



MONASH AFFORDABLE HOUSING STRATEGY 2019



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EXECUTIVE SUMMARY

Rising house prices and rents, and limited investment in social and affordable housing, have led to an increase in the number of households experiencing housing stress in the community. In response, Monash City Council has developed an Affordable Housing Strategy.

Objective

This strategy makes a clear case for taking action for greater affordable housing provision in the City of Monash. It demonstrates both the need for affordable housing and the benefits of having more affordable housing.

At the same time, the City of Monash is only one jurisdiction with a role to play in affordable housing. State and federal governments hold the primary responsibility for ensuring access to affordable housing in Australia. However, there is a growing role for local governments, especially in Victoria.

The objective of the Strategy is to:

Identify a clear and practical set of strategies and actions for Monash City Council to support the increased supply of affordable housing, within its remit as a local government authority.

The case for affordable housing

Affordable housing brings benefits not only to the people who live in the housing, but also for the economic, social and cultural environment of the wider community. Research into the impacts of increased social and affordable housing supply note the following key benefits:

- Reduced disadvantage through lower rates of housing stress and reduced risk of homelessness
- Improved diversity by creating the opportunity for people with any income level to live and work in the community
- Enabling residents to stay in their local area through different life stages and maintain strong social and community networks
- Economic efficiency by ensuring that high housing costs do not exclude valuable members of the labour force from living near good jobs in the City of Monash.

Measuring the need for housing assistance

Need for housing assistance in Monash has been estimated here by considering the number of homeless persons, households living in social housing, and the prevalence of renting households that are in housing stress. Housing stress is defined as paying more than 30 per cent of gross household income as rent, while earning a very low, low or moderate income. Home owners or households with a mortgage are not considered in this analysis.

Combined, these groups represent 9,230 households in housing stress or 13 per cent of all households in Monash. Housing stress is felt by 13 per cent of all households and 50 per cent of renters. Of the households in housing stress, group person households account for the largest single cohort; over 3,200 households. More than half of all households in housing stress are very-low income households. A significant share – more than 50 per cent – of households in rental stress are experiencing severe housing stress, that is, they are paying more than 50 per cent of their income on rent.

What is the scale of unmet need?

To estimate the total number of households that require housing assistance, a discount is applied to households that are in rental stress, social housing or homeless. This discounting accounts for the fact that a share of households in rental stress might be temporarily in stress or have high housing costs by choice. The discount is applied differentially for the different group. After this discount, **the estimated need is 8,250 affordable dwellings** (see table below).

A small number of households in Monash are housed in subsidised accommodation. There are currently 1,610 social housing dwellings in the municipality, which accounts for around 2 per cent of all dwellings. This is comparable with neighbouring areas but significantly lower than the Melbourne average, which is 3.3 per cent. By deducting the number of households already in social housing dwellings from the total estimated need, **the unmet need for affordable housing is in the order of 6,640 dwellings**, based on 2016 data.

Looking ahead to 2036, the level of **need could increase further to 9,960 affordable dwellings**. After subtracting the social housing dwellings, the level of **unmet need is estimated to be 8,350 dwellings**. This number is forecast using SGS's Housing Assistance Demand (HAD) Model and is based on expected household growth under the *Victoria in Future* forecasts.

It then follows that, without some form of intervention, a significant number of households in Monash will be placed in housing stress housing stress or homelessness. As a result, some households may move to a more affordable location, although such displacement is likely to result in higher commuting costs, and strain established ties within the Monash community. It is likely that over time, Monash will become a less diverse community as lower income households, who make a fundamental contribution to the economic and social life of the municipality, are unable to afford to rent housing at market rates, or even contemplate the option of home ownership.

NEED FOR AFFORDABLE HOUSING ASSISTANCE IN MONASH IN 2016

Household type	No. of Households	Discount	Need for housing assistance	Need as a % of total households
People experiencing homelessness	840	0%	840	1.2%
Social housing	1,610	0%	1,610	2.3%
Very low-income households	3,220	10%	2,900	4.1%
Low income households	2,380	15%	2,000	2.9%
Moderate income households	1,170	20%	900	1.3%
Total	9,230	n/a	8,250	11.8%

Source: SGS Economics and Planning

Affordable housing contributions

Council's most effective mechanism for addressing the need for social and affordable housing is to seek contributions through the planning system. There are four different types, or frames, of development contributions that are routinely employed in the plan making and development assessment process that need to be considered: user charges, impact fees, value sharing/value capture arrangements and inclusionary zoning. An overview of the frames and the justification for each is shown in the figure overleaf.

Contributions to affordable housing contributions have a strong justification under the value capture and inclusionary requirement frames. The largest amounts of value uplift will generally be created when a site is rezoned from a low value use to a higher value use. The rezoning is an increase in development rights that should be shared with the community. This is an opportunity for Council to require an affordable housing contribution through the rezoning process.

An important distinction is that the process captures the value uplift after developer’s costs are accounted for. This means that **value capture does not make development unfeasible**. The value uplift is the difference between:

- The **existing use value** of the site – this is without capital improvements and is distinct from the market value which factors in development potential
- The **residual land value** given the highest and best use possible with additional development rights (such as a new zoning) – this is the value of the land after all development costs and margins for profit and risk are deducted from their anticipated gross sales (or ‘gross realisation’) upon completion of the project.

A value capture rate of 75 per cent of value uplift is recommended on the basis that the rate should be as high as possible whilst retaining an incentive for development.

Inclusionary requirements are premised on need to meet minimum acceptable standards of development. When used for affordable housing, they are conceptually similar to parking requirements, open space standards, and other mandated planning standards. The development of affordable housing generates benefits in the form of socially valuable diverse neighbourhoods, better functioning labour markets and better human capital formation. Inclusionary requirements to include affordable housing in new development is used to generate these benefits that would not eventuate without some form of regulation.

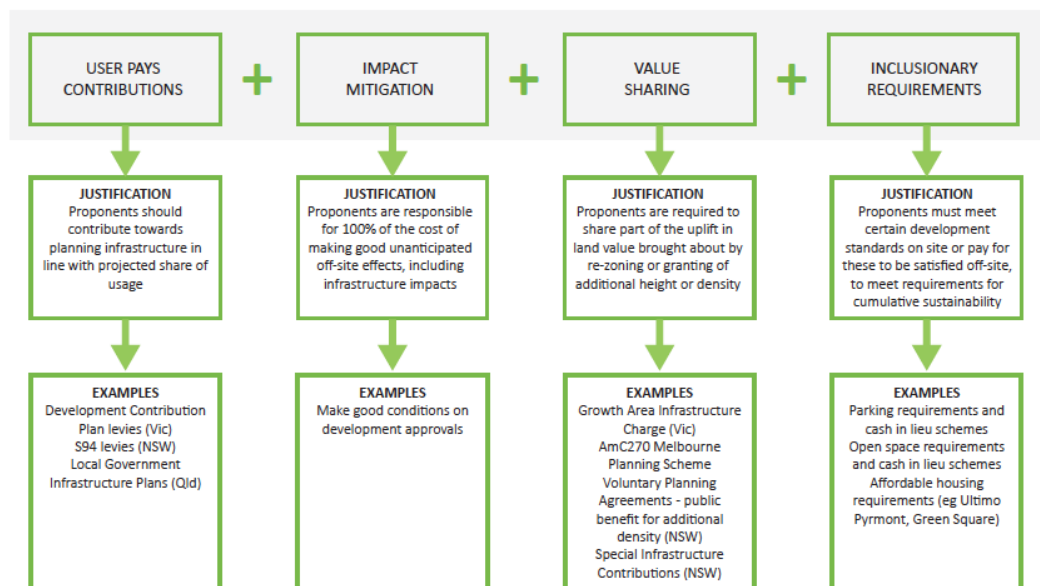
An inclusionary zoning rate of 6 per cent affordable housing is recommended for Monash. Each land use – residential, commercial, retail, industrial and institutional – would be obliged to contribute to maintenance of the identified environmental value of social mix. In the same way, all land use types are required to respect and conserve heritage values.

The 6 per cent rate aligns with emerging practice in Victoria and avoids targeting the decreasing current social housing rate or waiting for equivalent government investment. The rate could be initially set low – say 1 per cent – with scheduled increases each year to allow the market to adjust.

Council can support value capture and inclusionary zoning with three approaches to planning scheme amendments:

1. Broad statements of support for affordable housing contributions
2. Specific statements regarding approaches to ad-hoc rezoning
3. Policy guidance regarding affordable housing contributions via inclusionary zoning.

FOUR FRAMES OF DEVELOPMENT CONTRIBUTIONS



Source: SGS Economics and Planning

Council's strategy

There are several policy levers available to Council to help increase the supply of affordable housing. Council can play a role that ranges from advocacy through to direct investment in affordable housing. The levers Council will apply through this strategy are grouped into four frames or pillars: regulation, partnerships, investment and advocacy.

The **'regulation'** group of levers includes various mechanisms available to Council under the Planning and Environment Act 1987. This includes planning system measures to facilitate efficient housing markets, and measures to facilitate development contributions for affordable housing via inclusionary zoning and value capture.

The **'partnership'** group of levers includes strategies by which Council would work with private or community sector proponents to help them achieve affordable and social housing outcomes. Examples include brokerage of partnerships between corporate developers and registered community housing providers where the former are self-motivated to include affordable housing in their projects. Council also has a role to play in providing useful information on the Community Housing Sector to developers and interested parties.

The **'investment'** group of levers would see Council applying its own assets – whether this be cash, land or underwriting capacity – to directly generate an expansion of social and affordable housing.

The **'advocacy'** group of interventions would see Council, through its involvement in the Eastern Affordable Housing Alliance (EAHA), continue to advocate for the introduction of mandatory inclusionary zoning and the delivery of 11,420 new social housing dwellings in the Eastern Metropolitan Region. Through this platform, Council has an opportunity to collectively develop and voice its views alongside like-minded Councils.

Council's specific strategies and actions under each pillar are summarised in the table below.

SUMMARY OF STRATEGIES AND ACTIONS

PILLAR	STRATEGIES	ACTIONS
Regulation		
1.	Support housing diversity and choice through Council's existing planning policies	1.1 Continue to implement the strategies and actions in <i>Monash's Housing Strategy 2014 and Structure Plans and Precinct Plans for Monash's Activity Centres</i> .
2.	Establish strong and broad policy statements about the need for affordable housing in Monash	2.1 Seek a planning scheme amendment to include a strong statement of support for affordable housing contributions in Monash
3.	Require an affordable housing contribution when land is being rezoned	3.1 Develop Council's policy and approach to value sharing on rezoned land 3.2 Seek a planning scheme amendment to mandate 75 per cent affordable housing contributions for value uplift on rezoned land
4.	Implement Council-wide inclusionary zoning requirements for affordable housing	4.1 Develop Council policy and approach to inclusionary zoning requirements for affordable housing 4.2 Seek a planning scheme amendment to mandate 6 per cent affordable housing contributions for all new floorspace developed in Monash
5.	Establish processes to support affordable housing contributions	5.1 Develop a s173 Agreement template to provide options for developers to make affordable housing contributions 5.2 Establish an affordable housing trust to receive cash in-lieu affordable housing contributions
Partnership		
6.	Engage with and educate the community on social and affordable housing as important local infrastructure	6.1 Develop an approach to educating the community on the need for and benefits of social and affordable housing
7.	Adopt a relationship building, information sharing and brokerage role	7.1 Publish information on the Community Housing Sector for developers and provide a single point of contact at Council for enquiries
Investment		
8.	Consider opportunities for affordable housing on appropriate Council-owned land	8.1 Identify opportunities on Council owned land for social and affordable housing provision 8.2 Develop and test a process for developing appropriate Council owned sites for affordable housing outcomes
Advocacy		
9.	Advocate through the Eastern Affordable Housing Alliance (EAHA) for mandatory inclusionary zoning and direct government investment and subsidies	9.1 Use the EAHA as a platform to further develop policy positions and advocate collectively for mandatory inclusionary zoning, direct investment and subsidies

1. INTRODUCTION

This strategy is Council's response to the growing need for social and affordable housing in the City of Monash. It comes at a time of a growing role for the planning system in delivering affordable housing and sets out a clear and practical set of strategies and actions.

1.1 Policy context

Monash City Council is developing an Affordable Housing Strategy (the Strategy). This will deliver on a commitment made in Council's state legislated health and wellbeing plan to deliver an Affordable Housing Strategy and to "advocate for affordable, innovative and suitable housing options in Monash close to family, friends, social groups, shops and health services."

The development of this Strategy also aligns with the Monash Housing Strategy 2014, which states an objective to ensure appropriate and affordable housing is available to suit the social and economic needs of the community.

Council takes an active role in advocacy and is a member of the Eastern Affordable Housing Alliance (EAHA). The EAHA recently launched 'Zone in', a campaign demanding real action on social and affordable housing and calling for the introduction of mandatory requirements on all surplus government land and strategic redevelopment sites.

Several developments at the state-government level have created momentum for new action on affordable housing. *Plan Melbourne* identified policies to facilitate the supply of affordable housing. *Homes for Victorians* includes a range of measures that encompass housing supply, housing services and reforms to the rental sector. Most recently, amendments to the *Planning and Environment Act 1987* strengthened the role of the planning system in contributing to affordable housing by defining affordable housing and adding an objective of the planning system to "facilitate the provision of affordable housing in Victoria".

Against this background, Council commissioned SGS Economics and Planning to develop an Affordable Housing Strategy for the City of Monash.

1.2 Rationale and objective

This strategy makes a clear case for taking action for greater affordable housing provision in Monash. It demonstrates both the need for affordable housing and the benefits of having more affordable housing to the community and the economy of Monash.

At the same time, Monash is only one jurisdiction with a role to play in affordable housing. State and federal governments hold the primary responsibility for ensuring access to affordable housing in Australia. However, there is a growing role for local governments, especially in Victoria.

The objective of the Strategy is to:

Identify a clear and practical set of strategies and actions for the City of Monash to support the increased supply of affordable housing, within its remit as a local government authority.

1.3 Structure

The Strategy is structured as follows:

- **Section 2: Key Concepts and Definitions** distinguishes between the issues of housing affordability and affordable housing. It provides a practical and precise definition for identifying the need for affordable housing in the City of Monash and how Council might address that need.
- **Sections 3: The Case for Social and Affordable Housing** outlines the benefits of social and affordable housing provision that not only go to the people who live in the housing, but also to the social and economic environment of the wider community. There are three main benefits: reduced disadvantage, improved diversity and better functioning labour markets.
- **Section 4: Need for Social and Affordable Housing in Monash** explores the mix of households in the municipality, how many are experiencing housing stress and how that might change in the future.
- **Section 5: Affordable Housing Development Contributions** explains the four different types of development contributions. It identifies the justification for affordable housing contributions via value capture and inclusionary zoning.
- **Section 6: Strategies and Actions** discusses Council's potential role and presents a framework for a range of strategies and actions. The strategies and actions are then discussed in greater detail under four pillars: regulation, partnership, investment and advocacy.
- The **Appendices** provides detailed methodologies and presents considerations for implementing affordable housing contributions and seeking affordable housing on Council-owned land.

This document is also accompanied by an Addendum which details the modelling process for estimating current and future need in the City of Monash and the preliminary discussion paper that informed the development of the strategy.

2. KEY CONCEPTS AND DEFINITIONS

Policy makers, housing providers, analysts and others have adopted different definitions of affordable housing. This section defines a practical and precise definition for identifying the need for affordable housing in the City of Monash.

2.1 Affordable housing versus housing affordability

Affordable housing and housing affordability are two closely related but independent concepts. While aspects of the Strategy are relevant to the issue of housing affordability, the focus is on measures that Council might pursue to increase the supply of affordable housing.

The term *housing affordability* refers to the general cost of housing relative to incomes. Housing affordability has become a significant concern in recent decades as rent and house prices have increased relative to wage growth making it more difficult for households to afford suitable accommodation. On the other hand, for many households that are already 'on the home ownership ladder' this increase in prices has generated significant wealth.

The term *affordable housing* generally refers to rental housing that is available to lower income households which is affordable for their level of income. The specific forms and models that affordable housing can take are many and varied. There is no universal or precise definition of affordable housing, however, the State Government definition in section 2.2 has become widely adopted in Victoria.

