

30 June 2020

Sherry Hopkins  
Coordinator Strategic Planning  
City of Monash

By email: [mail@monash.vic.gov.au](mailto:mail@monash.vic.gov.au)

Dear Sherry,

**City of Monash Affordable Housing Strategy – UDIA Victoria Submission**

The Urban Development Industry of Australia, Victoria Division (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.

The building, construction and development industry contributes almost half of the state Government's tax base, employs almost 300,000 Victorians and is a major contributor to the Victorian economy.

UDIA Victoria commends the City of Monash on the deep work and consultation done to date which supports the draft Affordable Housing Strategy (the Draft Strategy). We welcome the opportunity to work with the City of Monash to explore how affordable housing can be delivered and increased, and provide a detailed response to the Draft Strategy below.

Demonstrating our longstanding commitment to finding real solutions to the affordable housing challenge faced by Victoria, UDIA Victoria has been an active founding member of the Affordable Housing Industry Advisory Group (AHIAG) since its establishment in 2016.

AHAIG recently wrote to the Hon. Tim Pallas, Treasurer of Victoria and the Hon. Richard Wynne, Minister for Housing and Planning (enclosed at Attachment A), outlining a bold plan for generating more social and affordable housing dwellings in Victoria. The key points are that:

- Social and Affordable Housing is critical social and economic infrastructure, essential to Victoria's sustainable growth and prosperity;
- Demand is well established, with significant economic and social costs of not acting. It is estimated that least 6,000 new Social Housing dwellings are required each year for the next ten-years just for Victoria to reach the national average of 4.5 per cent of all households in Social Housing;
- A coordinated long-term housing plan and investment strategy led by the State Government is required that supports industry to invest, partner and deliver the range of housing responses needed, particularly for lower income households and essential workers, integrated across the community;
- Delivery of Social and Affordable Housing depends on an active and sustainable development and construction industry. Slowing down of this market will have significant economic

implications and will further reduce opportunities for Social and Affordable Housing and housing supply, diversity and affordability;

- The residential development, financing and not-for-profit housing sectors are well-established, regulated delivery agents of market and Social and Affordable Housing and have demonstrated a desire and ability to work in partnership to respond to the housing crisis and to deliver new innovative forms of tenure, such as large-scale Build-to-Rent and shared equity home ownership;
- With the right enabling conditions and investment, Victoria can transition to a scaled and sustainable Social and Affordable Housing industry; attracting private investment, supporting economic activity and jobs, and delivering long-term social and economic benefits.

Our's and Council's mutual objectives to boost housing supply and to make it more affordable, are aligned. Where we differ, is where the responsibility for funding affordable housing should lie and what is the most appropriate strategy is to increase affordable housing stock.

From the early 1980's when social housing comprised around 10% to 15% of new dwellings, Government investment has dwindled to now represent around 2% to 3% of new dwellings. Historically, social housing was seen in public policy as being a welfare issue rather than an economic issue. The real reason for our inadequate supply of affordable housing, has been the lack of priority given by successive state Governments to investing in social and affordable housing.

We appreciate that councils, being at the community frontline, experience the societal consequences of there not being sufficient affordable housing supply, and have to find real solutions for the implications of inadequate Government investment.

The current housing affordability crisis cannot be solved through Victoria's planning system alone, or by having various arrangements in place at the Council level. The solution requires a whole of Government approach underpinned by significant capital investment from the state Government.

Affordable housing is social infrastructure that is a broader community issue; the solution to which should not be isolated to the private sector. Significant underinvestment by governments over time cannot be successfully remedied by leveraging the new housing markets in a way which will directly result in further price lift and reduced affordability.

The urban development industry is ready, willing and able to deliver affordable housing in partnership, but not at the expense of investment certainty and project feasibility. Further, the failure to adequately transition any new controls in recognition of market cycles, will result in a reduction in housing supply and, perversely, an increase in median house prices.

Our most experienced members strongly believe that the measures proposed by the Draft Strategy will make investment and development in the City of Monash unattractive, leading to less housing supply. Asset owners will respond in ways that will constrain residential development opportunities. They will shift and pivot their strategies toward other asset creation opportunities, rather than reduce land values as has been assumed by the City of Monash. Where developments do proceed, they will do so only when retail prices lift to allow cost to be passed on future home buyers, making housing less affordable.

## An alternative approach

Noting the clear direction of the City of Monash, as well as the Victorian Government to address affordable housing through the planning system, UDIA Victoria has proposed a balanced approach that we believe has the best chance of delivering affordable housing outcomes at scale without compromising supply or the median house price.

The approach comprises:

- a low, flat rate, broad-based Affordable Housing Contribution, similar to the Fire Services Levy, transitioned over a period not less than 5 years, to replace all other affordable housing provisions;
- affordable housing delivery targets, supported by an Affordable Housing Delivery Toolkit of funding and incentive measures that can be applied to fund the gap between the cost of delivering and the Affordable Housing Contribution; and
- a comprehensive capacity building program targeting all stakeholders – all levels of government, development and community housing industries, financiers, and the community — to create common shared understanding of interests of the various parties, and 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.

## Going forward

We strongly urge the City of Monash to consider:

1. The industry experience and depth of knowledge represented in the solutions put forward by UDIA Victoria;
2. Calling on the Victorian Government to establish a whole-of-government Affordable Housing Strategy rather than seeking to introduce affordable housing requirements at the Council level;
3. Avoiding unworkable and unnecessary duplication at various levels of government and to include the City of Monash's approach in the state-government led strategy;

UDIA Victoria has written to the Minister for Planning requesting a moratorium on any new policy settings or increased fees and charges that would have a material impact on the cost of producing housing, until the COVID-19 pandemic period has passed. As such, we strongly urge the City of Monash to:

4. Give proper consideration to the difficulties facing the building, construction and development industry as well as the housing market, as a result of the COVID-19 pandemic and to delay progressing the Draft Strategy until at least 1 July 2021.

Finally, we again commend the City of Monash on the work done to develop and consult on the Draft Strategy. Just like the City of Monash, we are committed to finding real, tangible and meaningful solutions to Victoria's affordable housing crisis.

Our objectives are aligned; let us work more closely on positive solutions.

We look forward to continuing to work closely with the City of Monash. Please contact me directly at [danni@udiavic.com.au](mailto:danni@udiavic.com.au) to discuss this submission further.

Yours sincerely



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## Submission to City of Monash Draft Affordable Housing Strategy

### Introduction

UDIA Victoria's positions on the provision of affordable housing through the planning system have been developed through a broad and deliberate program of member consultation led by our CEO and Board of Directors and involving our member Committees including our Planning Committee, Greenfield Developers Committee and Urban Renewal and Built Form Committee.

We applaud Monash Council for engaging in workshops with the development industry in preparation of the strategy and we also strongly support the distinction Council have made between social housing and affordable housing.

In 2019, UDIA Victoria prepared two key submissions to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing.

These submissions are at **Attachment B** and **Attachment C**.

***UDIA Victoria has a deeply established position that the planning system is not the appropriate mechanism through which Government should seek to access additional affordable housing, and that a more sophisticated framework of funding and a 'Toolkit' approach is in fact required.***

***A real solution for Victoria's shortage of affordable housing at volume will require a whole of government response predominantly driven by fiscal initiatives.***

The urban development industry is not responsible for funding a crisis that has built over several generations and successive Governments. A whole of Government approach is required. A broad-based levy, for example the Fire Services Levy, could be used to help fund affordable housing, and we note that property related taxes already deliver close to half of all Government revenue.

Having reviewed and visited international examples, the 'Toolkit' approach is evidenced to be the most effective in delivering the highest number of new dwellings. Adding to this approach, is the need for a necessary funding stream so that affordable housing dwellings can in fact be acquired by appropriate community housing providers, with certainty.

### Impact of COVID-19

The COVID-19 crisis needs to be resolved before any further policy change or cost imposts can be considered. UDIA Victoria is working with the Victorian Government and the Building Victoria's Recovery Taskforce to support the building, construction and development industry through the COVID-19 pandemic period, and to save jobs and grow jobs on the other side.

UDIA Victoria has written to the Minister for Planning asking that the Government consider establishing a moratorium on policy changes and additional costs which would impact the cost of producing new housing, until mid-2021. A copy of this letter is provided at **Attachment D**.

These including but are not limited to:

#### *State Government*

- Any proposal on foot to implement a state-wide Social and Affordable Housing Levy.
- Any proposal for a new infrastructure contribution for strategic redevelopment areas.
- Annual indexation and increase of the Growth Areas Infrastructure Contribution (GAIC).
- Adjustment and Indexation of the Monash Strategic Environmental Mitigation Levy (EML).
- Better Apartment Design Guideline amendments which are currently the subject of consultation.

#### *Local Government*

- Proposals for new design standards and requirements. Councils continue to work on ad hoc planning scheme amendments that apply new local policies to development in their municipalities.
- Proposals for social and affordable housing. More than 40 Councils have various proposals on foot to prepare planning scheme amendments that will support new local policies for social and affordable housing which may include imposing Section 173 Agreements in exchange for development approvals.
- Proposals to increase public open space levies. A number of councils have planning scheme amendments generate proposals to increase open space contributions in established suburbs under the Subdivision Act. As an example, Amendment C186 to Darebin Planning Scheme proposes to double the public open space contribution on development to 10%.

### **Cost of producing new housing**

Taxes and charges that contribute to the cost of producing housing, either increase the price of the end housing product, or reduce the land price a developer can pay from the original owner.

We challenge the idea espoused in the Draft Strategy, that new taxes or costs will only affect asset owners through offsetting land values. History has shown that the introduction of such new costs, such as the Growth Areas Infrastructure Charge, discourages and or delays development and leads to significant unintended consequences. Melbourne already has some of the most expensive prices in the world for new housing and the proposals in the Draft Strategy will reduce supply further thereby exacerbating the very issue that we are trying to solve.

The business model supporting residential development reflects significant project risk and high costs of finance that developers must assume to deliver a project, as well as often low margins that are achieved on residential development projects.

The high cost of producing housing does not drive a reduction of underlying land values. In contrast, where the cost of producing housing is high, residential development may no longer be the highest and best use, and the land may continue to be used for another purpose despite a residential zoning. This drives an overall reduction in the supply of new housing.

High taxes, charges and delays through the planning and development approval process reduce housing supply by increasing risk, reducing returns and making certain types of development unfeasible.

The high cost of housing in Victoria pushes lower income segments out of the private buyer and rental market and into the affordable housing market.

If taxes and charges are increased further due to bracket creep or new taxes and charges being introduced, residential development may not be the highest and best use of the land and urban renewal areas and priority precincts may lay dormant.

