


6 December 2019

Committee Secretariat
Planning Mechanisms for Affordable Housing Ministerial Advisory Committee
Attn. Fiona Delahunt
Executive Director, Forward Policy and Business Strategy
Department of Environment, Land, Water and Planning



Dear Fiona

Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing

UDIA Victoria: Addendum to Preliminary Submission (10 October 2019)

The Victorian Division of the Urban Development Institute of Australia (UDIA Victoria) is a non-profit advocacy, research and educational organisation supported by a membership of land use and property development organisations, across the private sector and Victoria's public service. We are committed to working with both industry and Government to deliver housing, infrastructure and liveable communities for all Victorians.

UDIA Victoria thanks the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing (the MAC) for the opportunity to discuss our preliminary submission (date 10 October 2019) on 26 November 2019.

1. This letter is intended as an addendum to the substantive position set out in our preliminary submission. It follows from further consultation with UDIA Victoria members and Board, and discussion with the MAC, and specifically,
 - Refines UDIA Victoria's position with respect to a preferred coordinated, and broad-based approach for planning mechanisms for affordable housing,
 - Sets out a proposed whole-of-Government "toolkit" approach to enable the timely delivery of affordable housing at scale, and
 - Identifies the critical capacity building elements we consider are required for all stakeholders to ensure the effective, sustainable implementation of any approach.
2. We wish to stress the following points:
 - Industry is ready, willing and able to deliver affordable housing in partnership, but not at the expense of investment certainty and project feasibility – which would result in a reduction in supply and lead to an increase to the median house price.
 - UDIA Victoria does not consider that it is the role of industry to fund the current housing affordability crisis, which is the result of 30 years of Government underinvestment, and supply-constraining policy.

- UDIA Victoria, in principle, does not support inclusionary zoning on privately held land as a solution to a whole of government problem.
 - The solution to Victoria's affordable housing crisis requires a whole of Government approach underpinned by significant capital investment from Government – which ultimately will result in cost savings to the broader community and the Government (e.g. through the justice and health spends). By way of example, and as UDIA noted in our discussion with the MAC, the Fire Services Levy is an example where homeowners, through Council rates, contribute towards the cost of addressing a community-wide issue. The FSL raises approx. \$750,000,000 per annum. This is the equivalent of 1,500 dwellings per year (@\$500,000 per dwelling). We note that a similar levy for community mental health support has now been recommended to Government.
 - It is clear, however, from the 2018 changes to the *Planning and Environment Act 1987* and the current MAC process, that the current Government is intent on using Victoria's Planning System to address the affordable housing supply shortfall. Noting the challenges experienced to date as a result of the current voluntary affordable housing framework, and the unworkable precinct-specific controls that have contributed to halting development in Melbourne's key urban renewal precincts, **UDIA Victoria therefore takes the view that it is in the best interests of our members to propose a way forward that minimises any detrimental impact for industry or to housing supply and affordability more broadly, whilst also achieving the objectives of Government. The positions set out in this submission should be read in that context.**
3. For clarity, the status of recommendations from our preliminary submission are set out below.
- The overall principles are maintained;
 - *1. A Whole of Government Approach is Critical* (Recommendations 1.1 to 1.5) – discussion and all recommendations remain unchanged;
 - *2. Dial up the Efficacy of Victoria's Current Planning Policy Settings* (Recommendations 2.1 to 2.4) – discussion and all recommendations remain unchanged;
 - *3. The Voluntary Affordable Housing Framework*, and *4. Value Capture and Inclusionary Zoning* – whilst the discussion in these sections of the preliminary submission remain relevant, **this submission sets out a revised, coordinated approach that both addresses the deficiencies and inconsistencies under the current framework. This is set out at items 5. to 10. below;**
 - *5. Flexibility and Certainty* – discussion and all recommendations remain unchanged;
 - *6. Other Planning Mechanisms* – discussion and all recommendations remain unchanged.

For ease of reference, an updated summary of recommendations is provided accordingly at Appendix A.

