

AFFORDABLE HOUSING FOR ALL

TOWARDS AN INTEGRATED
AFFORDABLE HOUSING STRATEGY
FOR VICTORIA

MELBOURNE SCHOOL OF DESIGN —
TRANSFORMING HOUSING



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SUMMARY

Every Victorian needs a safe and affordable place to live, in a community that provides opportunity to flourish. The market alone is unable to meet that need and governments at all levels must work together with the private and not-for-profit sectors to help achieve it.

Melbourne's shortage of affordable housing has reached chronic levels. This crisis has multiple causes, including the loss of purchasing power in the housing market experienced by a diverse and growing number of households. Household incomes, especially for renter households, have not kept pace with the growth of house prices and rents. As a result, many Melbournians have very limited housing options, and spend an unacceptably high proportion of income on housing costs, leaving little left to cover other basic needs.

Established and entrenched means of housing provision have been unable to accommodate rapid and diverse household growth in a sustainable and affordable way. Simply increasing the supply of housing does not make it more affordable or well matched to housing need. Not enough housing or the right type of housing has been produced to accommodate the sustained growth in the number of households in metropolitan Melbourne or to meet the specific needs of low-income households. New alternatives are required.

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AFFORDABLE HOUSING AND RESILIENT COMMUNITIES

Housing is essential to meeting basic human needs for shelter and security. It is also important for building successful and resilient communities. A range of suitable, available housing contributes to a community's capacity to prosper in an equitable, efficient and sustainable way. Affordable housing is needed to accommodate diversity in a community, to maintain social cohesion, and to support and sustain local economies with a range of services and businesses.

Without an adequate range of appropriate and affordable housing, some households or groups of people within a community may be forced to live elsewhere. This can affect young people, couples starting a family, older people whose existing accommodation is no longer suitable, and whole sectors of the workforce. A result is the spatial polarisation of households with different levels of income and wealth, and concentrations of disadvantage.

Access to secure housing is also linked strongly to people's ability to meet their basic needs, to provide for the needs of children and the aged, to pursue goals in employment or education, and to enjoy recreation.

In short, a lack of affordable housing, including affordable rental housing, represents a constraint on overall economic prosperity and a barrier to the economic and social participation of individuals and families. Affordable housing is therefore a necessary inclusion in new residential development, urban renewal, and managing the processes of change in established neighbourhoods

TRANSFORMING HOUSING

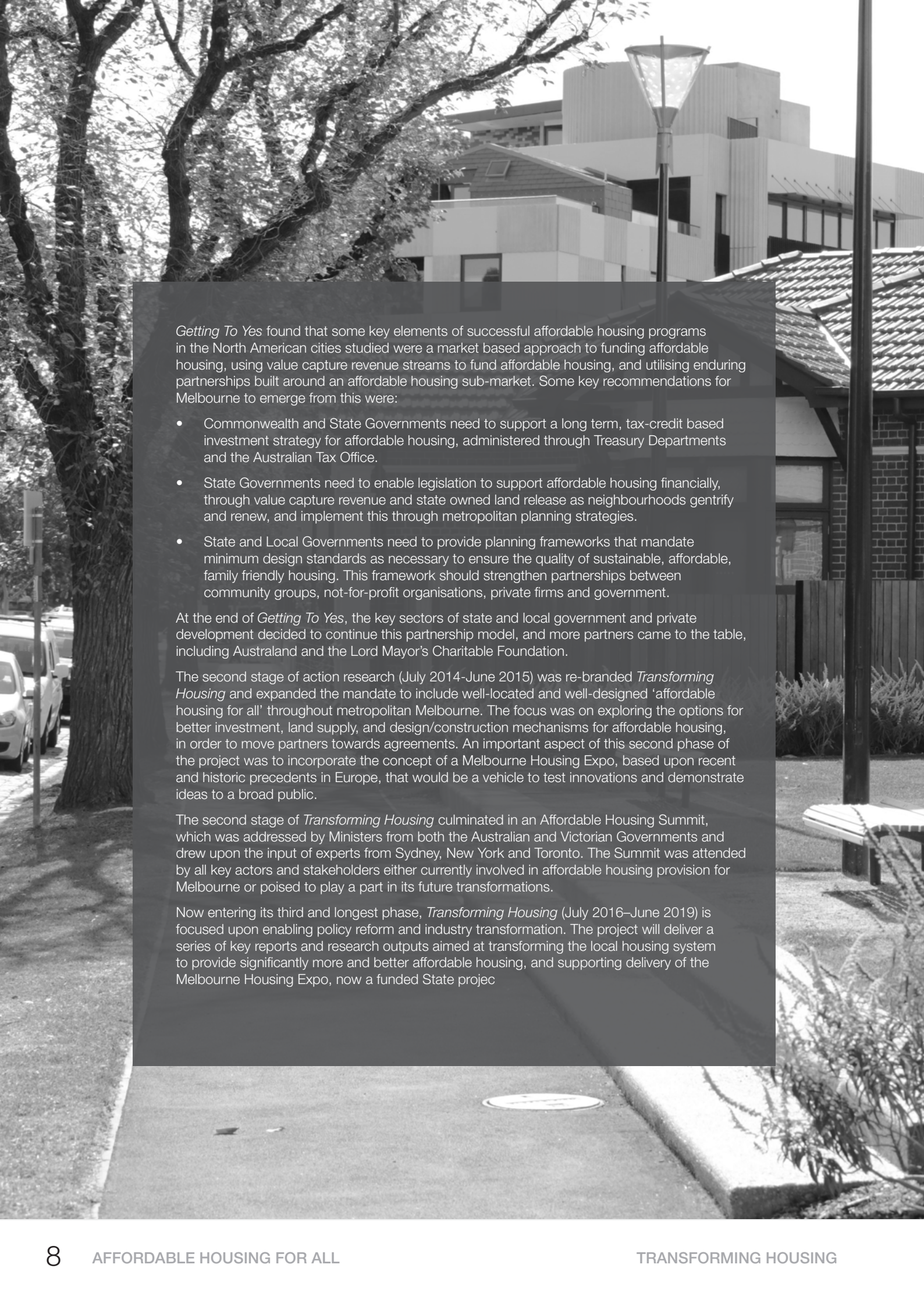
ABOUT THE PROJECT

Transforming Housing is an action research partnership based in metro Melbourne and facilitated by The University of Melbourne. It involves local and state governments, private and not-for-profit developers, private and philanthropic investors, built environment professionals, affordable housing advocates and researchers.

Since 2013 *Transforming Housing* has continued the work of the original phase of this partnership, called *Getting To Yes*. *Getting To Yes* brought together housing actors to identify existing barriers and potential enablers to affordable, family-friendly, higher density housing in Melbourne. The aim of *Transforming Housing* is to generate partnerships based on mutual respect and co-learning that result in substantial and sustainable policy shift, system change, and innovation, towards more and better affordable housing.

In the first stage of this partnership, *Getting To Yes* (March 2013-June 2014), the focus was on enabling housing actors to identify existing barriers and potential enablers to the creation of more and better affordable housing in metropolitan Melbourne, with a focus on family friendly housing in the central metropolitan area. Activities included:

- A preliminary survey of housing actors (State and local government, developers, architects, planners) to determine whether there was consensus as to the barriers and enablers, and an understanding of national and international good practices in the provision of affordable housing.
- A literature review of key Australian research on barriers and enablers, as well as good practices; along with supervision of four masters' theses on: Inclusionary Zoning, the suitability of 'pop-up planning' to housing innovation, housing needs of parents living with young children in the central city, and the potential of non-profit co-operative housing in Australia.
- An interdisciplinary studio that brought together planners, architects, and construction valuation students, to cost out affordable housing ideas in four sites in the City of Melbourne neighbourhood of Arden-Macaulay, with a brief provided by Housing Choices Australia, a Melbourne based social housing provider.
- A study tour of affordable housing in San Francisco, Portland and Vancouver, with participation from property development group Australand (now Frasers) and the City of Port Phillip.