Unlike the analysis of housing affordability, which considers people at all income levels, affordable housing is typically targeted at lower income households. Affordable housing also focusses on the affordability of renting a dwelling, while the analysis of housing affordability is more focussed on property ownership (although rents are sometimes also considered).

Affordable housing policies address failure in the rental housing market such that segments of society are not excluded from living, working and participating in the local community. Policies that support home ownership have broader objectives that address the financial security of households, their long-term investments, and retirement savings. The primary impact of these policies is on the asset and investments of a household.

2.2 What housing is affordable?

The affordability of housing depends on the income of the household. When housing costs are too high, relative to income, a household can find themselves in *housing stress*. Housing stress is a situation in which a household's rental payments are so high that they must sacrifice on food, health care, education and other necessities.

A household that spends more than 30 per cent of their income¹ on housing can be in moderate housing stress. A household that spends more than 50 per cent of their income on housing can be in severe housing stress. These thresholds are commonly used by researchers and policy makers, such as the Australian Housing and Urban Research Institute.

¹ Different household income measures include gross versus net income, and equalised versus non-equalised measures. The estimate of total need does not vary substantially under various approaches but the composition of the need does vary somewhat; in particular, equalised income measures result in higher estimates for families because they account for household size (Yates and Gabriel, 2006). Noting that the income measure does not dramatically change the results and the availability of data for modelling housing stress at the LGA level, this Strategy uses gross income when estimating need.

When households have low or moderate incomes and experience housing stress, they are considered in need of affordable housing. Households with higher incomes are excluded because high housing costs do not typically impact their ability to pay for necessities. They also have more choice over their housing costs because they are often able to reduce their housing expenditure (by moving) while lower income households often cannot.

Therefore, housing is considered affordable if the costs of that housing do not place the household into housing stress. Specifically, if the housing costs are below 30 per cent of gross income for households with very low, low or moderate incomes.

The State Government has introduced definition of affordable housing to the *Planning and Environment Act 1987* being “housing that is appropriate to the needs of very low, low, and moderate-income households” (see text box below). The Minister has also provided a list of “matters that must be considered in determining whether housing provided under an Affordable Housing Agreement is appropriate for the needs of very low, low and moderate-income households.” These include allocation, affordability, longevity, tenure, type, location, integration and need.²

Notwithstanding this advice, it does not provide definitive guidance on what is meant by ‘appropriate to the needs’ of households within the defined income bands. In line with the discussion above, this Strategy adopts the benchmark of housing costs being below 30 per cent of income as appropriate to the needs of these households as it implies that they would not be experiencing housing stress. Section 4 applies the benchmark to estimate the number of Monash households in housing stress and identify the need for affordable housing.

TECHNICAL DEFINITION UNDER THE PLANNING AND ENVIRONMENT ACT

A definition of **affordable housing** was introduced into Section 3AA of the *Planning and Environment Act 1987* in June 2018. Affordable housing is defined as housing (including social housing) that is appropriate to the needs of very low, low, and moderate-income households.

Income ranges for the three income 'quintiles' are provided for three different household types: single adults, couples without dependents and families with dependents. These are updated periodically, and the current ranges are shown in Table 1 below. The analysis in this report assumes that the income is gross income before tax.

Social housing is a subset of affordable housing. DHHS defines social housing as "housing that is provided to eligible households, with rents subsidised to ensure that households pay an affordable rent" and is owned and managed by either the Director of Housing (public housing) or Registered Housing Agencies (community housing).

TABLE 1: ANNUAL INCOME RANGE OF HOUSEHOLDS ELIGIBLE FOR AFFORDABLE HOUSING (2019)

Household	Very low (Bottom 20 per cent)	Low (Bottom 20% - 40%)	Moderate (Middle 40% to 60%)
Single adult	Up to \$25,970	\$25,971 to \$41,550	\$41,551 to \$62,310
Couple, no dependents	Up to \$38,950	\$38,951 to \$62,320	\$62,321 to \$93,470
Family with dependents (one or two parents)	Up to \$54,520	\$54,521 to \$87,250	\$87,251 to \$130,870

Source: Planning and Environment Act 1987, Section 3AB – Specification of Income ranges (Order in Council), dated 4

² For the full details, see: www.planning.vic.gov.au/policy-and-strategy/affordable-housing

2.3 Different types of affordable housing

Our communities require a range of housing types to cater for the needs of all households. It is useful to think of the various types of housing as forming a housing supply continuum where the level of assistance or subsidy required is highest at one end of the continuum, and progressively decreases at the other. This concept is illustrated in Figure 1 overleaf.

Home ownership and private market affordable rental housing are the categories furthest to the right of the spectrum. This is housing provided on the open market without any government subsidy. This makes up the largest portion of affordable housing because most households can generally find themselves a dwelling that they can afford when searching the rental market. However, in Australia's major cities, where housing costs have risen significantly relative to incomes, the share of 'market affordable' housing is declining. Hence, the need for policies and interventions to increase the supply of other types of affordable housing.

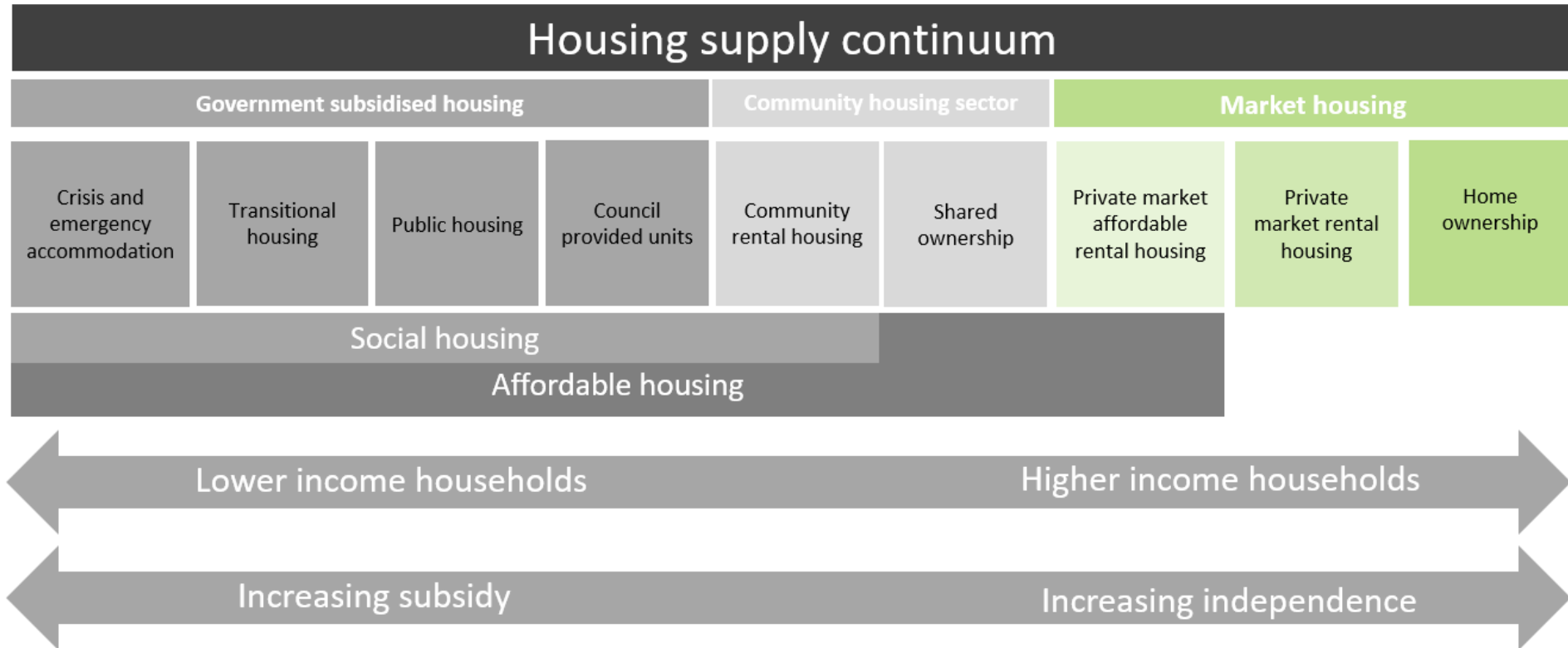
Social housing is a subset of affordable housing and refers to either public housing (government owned) or community housing (owned by a not-for-profit organisation).

Public housing owned by the Victorian Government is generally made available to the lowest income groups and households with the highest needs who are homeless, escaping or have escaped family violence, have a disability or significant support needs or with special housing needs. Crisis and emergency accommodation and transitional housing are also funded by government.

Community rental housing – that is, housing owned and operated by Registered Housing Agencies – accommodates a broader range of households. They accommodate both high needs households that have very little or no income as well as some households that can afford to pay higher rents that may, in some instances, be much closer to market rents.

Some models are designed to help people purchase a home in the affordable housing spectrum, such as shared ownership in the spectrum below. However, these models and their associated policies should be kept separate from affordable housing because they have different objectives and impacts.

FIGURE 1: HOUSING SUPPLY CONTINUUM



Source: SGS Economics and Planning

3. THE CASE FOR SOCIAL AND AFFORDABLE HOUSING

There is a strong case for better access to affordable housing in Monash. The benefits will not only go to the people who live in the housing, but also to the social and economic environment of the wider community. There are three main benefits: reduced disadvantage, improved diversity and better labour markets.

3.1 Reduced disadvantage

The primary benefit of social and affordable housing is reduced disadvantage. This comes directly in the form of shelter and indirectly through a ‘wellbeing dividend’ from the wide range of benefits that stable shelter affords (Beer et al., 2011).

For individuals, having access to shelter can mean they avoid homelessness. Prentice and Scutella (2018) estimated that Australian social housing recipients were 65 per cent less likely to experience homelessness than similar tenants in the private rental market. At the regional level, areas with higher level of affordable housing supply are likely to have lower rates of homelessness (Parkinson et al., 2019).

A rich body of literature explores the indirect wellbeing benefits of housing assistance³. People with stable accommodation require less healthcare, have fewer emergency admissions and have longer life expectancy. They are more likely to maintain or re-engage with work and study. They are less likely to be involved in crime, both as victims and perpetrators, and children have better learning outcomes and develop stronger social capital.

The wellbeing dividend accrues to both the people who receive the services and the wider community which funds the services through the tax and transfer system. For example, Witte (2017) estimates that every \$1 invested in last resort beds to address the homelessness crisis generates \$2.70 worth of benefits for the community (over 20 years).

Increasing the supply of affordable housing in Monash would help reduce the impacts of housing stress and homelessness. This would mean better access to housing for those who need it, plus the associated wellbeing dividend that comes with stable and affordable shelter.

3.2 Improved diversity

Contemporary planning discourse has consistently justified the uneven allocation of resources across metropolitan areas to enhance economic productivity (Wiesel, 2017). In many cities, government investment in infrastructure and services has been targeted to areas like the CBD or major job clusters like the Monash National Employment and Innovation Cluster (NEIC).

This investment targeting is justified on the basis of economic growth; focussing infrastructure and services in central locations creates efficiencies, attracts firms and encourages job growth. Nearby areas with good access to jobs and services become ever more attractive places to live. The downside of the growing appeal of the accessible locations is that high demand for scarce housing raises costs and reduces affordability.

³ For some of the research see: Bridge et al. (2003), King (2002); Morris (2010); Phibbs and Young (2005); Quine et al. (2004); and Wood et al. (2016). While the evidence is strong for some outcomes, like health and interaction with the criminal justice system, others have less clear evidence (Beer et al., 2011, Prentice and Scutella, 2018). The strength of the evidence depends on the availability of data and the long time periods required to see some outcomes occur.

Lower income households who cannot afford housing in these favoured areas must seek out alternative locations. The alternative areas are frequently defined by poorer access to employment, services, transport and amenity (Wiesel, 2017). This process, along with gentrification and urban renewal, has driven a long trend of low income Australians being displaced from locations where well-paid jobs are found (Randolph and Tice, 2014).

This spatial mismatch has been considered in the annual State of Australian Cities (SOAC) report for some years now, with the Department of Infrastructure and Regional Development (2015) noting in its recent report:

“Australia’s cities are increasingly characterised by the significant spatial divide between areas of highly productive jobs and the areas of population-based services, reflected through the price premiums associated with houses that have better access to the city centre”.

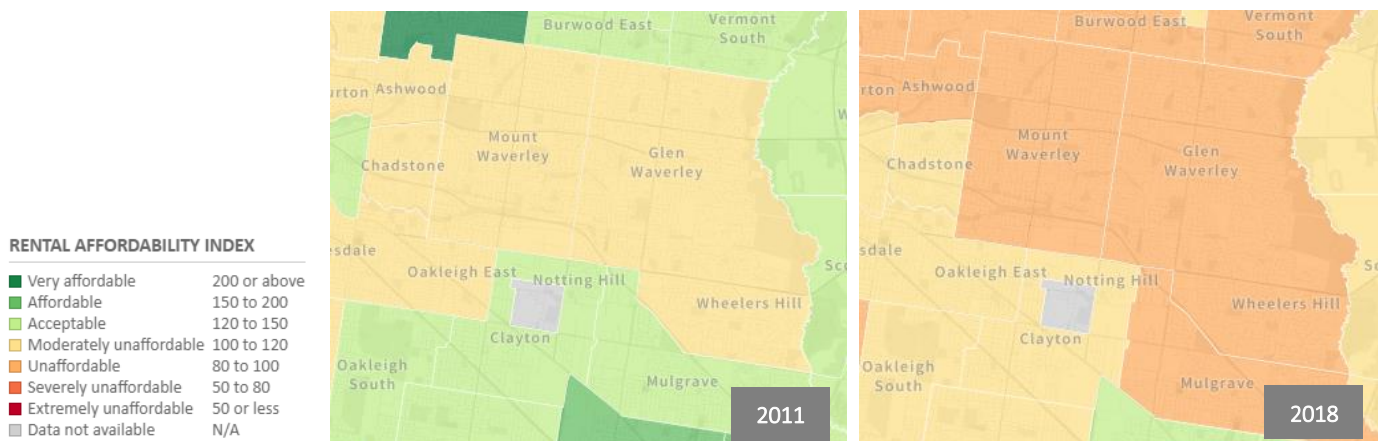
Such locational disadvantage and social segregation have significant consequences. The costs to individuals include poor psychological and health and wellbeing outcomes. Local communities suffer in terms of reduced social capital and cohesion, and increased rates of crime and violence. Meanwhile, the metropolitan and regional landscape sees decreased productivity and rising fiscal costs to government (Berry, 2003). More generally, spatial segregation runs counter to egalitarian values widely held in Australian society.

In contrast to this, a long line of academic work has explored the benefits arising from the creation of places that support diverse and inclusive communities. The merits of diversity in the city were notably popularised by Jane Jacobs in the 1960s. Jacobs (1961) argued that a mix of people of different cultures, social class, life-cycle stage, and immigration status foster interaction and trust between different people, as well as promote economic opportunity.

Many contemporary urbanists have expanded on Jacobs’ theory in various ways. A recurrent central principle is that diversity maximises ‘exchange possibilities’, both economic and social, bringing significant benefits for people and places (Hirt, 2012). Housing diversity, including diversity of tenure, type and price, can play a crucial role in the stimulation of a broader socio-demographic diversity (Fainstein, 2010; Rolnik, 2014).

The City of Monash offers many economic opportunities to its residents and those of neighbouring municipalities. This is especially true with the offerings of the Monash NEIC, Melbourne’s largest job cluster outside of the CBD. However, declining rental affordability means that some lower income households could be excluded from those opportunities. Figure 2 shows the decline in affordability between 2011 and 2018 for a household with average income (affordability is considerably worse for very low and low income households). If affordability declines further, Monash risks missing out on the diverse social and economic contributions that all members of the community have to offer.

FIGURE 2: RENTAL AFFORDABILITY IN MONASH (AVERAGE HOUSEHOLD, 2011 VS 2018)



Source: SGS Economics and Planning, National Shelter and Community Sector Banking (2018), Rental Affordability Index, available at <www.sgsep.com.au/maps/thirdspace/australia-rental-affordability-index>

3.3 Better labour markets

The efficiencies that come with large labour markets and the opportunities they afford to firms and workers are the very reason that cities exist (Bertaud, 2004). Effective urban policy, therefore, will ensure that firms and workers in all industries have good access to each other. This enables efficient labour markets, higher incomes for workers, lower costs to consumers and firms, and greater overall productivity.

