This will not meet the Act objectives to also provide for very low and low-income households.
- The current system is also highly dependent on Councils and Registered Housing Agencies having resources and skills to negotiate outcomes. There is a need for greater guidance for all parties, including the development sector.

There is a clear policy mandate for the planning system to do more

Government policy in *Homes for Victorians* and *Plan Melbourne* seek to increase the supply of social and affordable housing and look to strengthening the role of the planning system in delivering housing.

- *Planning and Environment Act 1987* reforms have clearly legislated the role of the planning system in the delivery of affordable housing – for very, low and moderate-income households. Planning scheme provisions to support policy outcomes however remain lacking, relying on ‘voluntary’ uptake with limited incentives built into current planning controls.
- *Plan Melbourne* (Policy 2.3.2) specifies that reforms ‘will explore inclusionary zoning and mechanisms to capture and share value created through planning controls’, highlighting the established policy basis to ‘go further’ than reforms to date.

- Policy 2.3.2 also seeks to ‘streamline decision-making processes for social housing proposals’ which should be further explored to accelerate the delivery of housing, balanced with a consultative process with local communities.
- The introduction of mandatory affordable housing requirements, though direct provision of dwellings or equivalent financial ‘cash-in-lieu’ contributions, is essential if the planning system is to make an appreciable contribution to much needed housing supply.

WHAT OUTCOMES are important?

The MAC’s consideration of what further reforms are required to the Victorian Planning System to more effectively deliver affordable housing, requires an appreciation of the specific OUTCOMES necessary to drive the right solutions. The following outcomes are considered fundamental success factors:

- *Delivery of scale and a diversity of affordable housing products*, to address the spectrum of need (including supported housing for very low incomes, community housing very low/low incomes, and private affordable housing for moderate income/key workers).
- *Long term affordability is ‘locked in’*
 - Perpetual (or at least long-term) affordability must be maintained for housing delivered. Some models (such as NRAS and rental agreements used in the US) have only maintained affordability for limited periods (10 years). These do not offer a sustainable solution to the affordable housing problem.
 - Agreements do need to ensure flexibility for contributions vested with Registered Housing Agencies, to enable them to manage their portfolio of properties over-time – but agreements/governance arrangements need to ensure that proceeds from sale are reinvested into back into affordable housing.
 - Further investigation of suitable management arrangements for private affordable housing (such as build to rent’ type models) is needed to ensure both affordability is maintained and housing is allocated to households that meet the criteria (income ranges) specified in the Act.
- *Quality ‘fit for purpose’ housing is delivered*. Affordable housing delivered through the planning system must:
 - Be relevant to local need - a standardised methodology to assess need and access to current data is required to support Councils when negotiating and assessing development proposals that include affordable housing contributions. The Cities of Port Phillip, Yarra and Melbourne have partnered through the Inner Metropolitan Partnership (IMP) to commission work to inform such an approach, with the project scheduled to be completed by the end of 2019.
 - Reflect integrated ‘neighbourhood’ design and be ‘tenure blind’ when part of mixed tenure development.
 - Ensure access to ‘wrap around’ support services (relevant to cohorts being housed) and ‘place management’ for mixed tenure developments.
- *Planning mechanisms that minimise market distortion* i.e. do not inflate the cost of housing for purchasers, achieve a level playing field (particularly across urban renewal areas and strategic development sites), and apply broadly across new development where there is an intensification of land use.
- *Flexibility in the way affordable housing contributions are provided*: On-site provision of units should be the preferred method of delivery, but with provision for ‘cash-in-lieu’ contributions where direct provision is not appropriate e.g. small-scale developments / locational considerations. There is potential for the application of ‘cash-in-lieu’ contributions to address ‘gaps’ in affordable housing types being delivered. Cash in lieu contributions need also to be managed in a way that ensures housing is delivered within the general location/municipality from which the contribution is made.
- *Housing delivered must be well located* to take advantage of amenities and services such as transport, employment, education and access to social support services.

HOW these outcomes should be achieved

The Victorian Planning System can best deliver affordable housing through a combination of voluntary (value sharing) and inclusionary approaches:

1. *Value sharing / uplift mechanisms*: where additional development yield above a nominated level is 'paid for' through the delivery of social and affordable housing e.g. density bonus systems. These 'opt-in' models are available under the current system of Voluntary Housing Agreements.
2. *Inclusionary requirements*: mandated requirements to include a specified proportion of social and affordable housing within a development or pay a cash-in-lieu contribution to enable housing to be delivered elsewhere in the area.

These mandatory and voluntary mechanisms should be operated in tandem to deliver both scale and diversity of affordable housing.