Getting To Yes found that some key elements of successful affordable housing programs in the North American cities studied were a market based approach to funding affordable housing, using value capture revenue streams to fund affordable housing, and utilising enduring partnerships built around an affordable housing sub-market. Some key recommendations for Melbourne to emerge from this were:

- Commonwealth and State Governments need to support a long term, tax-credit based investment strategy for affordable housing, administered through Treasury Departments and the Australian Tax Office.
- State Governments need to enable legislation to support affordable housing financially, through value capture revenue and state owned land release as neighbourhoods gentrify and renew, and implement this through metropolitan planning strategies.
- State and Local Governments need to provide planning frameworks that mandate minimum design standards as necessary to ensure the quality of sustainable, affordable, family friendly housing. This framework should strengthen partnerships between community groups, not-for-profit organisations, private firms and government.

At the end of *Getting To Yes*, the key sectors of state and local government and private development decided to continue this partnership model, and more partners came to the table, including Australand and the Lord Mayor's Charitable Foundation.

The second stage of action research (July 2014-June 2015) was re-branded *Transforming Housing* and expanded the mandate to include well-located and well-designed 'affordable housing for all' throughout metropolitan Melbourne. The focus was on exploring the options for better investment, land supply, and design/construction mechanisms for affordable housing, in order to move partners towards agreements. An important aspect of this second phase of the project was to incorporate the concept of a Melbourne Housing Expo, based upon recent and historic precedents in Europe, that would be a vehicle to test innovations and demonstrate ideas to a broad public.

The second stage of *Transforming Housing* culminated in an Affordable Housing Summit, which was addressed by Ministers from both the Australian and Victorian Governments and drew upon the input of experts from Sydney, New York and Toronto. The Summit was attended by all key actors and stakeholders either currently involved in affordable housing provision for Melbourne or poised to play a part in its future transformations.

Now entering its third and longest phase, *Transforming Housing* (July 2016-June 2019) is focused upon enabling policy reform and industry transformation. The project will deliver a series of key reports and research outputs aimed at transforming the local housing system to provide significantly more and better affordable housing, and supporting delivery of the Melbourne Housing Expo, now a funded State project.

ABOUT THIS REPORT

This report is the first output from Phase 3 of *Transforming Housing*. Its purpose is to establish the framework for action over the ensuing three years.

The purpose of this report is to propose a series of clear and measurable responses to the burgeoning need for affordable housing in different parts of Melbourne and across Victoria that will form a positive contribution to current policy debate and the various reform initiatives of state and local governments.

The authors are researchers from a range of disciplines committed to working with key industry partners to improve the quantity and quality of well-located affordable housing in metropolitan Melbourne. We are working from an agreed understanding that effective, integrated planning includes the following seven elements (from Berke and Godschalk, 2009):

1. A clear vision and specified goals
2. A process for including key stakeholders
3. A fact base that establishes needs or problems
4. Selection of options based on a transparent analysis
5. An estimation of costs and sources of revenue as part of recommended actions (as well as mechanisms to overcome any legal impediments)
6. Identification of responsible agencies and partnerships essential for implementation of particular recommendations (including consistency across different levels of government)
7. Monitoring and evaluation procedures

In line with the recommendations of this report and throughout the duration of the project (until June 2019), *Transforming Housing* is committed to:

1. Inter- and cross-sectoral capacity development to support the plan to grow the supply of quality, affordable rental housing (including work with local government, Commonwealth government, developers, investors, non-profit housing providers and community organisations)
2. Further scenario analysis, including identifying the capacity and opportunity of specific sites – and helping to envision better affordable housing outcomes through studios and brief development

The authors and others on The University of Melbourne's research team will be assisting with delivery of these commitments.

The next output from *Transforming Housing*, anticipated for completion in April 2017, will be an options paper investigating the case for Commonwealth investment in affordable housing (at national, metropolitan and project scale) and will engage with the emergent City Deals urban strategy currently being pursued at the Commonwealth level.

TOWARDS AN INTEGRATED AFFORDABLE HOUSING STRATEGY FOR VICTORIA

Victoria faces significant challenges in seeking to ensure continued prosperity and the much-prized liveability of the Melbourne metropolitan region. Melbourne is experiencing significant growth in both population and household numbers, and yet:

- Appropriate, well-located housing is increasingly unaffordable for a growing number of low and middle income earners;
- Current patterns of urban growth are unsustainable and threaten Melbourne's liveability;
- The provision of quality, affordable housing, especially multi-unit housing, is difficult to achieve.

The challenge is not simply to increase the quantity, improve the quality and expand the diversity of new homes being built; but in the process, to transform the existing urban region for a sustainable future, and develop communities that enhance the quality of life of both new and established residents.

An increasing number of low to middle-income households who traditionally could afford home ownership are no longer able to, because of the high cost of housing. Some will compromise by purchasing in locations that are less convenient for them but others will remain in private rental with negative implications for their retirement.

While owner-occupation remains the chief objective for most housing consumers, declining affordability has meant the median age of first home purchasers has been rising sharply. Later entry into home ownership has increased competition for rental properties, occasioning an affordability crisis in rental markets and putting added pressure on the shrinking and ageing social housing stock. As a result, an increasing number of households in all tenures are experiencing housing stress.

The tendency for increased competition over housing to manifest spatially and contribute to social polarisation at the regional scale has further complicated Melbourne's affordability problem. Delivering a supply of 'affordable' housing through greenfield development in outer metropolitan locations has become increasingly problematic and is not assisting with making the Melbourne region more sustainable.

In the period following the Second World War, Australian Governments worked to address a significant crisis of housing need, supply shortage and stock quality through a targeted program of investment, institutional reform and capacity building. This created a legacy from which we still benefit today, but one that is no longer working to address contemporary housing needs or to manage growth sustainably. New mechanisms are now required to deliver what remain the same essential housing outcomes.



HOUSING OUTCOMES

Every household in Victoria needs access to housing that:

1. Is affordable according to their means;
2. Provides security of tenure for a reasonable period of time, and;
3. Is of appropriate size, location and accessibility to suit their needs.
4. A diversity of housing needs to be provided in each location to support diversity of community.
5. Housing needs to contribute to regional sustainability

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ELEMENTS OF AN INTEGRATED AFFORDABLE HOUSING STRATEGY

The following elements represent the key components of an integrated affordable housing strategy. This list draws upon the methodology used by David Rosen and employed in several US metropolitan jurisdictions to ensure an adequate supply of diverse affordable housing.

1

QUANTIFICATION OF AFFORDABLE HOUSING NEED

Understanding place-based needs for affordable housing requires regular monitoring of household incomes (collected by the ABS), market prices for home purchase and rental, and the locational needs for affordable housing, based on population growth and labour market dynamics.

The need for affordable housing includes addressing and preventing homelessness in addition to providing affordable rental and home purchase options for households. Within this overall need, the extent of specialist housing needs, including housing designed for people with disability and elderly persons, also requires on-going quantification and planning.

Many existing affordable dwellings, especially among the stock of public housing, are in need of replacement or renewal. The extent of the upgrade and maintenance task required to bring existing stock to an adequate standard of amenity and performance needs to be quantified and planned alongside new supply.

