

Report to the Future Melbourne Planning Committee

Agenda item 6.5

Submissions to Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing

12 November 2019

Presenter: Emma Appleton, Manager Urban Strategy

Purpose and background

1. The purpose of this report is to seek endorsement of City of Melbourne's submission (Attachment 2) to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing (Advisory Committee) and present the evidence base in the City of Melbourne's Affordable Housing Issues and Opportunities Report (Attachment 3), which has informed this submission.
2. On 10 September, the Minister for Planning appointed the Advisory Committee pursuant to Part 7, Section 151 of the *Planning and Environment Act 1987*. The Advisory Committee will provide advice to the Minister for Planning on possible models and options to facilitate the supply of affordable housing through the Victorian planning system. The Advisory Committee will operate for six months and deliver a final report with its recommendations by early December 2019.

Key issues

3. Victorian Government policy, *Homes for Victorians (2017)* and *Plan Melbourne 2017-2050 (2017)* include significant commitments to enable greater provision of much needed affordable housing. Important legislative amendments introduced in June 2018 extended the objectives of the *Planning and Environment Act 1987* to facilitate affordable housing. This clarified Responsible Authorities can enter into voluntary agreements with landowners for affordable housing.
4. The City of Melbourne is developing an Affordable Housing Strategy. This will build upon *Homes for People: Housing Strategy 2014-18*, the Housing Needs Analysis (2019) which provides the evidence of demand, engagement with stakeholders, facilitation of the Inter-Council Affordable Housing Knowledge Sharing Forum, and collaborations with the Inner Metro Partnership and Inner Melbourne Action Plan. This is summarised in Attachment 3 and has informed the submission.
5. The Housing Needs Analysis found that there is a current shortfall of at least 5500 affordable rental homes which is anticipated to increase to approximately 23,200 by 2036.
6. Current mechanisms in the Melbourne Planning Scheme which seek to encourage affordable housing are yet to deliver any affordable homes. No affordable homes have been negotiated in private developments in the City of Melbourne since legislative changes to the *Act*. State and federal government programs are anticipated to provide 250 affordable homes in the City of Melbourne by 2036. The introduction of a mechanism to the Victorian planning system requiring affordable housing will ensure a consistent supply.
7. The City of Melbourne's submission to the Ministerial Advisory Committee recommends there is introduction of state-wide mandatory inclusionary zoning, at a rate to be determined by modelling, with a cash-in-lieu option, complemented by:
 - 7.1. Flexibility for local governments to increase the state-wide minimum requirement where there is strategic justification and evidence of need;
 - 7.2. A voluntary uplift incentive that can be applied in strategic development areas to encourage a higher provision beyond the state-wide minimum or any local government specific minimum;
 - 7.3. A commitment from the three tiers of government to work in partnership to create a holistic and integrated approach to ensure that policy, funding, incentives and governance is effective.

Recommendation from management

8. That the Future Melbourne Committee:
 - 8.1. Endorses the City of Melbourne's submission to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing;
 - 8.2. Note the City of Melbourne's Affordable Housing Issues and Opportunities Report, which summarises the evidence base, has informed the City of Melbourne's submission and will be provided in support.
 - 8.3. Authorise the Director City Strategy and Place to make any further minor editorial changes to the City of Melbourne's submission to the Advisory Committee prior to finalisation.

Attachments:

1. Supporting Attachment Document (Page 3 of 56)
2. City of Melbourne Submission: Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing (Page 4 of 56)
3. City of Melbourne, Affordable Housing Issues and Opportunities Report, 2019 (Page 17 of 56)

Supporting Attachment

Legal

1. The Ministerial Advisory Committee will provide advice to the Minister for Planning on options to facilitate the supply of affordable Housing through the Victorian planning system. This may result in changes to policy or legislation by the Victorian Government depending on the response to advice by the Minister. The implications would be assessed if any potential changes to policy or legislation are proposed in the future.

Finance

2. There are no anticipated costs to the organisation for providing a submission into the Ministerial Advisory Committee Process.

Conflict of interest

3. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a direct or indirect interest in relation to the matter of the report.

Occupational Health and Safety

4. The submission is informed by evidence that affordable housing improves health and wellbeing outcomes for the community. A lack of appropriate and affordable housing has detrimental impacts including poor health, limited access to jobs and educational opportunities, reduced diversity and homelessness. Benefits of affordable housing include reduced crime, domestic violence, and improved health outcomes.

Stakeholder consultation

5. Consultation with community housing providers, developers, other local governments, and state government agencies has been occurring regularly through the City of Melbourne's affordable housing projects underway.
6. The City of Melbourne hosts the Inter Council Affordable Housing Knowledge Sharing Forum which has participants from more than 20 local governments. Through this forum we have heard similar views articulated by other local governments.
7. The City of Melbourne consulted with the City of Port Phillip and City of Yarra in providing input into the submission on behalf of the Metropolitan Development Advisory Panel.

Relation to Council policy

8. The submissions align with City of Melbourne's *Homes for People – Housing Strategy 2014-2018*, which includes the goal to help provide affordable housing, and *Pathways: Homelessness Strategy 2014-17*.

Environmental sustainability

9. Environmental sustainability is supported through the submission by enabling a greater supply of affordable housing within City of Melbourne where there is greater access to public transport and less environmental impacts through new development compared to growth areas.

City of Melbourne submission to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing

October 2019

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Attachments - Confidential

Attachment 1 - City of Melbourne, Housing Capacity and Needs Analysis, Draft Summary Report (2019)

1. INTRODUCTION

The City of Melbourne welcomes the opportunity to make a submission to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing (Advisory Committee) established by the Minister for Planning. We would be pleased to expand on this submission to provide further information to the Advisory Committee. Following consideration of the Advisory Committee’s report by the Minister for Planning, we welcome further consultation to assist with policy refinement and implementation.

We recognise the Victorian Government’s commitment and focus to enabling greater provision of much needed affordable housing. Victorian Government policies including *Plan Melbourne 2017-2050* (2017), *Homes for Victorians: Affordability, access and choice* (2017), and *Victoria’s 30-year Infrastructure Strategy* (2017) highlight the imperative to increase affordable housing supply. Legislative amendments to the *Planning and Environment Act 1987* introduced in June 2018 which extend the objectives to facilitate affordable housing supply was a significant step in providing opportunities for the planning system to facilitate provision through private residential development. We support bold intervention by the three tiers of government working in partnership to respond to the scale of need.

1.1 Summary of City of Melbourne’s position

A state planning mechanism is recommended to facilitate affordable housing supply

The current voluntary framework and planning mechanisms in the Melbourne Planning Scheme are delivering little affordable housing. To ensure a consistent supply of affordable housing and provide certainty to developers, the City of Melbourne recommends the introduction of:

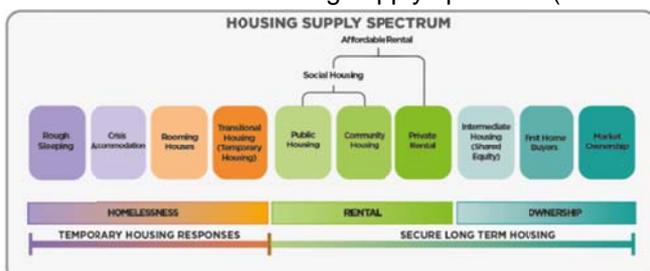
- Mandatory inclusionary zoning applied across the state, with a minimum percentage of affordable housing requirement (appropriate percentage to be determined) and a cash-in-lieu option, complemented by:
 - Flexibility for local governments to increase the state-wide minimum requirement where there is strategic justification / evidence to support;
 - A voluntary uplift incentive that can be applied in strategic development areas to encourage a higher provision beyond the state-wide minimum or any local government specific minimum. Further guidance and resource support is needed to support a voluntary uplift incentive.