4. The following principles must be adopted if we are to effectively transition from the current philosophy of a need to address Melbourne's housing affordability crisis, to the creation of a robust, sustainable system that builds the capability and integrity of stakeholders and results in the timely delivery of affordable housing scale without unduly impacting supply and median house price:
- a. Delivery objectives and numerical and targets must be clear, and costed. Targets should consider both dwelling numbers and target household profiles and tenure

types so as to understand the level of subsidy likely to be required to address the need;

- b. Policy and implementation mechanisms must be clear and provide investment certainty;
- c. Any requirements introduced that impact development costs must be phased in gradually, from a low base, in order to allow the market to adjust. A changing market cycle takes three to five years, and most development approvals are completed within a three to five year time frame – a swifter introduction will detrimentally impact development feasibility and thus is likely to negatively impact housing supply during that period. An introduction for 5 years at a low level will also allow time to build capability across all stakeholders whilst the Government grows the introduction into a long-term more sustainable incentivised program.;
- d. A standard approach to the value of a contributions base must be taken across all development sites and types – and uses (residential and non-residential). Market activity will be skewed where specific precincts, development sites, or development types have requirements that have higher development costs over others, and urban renewal objectives compromised as a result. This does not preclude precinct-specific delivery targets, but rather emphasises the need to align delivery requirements with equivalent value funding and incentive mechanisms (these will be explored further in our Toolkit recommendation);
- e. The sensitivity and extremely low margins in regional development settings as a result of lower land prices and higher development costs must be recognised – increased requirements with direct cost impacts cannot be tolerated in regional settings without stalling development outcomes;
- f. Affordable housing delivery outcomes on Federal, State and Government land must be maximised from the current low rates being sought in disposal programs – which appear to be more focused on generating revenue. Any profits from disposal of Government land should be dedicated directly towards affordable housing outcomes, and should not be allocated to consolidated Government revenue;
- g. Victoria's Registered Housing Agencies (RHAs) must be considered as delivery partners, and supported accordingly by GGovernment. RHAs are funded largely on an annualised basis from many GGovernment buckets of funding. They have been given more flexibility in asset management and property disposals in the past several years and have also been recently participating in voluntary arrangements with industry which has soaked up much of the sectors balance sheet ability to fund further growth. By increasing their balance sheet capacity to actively participate in the market, investment and supply certainty will be improved. The current competitive grants process impedes their ability to enter into delivery partnerships at the right time in the development process. Further, the gifting of housing stock to RHAs by developers, which has emerged as a preferred delivery requirement in recently proposed planning scheme amendments, is ultimately unworkable for the development industry and is not a sustainable solution;
- h. There must be flexibility to consider and accommodate the emergence of private sector models for the delivery and management of affordable housing;
- i. The State Government needs to consider international models of delivery that are sustainable and delivering the targeted volumes required. These programs will

generally provide a range of incentivisation options which are required for a broad market application to enable delivery of affordable housing at a site, precinct or general funding pool level. The building of a tool kit of incentivisation options is critical to ensure the flexibility the market needs to deliver sites with varying scale and feasibility requirements. This also involves a set of principals which keeps the affordable funding generated directly in the affordable market place, rather than general revenue.

- j. An “Affordable Housing Delivery Toolkit”, setting out the form of various funding and incentive mechanisms and identifying a methodology for determining how the toolkit, must accompany any planning mechanisms; and, critically
- k. Must be accompanied by a significant capacity building program that increases awareness of the needs of all stakeholders in the delivery and management of affordable housing.

Failure to adhere to these principles will ultimately increase the medium house price through a lack of Government investment and an expectation that the market bears the responsibility of tiers of Government. A phased system will not shock the market and will allow Government to build the tool kit it needs for the long-term sustainability of any such program.