2

DEFINITION OF AFFORDABLE HOUSING COSTS

An affordable housing strategy should be driven by clear and consistent definitions of income levels, adjusted for household size, and affordable housing expense. In Australian policy and research, household income levels that may be in need of affordable housing have typically been defined as very low (Q1), low (Q2), and moderate (Q3). The North American policy literature uses a five-point classification system, based upon percentage of area median income (AMI), rather than quintiles:

Extremely low income	below 30 percent AMI
Very low income	below 30 – 50 percent AMI
Low income	50 – 80 percent AMI
Moderate income	80 – 120 percent AMI
High income	greater than 120 percent AMI

It is equally important to establish clear and consistent definitions of affordable housing expense for renter and owner households. In Australia, the US, and other jurisdictions internationally, housing expenses up to 30 percent of gross household income are typically deemed affordable. The following definitions are commonly employed:

- Renters: 30 per cent of gross household income for rent plus utilities
- Owners: 35 per cent of gross household income for mortgage principal and interest, property taxes, property insurance, rates, and strata fees



3

QUANTIFICATION OF AFFORDABILITY GAPS FOR NEW HOUSING

An 'affordability gap' is the difference between the amount a household can afford to pay for housing and the actual cost of providing a typical housing unit in a particular location. The affordability gap requires a different calculation for rented and purchased housing.

The first step is to establish the amount a tenant or homebuyer can afford to contribute to the cost of renting or owning a new dwelling unit based on the established definition of affordability.

The second step estimates the costs of providing affordable housing units in a particular location.

The third step establishes the housing expenses borne by the tenants or purchaser. These can be categorised into operating costs, and financing or mortgage obligations.

Operating costs are the maintenance expenses of the unit, including utilities, property maintenance, property taxes, management fees, insurance, and replacement reserves. For social rental housing, the gap analysis may assume that the landlord pays all but certain utilities as an annual operating cost of the unit. For owner-occupied housing, the analysis may assume that the homebuyer pays all operating and maintenance costs for the dwelling.

Financing or mortgage obligations are costs associated with development of the housing. These costs occur when all or a portion of the development cost is financed and is always an obligation of the landlord or owner. Supportable financing from affordable sales prices or rents is deducted from the total development cost, less any owner equity or deposit, to determine the affordability gap associated with developing those units.

For rental housing, the gap analysis calculates the difference between total development costs and the conventional mortgage supportable by net operating income from restricted rents. For owner-occupied housing, the gap is the difference between development costs and the supportable mortgage plus buyer's equity.

4

QUANTIFICATION OF CAPITAL REQUIREMENTS TO MEET AFFORDABLE HOUSING NEEDS

Capital requirements should be calculated for a five to ten year period.

For rental housing this includes:

- Construction finance and permanent mortgages for affordable rental housing development, to be repaid from permanent sources (in the case of construction financing), and from net operating income derived from tenant rents in the case of permanent financing
- Capital financing for the rental affordability gap (quantified as discussed above)
- Rent subsidies and assistance. Rent subsidies may be project-based (assigned to a specific housing development), or tenant based (awarded to a tenant for use at any qualifying market-rate rental unit)

For housing being purchased by the occupant this includes:

Construction finance for development of affordable home ownership housing

- Permanent mortgage financing for home purchase (or acquisition and refurbishment). This may involve reforming residential owner construction finance and mortgage lending to accommodate the credit and underwriting requirements of first-time, lower income home buyers paying less than market rate for a subsidised unit
- Capital financing to pay for owner housing affordability gaps (calculated using the methodology above)
- Home purchase deposits
- Credit subsidies and/or loan guarantees to provide credit enhancement for affordable first-time mortgage lending, and/or to provide credit enhancement for capital market investment in such mortgages (e.g. covered bonds, mortgage-backed securities)

Quantifying capital requirements will help identify the type and volume of capital required to carry out the strategy.

5

PERMANENT AND ANNUALLY RENEWABLE SOURCES OF PUBLIC CAPITAL TO FINANCE AFFORDABILITY GAPS

Without public subsidies, the private marketplace will not address gaps in housing affordability. Public sector investment is essential. Financing for social housing can be provided through a variety of mechanisms, and can include:

- Tax credits for equity investment in low income rental housing development
- Property tax exemptions for qualifying housing projects and units
- GST exemptions for components used in construction of new affordable housing
- Government-issued general obligation bonds to provide capital financing of the affordability gap
- Annual appropriations of general funding revenue to capitalise a permanently dedicated, annually renewable housing trust fund, and the levy of individual taxes or development impact fees to help bridge housing affordability gaps for renters and owners
- Annually pledged increments of property taxes, sales tax or other specified tax revenue
- Establishment of special assessment and/or improvement districts
- A national rental affordability subsidy

6

ALIGNMENT WITH LAND USE PLANNING POLICIES

In addition to scaled commitments of public capital to finance gaps in the cost of providing affordable housing, a comprehensive land use policy is needed to support development of affordable housing. This policy needs to encompass urban growth and renewal areas throughout Victoria, consistent with regional strategic plans, as well as development control in established land use zones. Zoning and land use policy have the potential to make a material contribution to affordable housing production through:

- Inclusionary housing land value capture mechanisms
- Alternative assessment mechanisms
- Transfer of development rights mechanisms
- Air rights development mechanisms
- Zoning codes, development standards, and associated assessment and review processes aimed at minimising residential development costs while maintaining quality of life, neighbourhood quality and standards for design

7

DEDICATION OF PUBLICLY OWNED LAND FOR AFFORDABLE HOUSING DEVELOPMENT

Commonwealth, state and local governments can audit and review the use of publicly owned land to assess suitability for affordable rental and/or owner-occupied housing development. While acknowledging the existence of competing demands for the use of land assets in public ownership, state and local government should identify publically owned sites suitable for affordable housing development. These sites may be conveyed to affordable housing developers in the form of a long-term, low cost ground lease, or loaned to affordable housing developers. This means the public agency may secure its property interest by a loan for affordable housing development. Such ground lease and loan instruments will assure long-term affordability and compliance with regulatory, design and financial standards and best practices.

8

LEGAL FRAMEWORKS THAT SUPPORT THE TENURE OF HOUSEHOLDS IN AFFORDABLE HOUSING

Rental tenancy law in Australia needs to be reviewed to provide the necessary protections for both owners and renters and to assure a class of secure, stable, long-term leases, while providing for the preservation of rental housing, private market financing and investment.

Such legal reform is one necessary precondition for Victoria, and Australia more broadly, to be able to develop an institutional market for rental housing development, both market-rate and affordable, as well as the necessary developer interest and provision of private financing.

9

ACCESS TO BANK LENDING AND INSTITUTIONAL CAPITAL FOR AFFORDABLE HOUSING DEVELOPMENT

Victoria needs to pursue partnership with the banking industry, capital markets, superannuation funds and other sources of institutional capital for investment in the construction, long-term financing and preservation of affordable housing, for both owners and renters. To develop a stable, reliable and readily available source of private capital from banks and institutional investors, affordable housing developers and government will need to satisfy private market concerns over profitability, creditworthiness and best practices for credit enhancement, asset management, and capital preservation.

STRONG CAPACITY IN THE NOT-FOR-PROFIT AND FOR-PROFIT HOUSING SECTORS

It is important that Victoria build and maintain the capacity of both not-for-profit developers and for-profit developers to deliver affordable housing at scale. Developers of affordable housing will need to post strong balance sheets, maintain a financial track record for development, property and asset management, build expertise in project financing, design and quality construction and, in the case of rental housing, demonstrate a capacity for long-term property ownership and management.

For-profit developers will need to balance a reasonable return on capital and/or risk with delivery of affordable housing, without impinging basic residential amenity and building performance. Not-for-profit developers will need to maintain positive cash flow business models for the development and long-term operation of affordable rental and owner-occupied housing.