- Use of voluntary mechanisms alone will not deliver sufficient certainty nor a level of housing that would make a meaningful contribution, given the scale of the affordable housing problem.

Using Fishermans Bend as an example, if the modest target of 6% affordable housing was delivered through the Social Housing Uplift control alone (via provision of one (1) affordable unit for every eight (8) additional market units allowed), it was determined that 80% additional housing over the planned 37,000 dwellings would need to be delivered. Aside from capacity limitations, this level of take-up is unrealistic.
- Planning mechanisms are needed that address the spectrum of affordable housing (very low, low and moderate incomes) as defined by 'the Act'. The application of both mandatory and voluntary planning mechanisms can be used in a range of ways to target different needs across this spectrum:
 - Voluntary 'up-lift' provisions, such as those applied at Fishermans Bend, can specify the contribution of social housing for transfer to a Registered Housing Agency.
 - Voluntary 'incentivised' provisions also have the potential to deliver discounted rental housing for moderate-income households (typically at around 80% of market rent) using build-to-rent type models, and with access to greater subsidies could also deliver housing for low-income households (at up to 50% of market rent).
 - Cash in-lieu contributions have the potential to be 'packaged' to deliver affordable housing targeted at higher needs households, either as stand-alone social housing developments or as part of mixed tenure developments on appropriately located sites.
 - 'Value capture' at the rezoning stage via affordable housing contributions have typically delivered social (community) housing, although some discounted private rental models have also been used (noting these have not always locked in affordability beyond 10 years).
 - Use of inclusionary (mandatory) provisions have potential to deliver social housing with greatest certainty, however, there is also the potential to deliver an increased number of units as private affordable housing (requiring 'less subsidy').
- Given the range of planning mechanisms and delivery models for affordable housing – there is a need for Responsible Authorities (and the development sector) to have the ability to 'equate' the value of different forms of contributions – from 'gifted' social housing units, 'discounted purchase' of social housing units (noting the limited ability of RHA's to fund such purchases), to privately owned units with 'discounted rents'. This will assist significantly in the negotiation and determining of equitable affordable housing contributions that are aligned to local housing need and ensure delivery of housing across the spectrum for very-low, low and moderate-income households.

The City of Port Phillip is working with the Fishermans Bend Taskforce (Department of Jobs, Precincts and Regions) to appoint consultants to prepare Guidelines and to advise on an approach to 'equate' the value of different forms of affordable housing contributions.

Introduce a Mandatory Affordable Housing Mechanism into the Victoria Planning Provisions

- The MAC would be aware of the use of inclusionary requirements for social and affordable housing is a well-established practice overseas and increasingly in other states of Australia (NSW, South Australia and Western Australia in particular).
- Victorian Government policy has signalled the potential for an inclusionary affordable housing mechanism (and hence has built an expectation of this across all sectors) for some time. There is an urgent need for Government to act now, given the shortage of affordable housing will continue to increase.
- The *Planning and Environment Act 1987* provides a clear legislative basis for the delivery of affordable housing via the Planning System. There is also clear justification for a mandated 'inclusionary' approach. Expert evidence provided on behalf of the City of Port Phillip to the Fishermans Bend MAC, demonstrated that:
'social and affordable housing is a must have environmental attribute of the Precinct to ensure sustainable development, in much the same way as open space provisions might be'. This can also be said for the wider City of Port Phillip and inner region. The evidence goes on to establish that the broad definition of essential attributes of place sanctioned by the expansive definition of 'environment' in the planning legislation includes social as well as the natural and built form element of development'.
- Mandatory affordable housing requirements (i.e. inclusionary zoning) are necessary for the planning system to contribute sufficiently to the scale of affordable housing needed, and the only means to establish certainty, over the delivery of social and affordable housing. Such requirements can be complemented by voluntary 'uplift' incentives, particularly applicable in urban renewal / strategic development areas.
- There is potential to 'phase in' a mandatory affordable housing requirement, starting at a low percentage that is increased over-time and then indexed, to reduce market impact through enabling costs to be factored into land value at purchase.
- A state-wide mandatory affordable housing requirement has the potential for broad application, that would achieve significant new housing supply without impacting negatively on development viability.

The IMAP Councils engaged Biruu P/L to model the impact of an 'Inclusionary Zoning' scheme under a range of development scenarios, finding that it would 'not be material to the market' and highlighted the option to progressively introduce a rate as an implementation feature (Biruu 2008). It is understood that the City of Melbourne has recently undertaken some preliminary modelling that suggests feasibility of a 10 per cent affordable housing requirement and cost benefit ratio of 3:1.