If the cost of producing housing is so high that the system reduces overall supply, Government will need to play a greater and more deliberate role in funding and supporting affordable and social housing. Portfolios such as justice, health and education can also be impacted as can the cost of delivering these services to the community if housing needs are not met due to a lack of affordable housing supply.

There is limited opportunity for new levies to be introduced for value capture, priority precincts and affordable housing, without a material impact on the affordability of housing in Victoria. However, these measures cannot afford to be applied retrospectively or in a broad-brushed manner without significant consequences to the overall sector.

The cost of producing new housing in established areas of Melbourne comprise the following costs imposed as a result of state and local government policy, taxes and direct charges:

#### *State Government*

- Land tax
- Stamp duty
- Foreign purchaser surcharges on stamp duty and land tax
- Vacant residential land tax
- GST
- Metropolitan Planning Levy
- Statutory utility charges
- Cladding Rectification Levy
- State government infrastructure contributions
- Better Apartment Design Standards

#### *Local Government*

- Permit fees and charges including for extensions of permits
- Plan checking and supervision fees
- Local infrastructure contributions including local water authority fees, electrical authority fees, NBN deployment fees

- Council rates
- Open Space Levy
- Passive open space requirements

## The role of Government investment

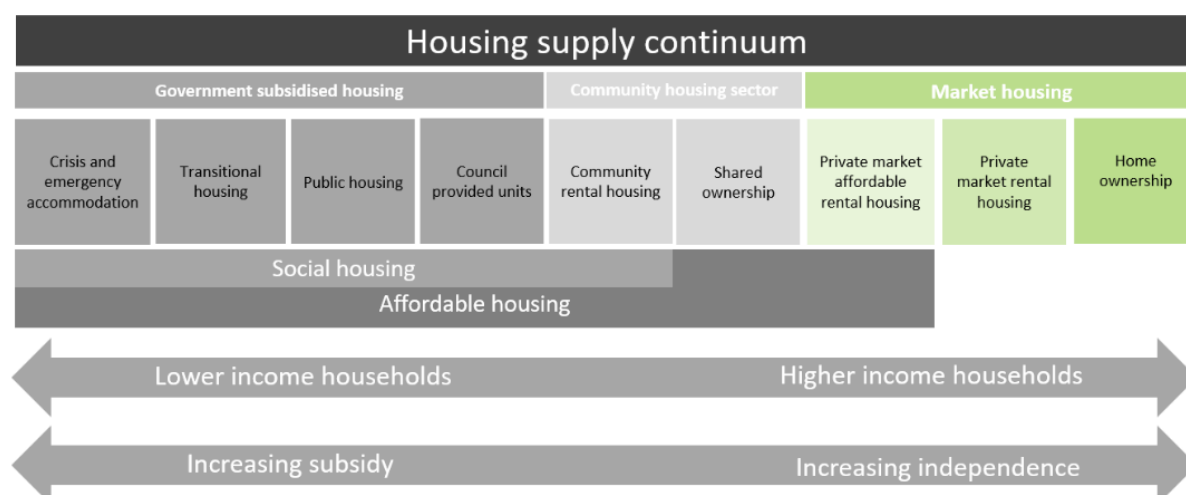
We commend the City of Monash's advocacy intent expressed in the Draft Strategy and note the pivotal importance of federal and state Government investment in affordable housing to increase the supply and accessibility of affordable housing.

In early 1980s social housing was perceived to be an essential economic infrastructure; commencements were around 15,000 per year (~10% to 15% of new dwellings starts). Later that decade social housing policy morphed to a welfare discussion.

New social housing investment has declined since, except only for the National Rental Assistance Scheme (NRAS) investment in 2009 and 2010 as the Commonwealth sought to mitigate the GFC crisis. Today Commonwealth funding delivers about 2,500 net new homes per annum and this figure continues to fall.

State governments have followed the trend of reducing investment. The Andrews Government is investing to create 1,000 new social housing dwellings in this term, some of which are in the City of Monash. However, some estimates are that about 6,00 net new homes are required in Victoria every year for the next 10 years, to reach the national average of 4.5% of all households requiring social housing. There is not yet any clear long-term vision as to the volume of affordable housing government policy seeks to deliver.

The following diagram produced by the City of Sydney depicts the various forms of housing supply providers and the role of government across the spectrum of housing products, and this is also reflected in the City of Monash draft strategy:



Source: City of Sydney, 2015, Housing Issues Paper.



## Streamlining and improving the planning and development approval system

Federal and state Governments should use their existing tax base to fund and invest in social and affordable housing. At a local level, Councils should work to find significant efficiencies in the planning and development approval process, to modernise the planning scheme framework and to build in market-based incentives to provide affordable housing stock. Where Councils own land, they could choose to include an affordable housing requirement.

Councils need to ensure that any local level policy is compatible with broader state government policy to eliminate any policy conflict and make certain that the planning delivery mechanisms do not restrict or delay the further provision of housing.

Inclusionary zoning is a relatively blunt tool which does not address the needs of all participants in the process of delivering a significant volume of new affordable housing across different market segments.

UDIA Victoria's submission to the Commissioner for Better Regulation as part of the *Planning and Building Approvals Process Review* highlights several key proposals for streamlining the planning and approval system at the local level. We encourage the City of Monash to review UDIA Victoria's suggestions available here: [https://www.udiavic.com.au/getattachment/Policy-Committees/Policy-Submissions/UDIA-RED-TAPE-REVIEW-submission-August-2019-\(1\).pdf](https://www.udiavic.com.au/getattachment/Policy-Committees/Policy-Submissions/UDIA-RED-TAPE-REVIEW-submission-August-2019-(1).pdf)

## Specific Feedback on the Draft Strategy

The report identifies 9,230 households or 13% of the total households in Monash are suffering from housing stress. The report allows for 980 of these households to be under housing stress temporarily or by choice of the occupants. There are currently 1,610 social housing dwellings in Monash. This equates to 2% of all houses in the municipality. Melbourne average is 3.3%. The report concludes there is an underlying demand for 8,350 additional affordable dwellings.

The report points to the emerging practice in Victoria of applying 6% contribution as appropriate. UDIA Victoria is concerned by the specific references Fisherman's Bend as Monash is a more suburban context where development opportunities and planning regulations around heights and urban design, strongly curtail the development yield of land compared to the high rise potential of sites within Fisherman's Bend.

The report recommends a mandatory 75% affordable housing contribution based on the value uplift on rezoned land. This aspect of the strategy is not supported by UDIA Victoria because it is common ground that no tangible method for calculating value uplift has been adopted at the state government level. This approach would be fatal to development activity in the City of Monash.

The ACT benchmark referenced in the draft strategy is not appropriate in a Victorian context because the government own the land in the ACT example. The ACT approach to provide affordable housing becomes a public private partnership between the development industry and the state government. That is markedly different to the City of Monash.

The voluntary planning agreements in NSW target a 50% contribution. That is fully 25% less than earmarked in Monash's policy and is not a mandatory contribution. The report identifies a need to provide 8,350 affordable dwellings within Monash. Given the 6% contribution measure previously mentioned there is no requirement to make the value capture rate as 'high as possible' to ensure the

delivery of these dwellings. We urge council to omit any mandatory contribution based on value uplift until consensus about its calculation method is established throughout Victorian councils.

UDIA Victoria is not supportive of a local council trust being established to collect and distribute affordable housing contributions. We would not support this approach as local councils have not traditionally been active in providing affordable housing. The report correctly identifies at section 1.1 that the imperative on affordable housing supply has only recently become a localised issue that was traditionally exclusively the concern of state and federal government.

For this reason the UDIA could only support a cash in lieu contribution to a council trust where that trust is accompanied by a clear set of transparent guidelines of how the contributions will be spent in improving affordable housing supply in the City of Monash. In the absence of any such guidelines for the trust UDIA Victoria does not support the establishment of the trust or the payment of cash in lieu to a local government trust.

### Specific Feedback on the Supporting Research and Assumptions

UDIA Victoria notes the background work done by SGS Economics and that we have had the opportunity to review the thinking and assumptions that underpin the Draft Strategy.

Our analysis and review of the SGS Economic reports, and the underlying assumptions used have led us to form the following view:

- The SGS model is too simplistic and fails to appreciate the full market dynamic and the competitive nature of land acquisition for development purposes;
- SGS Economics have used extremely simplistic assumptions and modelling to justify the role they believe the development sector should play in providing affordable housing dwellings;
- SGS Economic have long been an advocate for inclusionary zoning, and as such, they have not provided a balanced view of the arguments for or against inclusionary zoning, and have relied too heavily upon this strategy as a solution for providing more affordable housing;
- There is no available peer review of SGS Economics work which is a significant gap in reliability.

We make the following specific comments relating to the market fundamentals of the property and development industry in response to the SGS Economics report:

- The supply of development sites is not elastic; it is highly constrained. The market does not respond in the way the economic models suggest. New costs and imposts are built into development costs, are passed on to the end consumer and are reimbursed to the developer in the form of retail price increases.
- If the retail housing market does not accept higher end prices, supply will stall, as was seen initially after the Growth Areas Infrastructure Contribution Charge (GAIC) was introduced, as development projects will be shelved until such time as consumers can afford the higher cost of housing.
- Development margin does not and cannot get squeezed. If the market cannot find a suitable margin, the project will not attract necessary investors and bank funding and therefore development will not proceed.

- Most developers are looking at a pipeline of development sites that need replenishment and this process is highly competitive. Sites need to be in suitable locations, and also supported by suitable planning and infrastructure frameworks to make the project attractive to the end user.
- The planning scheme and the planning processes itself puts a lot significant of risk into projects and strong restrictions on much large portions of land that is are otherwise considered developable.
- The market, in reality, does not support the theory that landowners will simply accept a reduced price for their land, and that a supply of development sites will continue to flow into the pipeline. Instead, landowners are more likely to pursue other asset development strategies – for example, commercial or retail development – or pursue asset refurbishment and leasing strategies, or they simply will not sell their land.
- The notion of a requirement to “gifting” completed dwellings will significantly impact the viability of most development sites and cripple the delivery of new housing supply.