This submission provides our rationale for these recommendations and other considerations.

Partnerships across the three tiers of government are critical

To address the housing crisis, we need to work in partnership with state and federal governments, as well as support the role of housing providers, developers and investors. A holistic and integrated approach is needed across all levels of government to ensure that policy, funding, incentives and governance is effective.

A functional society offers a range of housing choices for the community depending on their needs. It is important that the three tiers of government work together to ensure that appropriate housing is available across the housing supply spectrum (as shown below).



Affordable housing is essential infrastructure

Appropriate affordable and social housing is critical to the inclusivity, diversity and economic productivity of our city and state. Investment in social housing and affordable housing to significantly increase supply is one of Infrastructure Victoria's top three most important actions for government.

A lack of appropriate affordable housing in cities has major detrimental impacts, including:

- Leads to concentration of lower income households to locations with poor access to employment, education and transport;
- reduces productivity due to decline in the diversity of workforce;
- impacts city competitiveness and tourism;
- reduces community diversity; and
- results in increased homelessness.

Research commissioned by the City of Melbourne found that for every \$1 of expense incurred in providing affordable housing, community benefits in excess of \$3 will be generated. These benefits include reduced crime costs, reduced domestic violence, health cost savings, enhanced human capital, educational benefits and key worker retention. Conversely, every \$1 that is not invested in affordable housing will cost in excess of \$3 through the loss of these benefits.

1.2 City of Melbourne affordable housing initiatives

The City of Melbourne has been active in exploring opportunities and pathways to deliver affordable housing within its municipality. Following is a description of the current and recently completed work it has done to date:

- **Affordable Housing Strategy** - to be completed in early 2020.
- **Affordable housing mechanism pilot** - Inner Metro Partnership - investigating planning mechanisms to enable affordable housing in the Inner Metro Region.
- **Private rental housing delivery model** - Inner Melbourne Action Plan - investigating a delivery model for private market affordable rental housing and planning and financial incentives to increase private sector take-up of voluntary affordable housing agreements.
- **Housing Needs Analysis (2019)** - SGS Economics and Planning has conducted a Housing Needs Analysis and identified potential policy levers that could be applied to deliver affordable housing. The report can be found at Attachment 2
- **Inter-Council affordable housing knowledge sharing forum** – hosted by The City of Melbourne and attended by approximately 20 Victorian Councils. One priority is identifying opportunities for the planning system to deliver affordable housing.
- **Review and broker affordable housing options to enable more affordable housing in the municipality (2018) – internal options paper** - informed by extensive engagement with 31 organisations across various sectors
- **Homes for People – Housing Strategy 2014-2018** - included the goal to help provide at least 1721 homes for low and moderate income earners by 2024. This target is unlikely to be met.

2. SCALE AND DISTRIBUTION OF NEED

The City of Melbourne commissioned SGS Economics and Planning to undertake a Housing Needs Analysis (2019). This analysed current and future demand for affordable rental housing in the City of Melbourne, inner Melbourne and metropolitan Melbourne.¹

2.1 City of Melbourne

- There is currently demand for at least 9450 affordable housing units. Accounting for current supply of approximately 3950 social and affordable housing units, there is a shortfall of at least 5500 housing units.²
- 279 people are currently sleeping rough and 1750 people are currently experiencing homelessness.
- If there is no addition to the City's social and affordable housing stock, it is estimated that the shortfall will increase to 23,200 social and affordable units by 2036.³

Table 1: Demand for affordable and social housing units (2016-2036)

	2016	2036
Demand	9450	27,150
Supply	3950	3950
Gap	5500	23,200

2.2 Inner Melbourne

- There is a current shortfall of:
 - 29,500 affordable and social housing dwellings in the Inner Metro Partnership region (City of Melbourne, City of Port Phillip and City of Yarra).
 - 44,750 affordable and social housing dwellings in the Inner Metro Action Plan region plus Moonee Valley.

2.3 Metropolitan Melbourne

- 231,250 households are currently in need of affordable and social housing. This accounts for thirteen per cent of all households. There is a gap of 182,250 affordable and social homes in current supply.
- 20,450 people are currently experiencing homelessness.
- By 2036, 338,050 households will be in need of affordable housing reflecting a shortfall in current supply of 289,050 dwellings. This is an increase in demand for social and affordable housing by 106,800 over the next 20 years.

¹ The analysis focused on rental stress using the 2018 income thresholds defined in the *Planning and Environment Act 1987*. The scope did not include mortgage stress or affordable home ownership because these issues require different policy responses. A unit of 'demand' for social and affordable housing arises when a very low to moderate income household experiences rental stress, which is defined as spending 30 per cent or more income on rent. Individuals experiencing homelessness and households already living in social housing are included in the calculation of overall demand.

² This estimate excludes students without dependents. If all students experiencing rental stress are included there would be a current gap of 16,300 affordable dwellings.

³ SGS Economics and Planning modelled four potential scenarios for allocating future metropolitan demand for affordable housing within the City of Melbourne. The demand figure included has excluded the least accessible parts of metropolitan Melbourne from the distribution. In this scenario, the geographic scope for allocating demand is restricted by excluding areas which have a low level of accessibility to jobs and services (known as effective job density).

3. IMPACT OF CURRENT POLICY SETTINGS

3.1 Effectiveness of existing policy and legislation

There are several projects and initiatives led by a range of entities in the City of Melbourne which contribute to affordable housing supply. These include leveraging affordable housing on publicly owned land, policy targets or uplift incentives within particular precincts, and negotiations with private developers.

In the absence of a state-wide approach, a range of area/ neighbourhood based approaches have been proposed or implemented (see 3.3). The development industry has not supported a specific area approach as it provides an uncertain development environment, and can be seen as penalising landowners in these areas. The development industry has requested a level playing field across markets and areas.

3.2 Outcomes of current voluntary framework

Legislative changes were introduced in June 2018 that clarifies that Responsible Authorities can enter into a voluntary agreement with land owners and others under section 173 of the *Planning and Environment Act 1987* for the provision of affordable housing as part of a development.

No voluntary agreements have been entered into with developers or landowners for the delivery of affordable housing in City of Melbourne since this reform.

This highlights the need for stronger policy to generate sufficient supply in response to the high demand in our municipality and across metropolitan Melbourne.

3.3 Outcomes of planning mechanisms

Amendment C270 – uplift mechanism

A Floor Area Ratio of 18:1 applies to the Hoddle Grid and Southbank. An applicant may apply for a Floor Area Uplift if there is a public benefit, such as open space, commercial office space, social housing or a competitive design process.

To date, no social housing has been delivered through this mechanism.

Amendment GC 81 – Fishermans Bend (Lorimer Precinct) – planning policy and uplift mechanism

Amendment GC81 states that development in the Lorimer Precinct should provide at least six per cent of dwellings as affordable housing. In addition, a Social Housing Uplift scheme enables the development of eight additional market value dwellings for every one social dwelling to be transferred at no cost to a Registered Housing Provider.

To date, no affordable housing has been delivered through this mechanism.

Amendment C309 West Melbourne Structure Plan – planning policy

Endorsed by the Future Melbourne Committee in 2018, the West Melbourne Structure Plan proposes a minimum of six per cent affordable housing for three of the precincts within West Melbourne. The process encourages an open book approach if landowners suggest they cannot achieve the minimum amount. It is envisaged that approximately 200 affordable homes could be delivered through this proposed policy. A panel hearing has occurred for the Planning Scheme Amendment required to give effect to the structure plan. The proposed policy has not yet been gazetted.

To date, no affordable housing has been delivered through this mechanism.