- Provisions should encourage direct provision of dwellings on-site, but allow flexibility for cash contributions in specified instances e.g. small-scale developments.
- Provisions must ensure that the affordability of housing is protected in perpetuity / long-term, via transfer to a Registered Housing Agencies or a S173 Agreement in the case of private affordable housing. Management structures / arrangements that monitor affordability and ensure occupancy by eligible households needs to be established for these 'build to rent' type models.

Increase the 'up-take' of voluntary housing agreements

Facilitating the take-up of voluntary housing agreements, which to date is low, will be dependent upon a number of key factors:

- Identifying further 'incentives' (both planning and financial) that both increase the up-take of VHA's and ensure that voluntary agreements do not deliver housing for moderate income households only.
- Broadening the application of the 'value sharing' approach. Currently formal planning provisions with an 'in-built' social housing uplift are limited to areas such as Fishermans Bend and the Central City. There is potential for the MAC to recommend planning scheme changes that introduce a development 'up-lift' approach in areas where established development controls (e.g. Design and Development Overlays) have discretion for additional height or density. The allowance of additional development height or density (subject to meeting design objectives) could be based on an expectation of 'value sharing' through an affordable housing contribution.
- Further investigation and identification of affordable housing models that are attractive to the private sector e.g. build to rent and ensure long-term affordability (unlike NRAS).
- The City of Port Phillip is working with other inner region Council's to progress the above, including through:
 - Investigation of a Private Market Affordable Rental Housing Delivery Model (IMAP initiative) – Refer Attachment 2.
 - Investigation and development of planning mechanisms to enable affordable housing through the planning system (IMP initiative).
 - Development of Guidelines to create greater certainty in the delivery of affordable housing at Fishermans Bend (DJPR initiative).
- Limiting the avoidance of making housing contributions, through claims that affordable housing impacts on development viability. The current Fishermans Bend Policy for 6% affordable housing provides an exception where it can be demonstrated that *'affordable housing objectives make development economically unviable'*.
The City of Port Phillip is working with the Fishermans Bend Taskforce (Department of Jobs, Precincts and Regions) to prepare Guidelines that will provide a clear approach and 'test' of viability.

Put in place 'enabling' structures

- *Governance arrangements and structures* are required that can:
 - manage housing contributions at scale (with provision for managing both unit contributions and cash-in-lieu)
 - operate across regions (e.g. inner region)
 - ensure on-going leveraging of contributions to further expand the supply of affordable housing.

Government should investigate and establish appropriate structures which could include an Affordable Housing Company (e.g. City-West Housing (Sydney) and the Brisbane Housing Company) and/or an Affordable Housing Trust (as originally envisaged for Fishermans Bend).

- *Establishment of a centre for affordable housing* (centralised housing expertise) that can harness and coordinate the significant effort and investment being made across local and state governments. This could have a role to oversee implementation of the recommendations arising from this MAC, undertake further development of affordable housing models, prepare consistent Guidelines, develop Regional Housing Needs Plans and maintain a Public Register for Affordable Housing Agreements).

A 'holistic' cross government & cross sector approach is needed

- The planning system can and should only be part of the solution. The State and Commonwealth Governments have a primary role to play in the funding (and financing) for social housing and in fiscal policy which impacts on housing affordability.
- The very limited / uncertain funding streams for new housing projects is presenting as the major barrier to Local Governments and Registered Housing Agencies playing their role to increase the supply of affordable housing.
- Additional sustained funding streams and financing structures are required from both State and Federal Governments, and should also enable the significant potential of institutional investment i.e. superannuation funds.
- Planning mechanisms that rely on investment in private affordable housing will be most effective if supported by complimentary financial incentives such as:
 - tax off-sets e.g. Low-Income Housing Tax Credit (USA)
 - rental subsidies that increase the viability of private affordable rental.
- A National Housing Plan is required to create a strategic framework to address the affordable housing crisis – involving all levels of government and cross sectors (government, private, community/NFP and philanthropic).