Affordable Housing Industry Advisory Group  
C/- Nicola Foxworthy,  
Chair  
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11 June 2020

Hon Daniel Andrews MP  
Premier of Victoria  
1 Treasury Place  
EAST MELBOURNE, VIC, 3002

cc:

*Hon Tim Pallas MP, Treasurer*  
*Hon Richard Wynne MP, Minister for Planning, Minister for Housing*  
*Hon Michael Sukkar, Federal Minister for Housing*  
*Jude Munro, Stan Krpan and Roger Teale, Co-Chairs, Building Victoria Recovery Taskforce*

Dear Premier

The Victorian Affordable Housing Industry Advisory Group (the Advisory Group) and its peak body members are pleased to provide the attached paper to inform the government's consideration as to how new investment in Social and Affordable Housing could be structured to support:

- Immediate economic benefits through housing stimulus as a response to the COVID-19 crisis;
- Significant value for public investment; with construction and provision of Social and Affordable Housing having multiplier effects in terms of economic and social returns and cost-savings over time;
- A medium term plan to transition to a sustainable, scaled, and systematised Social and Affordable Housing industry in Victoria; attracting new private investment, partnerships and leveraging of outcomes over time; and
- A significant legacy of safe, secure and affordable housing for vulnerable, low income and key worker households.

The Advisory Group commend the Victorian Government on its recent announcement to upgrade 23,000 Social Housing dwellings and build 168 new homes, and on the focus of the Building Victoria Recovery Taskforce to address bottlenecks in the planning system and give priority to developments that include Social or Affordable Housing.

However, achieving a measurable and leveraged impact relative to demand, and countering the down-turn in the market requires a larger and longer term plan with significantly scaled investment in Social and Affordable Housing over the short to medium term.

The attached paper sets out shared industry objectives for new investment and highlights potential ways it could be structured and built on over time, subject to the scale of investment and design.

The Advisory Group invites the State Government to work with it and its peak body members - the Urban Development Industry Association (UDIA) Victoria, Property Council of Australia (Victoria) and the Community Housing Industry Association of Victoria, to co-design and implement a plan that draws on the objectives and opportunities identified by the Advisory Group, to ensure outcomes are both achievable and progress Victoria towards a scaled and systematised approach to the investment and delivery of Social and Affordable Housing.

We look forward to an opportunity to discuss at your earliest convenience and to establish a plan to work together to achieve our mutual objectives.

Yours sincerely




**Nicola Foxworthy, Chair**

Affordable Housing Industry Advisory Group



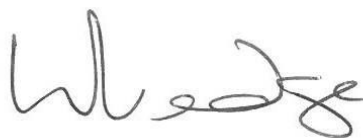
**Danni Hunter, CEO**

Urban Development Industry of Australia (Victoria)



**Cressida Wall, Executive Director**

Property Council of Australia (Victoria)



**Lesley Dredge, CEO**

Community Housing Industry Association - Victoria

***Affordable Housing Industry Group Membership, June 2020***

- *Community Housing Industry Association Victoria*
- *Urban Development Industry Association (Vic)*
- *Property Council of Australia (Victoria)*
- *Victorian Planning and Environmental Law Association*
- *Community Sector Banking*
- *Bank Australia*
- *CBRE*
- *Frasers Property*
- *ISPT*
- *Grocon*
- *Mirvac*
- *Burbank Group*
- *Common Equity Housing Ltd*
- *Housing Choices Australia*
- *Housing First*
- *National Affordable Housing Consortium*
- *Unison*
- *Haven Home, Safe*

The Affordable Housing Industry Advisory Group invite the Victorian State Government to work in partnership with the development and not-for-profit housing sectors to co-design a bold housing plan for Victoria.

The plan should enable immediate housing stimulus, drive economic activity and jobs, deliver critical Social and Affordable Housing, and support a transition to an at-scale, sustainable Affordable Housing industry in Victoria.

The plan would be strengthened by the attraction of Federal Government investment which would further maximise the scale of outcomes and ensure the full suite of tools available to all levels of government are utilised to drive outcomes.

## Introduction

The **Affordable Housing Industry Advisory Group** (the Advisory Group), comprises representatives of Victoria's peak property, planning and community housing sector bodies, individual listed and private developers, financiers, and Registered Housing Agencies in Victoria.

The Advisory Group members share a **vision** for a **systematised, scaled and partnership-driven Social and Affordable Housing industry** and agree that:

- Social and Affordable Housing is **critical social and economic infrastructure**, essential to Victoria's sustainable growth and prosperity;
- Demand is well established, with significant **economic and social costs** of not acting. It is estimated that least **6,000 new Social Housing dwellings are required each year** for the next ten-years just for Victoria to reach the national average of 4.5 per cent of all households in Social Housing;<sup>1</sup>
- **A coordinated long-term housing plan and investment strategy** led by the State Government is required that supports industry to invest, partner and deliver the range of housing responses needed, particularly for lower income households and essential workers, integrated across the community;
- Delivery of Social and Affordable Housing depends on an active and **sustainable development and construction industry**. Slowing down of this market will have significant economic implications and will further reduce opportunities for Social and Affordable Housing and housing supply, diversity and affordability;
- The residential development, financing and not-for-profit housing sectors are well-established, regulated delivery agents of market and Social and Affordable Housing and have demonstrated a desire and ability to **work in partnership to respond to the housing crisis** and to deliver **new innovative forms of tenure**, such as large-scale Build-to-Rent and shared equity home ownership;
- With the right **enabling conditions and investment**, Victoria can transition to a **scaled and sustainable Social and Affordable Housing industry**; attracting private investment, supporting economic activity and jobs, and delivering long-term social and economic benefits.

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<sup>1</sup> Make Social Housing Work (2020)

## Context

The demand for Social and Affordable Housing and the need for government investment is well established. The COVID-19 crisis has reinforced the importance of safe, secure and affordable homes to a healthy society and the need for concerted and coordinated action.

Calls for short to long-term government investment in residential development, home purchasing stimulus and Social and Affordable Housing provision as economic stimulus are growing. Key stakeholders, including the Advisory Group, recognise that:

- Co-ordinated Federal, State and Local Government action is required to support the residential sector to survive the economic impacts of the crisis and to be sustainable through the recovery period;
- Government's need to invest and take action to drive short-term counter-cyclical stimulus in a declining residential market;
- Investment directed through the Registered Housing sector can address the subsidy gap and can provide a platform for significant and untapped capital to be put towards Affordable Housing in the medium term.

## Industry Shared Objectives for Investment

The Advisory Group is keen to work together and with the State Government to co-design and implement a ten-year plan that enables Victoria to transition towards a scaled, sustainable and diverse Affordable Housing industry.

Recognising the urgency of the situation and the opportunities it presents, a coordinated plan coupled with short and medium term investment is critical. The Advisory Group recommend that investment decisions be guided by the following **objectives**:

1. Deliver immediate **economic stimulus** and medium to longer term **triple-bottom line outcomes**;
2. Create an **enabling environment** for **industry participation, investment, and partnerships** - supporting each sector to maximise and work to their strengths and capabilities and build robust partnerships;
3. Utilise and enhance **government systems and infrastructure**, regulatory provisions, funding and financing levers;
4. Support new ways of **procurement partnerships** between industry and government that build on established relationships and regulation and are outcome driven;
5. Support attraction of **institutional and other third-party investment** to leverage and **maximise return on public investment**;
6. Support progression to a scaled and sustainable **Social and Affordable Housing industry**;
7. Achieve **high quality housing** in the right locations; and
8. Be **transparent and accountable**, with value appropriately held and managed over time.

The opportunity for both the Federal and State Governments is to draw on these objectives and take advantage of, and expand on existing investment distribution, procurement, and contracting mechanisms, particularly drawing on the established regulatory framework and relationships with registered housing agencies by the State.

This will reduce the need for lengthy or unnecessarily complex procurement processes, ensure risk is managed, and value is appropriately held and managed over time.

## Forms of Investment

The vision, plan and scale of investment must be **bold** and able to activate immediate market activity, whilst enabling leveraging and attraction of large-scale private investment into Social and Affordable Housing over time.

Potential investment objectives and forms of investment are outlined in the **attached table** and are outlined as examples to support further investigation by industry and government in partnership. The specific scope of outcomes will depend on the level of investment by the Commonwealth and State Governments and should allow for a broad mix of responses that can cater to the range of community demand and deliver enhanced value for investment.

## Summary

The current crisis highlights the importance of government leadership and support for the most vulnerable, the value of affordable and safe housing, and the need for both economic and social outcomes to be achieved from public investment.

The Advisory Group reflects the desire across the private and not-for-profit sectors to partner and find win-win solutions.

There is a clear opportunity for industry and government to co-design an overarching plan that is coupled with short, medium and long-term actions and investment at scale that can be readily implemented and maximised and support aspirations for a viable and scaled Social and Affordable Housing system.

Investment in Social and Affordable Housing supply will deliver proven significant economic and social outcomes, including:

- Increased turnover per dollar invested in construction activity;<sup>2</sup>
- Job retention and growth;<sup>3</sup>
- An estimated community benefit of \$3 for every \$1 spent on Affordable Housing provision as a result of health cost savings, educational benefits, enhanced human capital, improved worker retention, reduced family violence and crime;<sup>4</sup> and
- Enhanced public value through leveraging of government investment with private and not-for-profit equity and debt.<sup>5</sup>

**The Advisory Group looks forward to work with the State Government to co-develop a plan to grow a viable and scaled Affordable Housing Industry and a corresponding investment package to drive short to long term economic and social returns.**

**Together industry and governments can ensure that the current crisis leads to a positive, long-lasting and significant legacy of safe and secure housing and significant social and economic benefits to individuals and the community.**

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<sup>2</sup> KPMG (2012) Housing Ministers Advisory Committee (2012) Social Housing Initiative Review September 2012 estimated \$1.30 return for every \$1 invested in housing.

<sup>3</sup> The construction industry support an estimated 1 in 10 jobs

[https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/rp/rp1718/Quick\\_Guides/EmployIndustry](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1718/Quick_Guides/EmployIndustry). The 2008 Nation Building Economic Stimulus in Social Housing resulted in an addition of approximately 9,000 FTE in the construction industry nationally, and 14,000 FTE more broadly - increasing overall GDP by 0.1 per cent (10 basis points); SGS modelling of a proposal for 30,000 new Social and Affordable Housing dwellings over four years nationally estimates on average between 15,500 and 18,000 full-time equivalent (FTE) jobs would be created.