For labour markets to work efficiently, both low income and high income workers need to live sufficiently close to major employment clusters. If low income workers cannot afford to live in housing close to jobs, employers may not be able to hire the skills they need to effectively run the businesses and services that the community needs. Such labour shortages can mean unproductive labour, poor staff retention and higher costs for consumers.

Evidence from the United Kingdom shows the impact of high housing costs on recruitment and productivity. The impacts include divestment from regions, increased training costs, crowding out of lower income workers, and poor performance of public services like health and education (Tym, 2003; Propper and van Reenen, 2010; Gordon and Monastiriotis, 2007).

There is some analogous Australian evidence, albeit less direct. In line with the noted trends, van den Nouwelant et al. (2016) showed that low income, central city workers in Australia live much further from their jobs than the average metropolitan workers (roughly double the median). Employers in particularly vulnerable industries⁴ did recognise the anecdotal impact of housing affordability on recruitment, reliability and retention but most were unconcerned. Employees were thought to bear the principle burden of the distance-affordability trade off.

While some employers may not directly see the detriment of housing affordability on their access to labour, the literature indicates that excessive commute times and housing stress impact on human capital formation of workers. This can come through adverse impacts on individual health and wellbeing, including increased stress and mental ill-health, capped career progression, reduced ability to upskill and diminished workforce participation (Phibbs and Young, 2005; Ravi and Reinhardt, 2011). Each of these outcomes will reduce the human capital potential of individuals, this has negative impacts on their own personal development as well as the economy which relies on their human capital for production and growth.

A highly functioning labour market will be essential to the future success of the local economy in the City of Monash, especially around the Monash NEIC. This means that employers need to access workers and workers need to access jobs, for both high and low income job opportunities. Access to affordable housing for low income earners may assist, to some degree, in supporting the function of the local economy.

⁴ Identified industries included hospitality and retail, support services (like travel and recruitment agencies), professional services (legal and accounting), finance and insurance services, and government services.

IS THIS ABOUT KEY WORKERS?

The needs of 'key workers' is a common policy consideration because they are thought to be essential to the function of a municipality. But despite its wide use, the term has no universal definition and can lead to confusion.

Many interpret key workers to mean public servants like police officers, fire services, nurses and teachers. However, in Australia these workers often earn moderate to high incomes. There are also workers in many other industries that are 'key' to the economy who earn lower incomes, such as child carers, cleaners, delivery drivers and chefs.

It might be tempting to continue down the path of identifying specific industries, but in reality, all industries are valuable (to the extent that they have a market). Picking some 'virtuous' low paid jobs over other low paid jobs is at odds with accepted policy principles of equity and need-based service provision.

Using income is a more useful consideration than specific jobs because income level dictates where one can live. Indeed, it is lower income workers who might not be able to live near job opportunities.

3.4 Community perceptions

There is a clear case for greater access to social and affordable housing with the benefits it brings: reduced risk of homelessness, diverse neighbourhoods, better functioning labour markets and human capital formation. There is also broad community support; social researcher Rebecca Huntley (2019) reports a growing community concern about housing affordability and consensus that more social and affordable housing is needed:

"I met men and women in different cities and states, living in regional and suburban areas. The responses were remarkably uniform. Despite some continuing stigma, there is strong support for more investment in public housing... We need all levels of government to play a bigger, more effective role in making the housing market more equitable."

Given the benefits of affordable housing, the next question is "how much affordable housing is needed in Monash?" The next section explores this question in detail.

4. NEED FOR AFFORDABLE HOUSING IN MONASH

The need for social and affordable housing in Monash can be understood by considering how many households are experiencing housing stress. This section explores the mix of households in the municipality, how many are experiencing housing stress and how that might change in the future.

A QUICK LOOK AT SOCIAL AND AFFORDABLE HOUSING NEEDS IN MONASH

- Monash had 70,500 households in 2016. One third were couples with children, one quarter were couples without children and one fifth were lone person households.
- SGS's Housing Assistance Demand model tells us about households with different income levels and rent payments across Melbourne.
- The model suggests that 9,230 households with very low, low and moderate incomes are in housing stress, including 3,580 in moderate stress, 3,210 in severe stress, 1,610 in social housing and 840 people experiencing homelessness.
- Housing stress is felt by 13 per cent of all households and 50 per cent of renters, typically by low income, lone person, single parent or group households.
- By 2036, Monash could have between 10,690 and 11,630 households in stress – an increase of between 16 and 26 per cent. The range depends on population growth and income growth relative to rising rents.
- After discounting for temporary housing stress, the need for housing assistance in Monash is around 8,250 households in 2016 and could reach 9,960 by 2036.

4.1 A snapshot of the Monash community

Table 2 provides the household mix in the Monash municipality. Figure 3 on the following page compares Monash to the Eastern region and Greater Melbourne.

There were 70,500 households in the municipality in 2016. One third of these are couple families with children, one quarter are couples without children and one fifth are lone person households.

Monash has an above average share of group households when compared to the region and Greater Melbourne, albeit still a relatively small share of households overall. Many of these households would include students living close to Monash University.

It also has an above average share of couple family households and below average share of one person and single-parent households.

TABLE 2: HOUSEHOLDS IN MONASH (2016)

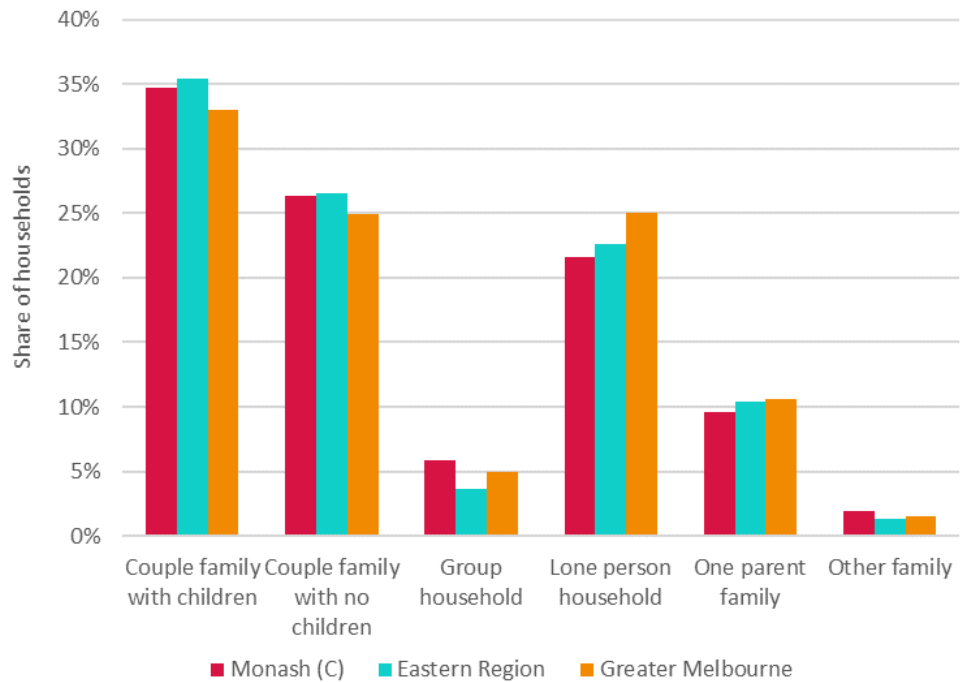
Household Type	Number
Couple family with children	24,450
Couple family with no children	18,590
Group household	4,140
Lone person household	15,190
One parent family	6,750
Other family	1,370

Household Income*	Number
Very low income	18,570
Low income	13,580
Moderate income	13,670
Higher income	24,670

Source: SGS Economics and Planning, Housing Assistance Demand Model 2019

*Income follows DELWP definitions in Appendix A

FIGURE 3: MIX OF HOUSEHOLD TYPES (2016)



*The Eastern region is made up of the Monash, Knox, Manningham, Maroondah, Whitehorse and Yarra Ranges councils
Source: SGS Economics and Planning, Housing Assistance Demand Model 2019

4.2 Need for housing assistance in Monash

Housing Assistance Demand (HAD) Model

This analysis uses a HAD micro-simulation model to estimate the total number of households that are in need of housing assistance. It does this by adding together the existing count of social housing households, the count of homeless persons and the count of renting households that are in moderate or severe rental stress.

To identify households in rental stress, the HAD micro-simulation model segments households by many demographic and spatial variables. Rent paid against gross household income is the measure of rental stress and it is only applied to very low, low or moderate income households. A full account of the methodology is available in Appendix A.

It is worth noting that the prevalence of housing stress throughout this chapter is measured via rental stress. Households experiencing mortgage stress via high monthly repayments have not been considered. The numbers therefore underrepresent the number of households experiencing housing stress in Monash. However, as outlined in Section 2, mortgage stress raises different questions and policies that support home ownership have broader objectives because their primary impact is on the assets and investments of a household. For these reasons, it is not considered within this analysis.

Count of households that are in rental stress, social housing or homeless

Table 3 provides the breakdown of housing stress by household type and income while Figure 4 shows the likelihood of housing stress for each household type. It is estimated that 9,230 households in Monash are in housing stress – this includes 3,280 lone person households, 1,640 couple families without children and 1,510 couple families with children. Households in rental stress represent 13 per cent of all 70,500 households (or 1 in 7) and 50 per cent of the 18,330 renter households (or 1 in 2).

There are fewer group households and one-parent families in housing stress because they make up a smaller portion of all Monash households. Despite this, they are the most likely household type to experience stress – 33 per cent of group households and 18 per cent of one-parent families experience housing stress. The next most likely group to experience housing stress is lone person households, at 13 per cent.

Housing stress is broken down into severe stress, moderate stress, households in social housing and people experiencing homelessness.⁵ Of those in rental stress, group households, lone person households and one-parent families are particularly likely to experience severe stress. Owing to their susceptibility to severe housing stress, lone person households and one-parent families are also more likely to be in social housing than other household types.

As noted earlier, Monash has an above average proportion of group households with Monash University nearby (albeit still a relatively small group overall). People often form group households to pool resources and share housing costs as a response to a lack of affordable options. They are particularly likely to benefit from greater affordable housing supply.

There was an estimated 840 people experiencing homelessness in Monash – 1.2 per cent of all households. This includes people living in improvised dwellings, tents or sleeping out, as well as those in supported accommodation; temporarily staying with other households; living in boarding houses; persons in temporary lodgings; and persons living in severely crowded dwellings. It is worth noting that the ABS survey typically undercounts the prevalence of homelessness so the number in Monash may be higher than in the table below.

The likelihood of experiencing rental stress is inversely related to the level of household income. Around 5,670 very low-income (31 per cent) and 2,380 low-income households (18 per cent) were experiencing rental stress in Monash in 2016. Very low-income households are particularly likely to be in severe rental stress (13 per cent).

TABLE 3: COUNT OF RENTAL STRESS, SOCIAL HOUSING AND HOMELESSNESS, BY HOUSEHOLD TYPE AND INCOME GROUP (2016)

Category	Household	Severe Stress (rent >50% of income)	Mod. Stress (rent >30% of income)	Social Housing	Homeless	Total*
Household Type	Couple family with children	490	900	120	0	1,510
	Couple family with no children	580	890	170	0	1,640
	Group household	700	560	60	0	1,320
	Lone person household	930	640	870	840	3,280
	One parent family	410	460	370	0	1,240
	Other family	110	130	20	0	260
Income**	Very low income***	2,370	850	1,610	840	5,670
	Low income	660	1,720	0	0	2,380
	Moderate income	170	1,000	0	0	1,170
Total*		3,210	3,580	1,610	840	9,230

*Figures may not sum to totals due to rounding

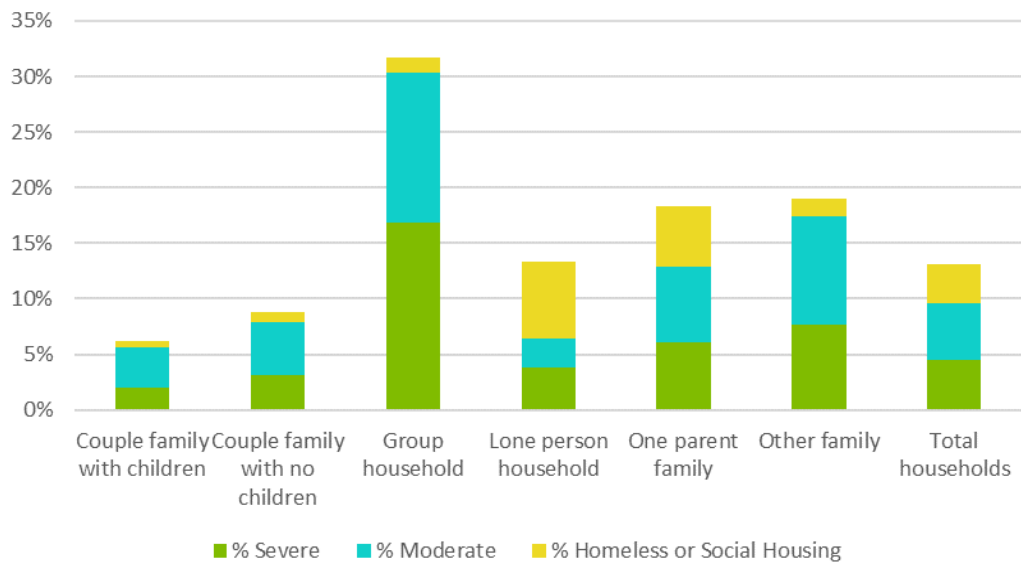
**Income follows DELWP definitions in Appendix A

***All households in social housing and people experiencing homelessness are assumed to have very low income

Source: SGS Economics and Planning, Housing Assistance Demand Model 2019

⁵ People in social housing pay less than 30 per cent of their income in rent, however, they are included here as an indication of need because they would most likely be in housing stress without the social housing services provided to them.

FIGURE 4: RATE OF RENTAL STRESS, SOCIAL HOUSING AND HOMELESSNESS IN MONASH, BY HOUSEHOLD TYPE (2016)

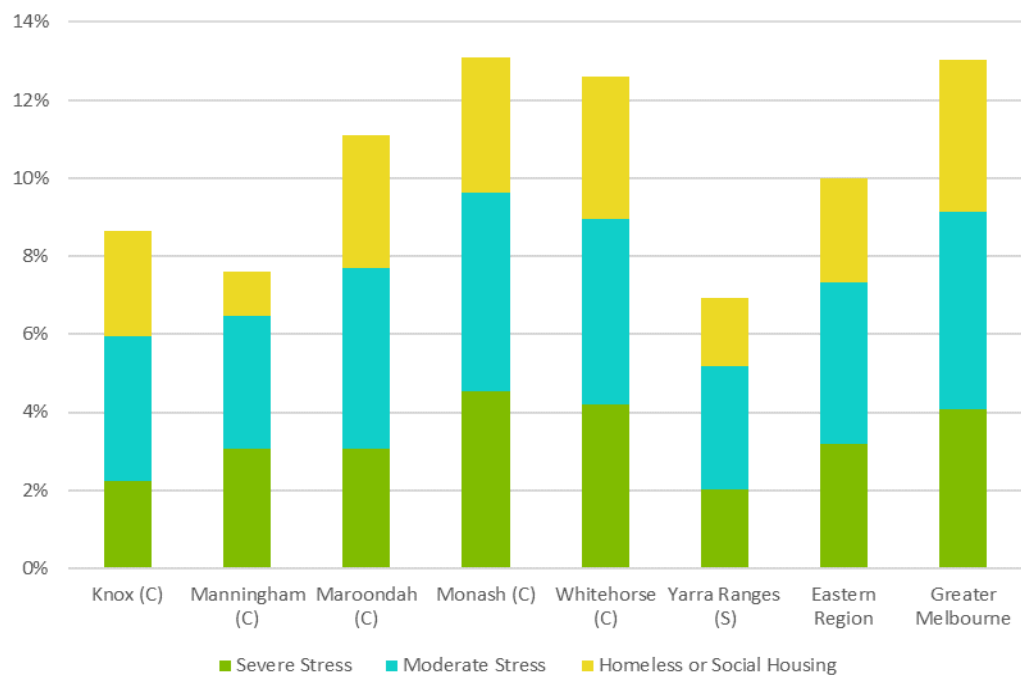


Source: SGS Economics and Planning, Housing Assistance Demand Model 2019

Figure 5 compares the prevalence of housing stress across councils in the Eastern Region with Greater Melbourne. Monash is in line with the average for broader Melbourne at 13 per cent, although it does have a slightly higher rate of severe housing stress. However, Monash has the highest incidence of housing stress in the Eastern Region, which averages 10 per cent. There is a low rate of housing stress in the Yarra Ranges, Manningham and Knox, while Maroondah and Whitehorse are closer to Monash.