Fishermans Bend – Affordable Housing Policy and Provisions

Emerging Issues

Finalisation of planning controls for Fishermans Bend (Am GC81) introduced tangible policy and provisions that seek to deliver Affordable Housing as follows:

1. Local Policy (Clause 22.15-4.3 Providing for Affordable housing):

Affordable Housing

- *Development should provide at least six per cent of dwellings permitted under the dwelling density requirements in the Capital City Zone (excluding any Social housing uplift dwellings) as Affordable housing, unless, any of the following apply:*
 - *The built form envelope available on the site makes it impractical to do so.*
 - *It can be demonstrated that the development will contribute to the Affordable housing objectives of this policy while providing less than the minimum amount.*
 - *It can be demonstrated that meeting the Affordable housing objectives of this policy would render the proposed development economically unviable.*

Social housing

- *Encourage development to provide Social housing, in addition to the provision of six per cent Affordable housing, by allowing a Social housing uplift equivalent to eight additional private dwellings of equivalent size for each Social housing unit provided.*

2. Capital City Zone (Schedule 1 to Clause 37.04 Capital City Zone) to implement the social housing uplift policy:

Purpose

- *To provide public benefit in the form of Social housing where development exceeds the nominated Dwelling density.*

Since gazettal of Amendment GC81, there has been a greater willingness from applicants to negotiate the inclusion of affordable housing in their developments (noting that the social housing uplift mechanism will not be in effect until finalisation of an Infrastructure Contributions Plan - ICP). Notwithstanding this, there are significant challenges in negotiating affordable housing outcomes. These should be considered by the MAC in making its recommendations:

- **Most affordable housing is likely to target moderate income households** - developers are mostly interested in targeting affordable housing at moderate income earners. While catering for this cohort is important to create social diversity, there is a risk that there will be little affordable housing targeting very low and low income households.
- **Short-term affordability** - some developers consider that they are providing affordable housing if they offer initial purchasers a discounted purchase price. While this option contributes to the spectrum of affordable housing, it creates a 'windfall gain' for the initial purchasers, rather than long-term affordability.
- **Unsubstantiated claims that affordable housing impacts on development viability** - some developers seek to justify providing no affordable housing based on their developments not being viable, or that the provision of affordable housing will make them unviable. Such claims are not justified in applications. This is encouraged by Local Policy 22.15 of the Port Phillip Planning Scheme stating that an exception to meeting the 6% affordable housing target is:
 - *1. Built form envelope makes it impractical to provide affordable housing, or*
 - *2. Can be demonstrated affordable housing contributes to the affordable housing objectives while providing less than 6%, or*
 - *3. Demonstrates affordable housing objectives make development economically unviable.*
- **Unaffordable Build to Rent** - some developers refer to providing affordable housing, without justifying how they proposed to achieve affordability. For example, developers planning to provide Build to Rent development assume they are providing affordable housing, due to providing stable rental tenure and an increased supply of rental housing, without providing a mechanism to guarantee discounted rent. In many cases, Build to Rent is rented at a premium to market rent.

This situation will continue until there are viable Build to Rent models are available. It is noted that the City of Port Phillip is leading an investigation through the Inner Melbourne Action Plan (IMAP) Councils on how to increase private sector take-up of voluntary agreements, using a Build to Rent model based on the 'PRADS' model. (This is due to be finalised and publicly released in late 2019).

- **Delayed provision of affordable housing** - in larger, staged development, some developers seek to provide the affordable housing in the final stage, which either delays provision of the affordable housing, or risks that it may not be provided if there are changes to the development or final stage.
- **Reducing the proportion of affordable housing** - despite the policy seeking at least 6% affordable housing, no developers have proposed providing greater than 6% affordable housing, and a significant proportion of developers seek to provide less than 6% affordable housing.

Negotiated scenarios have seen 6% of dwellings offered for sale to Registered Housing Agencies at a discounted purchase price, and where this offer is not taken up, the offer defaults to the gifting of a significantly smaller proportion of social housing, e.g. 1.4% or 2.5% of total dwellings. This 'default' is the most likely outcome as Registered Housing Agencies are generally not able to afford to purchase the discounted dwellings, or have greater priorities funding purpose-built community housing.

- **Social and affordable housing policy and requirements are being seen as mutually exclusive** - where the Social Housing Uplift is used, no developers are also providing at least / any affordable housing. This is despite Local Policy 22.15 stating that developers are to provide at least 6% affordable housing, excluding and additional Social Housing Uplift.
- **Unclear role of Housing Associations or Housing Providers** - there is no expressed reference to Housing Associations or Housing Providers in the Port Phillip Planning Scheme's Local Policy. This makes it difficult to negotiate that some of the 6% affordable housing can comprise social housing, or to include a role for HA's or HP's to own or manage affordable housing.

This contrasts with the Fishermans Bend Framework, Strategy 3.5.1 referring to the community housing sector being a partner with government and private industry to deliver a range of affordable housing options.