KEY ENABLERS

To support affordable housing outcomes will require:

- A clear state government housing policy position
- A metropolitan plan supported by sub-regional and local strategies that sets housing supply and affordability targets, and requires regular reporting on implementation
- State and local planning policies, supported by a clear Head of Power, that facilitate affordable housing and diversity of housing through mechanisms such as inclusionary zoning
- Development of an affordable housing industry
- Provision of more social rental housing
- Review of barriers and incentives



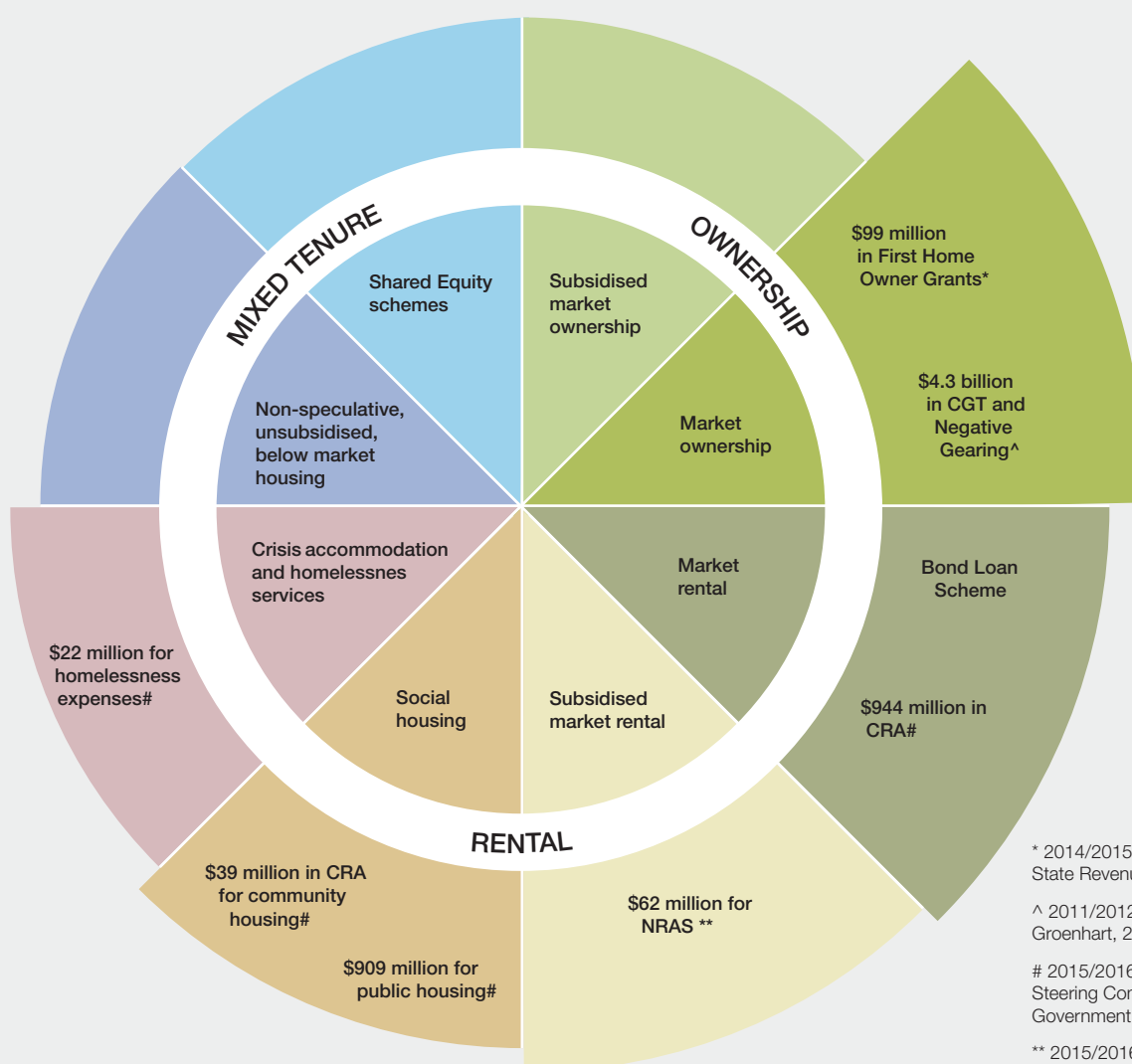
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THE HOUSING CONTINUUM

In any jurisdiction a range of housing opportunities will exist, with particular options either available or closed off to individual households. To ensure that all Victorians are housed adequately, sufficient provision of housing that is suited to the needs of the full range of households, and their varied capacities to pay to access housing in an affordable way, needs to exist within the Victorian housing system.

Currently this is not the case. The solution is not simply more housing, rather more of the right types of housing, in the right locations and available to households at a range of affordable rates. Achieving the desired range of offerings on the Victorian housing continuum will require various levels of subsidy and support.

THE VICTORIAN HOUSING CONTINUUM



* 2014/2015 data for Victoria from the State Revenue Office, 2016

^ 2011/2012 data for Melbourne from Groenhart, 2014

2015/2016 Data for Victoria from Steering Committee for the Review of Government Service Provision, 2016

** 2015/2016 Data for Victoria from The Department of Social Services

HOME OWNERSHIP

For many decades mass suburban owner occupation has been the solution to housing Australia's urban population. As a result, home ownership and suburban housing development has received strong policy support and active facilitation from state governments, and been supported by taxation and fiscal settings at the Commonwealth level. Since the turn of the Century, the rising cost of home ownership relative to income in urban Australia, as in many other cities around the world, has severely undermined this as an effective strategy for housing the growing population of Australia's cities in a way that is affordable to households.

The last decade has seen a major shift in the market production of housing for general consumption in Melbourne, with a move towards apartment supply on inner urban brownfield sites, and at other centres. While the primary consumers of this housing are local households—although there is some highly publicised overseas investment—it is typically purchased by established homeowners and occupied as private rental.

The profile of home owners in Melbourne has been shifting too, with younger and lower income households increasingly excluded from this market, while older, established home owners have increased their housing consumption to include ownership of multiple properties.

MARKET RENTAL

Well-established in Australia, but traditionally viewed as a temporary or transitional tenure option, the private rental market is structured primarily to protect the interests of property owners. A growing cohort of households, excluded from ownership due to high costs, is experiencing rental accommodation as a long-term option, leading to competition for property, especially over location.

SUBSIDISED RENTAL HOUSING

Rental housing outside the market and targeted to lower income households has existed in substantial quantity since the mid-twentieth century but has never been a major component of the overall housing stock in Australia, with Victoria having even less than other states. Subsidised or non-market rental housing includes public housing, where the state owns and provides housing for households to rent at below market rates, community housing, where the non-government or community sector owns and manages housing, often with state subsidy, which it rents to eligible households, and housing provided by the market but targeted to lower income households and supported by state subsidies and tax or other concessions.

The Commonwealth has pursued a policy of subsidising renter households rather than subsidised rental housing, with the Commonwealth Rent Assistance program absorbing the majority of housing related subsidy that supports households in rental accommodation.

AFFORDABLE ALTERNATIVES

A much smaller stock of housing exists that operates outside the typical tenure categories of owner-occupation and rental. This includes cooperative housing, shared-equity ownership models, and community land trusts. There is scope in Melbourne and Victoria to expand and diversify the range and quantity of housing supplied and consumed in these and other ways.

CRISIS ACCOMMODATION AND HOMELESSNESS

Finally, there is a need for provision of temporary and short-term accommodation to assist households and individuals experiencing homelessness, or in need of emergency accommodation due to a sudden change in their personal circumstances.

Within and between the tenure categories outlined, there are a few other important distinctions to be made within this housing continuum and in considering the experience of households in relation to housing provided and consumed in different ways.

MARKET VS NON-MARKET

Market housing is housing that households access and exchange in competition with other households in a market place, whether they are looking to purchase or rent a home. Factors influencing the market price of housing include location, size and quality. Competition for housing may also be about the potential for further development of the site a house occupies, and its value as a tradable commodity as much as its use value as a home.

To avoid and potentially to stabilise the volatility of the market, and also control prices in heated markets, governments and other organisations have provided housing at fixed or agreed rates to households who lack the capacity to compete in the marketplace. Where demand for this housing exceeds supply or availability, allocation and eligibility policies become an important factor in the distribution of this scarce resource.

A significant issue in housing Melbourne currently is that a substantial and growing cohort of households find themselves either locked out of or very insecure in the market place, yet ineligible for existing non-market housing.