Amendment C221 West Melbourne Waterfront – uplift mechanism

The property owner of the West Melbourne Waterfront requested Planning Scheme Amendment C221 to rezone the land to enable the development of residential and commercial uses. The Development Plan Overlay allows the potential to increase the maximum building height of 10 storeys up to 14 storeys if 15 per cent of the additional four storeys includes affordable housing.

To date, no affordable housing has been delivered through this mechanism.

Inclusionary Zoning Pilot on Surplus Government Land

An inclusionary zoning pilot on surplus government land at 87-103 Manningham Street, Parkville will deliver new social housing in partnership with a Registered Housing Association. This process is confidential and the number of dwellings anticipated is not yet known.

3.4 Anticipated supply from state and federal government programs

There is a scarcity of affordable and social housing supply anticipated from the state and federal governments.

Contribution of the Social Housing Growth Fund

In 2017, the State Government released Homes for Victorians which included the formation of the Social Housing Growth Fund. This is expected to generate new housing, some of which could be provided in the City of Melbourne. The Growth Fund will use the interest on a \$1 billion investment to provide social housing throughout the state. The fund might yield \$70m per annum assuming a 7 per cent return.

The City of Melbourne is anticipated to account for 9 per cent of projected population growth in Victoria to 2036. If the City of Melbourne attracted a proportional share of the funding enabled by the Social Housing Growth Fund, this would provide around 250 dwellings over a 20-year period.

Public Housing Renewal Program

The Victorian Government's Public Housing Renewal Program is delivering net additional social and affordable dwellings as well as the renewal of existing social housing stock. The state is currently redeveloping the North Melbourne public housing estate with MAB Corporation and community housing provider HousingFirst.

The existing 112 public housing dwellings will be replaced with a mix of social, private and affordable housing with an increase of 10 per cent public housing dwellings on the site. It is not known when this will be completed by.

3.5 Inclusionary zoning in other jurisdictions

Delivering affordable housing through an inclusionary zoning mechanism has been applied in a number of other jurisdictions both within Australia and internationally. Below are some examples of the mechanism and the outcome of these mechanisms.

South Australia

The Housing Plan for South Australia, introduced in 2005, mandates that 15 per cent of new dwellings in all significant development projects be affordable, including at least 5 per cent for high-needs groups. Between 2005 and 2015, 5,485 affordable housing dwellings have been completed or committed including affordable home ownership, affordable rental, and social rental.⁴

⁴ Australian Housing and Urban Research Institute, *Supporting affordable housing supply: inclusionary planning in new and renewing communities*, 2018.

New South Wales

The longest running mandatory inclusionary zoning scheme in Australia applies in Sydney's Ultimo Pyrmont urban redevelopment precinct. In 1994, a target was set of 600 dwelling to be acquired over 30 years as permanently affordable rental stock for very low, low and moderate income households. This target has already been surpassed.⁵

London

In 2004, London introduced a target for 50 per cent of new housing across the region to be affordable. Production of affordable housing units increased, from 6957 homes in 1999/2000 to 8641 in 2005/06.⁶ One example is the Elephant Park regeneration project in Elephant and Castle in Southwark Council which will deliver 3000 new homes and includes a minimum of 25 per cent affordable housing.

California

In Southern California, 48 cities (a quarter of all Local Government areas) have local ordinances for affordable housing. The majority of these contain mandatory affordable housing requirements. For example, in San Francisco, new private housing developments with 10 or more housing units are to include affordable housing units or pay a fee in lieu. Between 1999 and 2017, 3,821 units have been delivered, including a mix of very low, low, moderate-rental housing and some affordable home purchase.⁷

4. RECOMMENDATIONS FOR NEW AFFORDABLE HOUSING REQUIREMENTS

The City of Melbourne supports the introduction of a state-wide mechanism that requires a mandatory contribution for affordable housing. This will provide certainty to developers and ensure the market is operating on a level playing field. The cost of providing affordable housing can also be factored into the total cost of developing a site.

Given the scale of demand across Victoria, a suite of planning mechanisms are required. We do not consider there is a single mechanism sufficient to address the need. Planning mechanisms should be supported by additional funding options and incentives for the market to respond.

We recommend the introduction of:

1. Mandatory inclusionary zoning requirements applied across the state (appropriate percentage to be determined). This should be applied to any new residential development that results in the intensification of residential land use (i.e. not dwelling extensions) across Victoria. The percentage of affordable housing required needs to provide a balance between providing a level playing field and consistency for developers and investors, however should also take into account scaling that can be applied for different market circumstances, such as certain strategic development areas and types/scales of development. The Victoria Planning Provisions currently do not contain a standard zone provision for mandating affordable housing. A planning mechanism like an inclusionary zone that can be applied consistently across the State is needed as part of a suite a mechanisms to deliver a more consistent supply of affordable housing. We recommended that there is modelling to identify the most

⁵ SGS Economics and Planning, *City of Melbourne Housing Needs Analysis*, 2019.

⁶ Australian Housing and Urban Research Institute, *New Directions in Planning for affordable housing: Australian and international evidence and implications*, 2008

⁷ Australian Housing and Urban Research Institute, *Supporting affordable housing supply: inclusionary planning in new and renewing communities*, 2018.

appropriate percentage for any state-wide minimum affordable housing requirement. It is important to consider how the implementation of such a mechanism can be introduced at a low percentage and be phased in over time to allow the property market to adjust.

2. A cash in lieu option as an alternative to direct provision of affordable housing, to be triggered only when direct provision is not practical (see discussion below under section 4.2).
3. Flexibility for local governments to increase the minimum percentage of affordable housing required by the state-wide policy where there is strategic justification and demonstrated evidence of the housing need.
4. A voluntary uplift incentive that can be applied in strategic redevelopment areas to encourage a higher provision of affordable housing above the state-wide mandatory requirement.
5. Opportunities to establish social and affordable housing on surplus Government land, sometimes described as 'lazy land'.

The social and affordable housing generated by these mechanisms must be transferred to and managed by a registered housing agency at a cost negotiated with the receiving agency. This may range from no cost to a percentage which accord with the business model of the receiving agency.

4.1 Benefits of mandatory inclusionary zoning

Mandatory inclusionary zoning ensures a consistent supply of affordable housing and provides clarity and certainty to developers when embarking on a development. Mandatory inclusionary zoning is likely to generate a higher level of affordable housing compared to other mechanisms.

To understand the economic and social impact of mandatory inclusionary zoning, the City of Melbourne commissioned SGS Economics and Planning to conduct modelling of an affordable housing requirement ranging from 1 to 20 per cent.

The modelling estimated that if a 10 percent mandatory affordable housing requirement came into effect in 2021, this would enable approximately 4300 dwellings to be delivered by 2036 in the City of Melbourne. This research found that an inclusionary zoning requirement as low as 2 per cent would generate a higher provision of affordable housing compared to other regulatory mechanisms in the City of Melbourne. Analysis by SGS Economics and Planning suggests that other mechanisms such as value capture incorporated into planning scheme amendments would provide fewer than 1000 dwellings; ad hoc voluntary agreements would provide less than 500 dwellings; and floor area uplift less than 300 dwellings.⁸

Modelling by SGS, which explored requirements between 1 and 20 per cent, suggests that a mandatory affordable housing requirement of up to 10 per cent, transferred by a developer at zero cost, could be supported without detrimentally effecting housing supply in City of Melbourne. This modelling assumes that all existing development costs and charges remain unchanged. Additionally, over a 20 year period, a 10 per cent mandatory requirement would deliver a strong net community benefit of 3:1 for the whole community. That is, community benefits valued at more than \$3 will be generated for every \$1 cost incurred.

A mandatory requirement of up to 10 per cent is economically warranted in City of Melbourne. Therefore it is City of Melbourne's position that, subject to further testing and stakeholder engagement, a mandatory inclusionary zoning requirement of up to 10 per cent may be suitable in our municipality. Further modelling should be conducted to determine appropriate percentages for both the City of Melbourne and any state based affordable housing requirement.