<sup>4</sup> SGS Economics & Planning, 2019, City of Melbourne Housing Needs Analysis, SGS Economics & Planning, Melbourne

<sup>5</sup> The Nation Building Economic Stimulus resulted in an addition 13% of dwellings above the Federal funding target as a result of in-kind State contributions, lower average cost dwellings, and sector leveraging (source: KPMG)



## Indicative Objectives and potential forms of Investment

Timeframe for Investment	Objectives for Investment	Potential Investment Approach	Community Housing Sector Role	Development Industry Role	Financing Sector and Investor Role
<b>Short Term (&lt;12 months)</b>	<ul style="list-style-type: none"> <li>Immediate market stimulus, minimising the impact of COVID-19 on construction industry activity and jobs, supporting an ongoing pipeline of development across small to larger organisations and trades;</li> <li>Rapid housing response to respond to homelessness and those accommodated in crisis or short-term housing;</li> <li>Increased capacity of Housing Agencies to support priority households in need.</li> </ul>	<ul style="list-style-type: none"> <li>Federal and/or State Government borrowing to enable capital grants and low-cost financing to Housing Agencies for new stock acquisition targeted to addressing household exiting crisis accommodation/facing homelessness, and grants to Housing Agencies to support acquisition and upgrades of poor-quality private housing;</li> <li>Smaller scale capital funding to Housing Agencies to progress planning for new builds on Agency owned land;</li> <li>Streamlined, fast-tracked planning of developments with Social and Affordable Housing.</li> </ul>	<ul style="list-style-type: none"> <li>Receive and expend grants;</li> <li>Source properties and secure via contract;</li> <li>Ensure housing allocation responds to established priorities;</li> <li>Progress project planning and commence construction on for Housing Agency developments.</li> </ul>	<ul style="list-style-type: none"> <li>Finalise and construct projects;</li> <li>Deliver Social and Affordable housing under contractual arrangement;</li> <li>Trade industry to upgrade poor quality private housing;</li> <li>Progress projects through planning for medium term investment.</li> <li>Progress planning and development of BTR projects.</li> </ul>	<ul style="list-style-type: none"> <li>Financing of development.</li> <li>Existing financing of Housing Agencies.</li> </ul>
<b>Medium Term (1 – 4 years)</b>	<ul style="list-style-type: none"> <li>Medium term stimulus and greater leveraging of government investment to maximise the number of outcomes;</li> <li>Support certainty for the development industry and capacity to deliver a pipeline of market and Social/Affordable Housing by: <ul style="list-style-type: none"> <li>Committing to investment in Social and Affordable Housing;</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Capital grants to Housing Agencies for new stock acquisition under contractual agreements;</li> <li>Recurrent subsidy grants to consortiums of Housing Agencies and investors for new builds;</li> <li>Transfer of State assets to Registered Housing Agencies for redevelopment;</li> <li>New low-cost financing to projects that involve a Social</li> </ul>	<ul style="list-style-type: none"> <li>Receive and expend grants;</li> <li>Package investment at greater scale to support project-specific leveraging and new investment;</li> <li>Fund and finance Housing Agency-led projects or Joint Venture with private sector;</li> <li>Source and influence property design and delivery, securing via contract;</li> <li>Access and utilise low-cost financing to leverage grants;</li> </ul>	<ul style="list-style-type: none"> <li>Finalise and construct projects;</li> <li>Finance and deliver mixed-tenure development, including Social and Affordable Housing under contract and/or Joint Ventures;</li> <li>Undertake construction of Housing Agency projects;</li> <li>Invest in mixed-tenure developments such as BTR.</li> </ul>	<ul style="list-style-type: none"> <li>Financing of development</li> <li>Financing of Housing Agencies to purchase and/or develop</li> <li>Developer and/or institutional funding potential into specific developments such as BTR and Housing Agency projects (subject to subsidy).</li> </ul>

	<ul style="list-style-type: none"> <li>- Supporting development industry to access planning concessions and low-cost financing where linked to Social and Affordable Housing delivery.</li> <li>• Attract new private and institutional investment</li> </ul>	<p>and/or Affordable Housing component;</p> <ul style="list-style-type: none"> <li>• Release of surplus government land and/or public housing land with clear Social and Affordable Housing requirement;</li> <li>• Streamlined, fast-tracked planning of Social and Affordable Housing developments.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure housing allocations respond to established priorities;</li> </ul>		
<b>Long term (5 – 10 years)</b>	<ul style="list-style-type: none"> <li>• Transition to a Social and Affordable Housing industry operating at enhanced scale and capacity; <ul style="list-style-type: none"> <li>- Attracting new private and institutional investment at scale;</li> <li>- Leveraging government inputs (land, planning, finance, funding);</li> <li>- Enabling new partnerships and innovation.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• More sophisticated packaging of investment by government, for example: <ul style="list-style-type: none"> <li>- Funding and financing to Housing Agencies on a portfolio basis rather than project specific arrangement;</li> <li>- Release of surplus land with attached clear dedicated funding package;</li> <li>- Appropriate application of planning processes that enhance certainty and reduce risk.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Package investment and leverage through financing and partnerships;</li> <li>• Significantly greater influence on housing design and delivery;</li> <li>• Potential re-financing of portfolio to increase leveraging capacity</li> <li>• Direct influence in property design and delivery, securing via contract;</li> <li>• Access and utilise low-cost financing to leverage grants;</li> <li>• Ensure housing allocations respond to established priorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Tailor developments to include dedicated proportion of Social/Affordable Housing;</li> <li>• Finalise and construct projects;</li> <li>• Joint venture with Housing Agencies to deliver mixed tenure developments.</li> <li>• Undertake construction of Housing Agency projects;</li> <li>• Invest in mixed-tenure developments such as BTR.</li> </ul>	<ul style="list-style-type: none"> <li>• Financing of development;</li> <li>• Financing of Housing Agencies to purchase and/or develop;</li> <li>• Scaled institutional funding into portfolios.</li> </ul>



10 October 2019

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

By email: [Fiona.k.delahunt@delwp.vic.gov.au](mailto:Fiona.k.delahunt@delwp.vic.gov.au)

Dear Fiona

**Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing**

**UDIA Victoria Preliminary Submission**

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 welcomes the opportunity to provide input to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing (the Committee), examining possible models and options to facilitate the supply of affordable housing in Victoria. We recognize the Committee has been given a particularly narrow brief, defined to isolated planning solutions.

*UDIA Victoria's view however is that a real solution for Victoria's shortage of affordable housing at volume will require a whole of government response predominantly driven by fiscal initiatives.*

UDIA Victoria considers affordable housing to be critical economic infrastructure essential to Victoria's productivity and liveability. Indeed, housing affordability is a key element of our current Advocacy Agenda, which seeks to ensure policy and planning decisions prioritise housing affordability by facilitating development and healthy housing supply, providing investment certainty, and ensuring that policy considers affordability impacts.

Demonstrating this commitment, UDIA Victoria has been an active member of the Affordable Housing Industry Advisory Group (AHIAG) since its establishment in 2016. In 2019 we delivered the *Introduction to Property Development Economics for Affordable Housing* course, on behalf of the Department of Environment, Land, Water and Planning's (DELWP).

In providing the advice set out in this submission, we wish to highlight the following:

- Whilst there is a role for industry in delivering the housing Victoria needs, industry should not be paying the cost of 30 years of underinvestment in social and affordable housing, and the ability of the planning system to address the current level of need is limited;
- The question of how best to address 'affordable housing', as defined by the *Planning and Environment Act 1987*, cannot reasonably be separated from the importance of ensuring an

adequate supply pipeline, as a key driver of housing affordability in the broader market;

- Victoria's apartment development market is facing unprecedented challenges, reflected by the incredibly low building approval rates. Unless the drivers of this market are addressed in a whole of government approach, any affordable housing policy response relying on the apartment development market to deliver will ultimately fail;
- Any new planning mechanism to increase the delivery of 'affordable housing' (as per the definition in the *Planning and Environment Act 1987*), may result in an increase to the median house price in Victoria in order to facilitate an unknown and unmeasured level of affordable housing for some. To avoid a net negative effect on housing affordability, any mechanism must be carefully assessed on its impact:
  - on commercial feasibility, and the ability to secure project finance, using a risk-adjusted return model. Any impacts must be matched by equivalent incentive measures,
  - on the median house price in Victoria, through restrictions on supply either through moderating development activity, or artificially constraining development yields; and
  - on the ability of affordable housing associations to partner with industry to deliver increased volume of housing stock.

To assist the Committee's review, this submission will set out the:

1. need for a whole of government approach;
2. current planning policy context;
3. effectiveness of the newly established voluntary affordable housing negotiation framework; and
4. UDIA Victoria's position with respect to specific planning mechanisms designed to support both delivery of affordable housing and promote housing affordability.

Given the narrow timeframes associated with this consultation, we note this submission is preliminary in nature, as we undertake a more fulsome member engagement process. We would be happy to provide further advice on specific matters during the Committee's term – particularly the review of the benefit and cost, of any mechanisms being considered by the Committee.

A summary of our recommendations is provided at **Attachment 1**.

## 1. A Whole of Government Approach is Critical

The supply and cost of housing is one of Victoria's biggest challenges. Despite record low interest rates, short-term government incentives like NRAS and a once-in-a-generation capital injection of \$5.2 billion under the Nation Building Program, housing remains out of reach for too many Victorians.

There are multiple factors driving housing affordability in Victoria – it follows that in order to introduce measures to increase the delivery of 'affordable housing', those market drivers affecting the supply and cost of housing must first be understood.

In recent years, there have been multiple changes to government policy, regulation and taxation settings which have directly reduced the health of the new housing market. These include:

- Building and planning design requirements reducing development yields and driving up construction costs;

- Stricter lending requirements affecting the ability to secure project finance (and hence increasing cost of development finance as private lenders step into the space vacated by the big four banks), as well as the purchasing power of individual owner-occupier and investor purchasers;
- Various controls limiting and disincentivising foreign ownership and investment, further affecting the ability to secure the pre-sales required to secure project finance;
- Increasing construction and infrastructure delivery costs, largely impacted by the infrastructure delivery boom; and
- The introduction and increase of new infrastructure contribution costs, fees and charges.

In addition to pushing up delivery costs, the combined effect has resulted in a significant slowing of the commencement of new builds across Victoria, and specifically a sharp decline in new apartment building approvals in FY18/19 from FY2017/18 levels:

- Victoria wide, total building approvals for dwellings declined 21% to 59,724 from 75,634;
- Inner Melbourne experienced significant declines:
  - o Four storey plus dwelling approvals declined by 58.7% to 4,895 from 11,855
  - o Town house approvals declined by 41.8%
- Middle Melbourne experienced an overall decline of 27.3%, with a total of 13,603 approvals.

Further detail of each of the recent policy and regulatory changes that are having a direct impact on the pipeline of new dwellings in Victoria in general, and Melbourne in particular, is provided in **Attachment 2**.

Acknowledging the critical role of institutional investors and listed property trusts in Victoria's housing market. Institutional investors, such as superannuation property funds, are the key to unlocking scale in the delivery of affordable housing. Demonstrating this scale, at August 2019, \$57 Billion was invested in Australian listed property and \$99 billion in unlisted property (Association of Superannuation Funds of Australia (ASFA)).

There is a great reliance on the Community Housing sector to deliver and manage affordable housing. This largely ignores the significant investment capacity of the private market which could help to provide affordable housing solutions at scale.