PERMANENT VS TEMPORARY

Another aspect of tenure is security. In order to build stable and prosperous lives and communities, people need to know that their housing circumstances are not only adequate but also secure. One advantage of public rental housing, for instance, is that it affords a level of security not experienced by low-income households with only a tenuous hold in the rental or ownership markets.

There will, however, be times when households are looking specifically for temporary accommodation, whether associated with personal emergency or a particular season of life, such as study or a short-term work commitment. Appropriately located housing to serve these requirements needs to exist, and this housing also has to be secure for the period it is needed.

HOUSING SUBSIDY VS HOUSEHOLD SUPPORT

As already mentioned, there is a difference between provision of affordable housing and providing support to low-income households, to enable them more readily to express a preference in the housing market. Federal government funding that is directed at enabling greater access to housing has tended to focus on the latter, through Commonwealth Rent Assistance, First Home Owner Grants, and indirect subsidies for home ownership, including capital gains tax concessions and negative gearing.



AFFORDABLE HOUSING – QUANTIFYING THE NEED

Australia's population is expected to increase from 22 to 36 million by 2050, with most of this growth projected to occur in capital cities (Commonwealth of Australia, 2010). This means that, with projected decreases in household size, at least 6.5 million additional dwellings will be required in the next 35 years. In addition to general supply of housing, there will be a need for significantly greater supply of affordable housing.

Only 2% of rental units in Melbourne are considered affordable for working single-parent families and none are affordable for a single person on minimum wage or income support (CHFV, 2014). Currently, 15% of Victorian households are considered to be in housing stress, paying more than 30% of income on housing costs, and there was a 20% increase in Victorians experiencing homelessness between the 2006 and 2011 census, with over 22,000 people living on the street or in temporary or insecure accommodation on any given night (ABS, 2011).

The need for new forms and increased supply of affordable housing in Melbourne has become acute. Melbourne is projected to grow from 4.1 million in 2011 to 5.9 million in 2031 (Victoria State Government 2016). This means over one million new dwellings will need to be provided across those 20 years. Current new housing supply has been split primarily between growth areas at the perimeter of the urban region and high-density infill in the central city, and at a few other key locations, predominantly in the inner middle ring (e.g. Box Hill, Preston and Doncaster).



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DEFINING AFFORDABLE HOUSING

There is broad agreement that housing can be considered affordable when housing related costs (rent/mortgage payments plus utilities) do not exceed 30% of total gross income of the household. The cost of housing relative to income becomes increasingly important the lower a household's income is, and a widely recognised definition of affordable housing is that which is affordable (i.e. does not exceed 30% of gross income) for the bottom two income quintiles of the population (also known as the '30/40' measure).

Given the of the unaffordable nature of much of the housing stock in Melbourne and in many other places across the state, a Victorian integrated affordable housing strategy, as with other similar affordable housing strategies internationally, will need also to encompass provision of housing that is affordable to moderate income households (the middle income quintile). As such, articulating a broader definition of affordable housing in State policy will enable inclusion of a wider range of interventions beyond social rental housing supply.

The approach to describing affordable housing that was adopted by Australian Housing, Local Government and Planning Ministers in 2005, as part of the Framework for National Action on Affordable Housing, identified affordable housing as housing appropriate to the needs of low and moderate-income households and priced so that those households are able to meet other basic and essential living expenses. Here, low-to-moderate income households are defined as households earning up to 120 per cent of the median household income. This is a simple and practical definition with wide support and is proposed as the basis for a Victorian strategy.

Household size, dwelling size, dwelling quality, dwelling location relative to transport and other urban services, and tenure security, among other things, are significant factors in determining whether housing might actually be adequate, appropriate or affordable for any given household.

AFFORDABLE HOUSING SUPPLY SHORTAGE

In 2011, a total shortage of 72,200 was recorded in available and affordable housing stock for very low-income households (defined as those in the lowest income quintile – Q1) and low-income households (defined as those in the second lowest income quintile – Q2) in metropolitan Melbourne. This was an increase of 35% from a shortage of 53,200 recorded in 2006. This increase reflects a loss of lower rent dwellings and an increase in higher rent properties between the two census periods. An additional shortage of 12,500 properties was recorded in non-metropolitan Victoria, adding up to a total shortage of 84,700 affordable and available dwellings for low and very low income households across the state (Hulse *et al.* 2014, pp. 35-42) (cf. Tables 1 & 2).

This shortage is attributed in part to higher income households occupying dwellings that are affordable to low income (Q2) households in Melbourne. Despite an apparent surplus of 101,800 dwellings affordable to low-income (Q2) households in 2011, when occupation by higher (Q3–Q5) and some lower (Q1) income households was taken into account, there was a shortage of 20,400 affordable and available dwellings for Q2 households.

The shortages in affordable and available dwellings in Melbourne are predominantly in the middle-ring (approximately 30,000) and inner-ring (approximately 24,000) suburbs. This trend is similar to Sydney, but different to Brisbane where the lowest volume of shortages was in the middle ring suburbs (Hulse *et al.* 2014, pp. 37-8).

TABLE 1: Shortage of affordable and available stock for private renter households with gross incomes at or below Q1 in the nation-wide household income distribution, 2006-2011: capital cities.

	Shortage/surplus of affordable stock		Shortage of affordable and available stock		Proportion (%) of very low-income (Q1) households paying unaffordable rents	
	2006	2011	2006	2011	2006	2011
Sydney	-40,400	-47,000	-44,500	-52,600	93	92
Melbourne	-31,700	-43,200	-40,200	-51,800	87	88
Brisbane	-15,400	-22,500	-19,100	-26,300	87	89
Adelaide	-7,800	-12,000	-11,900	-16,300	78	80
Perth	-9,900	-14,700	-15,300	-18,600	79	87

Source: Hulse et al. (2014), p. 35.

TABLE 2: Shortage of affordable and available stock for private renter households with gross incomes at or below Q2 in the nation-wide household income distribution, 2006-2011: capital cities.

	Shortage/surplus of affordable stock		Shortage of affordable and available stock		Proportion (%) of low-income (Q2) households paying unaffordable rents	
	2006	2011	2006	2011	2006	2011
Sydney	57,800	35,800	-30,300	-40,500	44	55
Melbourne	103,600	101,800	-13,000	-20,400	22	32
Brisbane	45,000	37,100	-11,200	-15,900	31	43
Adelaide	35,100	41,700	-2,500	-3,500	12	16
Perth	51,200	28,500	-3,700	-10,500	14	43

Source: Hulse et al. (2014), p. 36.

WHO NEEDS AFFORDABLE HOUSING?

Low and very-low income households need affordable housing. Nationally, these households are more likely to be lone person or single parent households, older people, people with disability, people born in non-English speaking countries and people outside of paid employment:

- Lone person households represent approximately two-thirds of those with very-low income, and a third of those with low-income. (Productivity Commission, 2013, p. 63)
- Non-working age represent about half of those in very-low income, and about a third of those with low income. (Productivity Commission, 2013, p. 63)
- Less than a fifth of very-low income households, and around half of low-income households have an employed adult (Productivity Commission, 2013, p. 63)
- In 2015, approximately half (49.4%) of all people with disability lived in households with low or very low-income (ABS, 2016). Demand for affordable housing among people with disability is likely to increase due to the National Disability Insurance Scheme (NDIS) and the expected transition of adults with disability from their parents' homes and from institutional accommodation (Disability Housing Futures, 2015).
- Close to half of all people born in non-English speaking countries are in low or very-low income households (ACOSS, 2015, p. 47).

WHAT IS THE FUNDING GAP?

Using the definition of affordable housing, affordable price benchmarks can be established for both rent and purchase. Affordable price points are sensitive to household income, housing markets (location), and interest rates for home purchase.