- **Owners Corporation fees** - these are often very high and reduce the effectiveness of mechanisms to provide affordable dwellings. Council has obtained legal advice indicating that reducing OC fees are legally possible (achieved via reducing fees to a minimal rate, via adjustment of lot liabilities in Plans of Subdivisions). This has successfully been achieved in one small scale application.
- **Multiple Decision Makers** - In Fishermans Bend, the Minister, the City of Port Phillip, and the City of Melbourne are all responsible for determining certain planning permit applications, this has the potential to result in different advice and decision making.

In addition, disputed permit applications can be determined by a fourth Responsible Authority, the Victorian Civil and Administrative Tribunal (VCAT), where compromise responses on affordable housing may be negotiated as part of a broad settlement.

Overview - IMAP Affordable Housing Initiative

Investigation of private market affordable rental housing delivery model

The Inner Melbourne Action Plan (IMAP) Councils have engaged Price Waterhouse Coopers (PWC) to investigate the potential of a private market affordable rental housing delivery model, the 'PRADS' model, for use in negotiating Voluntary Planning Agreements. PWC are undertaking the work pro-bono.

The model is based on establishing discounted private rental for the economic life of the building. There is potential to adjust the level of 'discount' from 20%, a level most likely to accommodate moderate income households, to say 50% through application of additional incentives and/or rental subsidies. This has the potential for the model to generate housing for persons at the upper end of the Registration of Interest component of the VHR wait-list.

What is the 'PRADS' model?

Core elements:

- Discounted private rental (e.g. 20%, 50%) for the economic life of the apartment building.
- Purchase of apartments by small investors at a reduced price commensurate with the reduced rental return.
- Allocation to eligible moderate (and potentially also low) income households.
- Potential application of additional 'subsidies' or 'off-sets' e.g. taxation, that could bridge gap between discounted rent and rental return and make model applicable to lower income cohorts.
- Private management of designated affordable housing (not via community housing organisations).
- Potential for faster negotiation of the affordable housing contribution with developers (established model).
- Governance safeguards to ensure maintenance, monitoring and enforcement of affordability.

Need for a new model

- Housing affordability problem now affecting moderate income households – the full lower 70% of the income spectrum.
- Greater need for affordable housing products across the spectrum, including affordable 'Build to Rent' - the focus of this project.
- Delivering affordable housing for moderate (and potentially low income) households will help address bottlenecks in the system by helping to provide a continuum of affordable housing products, and benefit those on lowest incomes.
- New voluntary planning agreements through the Victorian Planning System offer potential to deliver affordable and social housing, but effective models and incentives are needed to achieve 'take-up' of this opportunity.

Potential advantages of 'PRADS' model

- Attractive to private developers - with a range of financial and planning incentives to leverage the number of affordable dwellings delivered
- Can achieve scale - a large scale of privately delivered affordable housing, at a faster rate than current conventional options:
 - Gifting - of apartments to registered community housing agencies
 - Discounted sale - developers seeking to sell a % of apartments at discounted prices to registered community housing agencies
- Locks in long-term affordability - and avoiding the problems experienced with expiring US negotiated regulatory agreements / NRAS.
- In-built governance arrangements to safeguard affordability of the housing, to avoid default and enforcement.

Key project scope and deliverables

- Modelling to determine the ‘trade-off’ between:
 1. discounted rent at various levels (e.g. 20% - 50%), and
 2. the number of affordable housing dwellings that can be provided (will offer flexibility and provide clear options for local government re: housing need/type to be targeted).
- Identification of affordable housing products and opportunities most applicable to the model, e.g.
 - Build to Rent that is affordable
 - Volume leasing of vacant apartments held by developers
 - Private development in urban renewal areas e.g. Fishermans Bend and other parts of the region.
- Definition of the minimum necessary development margin (relative to risk) to achieve development viability under hypothetical development scenarios e.g. high rise / medium rise apartments.
- Identification of the incentives necessary to bridge the gap between market and discounted rent – that would encourage greater private sector take-up of voluntary planning agreements.
- Investigation of additional incentives (options for flexible applications), including:
 - The value attributed to the market perception of private property management
 - Fast tracking of development approval, and the potential for such developments to become Victorian Civil and Administrative Tribunal (VCAT) priority cases under the Major Projects List
 - Financial structures that may provide investors with tax offsets, e.g. a Unit Trust
 - Investigation of any tax arrangements for investors that could be sought, based on existing precedent or potentially relevant concessions
 - Any Commonwealth and State programs that could provide subsidies or finance, subject to the model becoming eligible, e.g. Bond Aggregator
 - Reimbursement of local government rates (all or part)
 - Reduction of Owners Corporation fees payable by investors of affordable rental apartments
- Approaches to safeguarding affordability for long-term.