We note the gap in the private market affordable rental housing market since the closure of the NRAS program, which has largely closed off private investor purchase of housing for affordable rental. The Permanent Rental Affordability Development Solutions (PRADS) model proposed by Housing All Australians seeks to address this gap. Noting that Housing All Australians has provided a submission to the MAC, we will not duplicate the discussion in our submission. However, we do note that the Inner Melbourne Action Plan (IMAP) has commissioned a piece of work investigating the PRADS model, and we urge the MAC to discuss this further with the IMAP.

UDIA Victoria has participated in the Victoria Government's Parliamentary Advisory Group on Build to Rent (BTR). Whilst BTR in Victoria could provide a pathway for the efficient delivery of integrated affordable housing at volume, substantial subsidies will be required (in addition to any tax equalization measures) in order to attract the level of domestic institutional investment required to establish affordable housing outcomes this emerging asset class.

The delivery of Affordable Housing at scale requires industry (private and not-for-profit housing sectors and their financiers) to have the capacity, opportunity and conditions precedent in place to enable them to co-invest and deliver.

Whilst a positive initiative, the Social Housing Growth Fund, and its target of providing 2,200 dwellings over 5 years, is inadequate given that according to Infrastructure Victoria, the outstanding demand for social housing alone is in the order of 30,000 dwellings. The program requires both significant expansion and be aligned with other efforts – for example, outcomes negotiated under voluntary affordable housing agreements - to enable the certainty required for successful delivery.

We understand that the many high-quality funding applications from the Community Housing Sector and its finance and development partners exceeded the available 2019 tranche of funding, with high-quality applications not able to be funded. We encourage the State Government to extend the funding to all suitable projects, so as to provide certainty to both registered housing providers and other stakeholders.

In the short term, we encourage the State Government to bring forward the capital contribution to the Social Housing Growth Fund (Growth Fund) already incorporated into the Budget Forward Estimates. The approval of the accelerated delivery would:

- Provide a new home for 5% of the households on the State's Housing Register. The biggest single reduction since the Rudd Governments social housing stimulus
- Provide the biggest single boost to community housing since the Rudd governments social housing stimulus
- Attract \$1.2 Billion in private and community investment into social and affordable housing
- Create 1,375 direct FTE jobs and nearly 2,000 associated jobs
- Build the capacity and balance sheet of the Community Housing sector in the State enabling further leverage for affordable housing outcomes

## Recommendations

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:

- Reinstate the stamp duty concession for investors purchasing dwellings off-the-plan;
- Remove the foreign purchaser stamp duty surcharge;
- Maintain the existing Land Tax Rate without an increase; and
- Exclude 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

It is the role of the State Government to provide clear policy direction and housing growth targets for local government, and to put accountability measures in place to ensure that local housing policy responds to those objectives.

A key tenet of *Plan Melbourne 2017-2050* is to facilitate long-term growth and housing choice in the right locations. Plan Melbourne recognizes that in order to achieve this aim, housing needs to be planned at a regional scale, making adequate provision for future housing needs by defining housing change areas and redevelopment areas, directing new development and densification to areas well provisioned with infrastructure, and collecting and reporting on information on changing housing preferences to inform future planning decisions. These objectives are captured in Policies 2.1.3 - *Plan for and define expected housing needs across Melbourne's regions*, and 2.1.4 - *Provide certainty about the scale of growth in the suburbs*.

Action 1 - Land use framework plans and Action 19 - Metropolitan regional housing plans to guide housing growth, in Plan Melbourne's Five Year Implementation Plan are critical for the successful achievement of this policy intent, yet neither have been prepared to date in line with the Implementation Plan.

As UDIA understands it, the Land Use Framework Plans not yet released but under development since 2017, have failed to include the level of housing growth guidance required by Plan Melbourne.

Plan Melbourne identifies the Metropolitan Regional Housing Plans as a short-term action specifically intended to inform updates to local housing strategies and planning schemes. These plans were, following an assessment of capacity, to identify the preferred locations for the delivery of medium- and higher-density housing and determine the additional aggregate housing supply able to be delivered, for each metropolitan region. Further, the plans were to identify the particular housing diversity and affordability issues that need to be addressed, including in areas of social inequality and disadvantage.

Whilst DELWP have been developing a suite of research tools so that local governments can better understand the housing context, the State has to date not delivered metropolitan regional housing plans. UDIA Victoria questions whether it is the intention of the Andrews Government to deliver on this action in this term of Government.

We propose the introduction of housing targets to establish a delivery model for both general supply and affordable housing supply under a performance measurement and accountability framework.

Whilst the above *Plan Melbourne* actions are intended to provide policy direction for the management of housing growth, even if delivered in line with the Plan Melbourne requirements, they will not in themselves ensure that local government considers housing policy and planning in line with State and regional housing objectives.

To this end, UDIA Victoria recommends that State Government develop:

- clear numerical housing targets, across Victoria
- a system to coordinate and track achievement of those targets, and

- accountability measures with meaningful implications for municipalities that do not achieve those targets.

Numerical targets should be set for both general housing and affordable housing supply. Specifically, affordable housing targets must specify the proportion of housing to be achieved via the planning system, as well other mechanisms. These targets then should drive the development and assessment of local housing policy and focus and prioritise both State and Local policy efforts and investment for the delivery of affordable housing across a spectrum of initiatives.

Greater London provides a useful case study of robust housing targets and enshrined meaningful and impactful obligations on government (with industry) to deliver on these targets. Further detail on the Greater London example is provided in **Attachment 3**. The City of Vancouver's Housing and Homelessness Strategy is another example where numerical housing targets have been based on analysis of need, and a system is in place to support achievement of those targets.

#### *Income Ranges in Governor in Council Orders*

The current Governor in Council (GIC) Orders for the Specification of Income Ranges are too narrow for the purposes of the affordable housing definition, and insufficiently address significant variations in median house price across the state, and in Metropolitan Melbourne particularly. We note that South Australia has higher income bands than Victoria, capturing in them a broader range of key workers (an employee that provides essential services – education, public health and safety), despite significantly lower median house prices.

UDIA Victoria recommends that the GIC Orders are revised to:

- include an “inner metropolitan Melbourne” category, recognizing the significant variance in median house prices across the Melbourne Metropolitan area, and
- extend the moderate-income band to include critical key workers.

#### *Determining affordable housing price points for purchase*

Although recognising that the Planning and Environment Act 1987 does not provide scope to specify price ranges for the purchase or rent of housing, there is scope to require a methodology for calculating the sale price of the product that meets the definition of affordable housing. We recommend that the Valuer General determines an appropriate methodology that considers not only percentage of household income but also yield outcomes, which should be set out in a practice note. Further, we would recommend legislative change to allow for the definition of price points in future.

### **Recommendations**

- 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.
- 2.4 Define a methodology for determining affordable housing price points for purchase.

## **3. The Voluntary Affordable Housing Framework**

Through the relationships established both as members of the AHIAG, and through the delivery of the Introduction to Property Development Economics for Affordable Housing course, UDIA has developed an understanding not only of those matters critical to the development industry in the discussion of affordable housing, but also an understanding of the needs of other stakeholders, and of what is



required to develop effective delivery partnerships.

Over five sessions, the course attracted 169 attendees across 21 Councils, 5 State Government departments and agencies, as well as registered housing agencies and private sector. As evidenced by the course attendance (and attendance at the AHAG Masterclass), local governments across Victoria, in all settings, have embraced their new responsibilities in facilitating affordable housing agreements. However, they are operating in a policy guidance, and knowledge vacuum, which is leading to confusion, unnecessary duplication, considerable delays in the preparation of planning scheme amendments and permit negotiations, and ultimately to the preparation of policies and approaches that are counterproductive, not necessary resulting in delivered outcomes.

State and local government planners have little to no prior understanding of property development economics (not traditionally part of a planning degree or on-the-job training), impacting their understanding of the impact that planning decisions can have on market dynamics, the flow on effects on supply and affordability, as well as their ability to negotiate with the development industry to secure outcomes that will be deliverable.

Industry's understanding of the voluntary affordable housing framework varies considerably. For those who have experienced negotiations under the framework, the inconsistency between LGAs in approach and lack of understanding of the commercial implications of affordable housing agreements is incredibly frustrating. There is very little consistency in how affordable housing negotiations are approached in each local government area (LGA), so what may be a successfully negotiated outcome in one municipality has very little likelihood of being accepted in another. We have heard:

- Approaches to the provision of incentives are frequently tokenistic or absent, failing to recognize the implications of having additional, voluntary provisions introduced following the sale of land, and how the cost of providing the affordable housing outcome affects development viability
- Permit conditions requiring affordable housing agreements being placed on permits where no strategic justification exists, and where not previously negotiated
- Development proponents are being required to sign agreements to provide affordable housing before an application to rezone land will be entertained –breaching the intent of affordable negotiations to be voluntary
- Officer requests for a voluntary agreement, and resulting negotiations occurring in the absence of Council support, only to be abandoned where Council support is not secured
- A lack of flexibility – ignoring the role of affordable purchase, discounted sale, private rental arrangements, or other innovative models
- Negotiations can typically take 6-12 months, with delays exceeding 12 months not uncommon
- Requirements in Section 173 Agreements being too onerous to attract and secure a community housing delivery partner as they ignore the portfolio management requirements of registered housing agencies. Unhelpful requirements include (but are not limited to) in perpetuity requirements, preventing future sale of dwellings, or specific requirements for the housing to house a specific cohort of resident – be that by income bracket or by needs (e.g. disabled persons, or sole parents). These requirements have been proposed even where there is no significant investment by the LGA involved to help facilitate the outcome. The current application process to secure grant funding also provides the Registered Housing Agencies with little certainty
- Sound, transparent and acceptable cash in lieu alternatives linked to affordable housing outcomes most often are not in place (trusts are rare), limiting the potential to secure an

outcome towards affordable housing where direct delivery in a specific development is not appropriate

- Planning Permit Requirements, and agreements, being challenged successfully at VCAT, or worse – the development ultimately abandoned.

The above raises serious questions as to the efficacy of the voluntary affordable housing negotiation framework in its current form.

It has only been 16 months since the introduction of the voluntary negotiation framework. Without a central, public register of the agreements, that tracks delivered outcomes, it is impossible to reliably gauge the number and distribution of affordable housing units delivered under the framework, or to understand the additional costs to industry, government, and the public associated with its implementation.