Area median income (AMI) is often used as a basis for calculating affordable housing need in North American urban jurisdictions, for example New York City, and the value of housing subsidies required. Using this method and based upon a median household income for metropolitan Melbourne of \$1,333 (ABS, 2011 Census), an affordable housing cost can be determined for households in different income bands relative to the AMI. In this methodology, very low income is <50% AMI (<\$667), low income is 50-79% AMI (\$667 – \$1,065) and moderate income 80-119% AMI (\$1,066 – \$1,599).

These income figures are then used to calculate what each category of household can afford to pay for their housing. Based upon what it would cost a housing provider to develop the housing required, the gap or required provision subsidy can be determined.

In the table below, modeling by a Melbourne based community housing provider is used to demonstrate a range of scenarios where households at different income levels and with different housing needs are able to contribute to the cost of their housing to different extents, according to their varying capacities. This results in a different depth of subsidy (the gap) required to cover the cost of providing the housing and sustaining the tenancy in each case.

Rental affordability gap scenarios:

Income:	Very low	Low	Moderate
Development cost per unit	\$355,000 (50m2 apartment)	\$355,000 (50m2 apartment)	\$450,000 (70m2 apartment)
Maximum rent per unit	\$165 /week (Pension +CRA)	\$203 /week (30% income)	\$340 /week (30% income)
Subsidy required	100%	91%	52%

Source: Case studies provided by CEHL (April 2016)

In the first scenario, a very low income household, in receipt of the aged pension and eligible for the full supplement of Commonwealth Rent Assistance, can afford to spend \$165 per week on housing costs. This is insufficient to meet even the operational costs of the unit and therefore requires a full (100%) subsidy to cover the provision gap. A low-income household occupying the same dwelling and paying \$203 per week in rent would require a reduced but still substantial subsidy of 91%.

A moderate income household able to pay \$340 per week, but needing to occupy a larger and hence more expensive dwelling unit, requires a much smaller though still significant subsidy (52%). From these real, worked examples of the affordability gap across different income categories, and bearing in mind the identified shortfall of 72,200 affordable and available rental units, the overall extent of the capital requirement to meet the need for new affordable housing provision can begin to be comprehended.

WHAT ARE THE FUNDING SOURCES?

Most Australian Government funding for housing and homelessness services is provided through the National Affordable Housing Specific Purpose Payment (NAH SPP), which is an indexed payment to the states and territories.

In 2015 – 2016, the Australian Government provided \$1.9 billion to State and Territory Governments, including \$1.3 billion through the NAH SPP and \$534 million through related National Partnership agreements. This included \$330 million for Victorian housing and homelessness expenditures. The Australian Government provided a further \$4.2 billion for Commonwealth Rental Assistance (CRA) (Australian Government, 2016b; Steering Committee for the Review of Government Service Provision, 2016).

Funding for frontline homelessness services is predominantly provided through the National Partnership Agreement on Homelessness (NPAH). The 2015-2017 NPAH commits \$230 million of Commonwealth Government funding, matched by state and territories. This NPAH gives priority to frontline services focusing on women and children experiencing domestic and family violence and homeless youth. Under the NPAH, states and territories retain responsibility for determining the location of services, which providers are contracted and the amount of funding each service provider receives (Australian Government, 2016a).

The Commonwealth Government also subsidises home ownership through tax concessions. Together, Capital Gains Tax discounts and Negative Gearing, two concessions designed to reduce and defer costs associated with housing, are estimated to cost \$11.7 billion annually (Daley, Wood & Parsonage, 2016).

Local governments also provide direct and indirect support for affordable housing through mechanisms such as planning incentives and developer requirements for affordable housing, donation of funds and land and grants or rate relief to sustain the financial viability of low cost accommodation (AHURI, 2004; COAG, 2009).

In 2009 the Council of Australian Governments instigated the Social Housing Initiative as part of the Nation Building Economic Stimulus Plan. The Social Housing Initiative expired in 2012 and represents the largest single commitment of funding to social housing in Australia's history. It designed to stimulate the construction industry, increase the supply of social housing and provide long-term accommodation opportunities for homeless people and people at risk of homelessness. It supported the construction of 19,700 new social housing dwellings (\$5.2 billion) and the repair and upgrade of existing homes (\$400 million). The Social Housing Initiative delivered a range of benefits to both the social housing sector and the wider Australian economy.

The Victorian government is also considering 'value capture' options for delivery of renewed and additional affordable rental housing. For instance, Infrastructure Victoria's Value Capture Options Paper (October 2016) identifies and models a scenario for the redevelopment of public housing estates in inner urban locations, premised on transfer of land to private development interests. In the hypothetical case tested, (Ernst and Young, 2016) half the site area is transferred in order to fully subsidise redevelopment costs.

THE ROLE OF THE STATE

EXISTING AREAS OF STATE INTERVENTION

The State currently takes several roles in providing or facilitating provision of affordable housing and housing affordability in Victoria.

- Affordable housing is provided directly in the form of public housing and through grants and subsidies to community housing providers.
- Development facilitation through the planning system continues to be used as a mechanism to maintain a supply of new market housing affordable to moderate and higher income households.

DIRECT PROVISION AND SUBSIDIES

In 2015 Victoria had an asset base of 64,811 public housing dwellings. This represents 2.6% of total housing stock, which is significantly lower than other states. The government also provides support for and regulation of the non-government social housing sector, which manages approximately 18,500 additional affordable, social rental tenancies.

The State also offers subsidies for homeowners and investors in new housing construction, through waiving stamp duty, and has provided grants to first home purchasers.



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THE PLANNING SYSTEM

Land release and rezoning to facilitate residential development has long been seen as the principle lever the State has to maintain the affordability of owner-occupied housing. The State Planning Policy Framework (SPPF) currently reflects this emphasis (see Box 1).

Since the turn of the century, this strategy has been put under increasing strain, with new homebuyers competing against investors with stronger market power in order to purchase new homes.

BOX 1: Existing planning policy framework for housing affordability in Victoria

16.01-5 HOUSING AFFORDABILITY

Objective

To deliver more affordable housing closer to jobs, transport and services

Strategies

Improve housing affordability by:

- Ensuring land supply continues to be sufficient to meet demand.
- Increasing choice in housing type, tenure and cost to meet the needs of households as they move through life cycle changes and to support diverse communities.
- Promoting good housing and urban design to minimise negative environmental impacts and keep down costs for residents and the wider community.
- Encouraging a significant proportion of new development, including development at activity centres and strategic redevelopment sites to be affordable for households on low to moderate incomes.

Increase the supply of well-located affordable housing by:

- Facilitating a mix of private, affordable and social housing in activity centres and strategic redevelopment sites.
- Ensuring the redevelopment and renewal of public housing stock better meets community needs.

The introduction of new planning controls to restrain overdevelopment in the Capital City Zone (Amendment C270), which includes an option to provide social rental housing in development as a trade-off for higher density, is a recent innovation for the Victorian planning system, along with inclusionary zoning for development of state owned land.

TAXES AND LEVIES

States levy property-based taxes associated with the sale, subdivision and transfer of land and these form a significant source of State revenue.

INTERGOVERNMENTAL ISSUES

Many important policy levers that affect house prices and affordability are the responsibility of the Federal Government. Principle among these is taxation. The current tax regime has a significant impact on the price of housing. For instance, since the Federal Government halved the headline rate of capital gains tax in 1999, negative gearing has become an essential tax strategy and encouraged substantial investment in housing by existing homeowner households.

Federal immigration policies, labour market regulation and macroeconomic settings also greatly influence housing markets and the affordability of housing, especially in the state capital cities, where the impact of these Commonwealth policies and activities is manifested spatially.

The status of local government in relation to the State in Victoria gives local councils limited powers to contribute extensively to affordable housing supply. Nonetheless, local governments are often more directly attuned to the needs of local communities and some have been very proactive in policy development, advocacy for and delivery of affordable housing.

Local property rates are the primary source of revenue for local governments. The recent introduction of rate capping legislation by the State Government, while potentially providing some relief to housing cost burdened home owners, is also likely, without being targeted directly to those in need, to limit local government capacity to participate in the delivery of affordable housing.