4.2 Benefits of higher requirements for strategic opportunities

The inclusionary zoning mechanism should enable local governments to require a higher percentage of affordable housing above the state-wide requirement where there is strategic justification. This could include:

⁸ These figures are derived from analysis by SGS Economics and Planning and are approximate.

- Areas where there is demand analysis which demonstrates significant need.
- New urban renewal areas which are yet to undergo a rezoning – for example E-Gate and Arden in the City of Melbourne.
- Activity centres where there is likely to be a higher land value.
- New types of housing such as build to rent which as a new offer to the market could factor in affordable housing requirements into the development model.
- Government owned land. For example, the City of Melbourne has a commitment to considering including up to 15 per cent of dwellings being made available as affordable housing to a registered Affordable Housing Provider on council-owned land.

Flexibility for on site or monetary contributions

The inclusionary zoning mechanism should provide the option for local governments to request the direct provision of dwellings and/or a monetary contribution to be used for the acquisition of affordable housing where it is not practical to require affordable housing on a particular development site. The state should provide guidance to local governments as to appropriate circumstances to require a dwelling versus monetary contribution. Local governments should be able to establish more detailed criteria to inform decisions for requiring onsite or monetary contributions that could be introduced as a Reference Document to the planning scheme. For example some considerations for onsite versus monetary contributions include the scale of development (i.e less than 10 dwellings may not be suitable for direct provision) and anticipated ongoing maintenance or body corporate costs.

4.3 Benefits of uplift in strategic redevelopment precincts

Local governments should have the opportunity to encourage a higher provision of affordable housing above the state-wide requirement through floor area uplift, where appropriate. It is important that such mechanisms are clear and that the mandatory minimum requirement must be met prior to the uptake of floor area uplift.

Existing uplift approaches have had limited impact on the provision of affordable housing to date. For this reason, City of Melbourne recommends that any uplift schemes only include social or affordable housing as the offsetting public benefit and ensure the uplift mechanism offers an appropriate additional floor area to generate a compelling incentive.

4.4 Alternative options to support supply of affordable housing delivered by the market

In addition to the above recommendations and considerations, we encourage investigation of various planning and financial incentives, opportunities for emerging models and investors, and potential for requirements for non-residential development to contribute to the provision and funding of affordable housing.

Supporting build to rent and institutional investment to deliver affordable housing

There is growing interest by the development sector to deliver build to rent (BTR). Research has identified that the BTR market could be enabled in Australia through tax settings that facilitate institutional investment and removes impediments to development feasibility that do not exist for traditional build to sell models.

That said, international examples show the existence of the market does not necessarily result in the delivery affordable housing. As an emerging model in Australia, there is the potential to set the BTR market parameters (through tax settings and planning requirements) to integrate a high percentage of affordable housing. Additional tax concessions and subsidies would likely need to be provided to ensure the delivery and operation of affordable housing in BTR developments are feasible and delivered.

The BTR model enables institutional investors to own and manage a large quantity of dwellings and tenants within a single property asset which they hold indefinitely rather than selling to multiple owner-occupiers or minor investors. The key benefits of this are the potential for longer term or more secure rental agreements, regulation of rent increases, higher quality and maintained housing, and stable long term yield for investors. There are international examples of BTR being configured to achieve affordability outcomes.

We encourage the state and federal governments to investigate reform (e.g. tax incentives) while embedding the provision of affordable housing as a critical component of the development model. By considering opportunities to unlock barriers to the BTR sector, there is potential to establish a higher provision rate of affordable housing that can be factored in to this emerging development model.

We encourage state and federal governments to investigate:

- Planning and financial incentives that can be offered to the market to support the delivery of affordable housing in new residential projects. Business models that rely on a constant and reliable income stream over a long period may be attracted to invest in affordable housing and could partner with Local or State Government to utilise public land through a lease arrangement, and return the housing stock to Government at the end of the lease period.
- Opportunities for emerging models, including BTR to integrate a higher provision of affordable housing through a range of reforms and incentives.
- Enabling institutional investors, such as superannuation funds, to finance affordable housing products. This finance arrangement currently occurs in other jurisdictions including in the United States and the UK, to fund BTR products.

Applying requirements for affordable housing for non-residential development

There is potential for mandatory requirements for non-residential development to contribute to affordable housing by charging a fee per unit of new commercial floor area on sites where residential development is not provided or not practical. International examples of where this has been applied are:

- Boston, Massachusetts - A fee of \$8 per square foot for new commercial development for the provision of affordable housing. This generated \$45 million in revenue between 1986 and 2000, funding approximately 5000 affordable units.
- Arlington County, Virginia – A fee of \$1.77 per square foot, which was expected to generate almost \$14 million in revenue between 2013 and 2016.9
- In 2017 the City of Seattle introduced affordable housing ‘impact mitigation’ requirements. New commercial development in excess of 4000 square feet are to provide onsite affordable housing or make a cash contribution to the City’s Director of Housing per square foot of development.

4.5 Government investment in affordable housing

The introduction of planning mechanisms can only deliver some of the much needed affordable housing across the state. The state and federal government must complement reforms to planning mechanisms with increased investment in public housing and programs to deliver affordable housing on government land.

⁹ Inclusionary Housing website: <http://inclusionaryhousing.org/designing-a-policy/program-structure/linkage-fee-programs/commercial-linkage-fees/>

5. GOVERNANCE ARRANGEMENTS

It is important that any state affordable housing policy is complemented by structures which support best practice delivery.

Management and reporting structures

We recommend appropriate structures at the regional level are in place to manage both on-site and cash-in-lieu housing contributions at scale.

Establishment of a dedicated affordable housing agency in state government

We recommend that the state government consider establishing a dedicated affordable housing agency or extending the remit of the Department of Health and Human Services to be responsible for overseeing the governance of all affordable and social housing across the spectrum. This entity could be responsible for:

- Implementing policy reform.
- Registering and monitoring affordable housing dwellings that are proposed, under construction and delivered (this should include dwelling size, affordable housing type, tenure, subsidies, etc).
- Monitoring demand for affordable housing and/or provide a consistent methodology for local governments to assess at regular intervals.
- Preparing consistent guidelines and provide training on best practice outcomes for the integration of affordable housing within private developments (for example, cash-in-lieu versus on-site contributions, tenure blind, equitable access to communal facilities or open space, etc).
- Researching affordable housing models.
- Co-ordinating financial grants for affordable housing offered through government entities to streamline application process for local governments.

6. CONCLUSION

The City of Melbourne recommends mandatory inclusionary zoning requirements applied across the state with an option to provide cash in lieu contribution where direct provision of affordable housing is not appropriate. It is important that there is modelling to determine appropriate percentages to be applied in different locations across the state. Factoring in 250 affordable dwellings that could be provided through state and federal programs and demand increasing to 26,169 by 2036, this would leave a gap in supply of approximately 21,619 dwellings within the City of Melbourne.

Local governments should be given the ability to go higher than the State wide minimum in strategic locations and enable uplift in appropriate areas. These mechanisms will generate a consistent supply of affordable housing. In addition, we recommend modelling of the potential for inclusionary zoning to also be applied to commercial development to enable additional financial contributions for affordable housing.

A suite of measures are required to address the housing crisis. To be most effective, they must be complemented by measures at all levels of government. This should include direct investment, financial incentives such as tax concessions and subsidies, and governance arrangements which are holistic across the housing spectrum.

AFFORDABLE HOUSING ISSUES AND OPPORTUNITIES REPORT 2019





A CITY FOR PEOPLE

A city for people welcomes all. It is accessible, affordable, inclusive, safe and engaging. It promotes health and wellbeing, participation and social justice.