UDIA Victoria recommends that the MAC look to international examples for how a whole of government approach can be used to develop a suite of tools to help deliver affordable housing outcomes. UDIA Victoria delegates recently visited the District of Columbia in the United States on our international study tour and heard about their experience in encouraging supply of affordable housing. **Attachment 4** provides a snapshot of the “toolkit” of incentives and approaches that have been developed for the New Rochelle urban development area, to provide a range of options that may suit different development contexts.

## Recommendations

- 3.1 Develop State policy guidance for use by local government, in the development of Social and Affordable Housing strategy (covering planning and non-planning matters), and affordable housing planning policy. This should be supported by education and training on the affordable housing system, and property development economics.
- 3.2 Develop a model toolkit for local government, that considers the relative success of international models, and:
  - 3.2.1 Identifies the matters that should be contained in a social and affordable housing strategy (that covers planning and non-planning matters),
  - 3.2.2 Identifies the matters that should be contained in an affordable housing planning policy, and critical principles emphasizing the voluntary nature of the provisions.
  - 3.2.3 Identifies how local government can develop a suite of incentives to offset the commercial impact of the affordable housing provision – including the time value of money cost associated with additional delays caused by extensive negotiations.
- 3.3 Revise the standard template section 173 Agreement for voluntary affordable housing negotiations to limit the matters contained within them, to allow flexibility in how the negotiated extent of affordable housing is provided, so as to protect the commerciality of developments and ensure supply.
- 3.4 Introduce a reporting system for voluntary affordable housing agreements to provide transparency, and a mechanism by which outcomes can be measured.

## 4. Value Capture and Inclusionary Zoning

There are various existing value capture mechanisms in use in Victoria that contribute to the cost of infrastructure projects that are typically introduced at the time of rezoning land, including the Growth

Areas Infrastructure Contribution, Development and Infrastructure Contributions, open space contributions and user charges.

Associated value capture mechanisms that do not directly contribute to the cost of infrastructure projects, but do provide revenue for State and Local Governments, include land taxes, stamp duty, capital gains tax and Council rates, the Metropolitan Planning Levy and permit application fees.

UDIA's position on value capture mechanisms are driven by the following principles:

- The value capture discussion must be distinguished by value capture on government-held land, as opposed to value capture on privately held land;
- Value captured on government land should be maximized, remain directly in the housing market, and not be directed to general revenue. There are a number of mechanisms by which this value can be retained – including long term lease of land for the purpose of affordable housing, which will result in a greater affordable housing outcome than has the potential to be realized under the current program for delivery of affordable housing on government land, or by offering land to market with an inclusionary housing component reflected in a lower land price;
- Rezoning alone does not provide value - value is only created by direct government investment;
- the value created must be measurable, and the proportion of value captured must be matched with incentives and not diminish the ability for value to be realised; and
- value capture should not be introduced after the value creation has already been realised.

In general, UDIA Victoria supports value capture mechanisms where new infrastructure creates value that is captured to contribute to the cost of that infrastructure.

*However, we do not consider value capture tools to be the appropriate mechanism for the delivery of affordable housing on privately held land, and do not support yet another value capture mechanism that is linked to a rezoning and a perceived creation of value.*

We note that the assumption of created value has been explored as part of the Planning Panel process for the West Melbourne Structure plan (Melbourne C309), through which an assumed increase in value as a result of the introduced controls was questioned by Council's economic consultants, noting that the imposition of mandatory floor area ratios and height limits is likely to lead to an 'efficiency' in the market – i.e. a reduction in land values. UDIA notes the Panel Report is due to be released imminently. The AHIAAG has commissioned Urbis to undertake a review of Value Capture using West Melbourne as a case study and note that the resulting report should be completed during the tenure of the MAC.

Development uplift provisions are now in place in the Central City under DDO 10 introduced under Amendment C270, and in Fishermans Bend. However, we consider that the commercial floorspace outcomes achieved through C270 uplift provisions are not comparable to the residential market context and should not be used to measure the efficacy of such provisions. We further note that the inactivity in Fishermans Bend due to the absence of an ICP means that Fishermans Bend is not a useful case study. We understand that of the applications currently with DELWP, none have sought an uplift in return for an affordable housing outcome.

The sensitivity of fluctuating markets must also be considered. Commercial values are currently looking more attractive, and we are seeing the conversion of approved apartment developments to commercial space; today's apartment market simply cannot sustain the introduction of further requirements if housing supply is to increase.

UDIA also takes the position that development process itself adds value to land in response to a rezoning (in addition to GAIC, DCP, ICP) in that it is making efficient use of land in accordance with the objectives of the Planning and Environment Act, and in doing so will also need to demonstrate that it is delivering a net community benefit as part of any approval process.

## Recommendations

- 4.1 Voluntary value capture mechanisms are matched by incentive mechanisms of demonstrated equivalent value
- 4.2 The Central City and Fishermans Bend development uplift provisions are not suitable for use as case studies on the efficacy of uplift provisions.
- 4.3 Mandatory requirements for the provision of affordable housing are best suited to government land, and affordable housing outcomes on government land should be maximized.
- 4.4 Mandatory inclusionary zoning provisions are not supported on privately owned land. However, should Government introduce such requirements:
  - It is critical that any mandatory provisions are transitioned to allow the market to adjust. The transition provisions should be such that development is still viable, and to prevent against cost impact on dwellings. It is critical to ensure that the unintended consequence of this is not an increase in the median house price – which will occur if there is a shock to the market. We recommend a period of 5 to 10 years, with the requirements being gradually phased in to increase to the ultimate target over that time.
  - A contextual assessment must be undertaken prior to the introduction of controls to ensure that value is actually being created by the planning intervention, and measuring it to understand the level of capture that retains development viability, and
  - Equivalent value incentives such as yield increases or dispensations for other requirements must be provided.

We note the work that the AHIAG has previously undertaken examining the relative value of incentives, scale of outcomes and effect on feasibility, set out in the discussion paper *Advancing Land-Use Planning Approaches to Facilitate Affordable Housing* (October 2017) (provided to the MAC in the AHIAG submission). The discussion paper provides a useful analysis, however UDIA note that due to the age of the analysis and the changing market in the intervening period, the feasibility assessment should be considered indicative only and not be relied upon to reflect the current day situation.

## 5. Flexibility and Certainty

There is a need to provide flexibility in how affordable housing outcomes are provided. Rigid direct delivery models that cannot respond to varied development contexts are not supported.

Not all developments are suitable – or indeed ‘appropriate’, as defined by the *Planning and Environment Act 1987* - for affordable housing.

We note the importance of ensuring that any planning mechanisms that may be developed, incorporate sufficient flexibility to respond to new and innovative models for affordable housing delivery that may emerge over the life of that mechanism.

Listed companies and investment funds have fiducial responsibilities; in order to invest in a project, they must be able to secure the returns they need for their investors, and returns must be comparable to alternative property investments. It is therefore critical that a risk-adjusted return model is adopted

when assessing the impact of proposed planning controls on development feasibility.

## Recommendations

- 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

UDIA Victoria has been calling for more code assessment pathways to facilitate low impact infill development of modest scale since 2017. Whilst we support DELWP's current efforts to investigate a VicSmart Plus pathway, and note the significant benefit provided by streamlining the notice and assessment process for single dwellings on lots less than 500m<sup>2</sup> (as documented in the Development of a VicSmart Plus assessment pathway Discussion Paper (September 2019)), we urge the department to expand the scope to include applications for two dwellings on a lot (regardless of lot size). Justification for this position is set out in **Attachment 5**.

Current restrictions on the development of secondary dwellings in Victoria's Planning system, and the resulting planning process, is particularly onerous, and the current definition of 'dependent person's unit' too narrow. Victoria's planning system must provide a simpler pathway for families and individuals to age in place, provide better housing choices for young adults living at home, or to provide an additional income stream whilst also providing alternative, affordable housing choices. Victoria's demographics are changing, as are consumer trends. In addition to providing easier pathways for individual property owners to redevelop to suit their own needs, we would expect that a change to the current planning restrictions on secondary dwellings / multi-generational housing, fonzi-flats and granny flats would encourage innovation in volume-built product and assist with housing density and diversity in Victoria's greenfield areas.

To this end, we recommend that secondary dwellings are included as an eligible category for any resulting VicSmart Plus pathway.

The Victorian Planning Authority has recently undertaken a review of the Small Lot Housing Code (SLHC) and its application. In particular, we note our support of the review's recommendation that a new micro-lot category is developed for the SLHC, and recommend that this work is funded, and prioritised so as to support the development of an affordable purchase category of housing.

## Recommendations

- 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

## 7. Next steps

We urge the Committee to ensure that all options recommended to the Minister have been subjected to a regulatory impact statement that explores the cost impact of any targeted affordable housing measures, on housing supply and affordability more generally.

We note that UDIA Victoria has reviewed and support the AHIA submission to the MAC.

UDIA Victoria is currently undertaking extensive consultation with our membership on mechanisms to support affordable housing and note that further information may emerge in the coming weeks. We therefore request that this submission is considered preliminary in nature, and that the MAC may accept a further submission to inform its recommendations to the Minister.

We welcome the opportunity to meet with the Committee to present our submission in more detail. We would also be happy to provide any further information upon request, and look forward to providing a more in-depth review following the release of the Discussion Paper.

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](mailto:kate@udiavic.com.au).

Yours sincerely

**Danni Hunter**

**Chief Executive Officer**

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Encl.

- Attachment 1 – Summary
- Attachment 2 – Housing Policy Context and Financial Policy Context
- Attachment 3 – Greater London case study - housing targets
- Attachment 4 – Washington DC, New Rochelle
- Attachment 5 – Code Assessment for two dwellings on a lot

# Attachment 1

## Submission Summary

### Overarching principles informing the UDIA Victoria submission

- Whilst there is a role for industry in delivering the housing Victoria needs, industry should not be paying the cost of 30 years of underinvestment in social and affordable housing, and the ability of the planning system to address the current level of need is limited;
- The question of how best to address 'affordable housing', as defined by the *Planning and Environment Act 1987*, cannot reasonably be separated from the importance of ensuring an adequate supply pipeline, as a key driver of housing affordability in the broader market;
- Victoria's apartment development market is under unprecedented pressure from all sides, reflected by the incredibly low building approval rates. Unless the drivers of this market are addressed in a whole of government approach, any affordable housing policy response relying on the apartment development market to deliver will ultimately fail;
- Any new planning mechanism to increase the delivery of 'affordable housing' (as per the definition in the *Planning and Environment Act 1987*), may result in an increase to the median house price in Victoria in order to facilitate an unknown and unmeasured level of affordable housing for some. To avoid this, any mechanism must be carefully assessed on its impact:
  - on project feasibility, and hence ability to secure project finance, using a risk-adjusted return model. Any impacts must be matched by equivalent incentive measures,
  - on the median house price in Victoria, through restrictions on supply either through moderating development activity, or artificially constraining development yields, and
  - On the ability of affordable housing associations to partner with industry to deliver increased volume.