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OPPORTUNITIES TO SECURE OUR HOUSING FUTURE

TWO KEY CHALLENGES

1. Preserving and renovating existing affordable housing stock, much of which is in private hands and not particularly compliant with building code or of high quality (rooming houses, trailer parks, apartment buildings and rented houses) –the risk being that by improving quality rents will be increased beyond capacity of low income households to pay – plus increased re-development value
 2. Greatly scaling up the production of new affordable housing from a very low base – currently non-existent private sector affordable housing rental industry, small community housing sector compared to OECD counterparts with limited capacity, absence of sustainable subsidy for low-income renters, relatively small existing stock of social housing
-

STATUTORY REFORM

Include a definition of affordable housing in State policy and establish a clear Head of Power for affordable housing provision.

PLANNING INNOVATION

Inclusionary zoning is a policy that typically mandates a certain proportion of units within a residential development to be sold or rented at a specified below-market rate, and has been used widely in a number of countries, using the USA, Canada, the UK, and with some limited application in Australia. It might also provide an option to provide cash payment to be used for affordable housing in lieu of providing housing on site. It is often used within a suite of other tools within an ‘inclusionary housing program’, such as density bonuses, and expedited or streamlined planning approval processes.

Broadly, there are two types of inclusionary zoning strategy: mandatory and discretionary (also known as ‘opt-in’). A mandatory policy requires that the housing or payment *in lieu* be provided in specified zones or locations, or for certain types or scales of development. Mandatory policy, especially one that requires direct provision of affordable dwellings, needs a framework of State support to ensure that the requirement does not tip the viability of the project or otherwise generate perverse development outcomes, and that the housing produced is suitable and can be managed by an appropriate provider. Mandatory inclusionary zoning operates currently in South Australia, and the City of London has for a long time required a relatively high proportion of social and ‘key worker’ housing.

A discretionary policy relies on incentives to make the provision of affordable housing a more attractive option to developers than not providing it. Typically, planning or other concessions need to be part of the operation of the policy and this type of inclusionary zoning therefore works best where there are clear and restrictive planning requirements for development. The provision of affordable housing then becomes a vehicle for types of development that would otherwise not be permitted in a particular location or for a fast-tracked assessment process. Being an 'opt-in' strategy, a discretionary inclusionary zoning policy does not work with payments *in lieu*.

Inclusionary zoning, when used among a suite of tools as part of integrated planning, can achieve acceptance from private sector actors (Monk *et al*, 2005). Critics argue that inclusionary zoning provides a disincentive for developers to operate in jurisdictions that employ it or causes them to pass increased costs onto consumers, thereby reducing overall affordability (e.g. Shuetz, Meltzer & Been, 2011). However, where applied carefully—for example, at a broad metropolitan level, combined with incentives for affordable housing, and providing an option to make a cash *in lieu* payment — it has been successful in dealing with negative externalities and market failures (e.g. Beer, Kearins & Pieters, 2007).

Some examples of the application of inclusionary zoning include:

- California, where state legislation facilitates (but does not require) the use of inclusionary zoning by municipalities, approximately 20% of municipalities have adopted inclusionary zoning (Powell & Stringham, 2004). In addition state law requires municipalities to provide a 25% density bonus for meeting affordable housing targets.
- The Ultimo-Pyrmont urban renewal area in inner Sydney, requires a relatively modest requirement for 0.8% of residential floor space and 1.1% of commercial floor space to be set aside for affordable housing. This has yielded 445 affordable housing units by 2014, approximately 1% of dwellings within the area (Johnston, 2014).

A number of proposals have been made for the application of inclusionary zoning in the Melbourne context. These typically suggest that it be implemented via an overlay in the planning scheme, applicable to both residential and non-residential developments, provide a cash-*in-lieu* option, and be combined with incentives for affordable housing (e.g. SGS, 2007). The Victorian Government has pledged to pilot the use of inclusionary zoning on land sold by the government for development.

Some key opportunities to use inclusionary zoning in Melbourne include:

- Land sold by the state government for development. As this land is in public ownership it may be feasible to mandate a percentage of affordable housing higher than that on private land.
- On private land. Ideally, inclusionary zoning would be applied broadly, such as at the metropolitan level. One option would be initially to mandate a modest affordable housing requirement, such as 5%, in designated zones, but higher rates may be appropriate in urban renewal areas where there is a high level of value uplift.
- State government facilitation of inclusionary zoning by interested local governments through changes to the Planning and Environment Act and the Victoria Planning Provisions. This would need to be connected to local government area targets for housing supply, diversity, and affordability, to avoid burden falling disproportionately on some locations.

One key issue is the capacity of community housing organisations to acquire and manage new affordable housing stock. Another is to ensure that stock provided is suited to needs of target populations and groups. A potential benefit of a mandatory policy is that over time it could help to reduce land prices and dampen speculation by lowering the residual land value in locations covered by the policy.

Other planning reforms that potentially could benefit the development of affordable rental housing include reduced car parking requirements, especially for development containing a high proportion of very low income housing units and within 800 metres of frequent public transport, and the Minister being the Responsible Authority for all social housing development and development where at least 50% of housing is for very low or low income households.

INNOVATION IN FINANCING

Social housing bonds can be used by state and federal governments to leverage private finance. For example, the NSW government has issued bonds to fund family support to prevent children requiring foster care (Benevolent Society, 2015). In this instance, the bond delivers performance-based returns to investors, recognising the fact that the program's success reduces government foster care costs. Governments can provide backing for bond instruments in a partnership between state or federal government and institutional investors. Lawson, Milligan and Yates (2012) examined how the Austrian Housing Construction Convertible Bond could be adapted for use in Australia. They recommended a solution involving a low risk, low yield, long term instrument with tax incentives structured to be equally attractive to those with high and low tax rates, together with government guarantees, to encourage long term investors, particularly institutional investors.

Community Housing Organisations in Victoria, for example, build and manage social housing for low to moderate-income households. At June 2013 the Victorian community housing sector held \$2.5 billion worth of assets with interest bearing debt of only \$309 million (DTF, 2014). Gearing of the sector is modest as revenue is limited by the requirement to provide affordable rent. In short, the sector is asset rich but income poor but therefore placed to be able to leverage further investment in social housing.

Social impact investors are another potential source of funds. While their lending criteria are likely to reflect those of mainstream development financiers, the remit of social impact investors includes social returns on investment. The central issue here becomes risk mitigation rather than the cost of finance.

A recent and significant source of Federal Government subsidy for affordable housing was the National Rental Affordability Scheme (NRAS), similar to the Low Income Housing Tax Credit (LIHTC) program in the USA. NRAS provided tax credits (or cash, for charitable organisations) to build dwellings and rent them to means-tested tenants for at least 20% below market rent (DSS, 2014). However, it was discontinued in 2014, with the announcement in the federal budget that the fifth round of the program would not proceed. Over the period it operated, the NRAS scheme was very effective in generating a significant quantity of diverse and well-located affordable rental housing (Rowley *et al.* 2016) and helped both to reveal and grow a sector interested in investing in this type of affordable rental housing scheme.

USE OF PROPERTY ASSETS

There is potential to repurpose public land for affordable housing or for mixed-tenure developments include affordable housing. Land that is currently in public ownership presents unique opportunities for affordable housing, particularly when it is well located with respect to transport and services, or where it contains low-density or no existing housing.