Acknowledgement of Traditional Owners

The City of Melbourne respectfully acknowledges the Traditional Owners of the land, the Boon Wurrung and Woiwurrung (Wurundjeri) people of the Kulin Nation and pays respect to their Elders, past and present.

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Cover Image: Ozanam House, MGS Architects photographed by Chris Matterson.

Disclaimer

This report is provided for information and it does not purport to be complete. While care has been taken to ensure the content in the report is accurate, we cannot guarantee it is without flaw of any kind. There may be errors and omissions or it may not be wholly appropriate for your particular purposes. In addition, the publication is a snapshot in time based on historic information which is liable to change. The City of Melbourne accepts no responsibility and disclaims all liability for any error, loss or other consequence which may arise from you relying on any information contained in this report.

GLOSSARY OF TERMS

Affordable rental housing: Rental housing which is affordable (within 30 per cent of income) for households on a moderate income or lower.

Community Housing: Housing owned or managed by community housing agencies for low income people, including those eligible for public housing. Community housing agencies are regulated by the Government.

Crisis accommodation / emergency shelters: Very short term accommodation, which includes additional support for the resident. It includes women's refuges, youth refuges and major crisis supported accommodation services.

First home buyers: A scheme that offers tax benefits on homeownership for eligible first home owners.

Floor Area Ratio (FAR): A measure representing the density of a building within a specified area of land (also known as a plot ratio). For example, if a site has an area of 1000 m², a FAR of 18:1 allows the construction of 18,000 m² of floor space.

Floor area uplift: is a common practice around the world to require public benefit when the floor area ratio exceeds the base level. The value of the extra floor area will be transparently calculated and the public benefits to be provided will be publicly reported.

Homelessness: The Australian Bureau of Statistics defines homelessness as a lack of one or more of the elements that represent 'home.' These elements may include a sense of security, stability, privacy, safety and the ability to control living space. When a person does not have suitable accommodation alternatives they are considered homeless if their current living arrangement:

- is in a dwelling that is inadequate, or
- has no tenure, or if their initial tenure is short and not extendable, or
- does not allow them to have control of, and access to, space for social relations.

The City of Melbourne also defines three categories of homelessness:

- **Primary homelessness:** People without conventional accommodation such as people living on the streets, sleeping in derelict buildings, or using cars for temporary shelter.
- **Secondary homelessness:** People who move frequently from one form of temporary shelter to another. This category covers people accommodated in homeless services, people residing temporarily with family and friends and those using rooming/boarding houses on an occasional basis.
- **Tertiary homelessness:** People who live in boarding/rooming houses on a medium to long-term basis. This type of accommodation typically does not have self-contained rooms and residents share bathroom and kitchen facilities. Rooming house residents do not have

the security of tenure provided by a lease.

Inclusionary Zoning: A mechanism designed to deliver affordable housing through the planning process. It refers to planning policy that requires the inclusion of an element of affordable housing within developments undertaken on sites within the inclusionary zone.

Intermediate housing: Housing that helps people into home ownership through initiatives such as shared equity schemes, when the government is repaid an amount if the home is sold (including share of increased value) to reinvest in affordable housing.

Key workers: There is no accepted definition of key workers in Victoria. It is a term that broadly implies occupations necessary to the efficient functioning of a city and communities, particularly service industry workers. Such occupations could include, for example, emergency workers, teachers, police, hospitality workers and cleaners. Unless early in their career, workers in several of these occupations are unlikely to earn below moderate income, particularly where they reside with another income earner.

Market ownership: Housing that is privately purchased.

Private rental housing: Housing that is available in the private rental market. It covers a range of housing types.

Public Housing: Housing owned and managed by the Director of Housing. This is provided to eligible disadvantaged Victorians including those unemployed, on low incomes, with a disability, with a mental illness or at risk of homelessness. Typically households with the highest need for housing assistance are accommodated in public housing. Rents are typically less than 25 per cent of the gross income of very low to low income households.

Rooming houses: A building where one or more rooms is available for occupancy by four or more people (in return for the payment of rent).

Rough sleeping: People living on the streets or in parks, or squatting in derelict buildings for temporary shelter.

Social housing: Social housing is an umbrella term that includes both public housing (government owned) and community housing (housing association owned). This is typically long-term accommodation involving some degree of subsidy. It is for people on low incomes, especially those who have recently experienced homelessness, family violence or have special needs.

Supported housing: Long-term accommodation for people with high needs for support / care (e.g. people with disability or elderly).

Transitional / temporary housing: Medium-term accommodation, which often includes support services for residents.

EXECUTIVE SUMMARY

City of Melbourne's Homes for People - Housing Strategy 2014-18 (the Strategy), established an aspiration for housing within the municipality to be affordable, well-designed and meet the diverse needs of residents. The Strategy includes an important goal to 'help provide at least 1721 affordable homes (subsidised) for low and moderate income earners by 2024.'

There have been several projects and policies introducing affordable housing since the implementation of the Strategy in 2014. However, there have been challenges in achieving the target of 1721 affordable homes and the target is unlikely to be met. The lack of consistent mechanisms and government funding to enable affordable housing are contributing factors.

This report summarises the Housing Needs Analysis by SGS Economics and Planning commissioned by the City of Melbourne. This report synthesises our research as follows.

- Section 1 introduces the project within the context of previous work by the City of Melbourne.
- Section 2 defines affordable housing.
- Section 3 provides an overview of the policy context and current initiatives.
- Section 4 establishes an evidence base of the current and future demand for affordable rental housing in our municipality, inner and metropolitan Melbourne. This identifies that there is a current need for at least 5500 affordable rental housing units. By 2036, there is estimated to be need for 23,200 affordable rental housing units.
- Section 5 identifies potential affordable housing targets to increase the supply of affordable dwellings within the municipality by 2036. The target development has included looking at precedents of 5 to 10 per cent of all new dwellings as affordable, up to a residual target of 20 per cent to fill the gap in supply provided by the state and federal governments. This shows a range of between 4400 and 22,950 affordable dwellings.
- Section 6 identifies potential options to enable greater provision of affordable housing. This includes regulatory mechanisms through the planning system, partnerships with other tiers of government, housing providers or developers, and investment by the City of Melbourne.
- Section 7 includes an analysis of the economic and social impacts of a policy intervention to introduce a mandatory affordable housing requirement. This finds that a mandatory affordable housing requirement of up to 10 per cent could be supported without detrimentally effecting housing supply. Additionally, over a 20 year period, a 10 per cent mandatory requirement would deliver a strong net benefit of 3:1 for the whole community. That is, community benefits valued at more than \$3 will be generated for every \$1 cost incurred.

The research in this report will inform the development of the City of Melbourne's Affordable Housing Strategy, in consultation with stakeholders and the community.

We are experiencing a shortage of appropriate and affordable accommodation in both the City of Melbourne, and throughout the state. As our population increases, it is anticipated that if there is no addition to affordable housing stock, the shortfall will continue to grow.

In the City of Melbourne

279
people are sleeping rough¹

1750
people are experiencing homelessness²

3950
households live in social housing²

At least 5500
additional affordable homes are needed now²

23,200
new affordable homes will be needed by 2036 if there is no additional provision²

In Victoria

82,000
people are on the public housing waiting list, including 25,000 children³

650
new social housing dwellings were built in 2017-18³

At least 1700
new social housing dwellings are needed per year to maintain existing share of 3.5 per cent of stock⁴

\$83
the amount per capita spent on social housing. Less than half of the national average of \$167⁵

¹ City of Melbourne, 2018, Streetcount

² SGS, 2019, City of Melbourne Housing Needs Analysis

³ Victorian Parliamentary Enquiry into the Public Housing Renewal Program, 2018

⁴ Dr Judy Yates, 2017, Victoria's Social Housing Supply Requirements to 2036

⁵ Australian Productivity Commission, 2019, Report on Government Spending

1. INTRODUCTION

Affordable housing is essential infrastructure for an inclusive and prosperous city.