Much of this pattern is related to the rate of rental housing. Monash (29.5 per cent) and Whitehorse (27.6 per cent) have the highest rates of rental housing, while Yarra Ranges has the lowest (14.5 per cent). Notwithstanding this relationship, it fact remains that Monash has the highest rates of rental stress in the eastern region.

FIGURE 5: RATE OF RENTAL STRESS, SOCIAL HOUSING AND HOMELESSNESS IN THE EASTERN REGION (2016)



Source: SGS Economics and Planning, Housing Assistance Demand Model 2019

Households in need of housing assistance in 2016

To estimate the total number of households that require housing assistance, a discount is applied to households that are in rental stress, social housing or homeless. This discounting accounts for the fact that a share of households in rental stress might be temporarily in stress or have high housing costs by choice (see text box below).

The discount is applied according to household income. The reduction is shown in the third column in table below and applies to very low, low and moderate-income households in rental stress. A smaller discount (10 per cent) is applied to very low income earners than the other groups because they are more likely to experience actual stress than higher income earners.

No discount is applied to people in social housing or those experiencing homelessness since all of those households require housing assistance. These groups are subtracted from the household total for very low income.

Based on these calculations, the estimate of the need for assistance, is approximately **8,250 dwellings** (see Table 4 below). This is somewhat less than the 9,230 households actually identified as potentially experiencing rental stress and equates to 11.8 per cent of all households in Monash.

The **unmet need** for housing assistance is 6,640 dwellings. This can be estimated by subtracting the 1,610 existing social housing dwellings from this total.

TABLE 4: NEED FOR AFFORDABLE HOUSING ASSISTANCE IN MONASH IN 2016

Household type	No. of Households	Discount	Need for housing assistance	Need as a % of total households
People experiencing homelessness	840	0%	840	1.2%
Social housing	1,610	0%	1,610	2.3%
Very low-income households	3,220	10%	2,900	4.1%
Low income households	2,380	15%	2,000	2.9%
Moderate income households	1,170	20%	900	1.3%
Total	9,230	n/a	8,250	11.8%

Source: SGS Economics and Planning

MEASURED NEED VS ACTUAL NEED FOR HOUSING ASSISTANCE

Rowley and Ong (2014) describe a number of reasons why households might choose housing that placed them within the technical definition of housing stress. Households may voluntarily enter a situation where they pay more than 30 per cent of their income on housing to live in a better house, live in a better neighbourhood, or live in a location where other household expenses such as transport costs are lower. The research also notes that it is normal for some households to experience a temporary period of housing stress. This can be due to temporary changes in circumstances such as the birth of a child, short term unemployment, or adjusting to the breakdown of a relationship.

These factors suggest that measuring housing stress, using the 30 per cent of income threshold, could overestimate the actual number of households that are likely to be experiencing housing stress in the longer term.

This overestimate of housing stress should be considered alongside more recent research from the Australian Housing and Urban Research Institute which highlights potential hidden households (Rowley, Leishman, Baker, Bentley, & Lester, 2017). The authors suggest that there is likely to be additional demand for affordable housing from households unable to form under current market conditions. These 'unformed' households might include younger family members that would prefer to leave the parental home but cannot afford to, elderly family members that must live with other family members to have affordable accommodation, or multiple families occupying a single dwelling.

Together, these research findings show that the prevalence of housing stress does not neatly align with the need for housing assistance. Some of the factors identified above would inflate the need and others would deflate it. On the balance of evidence, the analysis applies a slight discount to derive a more accurate estimate of the actual need.

4.3 Future demand for housing assistance

Housing stress will likely grow in the future

The need for affordable housing is likely to increase as Melbourne's population grows. The *Victoria in Future* population forecast for Monash predicts that the total households in the municipality will grow by 14,300 households in the 20 years from 2016 to 2036. This represents growth of 0.9 per cent per annum, which is somewhat lower than the expected growth of 1.8 per cent across Greater Melbourne.

A Housing Assistance Demand model was used to forecast how the need for affordable housing might change with this population growth. Three scenarios were used to capture the uncertainty in predicting the housing market in the future. The base case, or central scenario, assumes that incomes and rents grow at the same rate over the next 20 years. The optimistic scenario assumes that incomes grow faster than rents and the pessimistic scenario assumes that rents grow faster than incomes. Table 5 details the differences in these assumptions.

TABLE 5: FORECAST SCENARIO ASSUMPTIONS

Base Case	Optimistic	Pessimistic
<ul style="list-style-type: none"> Income growth = rent growth 20-year time horizon 	<ul style="list-style-type: none"> Year 1-5: Income Growth > Rent Growth (1% pt) Year 6-20: Income Growth = Rent Growth 	<ul style="list-style-type: none"> Year 1-5: Income Growth < Rent Growth (1% pt) Year 6-20: Income Growth = Rent Growth

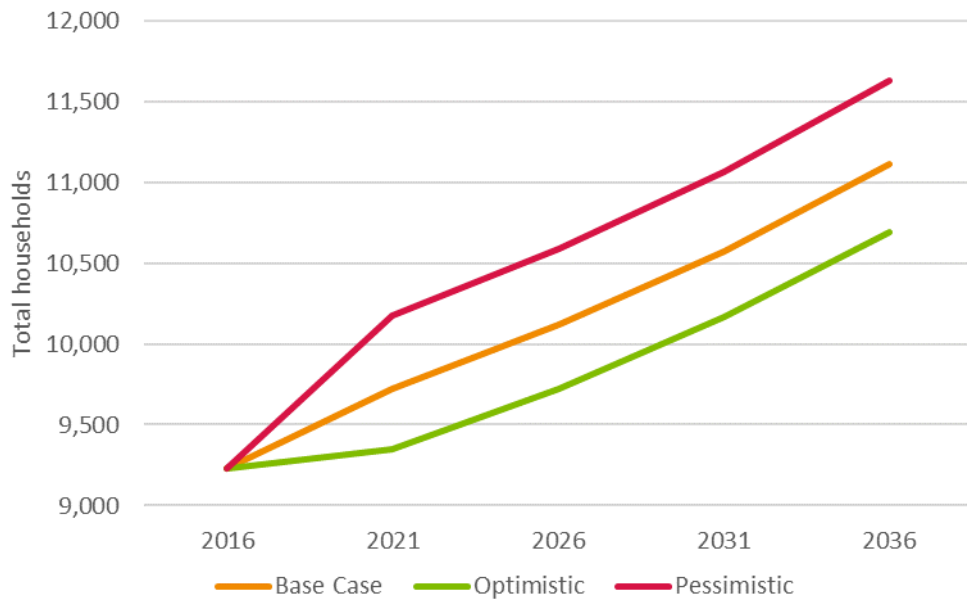
Source: SGS Economics and Planning

Forecasts of households in rental stress, social housing or homeless by 2036

The modelling suggests that, without any intervention, the number of households in housing stress in Monash could rise from 9,230 by 20 per cent to 11,120 over the next 20 years. However, this could range from 10,690 (a 16 per cent rise) to 11,630 households (a 26 per cent rise), depending how incomes and rents change in the coming years.

Figure 6 shows the expected rise in demand for affordable housing. The scenarios diverge in the five years and then approximately rise at the same rate with population growth. This is due to the assumptions described in the table above.

FIGURE 6: FORECAST HOUSEHOLDS IN RENTAL STRESS, SOCIAL HOUSING AND HOMELESSNESS (2016-2036)



Source: SGS Economics and Planning, Housing Assistance Demand Model 2019

Table 6 shows the breakdown of expected rental stress by household type and income. As with the 2016 results, the most vulnerable groups are lone person households and very low-income households. In the next 20 years, there could be 4,080 lone person households and 6,880 very low-income households in rental stress under the base case. Similarly, despite low numbers overall, group households and one parent families are highly likely to be in housing stress, and severe housing stress in particular.

SGS forecasts that the number of people experiencing homelessness in Monash is expected to rise to 1,050 persons by 2036. The number in social housing is forecast to remain stable, this is unlikely as current policy direction and attention at the State Government level indicates renewed investment in social housing. However, the purpose of the modelling here is to build the evidence for new policy and direction, by showing the expected need without any further policy intervention. It subsequently shows a higher number of households in severe housing stress without the provision of any new social housing.

TABLE 6: COUNT OF RENTAL STRESS, SOCIAL HOUSING AND HOMELESSNESS, BY HOUSEHOLD TYPE AND INCOME GROUP (2036 BASE CASE)

Category	Household	Severe Rental Stress	Moderate Rental Stress	Social Housing	Homeless	Total*
Household Type	Couple family with children	630	1,100	120	0	1,850
	Couple family with no children	690	1,020	170	0	1,880
	Group household	790	630	60	0	1,480
	Lone person household	1,370	790	870	1,050	4,080
	One parent family	580	560	370	0	1,510
	Other family	130	150	20	0	300
Income**	Very low income***	3,200	1,020	1,610	1,050	6,880
	Low income	790	2,050	0	0	2,840
	Moderate income	210	1,190	0	0	1,400
Total*		4,200	4,260	1,610	1,050	11,110

*Figures may not sum to totals due to rounding

**Income follows DELWP definitions in Appendix A

***All households in social housing and people experiencing homelessness are assumed to have very low income

Source: SGS Economics and Planning, Housing Assistance Demand Model 2019

Estimate of households in need of housing assistance in 2036

By applying the same discount approach described above, the estimate of the need for assistance, is **9,960 dwellings** (see Table 7 below). Again, this is somewhat below the 11,110 households forecast to experience rental stress in 2036 and equates to 11.8 per cent of all households in Monash. After subtracting the existing social housing dwellings, the **unmet need** for housing assistance is **8,350 dwellings**.

TABLE 7: NEED FOR AFFORDABLE HOUSING ASSISTANCE IN MONASH IN 2036

Household type	No. of Households	Discount	Need for housing assistance	Need as a % of total households
People experiencing homelessness	1,050	0%	1,050	1.3%
Social housing	1,610	0%	1,610	1.9%
Very low-income households	4,220	10%	3,800	4.5%
Low income households	2,840	15%	2,400	2.8%
Moderate income households	1,400	20%	1,100	1.3%
Total	11,120	n/a	9,960	11.8%

Source: SGS Economics and Planning

4.4 Social housing provision in Monash

Victorian Housing Register

In Victoria, social housing allocations are managed via a wait list for which people eligible for assistance can register their interest. Eligible people include those on very low and low to moderate incomes. Before 2017, the public housing system operated on a separate wait list to Registered Housing Agencies. Since then, the Victorian Government has developed a

common housing register, which is one list where people eligible for assistance can register and nominate locational preferences for where they are seeking housing assistance.

Applicants cannot nominate a particular Registered Housing Agency but can flag their preference for public housing or community housing assistance. The implementation of the common housing register is in transition as Registered Housing Agencies are going through a process to sign up to the register and once signed will transfer existing applications.

DHHS is updating the Victorian Housing Register regularly and currently reporting on the transfer list by local area every three months. This report provides an indication of the number of people waiting to move and transfer to a social housing property.⁶

Total households on the Victorian Housing Register

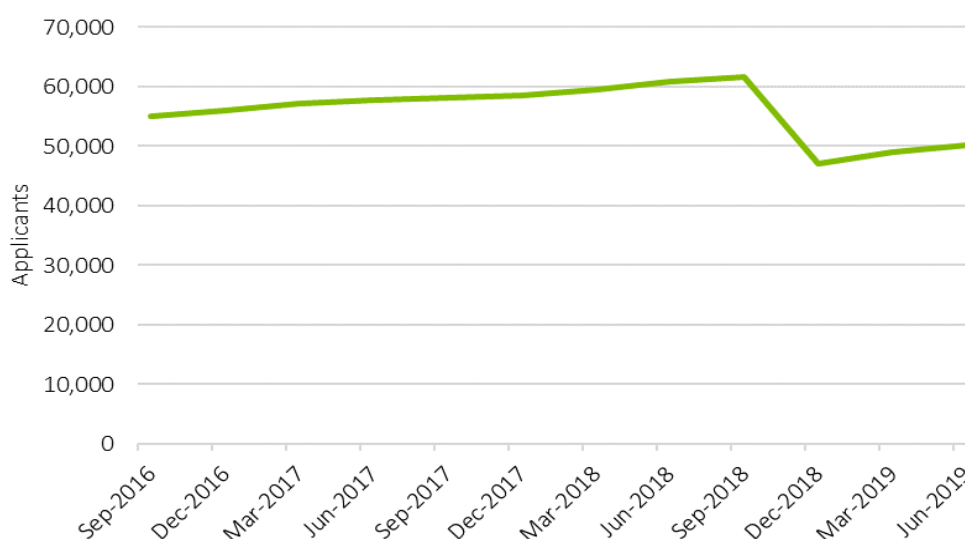
As of the June quarter in 2019, the total number of people on the Victorian Housing Register was 50,145. This includes:

- Existing priority access and register of interest for public housing which have been transferred to the new register
- New applications submitted since August 2016 (where applicants have chosen public housing, community housing or both)
- Applicants who are seeking to transfer from an existing social housing dwelling.

It is worth noting that social housing applications transferred from community housing waiting lists are estimates only. The June 2019 quarter estimates the number of applications at 7,248, as registered housing agencies formally sign up to the housing register.

Figure 7 shows the total number of applications for social housing in Victoria continues to grow, having increased from 55,056 in the September quarter of 2016 to 61,678 in September 2018. There was a drop in applicants in the first quarter of 2019, which is likely due to the merging of duplicate applicants across the waiting lists. The waiting list has continued to grow since that time.

FIGURE 7: TOTAL APPLICATIONS FOR SOCIAL HOUSING IN VICTORIA



Source: Victorian Housing Register, Transition Report September 2018.

⁶ DHHS Victorian Housing Register and Transfer List (June, 2019), available at <www.housing.vic.gov.au/victorian-housing-register>

Monash households on the Victorian Housing Register

Within the Victorian Housing Register, Monash falls within the Eastern Division of the register, in the Inner Eastern Melbourne area (see table below). These figures do not include an estimate of the Registered Housing Agencies existing applications.

The table shows there are 1,280 households on the priority access list that are waiting to move into, or transfer to, a social housing property in the region. A further 1,003 households are on the register of interest, making a total of 2,283 social housing applicants.

TABLE 8: VICTORIAN HOUSING REGISTER (EAST DIVISION) 2018

	Priority access	Register of Interest	Total
Social housing applicants	1,114	857	1,971
Transfer applicants	166	146	312
Total	1,280	1,003	2,283

Source: DHHS Victorian Housing Register and Transfer List (June 2019)

Social housing dwellings in Monash

There are currently 1,830 social housing dwellings available in Monash, approximately 2 per cent of all households.⁷ Around 1,565 of these dwellings are owned by DHHS, and the majority are medium density attached dwellings (see Table 9). Registered Housing Agencies own 265 dwellings in Monash.

This figure differs from the estimate of 1,610 households in social housing from Section 4.2 above. The previous data was based on the 2016 Census and is likely to reflect an undercount as a result of households not correctly identifying their landlord as a social housing provider. Nonetheless, there is a clear under-provision of social housing dwellings in the City of Monash.

TABLE 9: SOCIAL HOUSING DWELLINGS

	House	Medium density attached	Medium density detached	Low-rise flat	High-rise flat	Movable Unit	Multiple Unit facility unit	Other	Community owned	Total
Monash	467	816	52	176	0	37	10	7	265	1,830

Source: DHHS (2018) Housing assistance, Additional service delivery data 2017-18.