### Summary of Recommendations

#### 1. A Whole of Government Approach is Critical

1.1 A whole of government approach underpinned by significant capital investment from government is required to address housing affordability

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:

- Reinstate the stamp duty concession for investors purchasing dwellings off-the-plan;
- Remove the foreign purchaser stamp duty surcharge;
- Maintain the existing Land Tax Rate without an increase; and
- Exclude 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, so as to allow funding for any project that qualifies, sooner.

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**

2.1 Deliver Land Use Framework Plans and Metropolitan Regional Housing Plans, in line with Plan Melbourne requirements, in the short term

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:

- include an “inner metropolitan Melbourne” category, recognizing the significant variance in median house prices across the Melbourne Metropolitan area, and
- extend the moderate-income band to include critical key workers.

2.4 Define a methodology for determining affordable housing price points for purchase

## **3. Voluntary Affordable Housing Framework**

3.1 Develop State policy guidance for use by local government, in the development of Social and Affordable Housing strategy (covering planning and non-planning matters), and affordable housing planning policy. This should be supported by education and training on the affordable housing system, and property development economics.

3.2 Develop a model toolkit for local government, that:

- 3.2.1 Identifies the matters that should be contained in a social and affordable housing strategy (that covers planning and non-planning matters),
- 3.2.2 Identifies the matters that should be contained in an affordable housing planning policy, and critical principles emphasizing the voluntary nature of the provisions.
- 3.2.3 Identifies how local government can develop a suite of incentives to offset the commercial impact of the affordable housing provision – including the time value of money cost associated with additional delays caused by extensive negotiations.

3.3 Revise the standard template section 173 Agreement for voluntary affordable housing negotiations to limit the matters contained within them, to allow flexibility in how the negotiated extent of affordable housing is provided, so as to protect the commerciality of developments and ensure supply.

3.4 Introduce a reporting system for voluntary affordable housing agreements to provide transparency, and a mechanism by which outcomes can be measured.

## **4. Value Capture and Inclusionary Zoning**

4.1 Voluntary value capture mechanisms are matched by incentive mechanisms of demonstrated



equivalent value

- 4.2 The Central City and Fishermans Bend development uplift provisions are not suitable for use as case studies on the efficacy of uplift provisions.
- 4.3 Mandatory requirements for the provision of affordable housing are best suited to government land, and affordable housing outcomes on government land should be maximized.
- 4.4 Mandatory inclusionary zoning provisions are not supported on privately owned land. However, should Government introduce such requirements:
  - It is critical that any mandatory provisions are transitioned to allow the market to adjust. The transition provisions should be such that development is still viable, and to prevent against cost impact on dwellings. It is critical to ensure that the unintended consequence of this is not an increase in the median house price – which will occur if there is a shock to the market. We recommend a period of 5 to 10 years, with the requirements being gradually phased in to increase to the ultimate target over that time.
  - A contextual assessment must be undertaken prior to the introduction of controls to ensure that value is actually being created by the planning intervention, and measuring it to understand the level of capture that retains development viability, and
  - Equivalent value incentives such as yield increases or dispensations for other requirements must be provided.

## **5. Flexibility and certainty**

- 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 so as to have a realistic basis of the impact of the controls on the ability for a development to proceed.

## **6. Other Planning Mechanisms**

- 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 2

### Housing Policy Context

The Victorian Government policy framework for affordable housing – Homes for Victorians: Affordability, Access and Choice – was introduced in March 2017 with the intention of securing a supply of affordable housing as the State’s population grows. The stated aim of Homes for Victorians is to give every Victorian every opportunity to find a home, and to ensure housing accommodates population growth by facilitating the construction of more than 50,000 new dwellings each year.

Whilst UDIA Victoria supports the stated intention, and aims, of this important policy, we raised significant concerns at the time regarding the longer-term impacts of changes to the taxing of purchasers of new dwellings. Of particular concern was, and remains, the removal of OTP stamp duty concessions for investors which was intended to fund the tax exemption for first home buyers.

While this approach offers a significant “leg up” for some, it does so at a significant cost to the rental and apartment markets. As these markets provide the bulk of affordable options, the medium and long term outcomes of this policy are likely to conflict with its stated objectives.

Specifically, we noted at the time that we anticipated the impacts on the residential development market would include a retreat in investors which would lead to a decrease in the supply of new dwellings available for purchase and rent, a less affordable rental market, and a reduction in the overall contribution of the residential construction sector to the Victorian economy, especially jobs.

There is evidence that this initiative, combined with other policy interventions and an overall tightening of availability of project and retail finance for residential projects, has had the perverse outcome of contributing to the reduction in the pipeline of new dwelling supply which will result in a lower supply of new dwellings in the coming two to three years.

### Financial Market Context

Wide ranging changes to policy and regulation since April 2016 have directly impacted on confidence in the housing and urban development markets and the ability of Australian and international buyers to acquire either project or retail finance for residential products.

These changes include the following:

#### **Federal factors**

- Restriction of lending to foreign property buyers without a domestic income by Australian banks.
- Banks adopting stricter lending policies has reduced the level of construction funding available to the industry.
- The Australian Prudential Regulation Authority’s (APRA) introduction of strict limits on interest-only loans with a loan-to-value ratio above 80% in addition to strong scrutiny of interest-only lending for loan-to-value ratios above 90%. This has primarily impacted investment loans as these are more commonly interest-only loans.
- APRA issued instructions to Authorised Deposit-taking Institutions to limit their exposure to interest-only loans to 30% of new residential loans (however this was removed in December 2018).
- The introduction of a New Dwelling Exemption Certificate, and a 50 percent cap on the sale of new apartments to foreign investors which was introduced in the 2017 Federal Budget.

## Victorian Government

- Removal of the stamp duty concessions for investors purchasing dwellings off-the-plan by the Victorian Government.
- Introduction and increase of stamp duty and land tax surcharges on foreign purchasers of Victorian residential property.
- Introduction of the Annual Vacancy Fee for foreign investors by the Victorian and federal governments.
- Decreased height allowances and constraining built form controls introduced through the Melbourne Planning Scheme Amendment C270 in 23 November 2016.
- Uncertainty regarding the planning controls, planning processes and government investment in Melbourne's urban renewal precincts including the Fishermans Bend Urban Renewal Area.
- Building permit levy to address cladding, which we have calculated on one development will result in an additional \$13,000 per apartment.

## Role of Investors in the Supply of New Dwellings

### Investors are vital to securing finance for apartment projects

Investors play an important role in securing finance for apartment projects and therefore the supply of new dwellings in an infill context. In particular, both domestic and foreign investors purchasing off-the-plan apartments enable the vast majority of apartment projects to progress from the concept stage to securing project finance to completion stage which can take two to three years. Without investor capital, many projects are simply not viable.

In the past few years, increasing the number of OTP sales has been an effective tool in meeting more stringent finance requirements to commence new apartment projects. Significant OTP sales assist in mitigating some of the cost, time, and risk involved in meeting finance requirements to commence construction.

Charter Keck Cramer provided evidence that between 2001-2009 in the CBD there were 35 projects, or 29% of all projects, that commenced construction with less than 60% pre-sales. Between 2010-2017 this number fell to just 7 projects or 6% of all new releases. In the 2017-18 financial year, approximately 50 – 60% of purchasers in the off-the-plan market were investors.

Removing the financial incentive to purchase off-the-plan for investors, coupled with further restrictions on access to finance, has negatively impacted on demand for apartments which has in turn reduced the number of apartment projects progressing to building approval stage.

### Importance of private investors in the rental market

Australia's rental market is underpinned by private investment in private rental stock. According to the Australian Housing and Urban Research Institute's (AHURI) paper *Understanding what motivates households to become and remain investors in the private rental market*,<sup>1</sup> the private rental market is critical to supporting Federal and state housing policy which relies heavily on many low-income households being able to access affordable rental housing in the private sector.

The private rental market is a fundamental component of housing provision in Australia and has

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<sup>1</sup> Seelig, T., Thompson, A., Burke, T., Pinnegar, S., McNelis, S., Morris, A. (2009) *Understanding what motivates households to become and remain investors in the private rental market*, AHURI Final Report No. 130, Australian Housing and Urban Research Institute Limited, Melbourne.

become especially significant in the context of the slowdown in the expansion of social housing provision (Seelig et al, 2009). According to the AHURI paper *Motivations of investors in the private rental market*<sup>2</sup>, the private rental market:

- Houses approximately one-fifth of the population nationally, with a higher proportion in specific urban locations;
- Accommodates a greater number of lower income households than the public housing system;
- Performance in providing affordable and stable housing can impact tenants' well being physically and psychologically;
- Rental cost and supply may affect national and state social policy programs such as increased access to labour markets, spatially specific employment generation, and reduced public expenditure on public housing;
- Functions in a wider housing system context. What happens in the private rental market in terms of cost can have an impact on entry to home ownership and demand for public housing; and
- Acts as an important market for development, construction, finance and real estate industries.

As detailed above, the removal of OTP stamp duty concessions has contributed to a decrease in the number of new dwellings being built, especially apartments. As property prices increase, apartments tend to be the most affordable housing opportunities in appropriate locations i.e. close to existing infrastructure assets and services. The decrease in supply forecasted in response to this policy, and evidenced by the latest ABS data, will limit the number of dwellings available as affordable rentals, and fuel what is already a very competitive rental market.

As owner occupiers and first home buyers do not rent out their homes, the removal of OTP stamp duty concessions favours either those who fall within the social/affordable housing market or those who can afford a deposit for a home in the short term. Those who cannot afford a deposit but do not qualify for social housing will find it even more difficult to access affordable rental properties, including key workers and those who want to live close to their employment. Further, the average time to save a deposit for full ownership will significantly increase.

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<sup>2</sup> T, Seelig., T, Burke., A, Morris. (2006) *Motivations of private investors in the rental market*, AHURI Positioning Paper No. 87, Australian Housing and Urban Research Institute Limited, Melbourne.

## Attachment 3



### METROPOLITAN LONDON HOUSING DELIVERY PRACTICE

Metropolitan London is a city with a proactive, comprehensive and regulatory approach to the supply of future housing, and there are key lessons that can be gained from understanding the way in which the city has developed housing delivery targets and the way these targets are reviewed and enforced.

The city is faced with what it describes as a 'housing crisis', brought about by a consistently increasing population and a lack of housing to cater to demand. Like Melbourne, London is challenged with a deficiency in housing stock that meets different community needs, is of quality design and is supported by social infrastructure essential to supporting a high quality of life.