1.1 Purpose of this report

This report summarises the Housing Needs Analysis conducted by the City of Melbourne.

The findings of this project will inform the development of the City of Melbourne's Affordable Housing Strategy, in consultation with stakeholders and the community.

1.2 Summary of work program

Review and broker affordable housing options to enable more affordable housing in the municipality (2017/18).

In 2018, the City of Melbourne prepared an internal options paper which included a range of policy, advocacy and internal opportunities the organisation could explore as a 'broker' of affordable housing. The paper was informed by extensive engagement with 31 organisations, including representatives from the development, community housing, and banking sectors as well as local and state government. One of the key insights was the need for a greater understanding of the municipality's population and housing needs to guide evidence-based policy on affordable housing, as well as provide clarity to developers and housing providers.

Undertake a housing capacity study and needs analysis to build the evidence base on emerging challenges in preparation for further work on affordable housing in the municipality (2018/19).

In 2018, the City of Melbourne engaged SGS Economics and Planning to conduct a Housing Needs Analysis. This research focuses on the need for affordable rental housing for very low, low and moderate income households.

The Housing Needs Analysis:

- Measures current and future demand for affordable rental housing in the City of Melbourne, inner Melbourne and metropolitan Melbourne.
- Analyses our role in supporting affordable housing.
- Identifies potential policy levers that could be applied.
- Establishes potential affordable housing targets.
- Includes economic analysis of property market impacts and cost benefit analysis of potential mandatory affordable housing requirements.

Appendix One provides an illustrated overview of the methodology of the Housing Needs Analysis.

Partner with the Victorian Government, other Councils and key stakeholders to progress affordable housing mechanisms and commence development of an affordable housing policy (2019/20).

The Housing Needs Analysis provides evidence of the current and future demand for affordable rental housing in the municipality and potential actions to help develop an Affordable Housing Strategy. To further understand key issues and opportunities, and progress development of an Affordable Housing Strategy, the City of Melbourne will continue to engage with local and state government, and stakeholders including property developers, land owners, affordable housing providers, housing researchers, housing industry groups, and the community.

1.3 Timeline of City of Melbourne housing policy development

2014



Homes for People - Housing Strategy 2014-18

This includes three goals: to help provide affordable housing, improve the design and environmental performance of apartments, and increase awareness of good housing outcomes.

Implementation

The strategy continues to be implemented, with the affordable housing goal progressed through integration in City of Melbourne redevelopment projects, and policy incentives and requirements in urban renewal precincts.

2017

Housing Strategy Progress Review (internal)

This identified there have been challenges meeting Goal One - to help provide at least 1721 new affordable homes by 2024. We are still working toward this goal.

2018



Broker affordable housing options (internal)

This presented a range of policy, advocacy and internal opportunities for the City of Melbourne to play a role as a 'broker' of affordable housing.

July 2019



Housing Needs Analysis

This measures current and future demand for affordable rental housing, identifies potential targets, analyses the impacts of policy intervention and identifies potential options to enable greater provision.

Late 2019

Engagement with housing industry and government

Engagement with stakeholders will assist with the development of the City of Melbourne's Affordable Housing Strategy.

Early 2020

Draft Affordable Housing Strategy

A draft affordable housing strategy will be prepared, building on the outcomes of this research and response to engagement with stakeholders.

Early 2020

Community engagement on Draft Affordable Housing Strategy

The draft affordable housing strategy will be released for community engagement.

Early 2020

Implementation planning workshops

A workshop will be held with housing industry and government decision makers to develop an implementation plan for the Affordable Housing Strategy.

Mid 2020

Final affordable housing strategy and implementation

The affordable housing strategy will be finalised incorporating outcomes of community and industry engagement.

2. UNDERSTANDING AFFORDABLE HOUSING

2.1 What is affordable housing?

The *Planning and Environment Act 1987* defines that “**affordable housing** is housing, including **social housing**, that is appropriate for the needs of very low, low, and moderate-income households.”

Social housing is defined in the *Housing Act 1983* as housing that is owned by the Director of Housing (public housing) as well as housing that is owned or managed by registered housing agencies (community housing).

Community housing providers are registered and regulated by the state government through a regulatory framework overseen and implemented by the Registrar of Housing.

The **income thresholds** for very low, low and moderate income households cited in the *Planning and Environment Act 1987* are established each year by order, published in the Government Gazette.

Social housing has its own set of income eligibility criteria, identified by the *Housing Act 1983*. The register has two categories:

- Priority access - in broad terms this may be for people who are homeless and receiving support, escaping or have escaped family violence, have a disability or significant support needs, or need to move for health reasons.
- Register of Interest - is for people who do not meet the Priority Access criteria but are seeking to live in social housing.

The research underpinning the Housing Needs Analysis used the income thresholds for affordable and social housing in Victoria for 2018 as shown in Figure 2.1. New income thresholds were introduced by Government Gazette on 6 June 2019, however these have not been incorporated into this report as they came into effect on 1 July 2019, after the analysis had been conducted.

Figure 2.1 - Income thresholds for eligibility for affordable and social housing in Victoria (2018)

	 Single adult	 Couple, no dependants	 Family (with one or two parents and dependant children)
ELIGIBILITY FOR AFFORDABLE HOUSING - PLANNING AND ENVIRONMENT ACT 1987 SPECIFICATION OF INCOME RANGES (ANNUAL) FOR GREATER CAPITAL CITY STATISTICAL AREA OF MELBOURNE¹			
Very low	<\$25,220	<\$37,820	<\$52,940
Low	<\$40,340	<\$60,520	<\$84,720
Moderate	<\$60,510	<\$90,770	<\$127,080
ELIGIBILITY FOR SOCIAL HOUSING - HOUSING ACT 1983 INCOME LIMITS²			
Priority access	<\$29,484	<\$51,012	<\$52,884 ³
Inclusion on general social housing wait list (register)	<\$52,728	<\$80,704	<\$108,784 ⁴

¹ Victorian Government Gazette No. 2 256 Friday 1 June 2018

² Housing Vic, 2019, Social housing eligibility, <https://housing.vic.gov.au/social-housing-eligibility>

³ Family (one or two parents) with one dependent child. For each additional dependant the threshold increases \$36 per week.

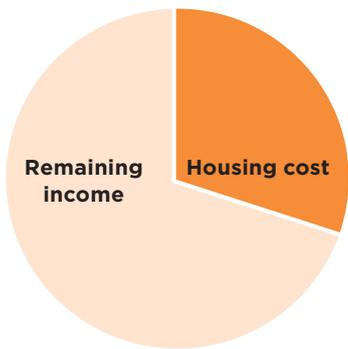
⁴ Family (one or two parents with up to two dependent children). For each additional dependant the threshold increases \$339 per week.

What is rental stress?

Rental stress occurs when a moderate or lower income household’s rental payments are so high that they sacrifice on life’s necessities such as food, healthcare or education.