Some examples of such approaches have included:

- Vancouver, where the city government has leased land at no cost for affordable housing projects, while the provincial government (British Columbia) has transferred a former psychiatric hospital to its Housing Ministry to be developed as mixed-income housing and uses its existing social housing land assets to generate additional affordable housing, including through the use of a Community Land Trust (discussed further below).
- Portland, where the City of Portland buys land for affordable housing projects using funds raised through Tax Increment Financing (discussed previously in this paper), and either leases or donates the land as part of its contribution to these projects.
- Melbourne, where the Carlton Housing Redevelopment will result in 246 new public housing apartments to replace 192 units being demolished (a net gain of 54 units) and a range of new community facilities, to be subsidised by the development of 800 private apartments on previously public land.
- City of Port Phillip, where existing at-grade public car parks have been redeveloped for mixed parking and social housing uses, by granting development rights and air space to a community housing organisation.

Under-utilised land assets owned by local governments might be considered for affordable and mixed tenure housing developments. Where these assets become redundant or due for renewal there is an opportunity to deliver or leverage affordable housing outcomes. In the case of low intensity uses such as at-grade car parks, it might be desirable to retain and incorporate the existing use alongside new affordable housing.

The State Government also has land assets that have been set aside for non-residential uses. If such land is under-utilised or no longer required for its intended purpose it could be repurposed for affordable housing. Potential sites include hospitals, schools or reservations set aside for road or rail corridors that are no longer required. Options for development and disposal as outlined for Office of Housing sites are generally applicable. Existing public land disposal policies that seek exclusively to maximise financial return from sale or redevelopment would need to be reconsidered to get greater yields of affordable housing from these development opportunities.

Existing public housing estates present an opportunity to contribute to affordable housing supply, particularly those that are well located, currently support relatively low housing densities, contain older housing stock, or stock that is no longer suited to the needs of the Office of Housing's tenants (e.g. larger dwellings). Where intensification is feasible, there is an opportunity to increase the number of social or affordable dwellings on the site whilst providing additional market housing, which can help cross-subsidise the former.

Measures should be taken to ensure that some or all of the land in redeveloped estates remains in public ownership or is bound by other mechanisms to ensure it is being used for broader community benefit. Options here include long-term leasehold arrangements (rather than outright sale) or caveats on land title that require the provision of affordable housing for a fixed period or in perpetuity.

An alternative is to use a Community Land Trust, which involves trust entities maintaining ownership over the land and renting or selling dwellings under ground leases. The ground leases include affordability formulae that balance limited equity gain with maintaining perpetual housing affordability. When an owner occupied dwelling is sold, the equity is shared between the Trust and the seller due to limitations placed on resale prices as set by the Trust. Community Land Trusts are common in the US and the UK, but there are none yet established in Australia, although a number of organisations are planning to establish them in Victoria and Tasmania, such as St Kilda Community Housing, which operates within the City of Port Phillip.

A number of options for the state or local authorities owning such land are to:

- Redevelop the land and retain ownership.
- Lease or sell the land at low or no cost to a community housing organisation or other non-profit to redevelop the land for affordable housing.
- Sell the land to private sector partners to redevelop the land with requirements for appropriate affordable housing outcomes set out in the tender process.
- Establish a Community Land Trust, transferring land to the Trust, and renting or selling dwellings with ground leases.

THE FUTURE OF PUBLIC HOUSING

Despite significant decline in recent decades, public rental housing remains the single largest source of affordable rental housing for very low income and no income households in Victoria. However, in the ten years prior to the GFC funding for public housing in Australia was cut by more than 30%. With much of the public housing stock now more than fifty years old, a significant and growing proportion (about 15% in Victoria) is either in need of substantial maintenance and upgrade to achieve basic levels of amenity and environmental performance or else has reached the end of its useful life and requires redevelopment. This will require significant capital investment and was the subject of an Auditor General's report in 2012.

Meanwhile, the policy of targeting social housing allocations to those in greatest need (a requirement of Commonwealth policy) has greatly reduced the State's revenue base, as the majority of tenants are now entirely reliant upon welfare, and has had the additional effect of entrenching social disadvantage. Yet waiting lists remain long; with many eligible households waiting more than a year to access public housing.

The recent focus of state policy has been to renew public housing by releasing value from under-capitalised land on public housing estates to fund asset renewal. This policy is continuing, with opportunities increasingly taken to increase the amount of stock as part of this process. There is also potential for precinct scale development of dispersed concentrations of public housing in middle suburban locations (Murray et al., 2015)

'VALUE CAPTURE'

The use of Tax Increment Financing (TIF) by state government enables revenues from increases in property values within a designated development area to fund the provision of infrastructure within that area (PWC, 2008). This represents a reallocation of the increased tax (compared to a baseline where no redevelopment occurs), rather than a new tax to property owners. Bonds are issued by the government and used to finance renewal and infrastructure development, and increased property development increases tax revenue in the area, which is then used to retire debt. Some cities have used a portion of funds raised through TIF to help fund affordable housing, such as Portland, which has provided \$150m from TIF funds to non-profit housing projects between 2006 and 2011

IMPLEMENTATION AND EVALUATION

GOVERNANCE

At present, there is a wide range of state government departments and agencies which play a role in affordable housing, including:

- Department of Environment, Land, Water and Planning (DELWP): oversees the planning system; this includes strategic planning for housing supply and affordable housing provision (e.g. Plan Melbourne), the Planning Act as a potential Head of Power, the State Planning Policy Framework, zoning and other controls and planning implementation. DELWP also collects, manages and analyses data of relevance to understanding the housing system and planning its future direction.
- Victorian Planning Authority (VPA): assists metropolitan local governments in facilitation of development in growth areas (where the focus is on housing growth, but not necessarily affordable housing) and in urban renewal areas, where a quota of affordable housing is likely to be required (especially on state-owned sites)
- Department of Health and Human Services (DHHS): responsible for the stock of public housing and with oversight of the community housing sector
- Department of Treasury and Finance (DTF): responsible for revenue and the financial management of the state. DTF also sets policies for the management and disposal of state property assets.
- Department of Premier and Cabinet (DPC): overall coordination of state policy, including Integrated Housing Affordability Strategy.
- Places Victoria: arms-length state development agency, generally focused on government land development
- VicTrack: one of the largest government land-holders, VicTrack owns much of the land being developed as part of level crossing renewal and rail upgrades, and where value capture policies are being considered
- Infrastructure Victoria: new central government agency established to coordinate infrastructure planning and delivery. IV's draft policy positioning paper has identified affordable housing as key economic infrastructure for the State

CAPACITY BUILDING

To deliver a plan for increased affordable housing supply will require increased capacity in a number of sectors, including government planning and monitoring, the development capacity of the not for profit housing sector, and the diversification of the development industry and the development finance sector.

TIMEFRAME FOR IMPLEMENTATION

Explicit timeframes and housing targets are essential to support affordable housing outcomes. Any integrated housing strategy should include both a long-term vision and annual targets to allow for most effective monitoring. The City of Vancouver Housing and Homelessness Strategy, for example, includes quantified targets and annual 'report cards.'



RECOMMENDATIONS

That the Victorian Government, in conjunction with the Commonwealth and local governments, and with stakeholders from the housing, development and finance industries, works to:

- Establish an agreed definition of what constitutes affordable housing costs for households at different income levels;
- Quantify and monitor the extent of affordable housing need in Melbourne and Victoria;
- Identify and monitor the capital requirement to meet defined housing needs in Melbourne and Victoria
- Establish permanent, annually renewable sources of public capital to finance affordable rental housing and support affordable owner-occupied housing
- Ensure land use planning policies require and facilitate the development of designated affordable housing products in a variety of well-served locations
- Set affordable housing targets and enable inclusionary housing policies to be adopted by LGAs
- Establish affordable housing contribution requirements as part of the planning of state- owned sites and major renewal areas
- Work with local and Commonwealth governments to develop public land for designated affordable housing
- Review residential tenancy laws and tackle barriers to institutional investment in rental housing in order to improve the range, quality and security of affordable rental housing in Victoria
- Work with the banking sector, capital markets, superannuation funds, and other sources of institutional capital to identify opportunities for investment in the construction, long-term financing and preservation of affordable housing in Melbourne and throughout the State
- Build and maintain capacity in the not-for-profit housing and development sectors

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