- 5. To address the above needs, (and noting the context as set out in 2. above), UDIA Victoria recommends the following approach:
 - a. That a broad-based, low rate cash-equivalent Affordable Housing Contribution be introduced:
 - i. As a Metropolitan-Melbourne wide approach **to replace all other requirements** that impose funding requirements (through cash, discounting or gifting provisions) on the development industry, including:
 - 1. Delivery outcomes at the cost of developers being sought via permit conditions and/or “voluntary” affordable housing Section 173 agreements, and
 - 2. Precinct-specific local affordable housing requirements that expect a delivery component in the absence of equivalent value funding or incentive mechanisms.
 - ii. across all of Melbourne’s metropolitan area development settings,
 - iii. applied to both residential and non-residential uses,
 - iv. represented as a percentage of assessed land value at the time of application (similar to the open space contribution),
 - v. the rate must only commence at a low introductory rate (i.e. 0.5 %), for a period of not less than five years, and be applied to new applications only;
 - b. The contribution must be able to be satisfied in cash, or, where appropriate, in delivered outcomes with the developer contribution of equivalent value;
 - c. Funds raised by the Affordable Housing Contribution must be collected and managed transparently, by a centralised Government Authority established for the purpose of delivering affordable housing outcomes. This should be managed by an independent Government authority, that can also facilitate partnerships linking RHAs to development or precinct specific proposals. UDIA Victoria will strongly oppose any contribution model that results in:

- i. funds collection and management at a local Government level, or
 - ii. GAIC- style collection and allocation that we consider to be opaque and subject to political decisions, or
 - iii. Unhypothecated collection, such as now is the case with the Metropolitan Planning Levy.
- 6. Notwithstanding the position that the value of the Affordable Housing Contribution in the form of cost to a developer should not change between sites, precincts or development contexts, there may be instances where specific affordable housing delivery target are identified through a strategic planning process. **However, in order to achieve the delivery targets, any gap in value between the Affordable Housing Contribution and the cost of achieving the delivery target must be guaranteed by Government.** Further, delivery targets must recognise that there will be some sites/residential developments that are not “appropriate” for delivery, or would not result in efficient allocation of funds (e.g. luxury towers where the level of subsidy required to achieve an affordable housing outcome would be significantly greater than other sites). In those instances, the cash equivalent of the Affordable Housing Contribution would be better directed to leverage delivery outcomes on other sites.
- 7. It is not expected that the proposed Affordable Housing Contribution will raise sufficient funds to fully fund the extent of affordable housing supply required in Victoria. Additional funding and incentive measures will be required to achieve the scale of investment needed to meet the need for affordable housing in Victoria. Recognising a one-size-fits-all approach is unlikely to be adequate where the level of subsidy required differs depending on the delivery model sought, and noting the different market forces between sites, UDIA Victoria recommends the State creates an **“Affordable Housing Delivery Toolkit”** (Toolkit) that sets out a range of funding and incentive mechanisms that may be applied, aligning efforts of Federal, State and Local Government. This should be accompanied by a guide for determining how they may be applied in specific circumstances to achieve the desired outcome sought. **We have set out an example Toolkit relevant to the Victorian context at Attachment B**, that includes (but is not limited to):
 - a. Direct allocation of funds collected through Affordable Housing Contribution or from other Government sources,
 - b. Additional support for RHAs,
 - c. Taxation relief,
 - d. Equivalent development right uplift mechanisms, and/or
 - e. Provision of Government land.
- 8. Where precinct-specific delivery targets are identified as part of a strategic planning process and planning scheme amendment, it is critical that the toolkit measures considered suitable are clearly specified as part of that process.
- 9. As part of the introduction of the recommended system, it is critical that Government undertakes a thorough review of existing Planning Scheme requirements, planning permits and affordable housing Section 173 agreements.
 - a. or are proposed as part of a live planning scheme amendment process (West Melbourne Structure Plan),