⁷ Department of Health and Human Services (DHHS), Housing Assistance Delivery Data 2017 – 18.

5. AFFORDABLE HOUSING CONTRIBUTIONS

Development contributions sought through planning fall within one of four frames. Of those, value capture and inclusionary requirements are appropriate for affordable housing contributions. Clear policy statements are required to implement these approaches in Monash.

5.1 Four frames of development contributions

Council's most effective mechanism for addressing the need for social and affordable housing is to seek contributions through the planning system. There are different types, or frames, of development contributions that are routinely employed in the plan making and development assessment process that need to be considered.

Conceptually, any requirement for a development contribution will fall into one of four mutually exclusive and additive categories. These are:

- **User charges:** These are payments required of developers to help fund planned shared infrastructure which will be used by the development in question. A key principle is that developer should contribute in proportion to their expected share of use of the infrastructure items in question.
- **Impact fees:** Whereas user charges apply to planned infrastructure, impact fees apply when a development creates unanticipated demands on local infrastructure as a result of its particular design or timing.
- **Value sharing or value capture arrangements:** 'Value sharing' or value capture contributions capture part of the uplift in the unimproved land value that follows from an infrastructure investment, site rezoning or development approval which allows for a higher value or more intensive land use.
- **Inclusionary requirements:** Inclusionary requirements are about ensuring that successive developments meet community expectations in relation to liveability, efficiency and sustainability. Parking and open space requirements, or their cash-in-lieu equivalents for off-site provisions are examples.

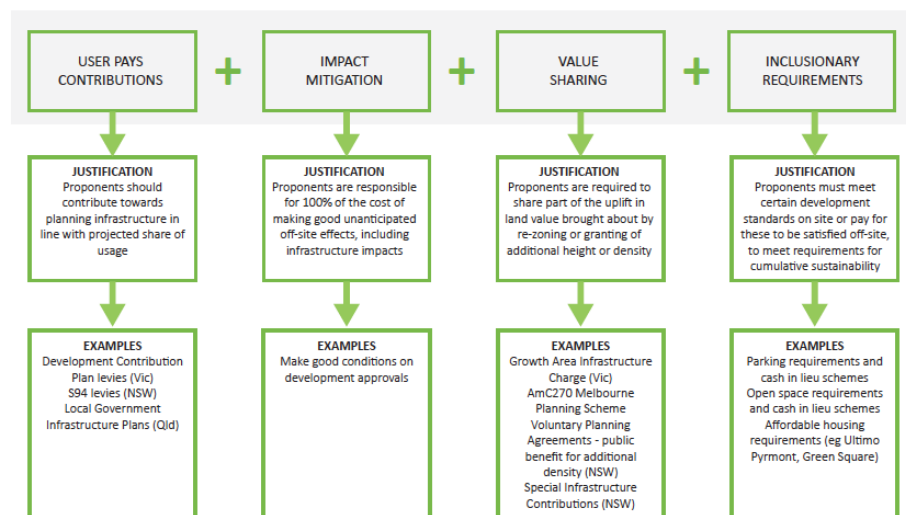
An overview of the frames and the justification for each is shown in Figure 8. The justifications guide what contributions can be fairly sought under each frame. In crafting affordable housing contributions policies, Council should make explicit *why* the contribution is being sought, which will in turn inform *what* the contribution requirement is.

Of the four types, user charges and impact fees provide the weakest rationale for seeking contributions for affordable housing. It is difficult to conceive of affordable housing contributions as a user charge due to the lack of a clear nexus between new development and the demand for affordable housing. The impact mitigation frame is inadequate in that it can only be employed to compensate for a loss of existing affordable housing stock, rather than expanding the stock of affordable housing.⁸

⁸ Although, Council would be wise to seek impact mitigation fees if a development would result in the loss of affordable housing in a given development.

Contributions to affordable housing contributions have a strong justification under the value capture and inclusionary requirement frames. Affordable housing is one of many possible public benefits to which the proceeds of value uplift can be directed. Affordable housing can also be seen to be part of the ‘must have’ attributes of place to ensure sustainable development, in much the same way as open space provision might be.

FIGURE 8: FOUR FRAMES OF DEVELOPMENT CONTRIBUTIONS



Source: SGS Economics and Planning

5.2 Affordable housing contributions from value capture

Rationale

Development contributions generated under value capture requirements are premised on efficient regulation of community sanctioned development rights. Regulation of land use through planning controls represents a form of restriction on market access necessitated by the objective of economic efficiency. The state deliberately and systematically rations access to ‘development rights’ via planning regulations to generate a net community benefit.

As occurs with other regulated markets – commercial fisheries, mineral exploitation, broadcasting bandwidth, etc. – it is appropriate to charge a licence fee for access to these regulated development rights. Licence fees in the context of the development assessment process can be paid by providing public benefits in return for development rights.

The value of development rights is capitalised into the price of the land. Land which is enabled for use as a major shopping centre is more valuable than land without this privileged access. Land enabled for a multi-storey apartment building will be worth more than the same land designated for a single household dwelling. Land zoned for mixed use residential will be more valuable than land designated for industrial uses.

The largest amounts of value uplift will generally be created when a site is rezoned from a low value use to a higher value use.⁹ The rezoning is an increase in development rights that should be shared with the community. This is an opportunity for Council to require an affordable housing contribution through the rezoning process.

⁹ The other major opportunity is where land is already zoned for a given purpose, but the quantum of permissible development is subject to discretionary height or density limits. Proponents could have the option to acquire additional development capacity through the provision of a community benefit of commensurate value. However, this typically does not yield a large value uplift. It can also present a challenge to acceptable environmental or design envelopes, and risk raising the unfortunate expectation that affordable housing agreements might be met only by trading off other planning objectives and requirements.

The proceeds of value capture in the planning system could be used for a variety of purposes or even fed into consolidated revenue. While affordable housing contributions are one avenue through which public benefits might be secured, focussing on affordable housing can be justified based on the high level of need for this type of infrastructure.

An important distinction is that the process captures the value uplift after developer's costs are accounted for. This means that **value capture does not make development unfeasible**. The value that is captured is the difference between:

- The **existing use value** of the site – this is without capital improvements and is distinct from the market value which factors in development potential
- The **residual land value** given the highest and best use possible with additional development rights (such as a new zoning) – this is the value of the land after all development costs and margins for profit and risk are deducted from their anticipated gross sales (or 'gross realisation') upon completion of the project.

Setting the contribution amount

There is currently no State Government or other guidance on the appropriate share of the value uplift that might be captured for the benefit of the broader community. It is appropriate that the value captured is a fixed proportion of the value uplift, which would be applied consistently to all rezoned sites. This ensures fairness because the value captured is a share of the value uplift; nobody receives excess windfall gains on a site and nobody makes a loss due to excessive value capture rates. It also captures value for the community while maintaining an incentive for landowners to sell their land to developers.

Current best practice in Australia has adopted a rate between 50 and 75 per cent:

- The ACT Lease Variation Scheme, which requires proponents to purchase the additional development rights on government leasehold land enabled by a development approval, targets 75 per cent of the uplift in residual land value.
- Voluntary Planning Agreements in NSW, which are directed at value sharing for the purpose of generating public benefits such as affordable housing, often target 50 per cent of the value uplift.

A value capture rate of 75 per cent is recommended on the basis that the rate should be as high as possible whilst retaining an incentive for development. A rate of 100 per cent value capture rate would mean that the value of the land to a private developer is the same with its existing use or with the new development. No value capture means that the private developer receives a windfall gain at the community's expense. The recommended rate means that 25 per cent of the value uplift is left on the table for developers and provides an ongoing incentive to develop land into higher and better uses.

A pertinent consideration is the impact of value sharing policies on development feasibility impacts, however, provided the contribution requirement is pre-notified and calibrated to capture a proportion of the value uplift, it should not render development unfeasible. Appendix B explores the market impacts in further detail and outlines a recommended value capture process in detail.

5.3 Affordable housing as an inclusionary requirement

Rationale

Inclusionary requirements are premised on need to meet minimum acceptable standards of development. When used for affordable housing they are conceptually similar to parking requirements, open space standards, and other mandated planning standards. Like these other standards, contribution for affordable housing based on the inclusionary requirements rationale are justified on economic efficiency rather than redistributive grounds.¹⁰

Planning regulation is necessary in the first instance because the use and development of land generates externalities, both positive and negative.¹¹ As noted in Section 3, the development of affordable housing generates external benefits in the form of socially valuable diverse neighbourhoods, better functioning labour markets and better human capital formation. Inclusionary requirements to include affordable housing in new development is used to generate positive externalities that would not eventuate without some form of regulation.

In the same way that individuals benefit from their own open space contributions as well as the contributions of everyone else in the community, they would also realise the external benefits of their own affordable housing contributions and those of the wider community. Conversely, a community without such inclusionary requirements could develop with otherwise poorer environmental and community outcomes. Through this lens, inclusionary zoning is properly understood as a means to improve land use that benefits the entire community rather than a redistributive tax that only benefits lower income households.

Setting the contribution amount

There are a few different ways to consider an appropriate affordable housing rate:

- A rate of 6 per cent has been recently applied to Fishermans Bend and is proposed in the Melbourne Planning Scheme Amendment C309 for West Melbourne.
- There is also precedent for a lower rate of 1.1 per cent for residential floorspace and 0.8 per cent of commercial floorspace has been in place in Ultimo Pyrmont and Green Square redevelopment areas of Sydney for up to 25 years.
- Council could target the current rate of social housing in Metropolitan Melbourne (3.5 per cent) as an indication of the minimum community expectation of provision.
- As one of three tiers of government, Council could bear one third of the responsibility for social housing provision and meet one third of the local need (4.3 per cent is approximately one third of the estimated 13 per cent in need).

Each consideration has strengths and weaknesses. Precedents demonstrate acceptable rates but are also variable and somewhat arbitrary. Targeting the current rate of social housing runs the risk of providing insufficient dwellings for households in need given the current supply of social housing is manifestly inadequate in meeting demand. Given the historical lack of social housing investment by state and federal governments, one could argue that local government should seek a higher rate to address as much need as possible.

Within this range of options, **an inclusionary zoning rate of 6 per cent affordable housing is recommended for Monash**. Each land use – residential, commercial, retail, industrial and institutional – would be obliged to contribute to maintenance of the identified environmental value of social mix. In the same way, all land use types are required to respect and conserve heritage values.

¹⁰ While it does have redistributive effects since most residents of affordable housing are low income households, this is not the justification from a planning policy perspective.

¹¹ Externalities are uncompensated (or un-rewarded) impacts incurred by third parties as a result of market transactions. Land use and planning regulations apply to maximise positive externalities (for example, having sufficient communal open space) and minimise the negative externalities (for example, industrial noise pollution near residential land). Without regulations, individuals do not have an incentive to incur any costs to manage externalities because the external costs and benefits of an activity are realised by both the individuals involved in the activity and the broader community.

The 6 per cent rate aligns with emerging practice in Victoria and avoids targeting the decreasing current social housing rate or waiting for equivalent government investment. The rate could be initially set low – say 1 per cent – with scheduled increases each year to allow the market to adjust.

To maximise its effectiveness of a local inclusionary zoning policy, the requirement to contribute should apply to all types of development, regardless of scale and land use. The option of an equivalent cash contribution could be permitted for smaller developments, non-residential developments or where the location is unsuitable for affordable housing.

Cash-in-lieu schemes have been operated for the fulfilment of car parking requirements for decades in most jurisdictions and are currently standard practice for open space contributions. Cash contributions can be managed quite simply through a Council-owned trust which invests competitively in social housing.

Appendix B give more information about the implementation of inclusionary zoning contributions for affordable housing.

5.4 Applying value capture and inclusionary zoning in tandem

Value capture and inclusionary zoning for affordable housing are conceptually separate and could be applied in tandem. This is the same as a developer making an affordable contribution on a rezoned site who would still need to make an open space contribution. If clearly and appropriately configured, such contributions should not provide an economic disincentive to develop land, nor will they increase the sales price of market dwellings or non-residential floor space.

The limits on the tandem application of these two types of development contribution in the service of affordable housing outcomes lies not in conceptual inconsistency but in development economics. Developers are ‘price takers’ in the market, so any cost they incur will result in a lower land purchase cost passed back to the land owner. As long as both the contribution schemes do not reduce the value of land beneath its existing use value, the incentive to develop will remain. Appendix B outlines the development economics in further detail.

5.5 Planning mechanisms

There is clear justification for using the planning system to support an increase in social and affordable housing. As described earlier, there is now a definition of affordable housing in the *Planning and Environment Act 1987* and an objective to “facilitate the provision of affordable housing”. As noted by DELWP, this was intended to support the negotiation of affordable housing agreements between landowners and councils via Section 173 Agreements. However, recent failed negotiations show the changes have had limited actual effect.¹² Clearly, stronger policy is needed to support affordable housing contributions through the planning scheme.

The planning scheme is the key tool through which Council can influence new development; strategies and policies that are not reflected in the planning scheme will have little if any weight in directing development outcomes. It therefore follows that if Council supports achieving more affordable housing, this should be expressed – and, ideally, given regulatory effect – through the planning scheme.

Historical practice in Victoria has generally not seen strong directive statements or requirements regarding affordable housing in planning schemes. This creates difficulties for councils in actually requiring private developers to provide affordable housing when approving planning permits. In the absence of clear policy support, councils have consistently struggled to defend requirements for affordable housing.

¹² For example, *Panorama Investment (Box Hill) Pty Ltd v Whitehorse CC* [2018] VCAT 1490.

There are, however, some recent movements with the Amendments C270 (Central City), GC81 (Fishermans Bend) and C309 (proposed for West Melbourne) to the Melbourne Planning Scheme including a variety of value capture and inclusionary zoning approaches to affordable housing contributions. The Victorian Government Minister for Planning also established a Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing in September 2019 to consider and provide advice to the Minister on possible models and options to facilitate the supply of affordable housing through the Victorian planning system, including inclusionary zoning and value capture mechanisms.

Council can support value capture and inclusionary zoning with three approaches to planning scheme amendments:

1. Broad statements of support for affordable housing contributions
2. Specific statements regarding approaches to ad-hoc rezoning
3. Policy guidance regarding affordable housing contributions via inclusionary zoning

1. Broad statements of support in the planning scheme

The first option is to enhance the existing policy with a statement of in-principle support for provision for affordable housing (as opposed to general market-based housing affordability responses). An example of this kind of statement is at Clause 21.03-3 of the Moreland Planning Scheme, which has as a strategy:

“Encourage developments to include a proportion of affordable rental housing to be owned and managed by a registered Housing Association, Housing Provider or similar not for profit organisation.”

Such statements have value in clearly asserting the need to consider affordable housing issues in planning assessments and can plant a flag for further strategic work. There is precedent in other policy areas (notably Environmentally Sustainable Design) for quite sweeping statements of policy to gradually be given more weight over time as the prevailing thinking shifts within the industry.

The limitations of such statements, however, is that they will be of very limited value in supporting affordable housing requirements in contested situations. Their reliance, common in Victorian planning, on permissive rather than restrictive verbs (i.e. “encourage” not “require”) means that they cannot be relied upon to compel unwilling developers to provide affordable housing. This weakness is compounded by the lack of clear thresholds or guidance, which will raise questions of reasonableness in any given application.

In practice, such statements will therefore not be of much assistance in defending support affordable housing requirements in contested situations. They are therefore of limited value in changing developer behaviour or on-the-ground outcomes.

2. Statements regarding approaches to ad-hoc rezoning

While the focus thus far has been on the role of local policy in guiding decision-making, local policy is also used to guide future amendments and strategic work. It may therefore be valuable to have statements in policy that support using value capture from rezoning processes to require affordable housing contributions.

Several councils have adopted policies setting out their expectations regarding affordable housing on rezoned sites or in major developments (see following text box). There is no evidence of such approach being incorporated into the planning scheme, although this does not suggest that a policy within the scheme would not be technically possible now or in future.

Statements regarding approaches to contributions sought from rezonings could be as simple as a one-sentence strategy endorsing the pursuit of affordable housing contributions where land is re-zoned for housing. Ideally, however, they could also include guidance as to the levels of contribution that are expected, for example by identifying the rate of value capture to be contributed in a rezoning. Specific guidance would make the policy more useful than a simple in-principle statement.