Moderate stress

>30 per cent of income spent on rent



Severe stress

>50 per cent of income spent on rent

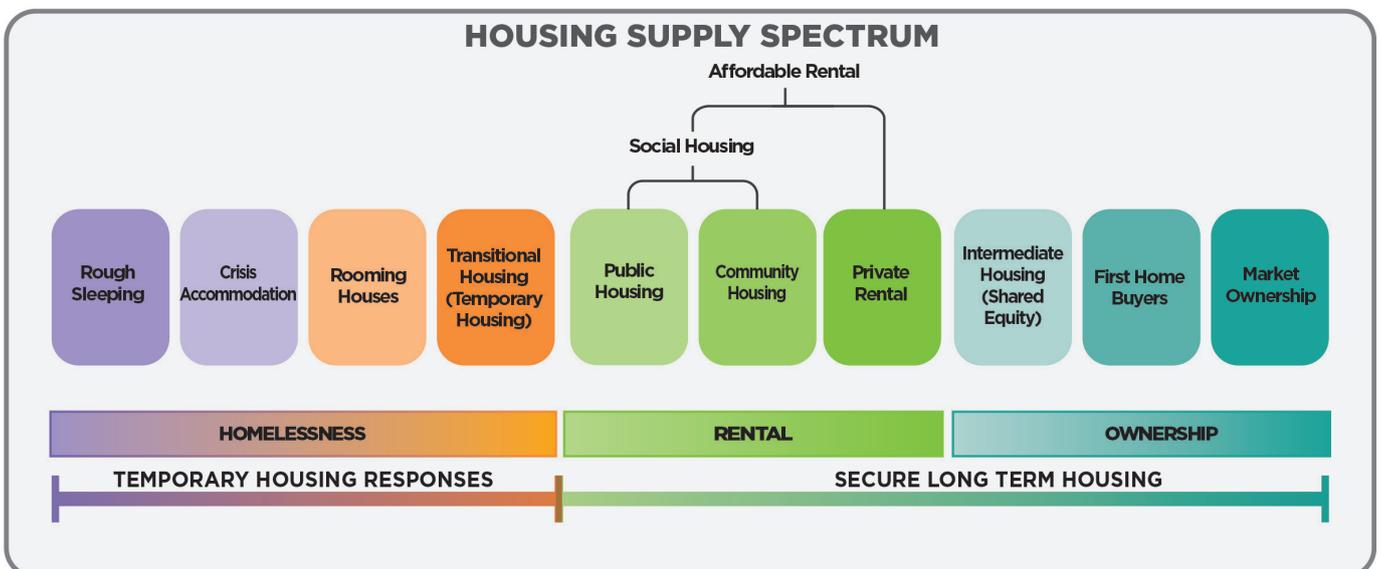


2.2 The Housing Supply Spectrum

The Housing Supply Spectrum (Figure 2.2) shows the range of housing choices available to people depending on their needs. Each type of housing includes different costs, subsidies, associated services and tenures.

A definition of each of the housing types on the Spectrum is included in the glossary of terms.

Figure 2.2 - The Housing Supply Spectrum, adapted by City of Melbourne



3. POLICY CONTEXT AND CURRENT INITIATIVES

3.1 Victorian Government policy



Plan Melbourne 2017-2050

Plan Melbourne identifies the need to increase the supply of affordable housing for Melbourne to remain liveable. A range of housing types need to be developed across Melbourne to improve local affordability for homeowners and renters. Reforms have included new planning provisions and tools to deliver social and affordable housing.

Planning and Environment Act 1987

Legislative amendments were introduced to the Planning and Environment Act in 2018 to extend the objectives to 'facilitate affordable housing supply' and introduce a definition of affordable housing (see Section 2.1).



Homes for Victorians, 2017

Homes for Victorians establishes the Victorian Government's response to the housing affordability crisis, providing \$2.6 billion to increase and renew public housing and address homelessness. It seeks to deliver 6000 new social housing homes, renew 2500 public housing residences and help 19,000 people who are homeless or at risk of homelessness.

The plan includes:

- \$1 billion for the Social Housing Growth Fund to increase social and affordable housing.
- \$1.1 billion in financial support for the social housing sector.
- \$185 million for the Public Housing Renewal Program.

These policies were accompanied by a template draft voluntary agreement (Section 173 Agreement) for affordable housing in planning applications. One of the initiatives includes a pilot to introduce inclusionary housing on surplus government land on six sites including one in Manningham Street, Parkville, in the City of Melbourne.



Victoria's 30-year Infrastructure Strategy, 2017

Infrastructure Victoria, the state's independent adviser, identifies 'investing in social housing and other forms of affordable housing for vulnerable Victorians to significantly increase supply' as one of the top three priorities for the state's infrastructure agenda.

It recommends that the Victorian Government:

- Provide an alternative statutory approvals process for affordable housing developments.
- Review planning provisions and implement inclusionary zoning and/or provide incentives to deliver affordable rental housing.
- Significantly increase the provision of social housing and support investment by the private sector in the provision of affordable private rental housing.

3.2 City of Melbourne policy

Future Melbourne 2026

As a city for people, Melbourne will prioritise affordable options for accommodation, food and services and support the homeless. As a prosperous city, Melbourne will champion philanthropy and the contribution of individuals and business to a strong, robust and equitable community.



Council Plan 2017-2021

As 'A City for People', the City of Melbourne strives for a city that 'is accessible, affordable, inclusive, safe and engaging.' The goal of 'A City Planning for Growth' seeks to 'guide and influence the future development of the city for the benefit of all users in a way that values and celebrates its historical and cultural identity.'



Homes for People - Housing Strategy (2014-18)

Homes for People outlined three goals and 11 actions which aimed to enable affordable and well-designed housing in the municipality. A key goal was to help provide at least 1721 homes for low and moderate income earners by 2024. This target was based on a calculation of 15 per cent of the forecast development in the municipality's urban renewal areas between 2016 and 2024. The strategy included an action that the City of Melbourne consider providing up to 15 per cent of dwellings constructed through the redevelopment of any land it owns as affordable housing to a Registered Housing Provider. The other goals were to improve the design and environmental performance of new apartments and to foster a high level of awareness and knowledge of good housing outcomes. A progress review conducted internally in 2017 found that City of Melbourne had made good progress against two of these goals, but there had been challenges in enabling the 1721 affordable homes, and we are still working towards this goal.



3.3 City of Melbourne collaborations

Affordable housing mechanism pilot - Inner Metro Partnership (IMP), 2019

The City of Melbourne, City of Port Phillip and City of Yarra have received \$50,000 funding from the Victorian Government to measure affordable housing need, and investigate and develop planning mechanisms which enable affordable housing in the Inner Metro Region. The project is anticipated to be completed in early 2020.

Private rental housing delivery model - Inner Melbourne Action Plan (IMAP), 2019

The City of Melbourne is partnering with the cities of Maribyrnong, Port Phillip, Stonnington and Yarra to investigate a delivery model for private market affordable rental housing as well as potential planning and financial incentives to increase private sector take-up of voluntary affordable housing agreements. This project will be delivered in late 2019.

National action on homelessness and housing affordability - Council of Capital City Lord Mayors

The Council of Capital City Lord Mayors hosted a crisis meeting with national experts from the housing sector, agreeing to call on the Prime Minister and Leader of the Opposition to commit to urgent action, to respond to rough sleeping on city streets and the develop a national housing plan. Lord Mayors and their respective cities agreed to work together to identify strategic sites which would benefit from national funding for crisis, social and affordable housing. On World Homeless Day, the Council of Capital City Lord Mayors hosted a homelessness and affordable housing roundtable in Melbourne to discuss national solutions to the problem.

Arden Urban Renewal Precinct - Victorian Planning Authority

The City of Melbourne is working with the Victorian Planning Authority to prepare a structure plan for the Arden Urban Renewal Precinct. This will include the development of a Social and Affordable Housing Strategy to help deliver Direction 4 in the Arden Vision 'Accommodating diverse communities'. This is anticipated to be delivered in September 2019.

Rough sleeping action plan

The City of Melbourne is collaborating with the corporate and property sector, philanthropists, charities and local governments to build more accommodation for the more than 300 people that sleep rough on the streets each night. The City of Melbourne is bringing together these groups to work collaboratively to identify and redevelop suitable buildings to deliver more beds and support services to help people sleeping rough find a pathway out of homelessness.