- b. Where an unfunded/unincentivised precinct-specific affordable housing requirements already exists in a planning scheme (e.g. Fisherman's Bend 6% affordable housing contribution), a planning scheme amendment should be pursued to:
 - i. clarify the value of the contribution sought is limited to the Affordable Housing Contribution,
 - ii. where applicable, remove any delivery model restrictions, and
 - iii. identify the funding and incentive mechanisms that will support achievement of the delivery targets.
 - c. Where an unfunded/unincentivized precinct-specific affordable housing requirement is being pursued via a live planning scheme amendment, the proposed amendment must be updated to specify the range of funding and incentive mechanisms to apply to achieving the delivery target.
 - d. The above efforts should be supported by a comprehensive review of planning permits, coordinated by DELWP but involving local planning authorities, identifying all permits and "voluntary" Section 173 Agreements seeking affordable housing outcomes, and in consultation with the permit holder / party to the agreement, transition to an agreed outcome that results in an economically feasible, deliverable outcome.
- 10. Significant capacity building efforts across all stakeholders – all levels of government, development and community housing industries, financiers, and the community – are essential to ensure the success of the system – and can be rolled out over a five year integration period for the Affordable Housing Contribution. These should aim for both shared understanding of interests of the various parties, outline the various ways in which affordable housing outcomes can be delivered to meet the varied needs of very low, low and moderate income households including key workers (refer to preliminary submission on GIC order income levels), such as market purchase, assisted purchase, assisted rental, public and community housing and crisis housing, and set out clear processes for achieving delivery targets through the application of the Toolkit. Key topics of focus include:
 - a. The Affordable Housing definition – this is still widely unknown by those in the development industry including developers, planning practitioners and other key consultants that have not been directly impacted by affordable housing provisions or negotiations to date.
 - b. The detail of the new system and how the Affordable Housing Contribution and Affordable Housing Targets interact.
 - c. Modes of delivering Affordable Housing (as set out at i. to vi. below), how each mode is best applied to achieve the specific objectives, an understanding of the level of subsidy that would be required to deliver that mode and to achieve the delivery targets. This is required for all stakeholders involved in the strategic and statutory planning process and delivery process (including VCAT and Planning Panels), and could be in the form of professional development courses addressing the needs and concerns of the various stakeholders, facilitated cross-sector workshops, information kits, and public education campaigns:
 - i. Unassisted purchase or rental, where the market price is "affordable" for target income ranges: for example much of the housing in growth areas, and some apartments;

- ii. Assisted home ownership models: shared equity (Government or private schemes), rent to buy (assemble), restricted purchase (Nightingale);
 - iii. Private models of below market rental: NRAS (or similar), and private build to rent (expected to emerge with Government support);
 - iv. Community housing, which would be delivered in partnership with registered housing agencies;
 - v. Public housing, which would be delivered in partnership with Government; and
 - vi. Crisis and emergency housing.
- d. Building a sound understanding of development economics and investment requirements amongst State and Local Government stakeholders.
- e. Methods to determine the value of delivered outcome sought to inform how the Toolkit should be applied in specific circumstances
- f. Assistance for local Governments investigating use of public land for affordable housing outcomes.
- g. Partnership facilitation services, connecting industry with RHAs or investors willing to participate in the affordable housing delivery system.
- h. Education for regulators and service providers in the financial marketplace on the new system ahead of its introduction to ensure that the new system does not impede supply by closing down development funding opportunities.
- i. Support for RHAs surrounding changes to policy and how that might effect how they manage and operate their portfolio.
- j. Community awareness and education campaigns addressing the current stigma surrounding public and community housing, and emphasising the broader community benefit of addressing the affordable housing crisis. It is inefficient, costly (time and money) and unsustainable for the development community and community housing sector to address these concerns on a case by case basis.

We would be happy to meet again with the MAC should any further clarification be required.

Should you wish to discuss any of the matters raised in this submission, please contact Kate Weatherley, Senior Policy Advisor at kate@udiavic.com.au.

Yours sincerely

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Encl.

- Attachment A: Status of recommendations from Preliminary Submission
- Attachment B: Proposed Affordable Housing Delivery Toolkit