YARRA CITY COUNCIL – POLICY GUIDANCE NOTE ON AFFORDABLE HOUSING IN SIGNIFICANT REDEVELOPMENTS

Yarra has a Policy Guidance Note on Affordable Housing in Significant Redevelopments which sets out Council's expectation to negotiate at least 10 per cent affordable housing on rezoned sites that yield 50 or more dwellings. The note stipulates Council's preference is for developers to provide fully serviced land on site, at no cost to an affordable housing provider or Council. Furthermore, it explicitly states that: "developer must take affordable housing provision into account when negotiating the purchase of land. It is a principle of this guidance that affordable housing is not an abnormal development cost, even in situations where public subsidy is not available."

The policy does not stipulate that the affordable housing dwellings be gifted. It encourages developers to form partnership with RHAs and provides a list of RHAs with contact details. The policy also suggest that affordable housing provided on rezoned sites will: (i) meet identified local needs both initially and subsequently, once constructed and into the future; (ii) be affordable both initially and subsequently, once constructed and into the future; and (iii) be integrated with the market housing.

CARDINIA CITY COUNCIL – SOCIAL AND AFFORDABLE HOUSING STRATEGY AND ACTION PLAN 2018 – 2025

Cardinia has recently adopted a social and affordable housing strategy. A notable element of this strategy is a policy to facilitate the provision of 2 per cent affordable rental housing on developments or subdivisions be over 100 lots, through dwellings to be gifted to a registered housing agency, via negotiated agreements. The 2 per cent contribution rate will apply between 2018 and 2021, increasing to 4 per cent in 2022, and then to 8 per cent in 2025.

The gifting approach is recommended to "ensure delivery, as opposed to a discounted sale arrangement that would depend on third party investment." The policy also notes that RHAs might be in a position to leverage these contributions to obtain grants or undertake borrowing that would allow them to secure additional affordable dwellings.

3. Policy guidance regarding contributions via inclusionary zoning

It is conceptually attractive to address housing affordability through policy specifying standard levels of contribution that should apply in regular planning permit processes. This would be akin to inclusionary zoning and apply to the development of all new floorspace throughout the municipality. Such policies would need to be included within the planning scheme if permit conditions or s173 agreement for affordable housing struck via an inclusionary zoning policy are to survive challenge.

Notwithstanding the clear policy rationale for their implementation, these approaches are somewhat untested and may face barriers to implementation from state government. Broad statements of support have been accepted by state government as permissible in schemes. Statements about ad-hoc rezoning are less orthodox and may face some barriers, while policy guidance in support of inclusionary zoning is likely to face considerable resistance.

Ways forward

It is recommended that Council seek to implement all three approaches via an amendment to the Monash Planning Scheme. This will deliver the most effective planning policy for affordable housing contributions in Monash. With the barriers noted above, a next best solution would be to implement option 1 and 2, or option 1 alone.

Should no planning scheme amendment be acceptable, Council could still strengthen its policy with a statement about expectation for contributions towards affordable housing through the adoption of a Council policy (as per Yarra and Cardinia) outside the planning scheme, that establish expectations for affordable housing contributions from new developments.

The policy could serve to 'socialise' Council's preference for a broad-based inclusionary mechanism to directly provide or fund affordable housing, pre-signalling Council's preferred approach to the market.

A full suite of recommended strategies and actions for Monash are provided in the following section.

6. STRATEGIES AND ACTIONS

There is a clear case for Council to take action for greater affordable housing provision in Monash. Council's strategies and actions sit within the strategic framework of regulations, partnership, investment and advocacy.

6.1 Council's role

The previous sections have demonstrated the benefits of affordable housing, the need for greater affordable housing provision in the City of Monash, and clear planning mechanisms to obtain that provision.

The need for greater affordable housing is not isolated to Monash alone, nor is it Council's sole responsibility to address that need. There are many forces and institutions driving housing affordability outcomes in Monash and in other locations that are beyond the direct purview or influence of Council. These relate to general economic conditions, monetary policy settings, wages and the dynamics of the housing cycle.

Historically, the task of supplying social and affordable housing has been borne by the broad-based tax systems operated by federal and state governments. They are best placed, constitutionally and financially, to continue to make the primary contributions by virtue of their superior revenue raising powers, ability to take on debt and legislative powers.

The recent policy Victorian State Government changes, including amendments to the *Planning and Environment Act 1987*, have given local governments in Victoria power to play a larger role in the provision of affordable housing. While these powers remain limited, these developments strengthen the view that the large and increasing shortfall of affordable housing can be best addressed by action from all three tiers of government, in partnership with the private and community sectors.

Within this context, Council understands that its role is not to directly provide affordable housing to meet all of the need in Monash, or to seek equivalent contributions from developers, or, indeed, to solve the housing affordability crisis. Instead, its role is to help facilitate the provision of affordable housing and advocate to State and Federal governments for appropriate action on behalf of the people of the City of Monash. The following Strategy sets out strategies and actions under four pillars for Council to do this.

6.2 A four pillar strategy

There are several policy levers available to Council to help increase the supply of affordable housing. Council can play a role from advocacy through to direct investment in affordable housing. The levers Council will apply through this Strategy are grouped into four overlapping pillars: regulation, partnerships, investment and advocacy.

The **'regulation'** group of interventions includes various mechanisms available to Council under the *Planning and Environment Act 1987*. For the purposes of this document, this includes planning system measures to facilitate efficient housing markets, and enabling instruments to facilitate development contributions for affordable housing via inclusionary zoning and value capture.

The **'partnership'** group of interventions includes strategies by which Council would work with private or community sector proponents to help them achieve affordable and social housing outcomes. Examples include brokerage of partnerships between corporate developers and registered community housing providers where the former are self-motivated to include

affordable housing in their projects. Council also has a role to play in providing useful information on the Community Housing Sector to developers and interested parties.

The **'investment'** group of interventions would see Council applying its own assets – whether this be cash, land or underwriting capacity – to directly generate an expansion of social and affordable housing.

The **'advocacy'** group of interventions would see Council, through its involvement in the Eastern Affordable Housing Alliance (EAHA), continue to advocate for the introduction of mandatory inclusionary zoning and the delivery of 11,420 new social housing dwellings in the Eastern Metropolitan Region. Through this platform, Council has an opportunity to collectively develop and voice its views alongside like-minded Councils.

The remainder of this section details the strategies and actions under each of the four pillars.

6.3 Regulation

Strategy 1: Continue to support housing diversity and choice through Council's existing planning policies

Action 1.1: Continue to implement the *Monash Housing Strategy 2014*

While not the direct focus of this strategy, efficient housing markets contribute to the larger affordability picture. In an efficient housing market, the supply of housing can readily meet demand. In simple terms, this means that there are adequate opportunities for new housing, and that their type, location and price match the needs of new households that are forming, as well as existing households that require an alternative accommodation option.

An efficient housing market is more attractive for investment, as it is less risky and more likely to provide a return. It is also likely, in the long run, to reduce upwards pressure on the cost of housing that arises when demand outstrips supply or when new supply is mismatched with need.

Efficient housing markets deliver more affordable housing and a larger diversity of housing to match a range of needs. Councils can choose from several initiatives or improvements to facilitate market efficiencies, including planning system measures, infrastructure provision and information dissemination. In aggregate, these initiatives and/or improvements will have a significant impact on the efficiency of the local housing market and perceptions of risks and return on investment in Monash.

Efficient housing markets are not the focus of this Affordable Housing Strategy. Instead, it recognises that Monash has undertaken substantial work on the local housing market through its *Monash Housing Strategy 2014*. That document outlines strategies and actions to address key issues in Monash and to promote housing diversity. Relevant strategies include:

- Encouraging housing which caters for the needs of residents at various stages of their lives and with different needs, including providing the opportunity to age in place, having regard to variations in lifestyle preferences and cultural needs across key demographic groups.
- Promote higher density developments within and adjacent to activity and neighbourhood centres that will accommodate different forms of housing, subject to direction regarding appropriate scale and design.
- Promote a variety of dwelling sizes and types to support greater affordability of housing and choice in medium and large urban developments.

Strategy 2: Establish strong and broad policy statements about the need for affordable housing in Monash

Action 2.1: Seek a planning scheme amendment to include a strong statement of support for affordable housing contributions in Monash

The first option is to enhance the existing policy with a statement of in-principle support for provision for affordable housing (as opposed to general market-based housing affordability responses).

Such statements have value in clearly asserting the need to consider affordable housing issues in planning assessments and can plant a flag for further strategic work. There is precedent in other policy areas (notably Environmentally Sustainable Design) for quite sweeping statements of policy to gradually be given more weight over time as the prevailing thinking shifts within the industry.

Strategy 3 Require an affordable housing contribution when land is being rezoned

Action 3.1 Develop Council's policy and approach to value sharing on rezoned land

Action 3.2 Seek a planning scheme amendment to mandate affordable housing contributions of 75 per cent of the value uplift on rezoned land

As already described, significant uplift in land values can be created when a site is rezoned from a low value use to a higher value use. The rezoning is an increase in development rights and potential value, that should be shared with the community. This is an opportunity for Council to require an affordable housing contribution through the rezoning process.

Council currently does not have an agreed approach to value capture when considering rezoning land. Developing a clear and transparent approach is the first step to implementing this strategy. This will ensure that the market is notified so developers can factor any costs into its dealings with landowners. Appendix B proposes an approach at a high level.

The approach should be supported by a policy in the Monash Planning Scheme. In particular, specifying the recommended rate – 75 per cent of the value uplift after all development costs and margins for profit and risk are deducted from their anticipated gross sales – will ensure the greatest chances of success.

Strategy 4: Implement Council-wide inclusionary zoning requirements for affordable housing

Action 4.1 Develop Council policy and approach to inclusionary zoning requirements for affordable housing

Action 4.2 Seek a planning scheme amendment to mandate 6 per cent of all new floor space developed in Monash to be set aside for an affordable housing contribution

As outlined in Section 5, inclusionary provisions are premised on minimum acceptable standards of development. When used for affordable housing they are conceptually similar to parking, open space and other mandated planning standards in urban development and, like these other standards, are justified on economic efficiency rather than redistributive grounds.

The development of social and affordable housing generates external benefits in the form of socially valuable diverse neighbourhoods, better functioning labour markets and better human capital formation. Inclusionary zoning is used to maximise these positive externalities that developers would not otherwise have an incentive to create.

A rate of 6 per cent affordable housing for inclusionary zoning in Monash is recommended. The rate could be initially set low – at 0.5 per cent or 1 per cent – with scheduled increases to allow the market to adjust. Further implementation considerations are set out in Appendix B.

As with the approach to value capture, any inclusionary zoning policy should be supported by a policy in the Monash Planning Scheme. This will give the policy more weight if subject to challenge at the tribunal. In particular, specifying the recommended rate – 6 per cent of all residential and non-residential floorspace – will ensure the greatest chances of success.

Strategy 5 Establish processes to support affordable housing contributions

Action 5.1 Develop a s173 Agreement template to provide options for developers to make affordable housing contributions

Action 5.2 Establish an affordable housing trust to receive cash in-lieu affordable housing contributions

Two further actions will support affordable housing contributions in the City of Monash. Developing a clear s173 Agreement template will help to guide the expectations of developers when considering affordable housing contributions. Importantly, this would provide developers with different options (of equal value) to deliver contributions that can both minimise costs to developers and maximise the number of affordable housing dwellings.

Where developments are small, there may be insufficient value uplift (in a rezoning scenario) or insufficient floorspace (at the 6 per cent rate) to deliver whole affordable housing dwellings. Council should not forego the value of these smaller contributions. Council should establish an affordable housing trust to collect cash in-lieu contributions that can be aggregated to deliver affordable housing developments in the municipality. The trust would have responsibility for allocating the assets to Registered Housing Associations on a transparent and competitive basis. The cash in lieu rate is equivalent to the on-site rate and equivalent to the cash amount required to build the required amount of floorspace, the method for calculating this is described in Appendix B.

6.4 Partnership

Strategy 6: Engage with and educate the community on social and affordable housing as important local infrastructure

Action 6.1: Develop an approach to educating the community on the need for and benefits of social and affordable housing

Stakeholder engagement with Council officers highlighted engaging and educating the community on the need for and benefits of social and affordable housing as a priority. Engaging the community is crucial, given Council's commitment to and interest in the provision of local social and affordable housing.

Community education will contribute to achieving sustainable outcomes for Monash in the medium to long term. This could come in the form of a consultation around this strategy, consultation about specific development sites or a Council-wide campaign about affordable housing.

Strategy 7: Adopt a relationship building, information sharing and brokerage role between the development and affordable housing sectors

Action 7.1: Publish information on the Community Housing Sector for developers and provide a single point of contact at Council for enquiries

Council can play a role in brokering joint ventures and partnerships between developers, Registered Housing Associations, other housing providers and DHHS. A brokerage role relies on Council identifying and formulating working relationships with the agencies active in the area. Council can play an introductory role, while also disseminating appropriate information on the sector to developers and providing a point of contact.

6.5 Investment

Strategy 8: Consider opportunities for affordable housing on appropriate Council-owned land

Action 8.1: Investigate opportunities on Council owned land for affordable housing provision, including expanding existing sites

Action 8.2: Develop and test a process for developing appropriate Council owned sites for affordable housing outcomes

The 'investment' pillar involves investigating opportunities for Council to directly invest in the provision of social and affordable housing. Council can pursue this agenda via joint ventures with developers and Registered Housing Associations using its own land and/or equity, equity investment in housing associations or via the formation of a housing trust (see Strategy 5).

Monash has historically invested in social housing and currently owns 10 sites supporting between 70 – 80 dwellings for social and affordable housing. There may be an appetite to expand Council's direct provision if further land and enough capital can be identified.

Council should investigate the opportunities for direct investment as an initial step. This can include an audit of suitable sites and assessment of affordable housing against other suitable uses on those sites. There may also be scope to increase densities on Council's existing affordable housing sites to deliver additional dwellings.

Council currently does not have an agreed approach to investing in affordable housing on Council-owned land. Subject to the available opportunities, developing this approach is the second step. Please see Appendix C to this document for a proposed high level approach.

6.6 Advocacy

Strategy 9: Advocate through the Eastern Affordable Housing Alliance (EAHA) for mandatory inclusionary zoning and direct government investment and subsidies

Action 9.1: Use the EAHA as a platform to further develop policy positions and advocate collectively for state-wide mandatory inclusionary zoning, direct investment and subsidies

Monash is part of the EAHA, an alliance between the cities of Knox, Manningham, Maroondah, Whitehorse and the Yarra Ranges. In 2018, the alliance launched a campaign calling on all political parties to 'zone in and deliver real action on social housing'. The EAHA provides Council with a platform to advocate collectively on the key issues surrounding social and affordable housing. Advocacy efforts are more likely to gain traction if undertaken with other councils and with a shared view of the preferred mechanism or approach.

As such, the EAHA advocates for all political parties to:

- Legislate to introduce mandatory inclusionary zoning in Victoria, including a rate of at least 10 percent on all surplus government land and strategic redevelopment sites
- Deliver at least 11,420 new social housing dwellings in the Eastern Metro Region by 2036.

Councils can also collectively advocate to the Commonwealth and Victorian Governments for direct government investment and subsidies to encourage private investment. The Alliance could advocate for more direct government investment whereby both the Victorian and Commonwealth Governments use tax revenue and borrowing to fund expansion of government-owned social and affordable housing.

The alliance could also advocate for the Victorian and Commonwealth Governments to deliver grants to investors to bridge the 'return gap' between market rents and rents that are affordable to moderate and lower income households. The National Rental Affordability Scheme (NRAS), initiated by the Commonwealth following the global financial crisis, is an example of this type of funding arrangement.

6.7 Implementation and review

Following adoption by Council, this Strategy should be followed by the development of an implementation plan to enact the various strategies and policies above.

Given this is an evolving area of policy and action, it is recommended that a relatively short review period of five years. This accounts for the formative nature of the introduction of changes to the planning system. As councils across Victoria enter this arena, it is highly likely that different approaches and models of provision will emerge and mature. State legislation and the current suite of options and mechanisms may also shift over this time.