Strategic planning in Metropolitan London is the shared responsibility of the Mayor of London, the 32 London Boroughs and the Corporation of the City of London. The Mayor of London plays an integral and meaningful role in the strategic planning of the city. It is the Mayor's responsibility to produce a spatial development strategy for the city (the 'London Plan'), the ongoing monitoring and review of which is a legal requirement.

The Plan contains a high-level detail in regard to housing provision, specifying average minimum housing supply targets for each of the 32 boroughs that make up Metropolitan London. Each borough has a different target, informed by a range of assessments of housing undertaken by the Greater London Authority.

The current Plan aims to achieve the delivery of 42,389 new homes annually within Metropolitan London, culminating in 423,887 new homes over 10 years. The inclusion of specific targets within the Plan is vital in giving weight to the Plan and committing the 32 boroughs to an appropriately determined figure to work toward.

The identification of housing targets presents a level of detail that Plan Melbourne could greatly benefit from. The adoption of specific stated, tested housing targets for each municipality would enshrine a shared contribution to housing supply across the city within Metropolitan policy guidance, in a transparent manner. It would result in a greater level of clarity as to the task for state and local government to collectively seek to achieve, giving a greater level of weight to the required Housing Outcomes of Plan Melbourne.

The involvement of the Mayor in regard to planning and the provision of housing is not limited to the preparation of the London Plan. The Mayor has significant powers in determining the approval of noteworthy planning applications within the London boroughs and is consulted on all planning applications that are of potential strategic importance to London, which are commonly known as 'referred' applications. An application is referable to the Mayor if it falls into a category defined by the Mayor of London Order (2008) "the Order". For example, commonly referred applications include those for the development of 150 residential units or more, and development over 30 metres in height.

Under the Order, the Mayor has both the power to direct refusal on an application that has been referred to him and also the power to direct that he will become the local planning authority for an application, in much the same way as the Victorian Minister for Planning can 'call in' applications and/or planning scheme amendment proposals. For the Mayor of London to be able to take over an application, it must meet the following tests:

- The development would have a significant impact on the implementation of the London Plan;

- The development would have significant effects that are likely to impact more than one London borough; and/or
- There are sound planning reasons for intervention.

Between 2009 and 2017, the Mayor has assumed the position of local planning authority and called in a total of 21 applications, out of the 3,062 applications of applications referred. The ability of the Mayor to become involved in applications of potential strategic importance, ultimately has an impact on London meeting the housing targets defined by the London Plan, and can greatly assist in the provision of additional housing, where the application is deemed appropriate.

The London Plan is stringently reviewed to ensure housing targets are being met. The Annual Monitoring Report (AMR) is a yearly publication by the Greater London Authority. It provides information on the progress being made in implementing the policies and addressing the objectives of the Plan, by showing how London is performing against 24 KPIs identified in the Plan.

The most recent AMR (September 2018), demonstrates that for the years 2016/2017, more than 45,500 dwellings were completed throughout London. This was 7% above the annual target outlined in the Plan. The AMR identifies boroughs that have met their targets and those which have not. As outlined below, consistent under-delivery has ramifications.

Whilst a borough faces the possibility of being 'named and shamed' by the AMR report for not reaching their housing targets, there are also broader repercussions in place. The Housing Delivery Test (the Test) has recently been introduced by the Ministry of Housing Communities and Local Government (MHCLG). This affects all local government areas in the UK, and is part of a nation-wide initiative to ensure new housing is delivered. The Test is conducted by the MHCLG for every local government area. Consequences of not meeting housing targets include:

- If delivery has been less than 95%, the Local Planning Authority (LPA) should prepare an Action Plan to address the reasons for the shortfall;
- If delivery has been less than 85%, the LPA should include a 20% buffer in their development plan, allocating 20% more land for development than is currently allocated in their 5 year pipeline;
- If delivery has been less than 75%, the 'presumption in favour of sustained development' is engaged. The council's locally agreed planning policies are overridden in favour of national planning rules. The concept suggests that planning applications should be granted unless development compromises certain protected sites, or where the adverse impacts would significantly and demonstrably outweigh the benefits.

In comparison, Plan Melbourne publishes a yearly report tracking the delivery of the plan, known as the 'Report of Progress'. However, notwithstanding this reporting process is in its relatively infancy, it would appear that it will become a higher level summary that tracks the progress of the 112 actions of Plan Melbourne, making no reference for example to statistics relating to the provision of new housing. The London AMR on the other hand is thorough to the extent that if housing targets are not being met, this is evident, and targets are re-aligned. Given lack of specific detail on housing delivery in the Plan Melbourne Report of Progress, it will not be possible to it to ascertain whether Plan Melbourne is making progress in the delivery of new housing and whether any actions need to be adjusted.

## Attachment 4

Washington - New Rochelle “toolkit”



# Major Tools

### Local Programs

- Rent Control
- Housing Production Trust Fund
- Public Land Disposition
- Local Rent Supplements
- Matter of Right Development/Planned Unit Developments
- Inclusionary Zoning

### Federal Programs

- Low Income Housing Tax Credits
- Tax Exempt Bonds
- Community Development Block Grants (CDBG)
- Housing Choice Vouchers
- Public Housing



## Attachment 5

Separate attachment – UDIA letter to Andrew Grear, DELWP, 1 August 2018





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

By email: [Fiona.k.delahunt@delwp.vic.gov.au](mailto:Fiona.k.delahunt@delwp.vic.gov.au)

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 Government. RHAs are funded largely on an annualised basis from many Government 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:

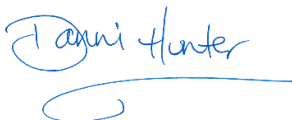
- i. clarify the value of the contribution sought is limited to the Affordable Housing Contribution,
    - ii. where applicable, remove any delivery model restrictions, and
    - iii. identify the funding and incentive mechanisms that will support achievement of the delivery targets.
  - c. Where an 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](mailto:kate@udiavic.com.au).

Yours sincerely



**Danni Hunter**

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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		

28 April 2020

The Hon. Richard Wynne  
Minister for Planning

By email: [Richard.wynne@parliament.vic.gov.au](mailto:Richard.wynne@parliament.vic.gov.au)

Dear Minister

**COVID-19 – Temporary Moratorium on Residential Development Levies and Policy Changes**

The Urban Development Industry of Australia, Victoria Division (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 welcomes the opportunity to work with the Andrews Government to support the residential development industry during this time. Further to our previous correspondence regarding our COVID-19 Action Plan and shovel ready projects, we are seeking your support to enable industry to continue to deliver residential projects during these unprecedented circumstances.

Significant risks are emerging as the Stage 3 lockdown continues and will remain even if Victoria reverts back to Stage 1 and 2 lockdown measures. These include:

- A good portion of the current residential construction activity was generated from property sales which occurred over the past two years. Following a period of historically lower activity due to several factors, sales had only recently started to build again.
- Now COVID-19 has crushed buyer confidence and access to finance, and new home sales have dropped up to 90%.
- These low sales volumes will flow through to reduced civil and home building construction activity, which is likely to result in thousands of jobs being lost over the coming months.
- Residential property and land sales - which drive construction - may be soft for some time.
- Immigration has been the single biggest driver of residential market sales in recent years. For obvious reasons, immigration has ceased and may not normalise for some time. Overseas student intake change will be a second factor that will impact some markets.
- There is a risk that when buyer confidence starts to recover, the impact of the stalled immigration will be felt, which will mean residential markets may take an extra 12 to 18 months to recover.

**In response to these risks, we seek your urgent support to impose a moratorium on proposed new or amended fees, levies and taxes (Local and State Government level) or planning scheme amendments that will increase the cost of residential development, until 30 June 2021.**

## Local Government Imposts

There are currently various proposals for fees, strategies, policies or planning scheme amendments at different stages of consultation and implementation. These all serve to increase development costs and the cost of delivering new residential land and dwellings.

Examples of these proposed or impending charges and policies include:

- **Proposals to increase public open space levies.** A number of councils have planning scheme amendments proposal to increase open space contributions in established suburbs under the Subdivision Act. As an example, Amendment C186 to Darebin Planning Scheme proposes to double the public open space contribution on development to 10%.
- **Proposals for social and affordable housing.** We understand that more than 40 Councils have various proposals on foot to prepare planning scheme amendments that will support new local policies for social and affordable housing which may include imposing Section 173 Agreements in exchange for development approvals.

The most significant known proposal is the **Draft Affordable Housing Strategy for the City of Melbourne**, which is seeking to phase in a requirement that developers must gift 10% of new housing stock at no cost for affordable housing. This would decimate the residential market in the City of Melbourne.

Given you are considering recommendations from the Ministerial Advisory Committee for Affordable Housing for a state policy approach, we urge you to put a moratorium on approving any local planning scheme amendments of this nature.

When the economy recovers and the residential market normalises, a State mandated standard should be enacted to provide certainty across Victoria. We will write to you separately about this issue in the near future.

- **Proposals for new design standards and requirements.** Councils continue to work on ad hoc planning scheme amendments that apply new controls, requirements and local policies to development in their municipalities.

We request you to enact a moratorium on approving any planning scheme amendments during this time that will increase the cost of delivering new residential land and dwellings to market.

## State Government Imposts

State agencies from time to time progressively review requirements, standards and charges. We urge you to set aside all of these processes until the Victorian economy and residential market normalises. Examples of proposals include:

- Any proposal on foot to implement a state-wide Social and Affordable Housing Levy.
- Any proposal for a new infrastructure contribution for strategic redevelopment areas.
- Annual indexation and increase of the Growth Areas Infrastructure Contribution (GAIC).
- Adjustment and Indexation of the Melbourne Strategic Environmental Mitigation Levy (EML).
- Better Apartment Design Guideline amendments which are currently the subject of

consultation.

There may well be more proposals being considered within government that we are not aware of yet.

We welcome the Government's decision to delay implementation of the Environmental Protection Authority Regulations 2020 until 1 July 2021 and note our specific concerns with respect to the changes to the classification of fill material as industrial waste which will immediately increase costs of development.

Your support to enact a moratorium on any of the issues noted will reassure industry and provide us with some certainty, at least for a few years, on costs.

The state of Victoria is facing uncharted territory and we recognise the situation is changing daily. We believe it is critical for industry to work closely with State and Local Governments to ensure the residential development sector is well placed to contribute to the Victorian economy when the situation normalises and work ramps up again.

Please contact me directly at [danni@udiavic.com.au](mailto:danni@udiavic.com.au) to arrange a suitable time to do so.

Yours sincerely

A handwritten signature in black ink that reads 'Danni Hunter'. The signature is stylized with a large, sweeping underline.

**Danni Hunter**  
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