Attachment A – Status of recommendations from Preliminary Submission

1. A Whole of Government Approach is Critical

Recommendations remain unchanged from preliminary submission

- 1.1 A whole of Government approach underpinned by significant capital investment from Government is required to address housing affordability – planning mechanisms alone are not a solution.
- 1.2 Address finance and regulatory policy affecting supply and housing affordability:
The levers immediately available to the State Government to moderate the sharp decline in the delivery of new dwellings in the coming two to three years include the following:
 - Reinstatement of the stamp duty concession for investors purchasing dwellings off-the-plan;
 - Removal of the foreign purchaser stamp duty surcharge;
 - Maintenance of the existing Land Tax Rate without an increase; and
 - Exclusion of new dwellings from the Vacancy Tax where they have not sold or failed to settle.
- 1.3 Facilitate private market investment in affordable housing:
 - Support the development of emerging models that enable private investment in the delivery and management of affordable housing, and
 - Continue to investigate support for the Build to Rent sector, and the level/model of subsidy or support that would be required to accommodate affordable housing provision through Build to Rent models, which ultimately have the capacity to substantially increase the scale of delivery of integrated affordable housing product.
- 1.4 A significant expansion of the Social Housing Growth Fund is required. In the short term, we recommend the State Government brings forward the capital contribution to the Social Housing Growth Fund already incorporated into the Budget Forward Estimates, to allow funding for any project that qualifies, sooner; and
- 1.5 Align direct funding mechanisms with other efforts to deliver affordable housing so as to provide the certainty required to enable the housing industry and institutional investors to invest in affordable housing.

2. Dial Up the Efficacy of Victoria's Current Planning Policy Settings

Recommendations remain unchanged from preliminary submission

- 2.1 Deliver Land Use Framework Plans and Metropolitan Housing Plans in line with Plan Melbourne.
- 2.2 Introduce housing targets – both general supply and affordable housing measures – performance measurement and accountability measures.
- 2.3 Revise the Income Ranges in Governor in Council Orders to clearly include key worker salaries in the moderate income range.
- 2.4 Define a methodology for determining affordable housing price points for purchase.

3. The Voluntary Affordable Housing Framework, and

4. Value Capture and Inclusionary Zoning

Updated recommendations refined and addressed at items 5. to 10. of this submission.

5. Flexibility and Certainty

Recommendations remain unchanged from preliminary submission

- 5.1 Any affordable housing provision must include the option of cash equivalency payments, with clear calculation methodology. This must be accompanied by a transparent model with delivery accountability measures.
- 5.2 Any provisions must be flexible enough to accommodate innovative housing models that may emerge over time, providing opportunities for delivery beyond the community housing sector.
- 5.3 Any assessment of impact on development feasibility must take a risk-adjusted return approach to have a realistic basis of the impact of the controls on the ability for a development to proceed.

6. Other Planning Mechanisms

Recommendations remain unchanged from preliminary submission

- 6.1 Extend VicSmart Plus investigations to include a code assessment pathway for two dwellings on a lot
- 6.2 Development of Secondary dwellings should be included in the VicSmart Plus provisions
- 6.3 Develop a new micro-lot category for the Small Lot Housing Code

Attachment B: Proposed Affordable Housing Delivery Toolkit

Note – Toolkit approach will need to be tailored to the specific delivery targets and objectives, with greater incentives required where the objective is focused on very low and low income households.

Federal mechanisms	State mechanisms	Local Government mechanisms	Planning tools
Tax deductions for value of discount between market value and affordable outcome delivered.	State Government tax relief for proposals including affordable housing delivery	Delivery of broader housing targets to support State population growth	Affordable Housing Contribution
Bond aggregator	State – boost to direct, regular funding of CHAs (not project grant dependent), to enable their active participation in the housing market. This could be in the form of a significant expansion of Social Housing Growth Fund	Direction of underutilised land to affordable housing outcomes	Affordable Housing Delivery Targets (Funded/incentivised using methods in this toolkit where the value of the delivery target exceeds the Affordable Housing Contribution).
Deposit guarantee	Shared equity	Rates reductions for properties held by RHAs	
City Deals	State Government land	Uplift mechanisms to support delivery targets over and above the value of Affordable Housing Contribution	
Population Settlement Strategy with housing delivery targets linked to infrastructure funding support	Tax equalisation for BTR proposals	Preparation of affordable housing strategies that set out the specific needs in their municipality informing preferred delivery modes for achieving delivery targets	
Crown land	Planning / title tools to recognise discounted purchase schemes to ensure any subsidy is		

	passed on in future transactions		
Direct funding	Establishment of centralised Affordable Housing Contribution trust with brokerage function linking CHAs to specific precincts or developments		
Support for rental subsidy models (e.g. NRAS-style private models)	Recognition of private affordable housing delivery models (e.g. title restrictions that pass on any subsidy for future sales		