It is recommended that this Strategy is reviewed and updated in 2024, at which time further tools and options may be available.

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APPENDIX A: HOUSING ASSISTANCE DEMAND MODEL

Overview

The SGS Housing Assistance Demand (HAD) Model measures the number of households who currently need affordable housing, segmented by demographic and spatial variables, and forecasts the evolution of this need subject to factors such as expected population growth, demographic shifts, changes in household incomes, and the evolution of rental rates.

The model uses the following key datasets:

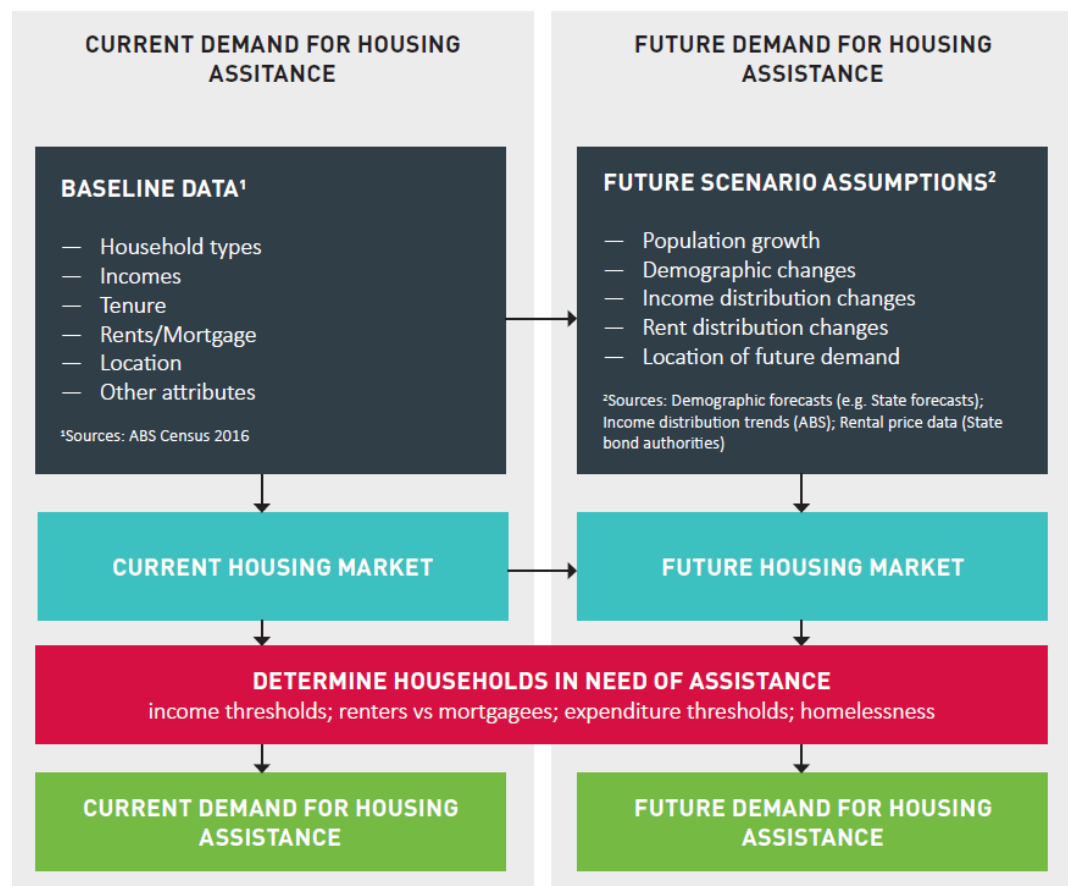
- ABS Census 2016
- 2016 ABS estimation of homelessness (cat 2049.0)
- Forecasts of household by type – Victoria in Future 2016

The structure of the HAD model follows three key steps:

- **Preparation of the current market state**
- **Evolution of the market state into the future**
- **Query for the count of households in need of affordable housing (in rental stress).**

These steps are illustrated in the diagram below and described in detail overleaf.

FIGURE 9: HOUSING ASSISTANCE DEMAND MODEL OVERVIEW



Source: SGS Economics & Planning

Preparation of the current market state

An initial market state is prepared using 2016 ABS Census data, and household forecast data (VIF 2016 and City of Melbourne forecasts). The main data inputs are 2016 Census data, which is used to prepare a detailed attribute-by-attribute market state distribution.

Household forecast data provides control totals against which the market state is adjusted, ameliorating systematic errors in Census data (e.g. undercount). The attributes necessary to identify financial stress appear in Table 10.

TABLE 10: CENSUS ATTRIBUTES USED IN THE HAD MODEL

Variable	Use
Weekly rent	To identify households spending a large proportion of their income on rent
Weekly household income	To identify households spending a large proportion of their income on rent
Household type	To determine the type of affordable housing needed, groups include: couple families, one-parent family, group household, lone person, other family
Tenure type	To differentiate between home-owners, renters, social housing households and households with no tenure (including homeless persons)
Local Government Area	Spatial component used to show distribution of SAH demand across Victoria

Source: SGS Economics & Planning 2018

Ideally, Census data could be obtained to identify the number the households fitting any criteria with any given set characteristics. However, for privacy reasons, ABS products will not provide accurate data where the number of persons fitting a category is small, returning a small random number instead. Because of the detailed breakdown, using Census TableBuilder to obtain a cross tabulated table with all the variables above returns unreliable numbers.

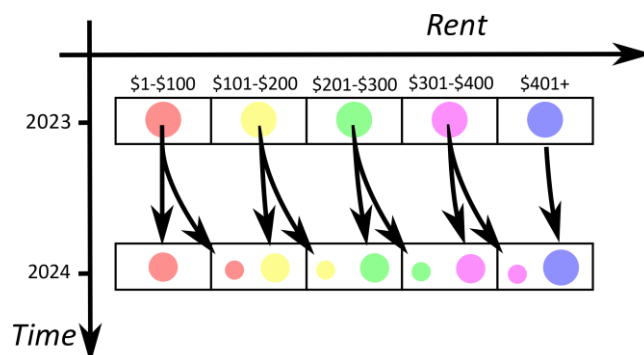
To overcome this issue, a quintuple-attribute model was developed. A total of 16 data tables were obtained (5 single-attribute tables and 11 double-attribute tables) and used in the preparation of the market state. These tables are then developed into a model of the market state is prepared at a local government area level, using a process called iterative proportional fitting (statistics), or the RAS algorithm (economics).

Evolution of the market state into the future

Time evolution of the market state is inspired by a Markov-like process: a household with certain attributes (a) in year y may become a household of another type (a') in year $y+1$. This occurs with a certain probability and parameters in the model determine those probabilities.

Scenario-defined parameters specify how the state of the market steps forward in time. In each time step, households are re-allocated to other attribute sets based on their initial set of attributes. This process is portrayed in Figure 10.

FIGURE 10: ATTRIBUTE REALLOCATION



For this analysis, there were three scenarios:

- A **base case** with no future change in the relative distribution of rents and incomes
- An **optimistic case** where incomes grow faster than rents in the first five years
- A **pessimistic case** where rents grow faster than incomes in the first five years.

Query for the count of households in need of affordable housing (in rental stress)

Finally, for each year in the forecasting period, households that meet three key criteria are identified and counted as needing affordable housing. These criteria are:

- **Household income level**
- Proportion of income spent on rent (to indicate **rental stress**)
- Whether the household is in **social housing** or **experiencing homelessness**.

If a household has a very low, low or moderate **household income** it could be counted as in need of affordable housing (pending the second criterion). Households with higher income levels are excluded due to their ability to substitute other expenditure when in housing stress.

The income ranges are defined by the Victorian Government and shown in Table 11. The ranges here are for 2018 and were updated in 2019 to align with inflation. The model has not been updated, however, because the incomes in the input Census data are at 2016 levels.

TABLE 11: ANNUAL INCOME RANGE OF HOUSEHOLDS ELIGIBLE FOR AFFORDABLE HOUSING (2018)

Household	Very Low Income	Low Income	Moderate Income
Couple family with children	Up to \$52,940	\$52,940 to \$84,720	\$84,720 to \$127,800
Couple family without children	Up to \$37,820	\$37,820 to \$60,520	\$60,520 to \$90,770
One-parent family	Up to \$52,940	\$52,940 to \$84,720	\$84,720 to \$127,800
Other family*	Up to \$52,940	\$52,940 to \$84,720	\$84,720 to \$127,800
Group household**	Up to \$37,820	\$37,820 to \$60,520	\$60,520 to \$90,770
Lone person	Up to \$25,220	\$25,220 to \$40,340	\$40,340 to \$60,510

Planning and Environment Act, Section 3AA(2)

* Other family set equivalent to couple family with children

** Group household set equivalent to couple family without children

A household is considered in need of affordable housing if it is in one of the income groups above *and* in rental stress. **Rental stress** is classified as either moderate (more than 30 per cent of income spent on rent) or severe (more than 50 per cent of income spent on rent).

Two additional groups do not fit the criteria above but are still in need of affordable housing:

- **Social housing:** these households would be in financial stress were it not for this assistance. This implicitly assumes that these are very low income households.
- **Homeless or no tenure:** persons experiencing homelessness need of affordable housing despite not experiencing rental stress. The model assumes that they are lone persons households with very low income.

Persons experiencing homelessness are not counted in the previous categories and estimated separately using the ABS survey of homelessness (cat. no. 2049.0). The ABS uses 'operational groups' to define homelessness:

- Persons living in improvised dwellings, tents, sleepers out
- Persons in supported accommodation for the homeless
- Persons staying temporarily with other households
- Persons living in boarding houses
- Persons in other temporary lodging
- Persons living in 'severely' crowded dwellings.

In forecast years, the model queries the number of households in rental stress based on the same attributes and the evolved market state defined in the previous step.

When considering the social housing, homeless or no tenure categories, it is important to note that the model does not forecast changes to the social housing supply or the incidence of homelessness. Social housing supply is held constant (in lieu of information about committed government investment) while homelessness grows in line with the population.

APPENDIX B: IMPLEMENTING CONTRIBUTION SCHEMES FOR AFFORDABLE HOUSING

Implementation of affordable housing contribution schemes

This Appendix details the following aspects of implementing affordable housing contribution schemes:

- Best practice considerations
- Operation of inclusionary zoning and value sharing arrangements in tandem
- Feasibility impacts Inclusionary zoning process
- Value sharing process
- Options to deliver contributions.

Best practice considerations for inclusionary zoning and value sharing

- Affordable housing development contributions **apply to all developments regardless of sizes**. There will not be any distortion of the local property market if the rules and contribution rates remain the same across all scales of development. Inclusionary zoning contributions apply wherever additional floorspace is being developed. Value sharing contributions apply wherever additional development rights create a value uplift for the landholder. Smaller contributions can be made via cash in-lieu payments.
- **Inclusionary zoning contributions are required of all land uses at equal rate of 6 per cent of gross floor space**. Each land use – residential, commercial, retail, industrial and institutional – is obliged to contribute to maintenance of the identified environmental value of social mix. In the same way, all land use types are required to respect and conserve heritage values.
- **Value sharing contributions may have different dollar rates for different land uses but the value capture rate (75 per cent) will be the same for all land uses**. Individual land uses attract different sale values and will therefore have a somewhat different amount of value uplift to capture per sqm of floorspace. For example, retail space generally has a higher value than commercial and residential floor space. Council could achieve greater precision by capturing land use-specific value uplift, however, this may not make a substantial difference in terms of affordable housing liability by property and would introduce more complexity in the implementation process. It is therefore, not recommended.
- **Value sharing and inclusionary zoning are distinct and complementary contribution mechanisms that can and should work in tandem**. Inclusionary zoning is applied to all development of additional floorspace. Value sharing contributions provide a share of the land value uplift created by additional development rights, taking into account the financial impacts of the inclusionary contributions.
- Council should **clearly and transparently publish** the affordable housing contribution requirements to enhance fairness and efficiency in the housing sector. This allows developers to price affordable housing contributions into their land purchase considerations.
- Developers should be given **options to contribute in the most efficient way**. Each option must be made of equivalent value to the contribution rate. The options should

include on-site full transfer of title to a Registered Housing Association, transfer of double the dwelling number at 50 per cent of dwelling cost (or equivalent substitution rate) or cash in-lieu payments (especially for small contributions).

- **Transaction costs for developers should be minimised.** The above options should be made clear to developers and included as part of a **standard s173 Agreement template** to facilitate the agreement and execution of contributions.
- Affordable housing **contributions via inclusionary zoning should pass the ‘feasibility test’.** That is, they should not inhibit the development by pushing residual land values lower than existing use of values (i.e. the minimum purchase cost). If feasibility is impacted, proponents should be allowed to opt out of part, or all, of the contribution up the value where feasibility is no longer impacted. This would only apply to a small number of cases and would need to be demonstrated by the proponent in a development application. Feasibility impacts will be minimised by the gradual phasing in of inclusionary zoning requirements.
- **Past land purchase price is not a consideration in value sharing calculations.** Council should capture a share of the uplift created with additional development rights, that is, the difference between the **existing use value** and **residual land value** of a proposed development. When given full information, developers must price contributions into their land transactions. Not enforcing this creates an incentive for developers to bid up the price of land and exhaust any uplift created through additional development rights.

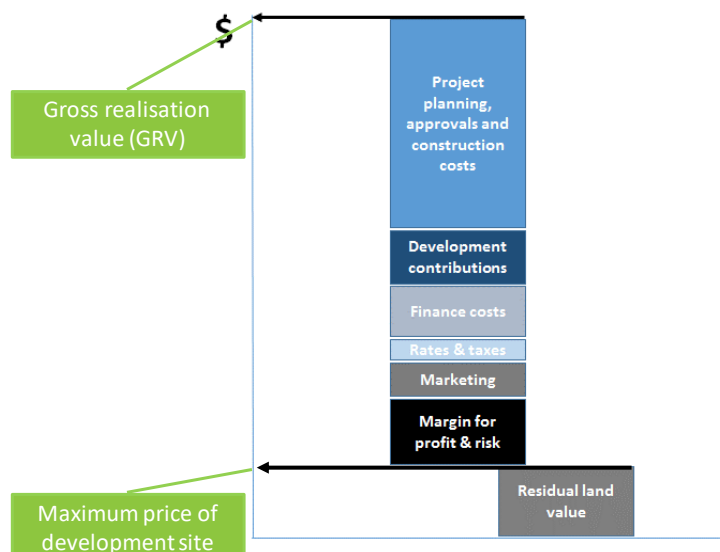
Operation in tandem

Inclusionary zoning for affordable housing and value sharing are conceptually and practically separate. They can and should be applied in tandem, in the same way as a value sharing scheme, such as that applied in central Melbourne via AmC270, can operate alongside parking or open space requirements.

The limit on the tandem application of these two types of development contribution in the service of affordable housing outcomes lies not in conceptual inconsistency but in development economics.

A developer will value a property on a residual basis. As a price taking agent in the market, the developer will pay no more for a site than the residual land value (RLV) after all development costs and margins for profit and risk are deducted from their anticipated gross sales (or ‘gross realisation’) upon completion of the project. This equation is illustrated in the Figure 11.

FIGURE 11: RESIDUAL LAND VALUE

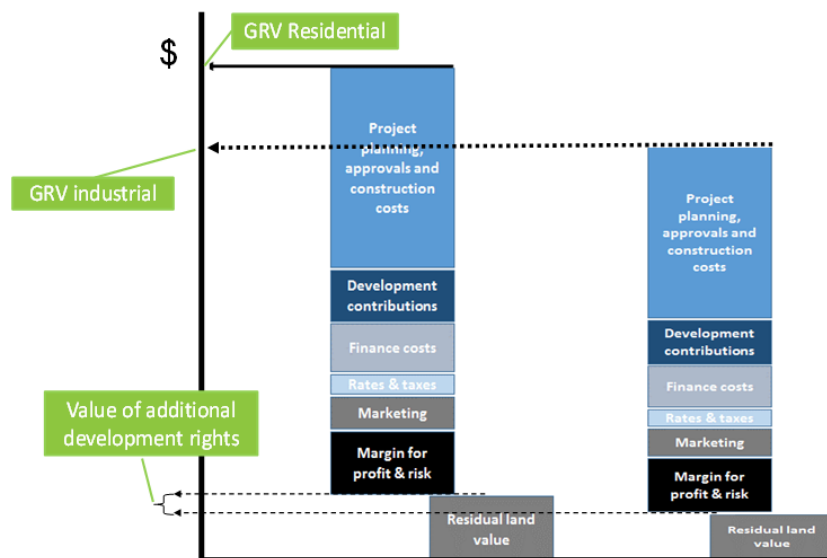


Source: SGS Economics and Planning, 2019

Note that the development proponent cannot simply pass costs forward to home buyers in higher prices for their product. These prices are set exogenously by the market. Thus, for example, if the proponent is confronted with an inclusionary zoning requirement for affordable housing, this would add to their development costs which, in turn, would necessitate a larger dollar amount for profit and risk. This additional cost will ultimately be reflected in a lower supportable bid price for the development site, that is, a lower RLV.

Meanwhile, any value sharing requirement would simply target a proportion of the uplift in land value brought about by the granting of additional development rights or development potential, as illustrated in Figure 12 which contemplates a rezoning from a lower value use (such as industrial) to a higher value use (such as residential). This is the uplift which remains after all other of development contribution, where applicable, have been met.

FIGURE 12: VALUATION OF ADDITIONAL DEVELOPMENT RIGHTS UPON REZONING



Source: SGS Economics and Planning, 2019

Feasibility impacts

As discussed, the cost of a licence fee or value sharing arrangement prosecuted through the planning system is borne by the land seller rather than a development proponent or end buyer. In this context, it is important to distinguish between three categories of agents in the land development process when considering the market impacts of value sharing.

1. 'Original' owners of the land subject to value uplift through, say, rezoning from industrial to residential, with no development aspirations themselves, but looking to sell their property to a developer in due course
2. Investors or land traders who are not intending to develop in their own right but rather to generate an appropriate return by; acquiring property at a pre-rezoning rate; shepherding it through the planning scheme amendment process and then selling to a developer, and
3. Developers who have purchased the land recognising that it is 'due' to be rezoned and are looking to feed the property in question into their production pipeline.

Using the value sharing benchmark noted above, the first of these groups would sustain a reduction of around 75 per cent in the value uplift they might have otherwise expected. Nevertheless, they will continue to enjoy a substantial uplift, and this would continue to motivate them to release their land to a developer if the opportunity arose. The net present value of a sale (albeit at a price 75 per cent lower than previously expected) would be significantly higher than that of the existing land use (e.g. low density residential or industrial).

Depending on their due diligence, the second group may also suffer a loss of value versus expectation. This, in itself, is not problematic so long as the land traders ultimately release their properties to developers. Again, rational investment behaviour would suggest they would absorb losses and move on.

With respect to the third group – developers – the impact of the value sharing requirement will also depend on their due diligence. If they have made their acquisitions relatively recently – and most listed developers buy land on an as needed basis rather than landbank - they will have made due provision for the value sharing in their development equation.

In principle, a value sharing scheme will only adversely affect the supply of housing if the RLV of rezoned land is reduced to a level *below* the RLV given the highest and best use of the land in question before rezoning. This relationship is readily discoverable and manageable in the setting of the value sharing rate.

Inclusionary zoning approach

Inclusionary zoning policy requires development proponents to make their contributions via routine conditions on planning permits, as occurs now with open space contributions.

The required rate should be a clear, pre-notified, contribution rates which proponents could readily factor into their feasibilities.

The requirement would apply to the development of all additional floorspace developed in the municipality. It would not apply to developments that replace existing floorspace. Further work is needed to identify the relevant trigger for ‘additional floorspace’ in a development application.

There should be an option to provide the requirement on-site or as a cash in-lieu payment, which are particularly for smaller developments.

- The on-site rate is the proportion of sale-able floorspace (in this case, 6 per cent)
- The cash in lieu rate is equivalent to the on-site rate and equivalent to the cash amount required to build the required amount of floorspace (see calculation below)
- Any difference between the requirement and the on-site provision should be met by a cash in-lieu payment to meet the difference.

The cash in-lieu rate can be calculated using the formula below. This should be updated annually in accordance with the construction cost of dwelling production and current inclusionary zoning rate.

$$\text{General IZ rate } \$/\text{m}^2 = C / (Fr + F^nr)$$

Where:

C = Capital cost of building the number of dwellings to meet the inclusionary zoning requirement over the next 20 years (for example, 6 per cent of all new dwellings forecast to be built in the LGA)

Fr = Total new residential (saleable) floorspace forecast to be built in the subject LGA in the next 20 years (includes replacement floorspace)

Fⁿr = Total new non-residential (saleable) floorspace forecast to be built in the subject LGA in the next 20 years (includes replacement floorspace)

Value capture process

Council’s operational value capture policy should follow these steps:

- Commission an independent valuer to determine the uplift in land value on the site, based on a the RLV calculation outlined above (as opposed to application of comparable market sales).

- This requires valuation of difference between:
 - The **existing use value** of the site – this is without capital improvements and is distinct from the market value which factors in development potential
 - The **residual land value** given the highest and best use possible on the **new zoning** (it could also be the residual land value of a proposed development).
- The calculations make full allowance for standard development contributions for infrastructure and open space, inclusionary affordable housing requirements and any other requirements.
- The difference between these valuations is the value uplift, 75 per cent of which is to be shared with the community in the form of affordable housing provision.
- In the case of rezoning larger multi-lot precincts, the contribution should be applied proportionally to the floorspace to be produced on each lot. The contribution can also be converted to a rate per sqm of floorspace.
- This amount would be adjusted annually to reflect the movement in relevant housing prices over the previous year, as recorded by the Valuer General.
- Establish options for the developer to make its contribution and agree on the form of contribution via a s173 Agreement. The next section explores possible contribution options.

Options to deliver contributions

For both inclusionary zoning and value capture affordable housing contributions, developers should be given options to contribute in the most efficient way. Each option must be an equivalent value to the contribution rate.

The options can include:

- On-site contributions via full transfer of title on dwellings to a Registered Housing Association at no cost. The value of the dwellings should be based on the market value (or gross realisation value).
- Transfer of title to a Registered Housing Association on double the number dwelling number at 50 per cent of dwelling cost (or equivalent substitution rate)
- Cash in-lieu payments to an affordable housing trust
- Another form of the same value, to be agreed between Council and the proponent.

Any difference between the requirement and the on-site provision should be met by a cash in-lieu payment to meet the difference.

To minimise transaction costs for developers, the above options should be clearly published as part of a standard s173 Agreement template to facilitate the agreement and execution of contributions.

APPENDIX C: DEVELOPING AFFORDABLE HOUSING ON COUNCIL-OWNED LAND

The most likely pathway to direct investment is identifying and using Council's existing land assets that may be redeveloped to include a share of affordable housing on-site.

The first step is to investigate options for developments on Council-owned land. This investigation could involve a land audit and should assess the suitability of any lots for affordable housing against other uses that would benefit the Monash community. The highest and best use principle should prevail in this assessment.

The land contribution alone might leverage a modest share of affordable housing. At a minimum, Council can expect a return of affordable housing dwellings that is equivalent to the land value. This might only be a small proportion of the total development because the value of the land is typically 10 per cent of the total project value in a large residential development (including construction and other costs).

Therefore, Council should seek to leverage its capital (land) to the greatest extent possible. This can come through:

- Financial contributions from Council
- Investment via Council's affordable housing trust (funded via inclusionary zoning and value capture contributions)
- Co-contributions from proponents (developers; Registered Housing Associations) and/or State Government.

To maximise the potential for co-contribution, Council should bundle up suitable lots into a pipeline of developments to reduce risk for proponents. However, it is likely that sites will only be limited in number and available in an ad hoc way.

Finally, the development should be awarded to a proponent via a competitive Expression of Interest (EOI) process to yield the highest number of affordable housing dwellings (balanced with other objectives like open space, urban form, land uses, design, etc.). This will ensure that resources are used efficiently and effectively and provide services in accordance with best-value principles to meet the needs of the Monash community.

Any procurement must follow the public tender requirements in the *Local Government Act 1989*. This means that the EOI must provide:

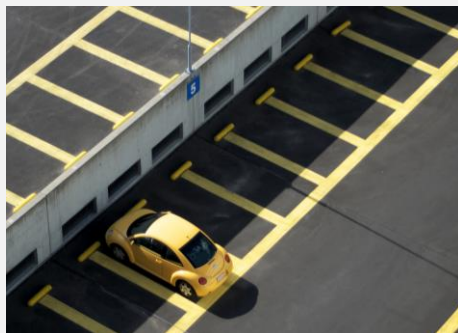
- **Value for money:** the highest possible affordable housing yield from the available land, balanced with other planning objectives.
- **Open and fair competition:** multiple proponents are approached, ideally through an open tender, each with the same access to information and treatment.
- **Accountability:** staff responsibility for actions and decisions.
- **Risk management:** relevant risks are identified and managed appropriately, particularly around proponent experience in the affordable housing provision (recommended involvement of a Registered Housing Association as a requirement).
- **Probity and transparency:** appropriately governed procurement process in accordance with Council policies

There may be some ambiguity when assessing the affordable housing contributions that proponents put forward in their submissions. It is difficult to assess the relative value of affordable housing for lower-middle income households (generally 80 per cent of market rent) versus social housing (generally for households in greatest need). Likewise, it is difficult to assess a time-limited proposal (affordable housing dwellings for 10 years versus 20 years versus perpetuity). To cover risk and ensure social value, Council should preference proposals with dwellings that:

- Are transferred fully to Registered Housing Associations at no cost – the regulation of the sector means that Council can rely on State Government regulators to ensure that quality affordable housing is delivered in the municipality.
- Have a covenant to remain affordable housing for a minimum of 20 years – while an indefinite covenant might seem preferential, it can also limit the borrowing capacity of Registered Housing Associations and may reduce the contributions. Therefore, a more a 20-year minimum is a more effective requirement.

CASE STUDY: DEVELOPMENT OF COUNCIL-OWNED CAR PARK

- This case study demonstrates the likely affordable housing contribution that Council could expect when developing Council-owned land.
- The figures below are based on SGS modelling of a hypothetical development using typical industry costs and revenues.
- The site is a **public at-grade car park** with 200 spaces in an activity centre.
- Since Council is effectively giving the site away to a proponent at no cost, the minimum affordable housing contribution Council can expect is the residual land value of the new development.
- The proposed **new mixed-use development** has an estimated **residual land value of \$8 million**. This RLV represents revenues less costs and the developer's margin for profit and risk (20 per cent of costs):
 - The development generates \$45 million in revenue on 73 dwellings and 825 sqm of retail floorspace (after GST and marketing).
 - The developer spends \$29 million on site preparation, construction, professional fees, Council application fees, holding, finance and other costs.
 - An additional \$8 million is reserved for the developer's margin.
- The **affordable housing contribution** is then **at least \$8 million**, which equates to a minimum **18 per cent of floorspace** (residential and retail), or **15 dwellings** transferred to a Registered Housing Association at no cost.
- This contribution is the minimum Council can expect from a proponent. The objective is to encourage proponents to increase their contribution by leveraging other sources of capital, such as State Government funding.
- If Council wants the proponent to replace the existing car parking spaces there will be an additional development cost that must come from the affordable housing contribution. For example:
 - A multi-deck car park with 200 spaces would cost approximately \$5 million to build – this would leave only \$3 million for an affordable housing contribution, or 5 dwellings.
 - A below-ground car park would cost approximately \$10 million to build; this would mean costs are greater than revenues, the development is no longer feasible and there is no affordable housing contribution.
- In this case, Council should consider some contribution to car park construction.



EXISTING USE
Public car park
200 spaces at-grade



NEW DEVELOPMENT
Mixed-use 9-storey tower
73 apartments (5,800 sqm) across 8 storeys
20% are 1-bed units @ \$500,000/dwelling
70% are 2-bed units @ \$600,000/dwelling
10% are 3-bed units @ \$700,000/dwelling
1 storey of retail: 825 sqm @ \$9,000/sqm
Open space provided on site
\$8 million residual land value

CASE STUDY: DEVELOPMENT OF COUNCIL-OWNED SUBURBAN LOT

- This case study demonstrates the likely affordable housing contribution that Council could expect when developing Council-owned land.
- The figures below are based on SGS modelling of a hypothetical development using typical industry costs and revenues.
- The site is a **vacant suburban lot** with 1,500 sqm.
- Since Council is effectively giving the site away to a proponent at no cost, the minimum affordable housing contribution Council can expect is the residual land value of the new development.
- The proposed **new residential development** has an estimated **residual land value of \$2.5 million**. This RLV represents revenues less costs and the developer's margin for profit and risk (20 per cent of costs):
 - The development generates \$6.3 million in revenues from the sale of 7 townhouses (after GST and marketing).
 - The developer spends \$3 million on site preparation, construction, professional fees, Council application fees, holding, finance and other costs.
 - An additional \$800,000 is reserved for the developer's margin.
- The **affordable housing contribution** is then **at least \$2.5 million**, which equates to a minimum **33 per cent of floorspace** (residential and retail), or **2.3 dwellings** transferred to a Registered Housing Association at no cost.
- Given this amount is not equal to a full number of dwellings, the additional 0.3 dwellings could be contributed as cash in-lieu by the proponent.
- This contribution is the minimum Council can expect from a proponent. The objective is to encourage proponents to increase their contribution by leveraging other sources of capital.



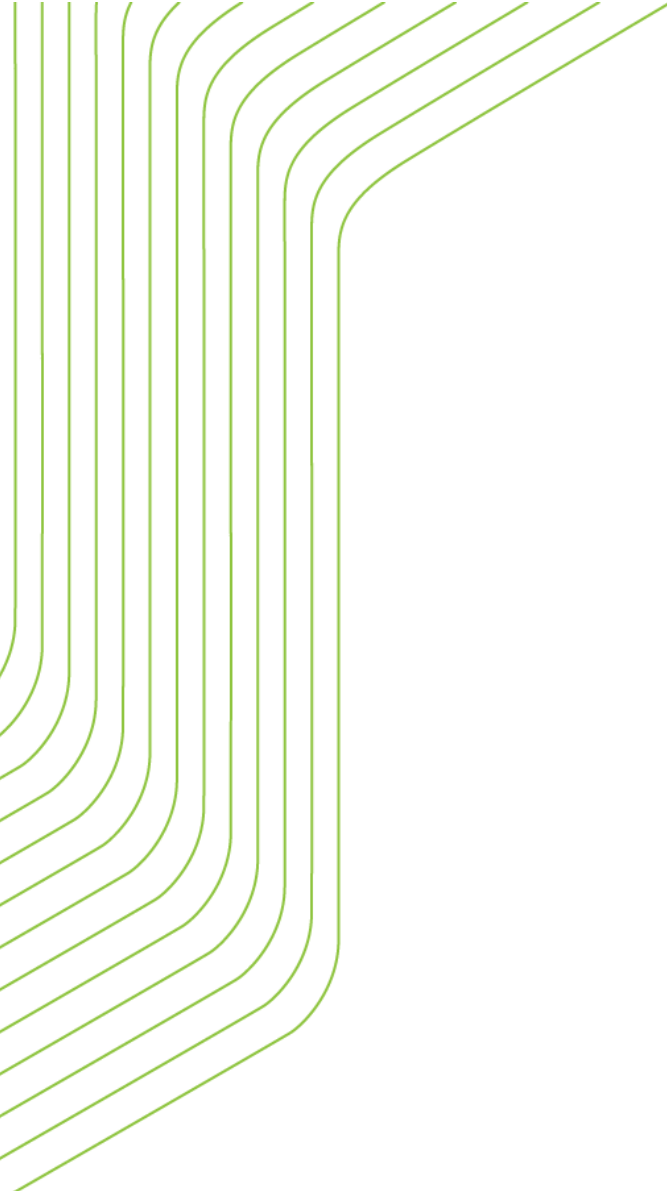
EXISTING USE

Large vacant lot
1,500 sqm
Low density residential zone



NEW DEVELOPMENT

Townhouse development
7 dwellings x 3 bedrooms x 2 storeys
\$1,000,000/dwelling
Open space provided on site
\$2.5 million residual land value



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