Inter-council affordable housing knowledge forum

In 2019, the City of Melbourne began hosting a bi-monthly inter-council affordable housing knowledge forum with representatives from approximately 20 Victorian local governments. Discussions at the forum have highlighted the volume of work and resources that local governments are committing to develop and implement a range of strategies that will address affordable housing issues.

The inter-council forum has identified four key priorities for collaboration:

- Advocate to the state government for a shared evidence base of affordable housing need across metropolitan Melbourne and a consistent methodology for assessment.
- Identify opportunities for the planning system to assist with the delivery of affordable housing.
- Advocate for a review of the lease and sale of Council land and property under the Local Government Act to enable affordable housing.
- Advocate for federal government tax incentives or funding to subsidise the expedited supply of affordable housing.

3.4 Delivery of affordable housing in the City of Melbourne

There are several projects and initiatives led by a range of entities in the City of Melbourne which are capable of the provision of affordable housing as shown in the map in Figure 3.1. These include leveraging affordable housing on publicly owned land, policy targets or requirements for particular precincts, and negotiations with private developers.

There are a variety of approaches, including floor area uplift mechanisms and percentages of dwellings required to be affordable in particular areas. There is no consistent approach to affordable housing targets or policies and their application across the municipality. This leads to an uncertain development environment for housing developers and providers creating challenges in creating a predictable pipeline of affordable housing. The approaches outlined below have thus far contributed to delivering approximately 116 affordable dwellings, with a further 72 approved and 40 proposed.

City of Melbourne owned land

Homes for People included an action that the City of Melbourne consider providing up to 15 per cent of dwellings constructed on any land we own as affordable housing to a Registered Housing Provider.

1 Munro site, Queen Victoria Market Precinct Renewal

The Munro site has been approved to include 54 affordable apartments (15 per cent of the total 362 apartments on the site). This includes 48 social housing dwellings to be managed by a Registered Housing Provider, and six accessible dwellings to be owned and managed by the Transport Accident Commission.

2 Boyd site, Southbank

The brief for the Boyd site in Southbank includes a requirement to provide at least 15 per cent of dwellings to be social housing (minimum of 40 dwellings).

Precincts

Several precincts include targets, incentives or requirements for the provision of affordable housing.

3 West Melbourne Structure Plan

Endorsed by the Future Melbourne Committee in February 2018, the West Melbourne Structure Plan proposes a minimum of six per cent affordable housing for three of the precincts within West Melbourne. The process encourages an open book approach if landowners suggest they cannot achieve the minimum amount. A panel hearing has occurred for the Planning Scheme Amendment 309, needed to give effect to the Structure Plan, is subject to a panel hearing in July 2019.

4 West Melbourne Waterfront

The property owner of the West Melbourne Waterfront requested Planning Scheme Amendment C221 to rezone the land to enable the development of residential and commercial uses. The Development Plan Overlay allows the potential to increase the maximum building height of 10 storeys up to 14 storeys if 15 per cent of the additional four storeys includes affordable housing.

5 Commonwealth Games Village

The 20.11 hectares Commonwealth Games Villages has been converted to residential use. The planning process gave the Minister for Planning the power to approve a master plan. The master plan identified dwellings to be allocated for social housing. There are now 82 affordable housing dwellings owned and managed by Registered Housing Association HousingFirst.

6 Amendment C270 - Central City Built Form Review

A Floor Area Ratio of 18:1 applies to the Hoddle Grid and Southbank. An applicant may apply for a Floor Area Uplift if there is a public benefit, such as open space, commercial office space, affordable housing or a competitive design process. To date, no affordable housing has been delivered through this mechanism.

7 Fishermans Bend - Lorimer Precinct

Amendment GC81 states that development in the Lorimer Precinct should provide at least six per cent of dwellings as affordable housing. In addition to this, a Social Housing Uplift scheme incentivises developers to deliver social housing in exchange for additional development yield at a rate of eight additional market value dwellings for every one social dwelling.

Victorian Government projects

Homes for Victorians (2017) includes the commitment to the renewal of ageing public housing in North Melbourne and an inclusionary housing pilot in Parkville.

8 Public Housing Renewal Program

The Victorian Government is redeveloping the North Melbourne public housing estate with MAB Corporation and community housing provider HousingFirst. The existing 112 public housing dwellings will be replaced with a mix of social, private and affordable housing with an increase of 10 per cent social housing dwellings on site.

9 Manningham Street, Parkville

An inclusionary zoning pilot on surplus government land in Parkville will deliver new social housing in partnership with a Registered Housing Association.

Private development

The inclusion of affordable housing in private development can be led by developers or the City of Melbourne is able to negotiate with developers to deliver affordable housing through planning applications by implementing Section 173 Agreements.

10 Assemble model, 383 Macaulay Road, Kensington

The planning permit issued for the development of 73 apartments in Kensington, includes a condition that the owner enter into an agreement with the City of Melbourne to provide rental discounts of at least 20 per cent for at least ten per cent of the dwellings for 'key workers' (with a moderate income range).

11 The Barnett model (formerly Melbourne Apartments Project), North Melbourne

This developer-led housing model includes 34 dwellings, 28 of which have been sold to former public housing tenants previously living within 4 km of the site through a shared-equity model.

Figure 3.1 - Map showing delivery of affordable housing in City of Melbourne



4. DEMAND FOR SOCIAL AND AFFORDABLE HOUSING

The analysis of current and future demand for affordable housing focused on rental housing using the 2018 income thresholds defined in the Planning and Environment Act 1987 (See Figure 2.1). The scope does not include mortgage stress or affordable home ownership because these issues require different policy responses.

A unit of 'demand' for social and affordable housing arises when a moderate or lower income household experiences rental stress, as defined in Section 2.1. Those experiencing homelessness and households already living in social housing are included in the calculation of overall demand. The measure of demand for affordable and social housing includes both households in permanent and temporary need.

4.1 Methodology

Using the Housing Assistance Demand (HAD) Model developed by SGS Economics and Planning, current (2016) and projected (2036) demand for social and affordable housing need has been calculated for the following regions:

- City of Melbourne
- Inner Metro Partnership (IMP) - cities of Melbourne, Port Phillip and Yarra
- Inner Melbourne Action Plan plus Moonee Valley (IMAP + MV) - cities of Melbourne, Port Phillip, Stonnington, Yarra and Maribyrnong, and of Moonee Valley
- Metropolitan Melbourne.

Figure 4.1 - Map showing IMP and IMAP + MV regions



4.2 Current demand (2016)

This section provides the key findings from the demand analysis for each region. Appendix Two includes detail regarding the household types requiring affordable housing.

City of Melbourne

Between 9450 and 20,300 households or 13 to 30 per cent of all households in the City of Melbourne are in need of housing assistance. With current supply of 3970 social and affordable dwellings, there is a shortfall of between 5500 and 16,300 affordable and social dwellings.

Tertiary students

Accurately determining which student households in the City of Melbourne are experiencing rental stress and require affordable housing is difficult. There are approximately 38,700 tertiary students living in the municipality, comprising 32 per cent of the resident population. While many households containing students experience rental stress, it is likely that not all are in need of housing assistance. The incomes of students may be supplemented by support from universities, family or from savings. Some students may choose temporary rental stress willingly while completing studies.

The lower estimate of total demand (9450) assumes that, for student households, only those containing children require housing assistance. Based on current supply, this means there is a shortfall of at least 5500 social and affordable housing dwellings in City of Melbourne.

Demand including all households

The upper estimate of 20,300 units is the total demand for social and affordable housing within City of Melbourne, including all student households experiencing rental stress. This reflects a current gap of 16,300 social and affordable housing dwellings.

Inner Melbourne

Twenty-four per cent of all households in the IMP region and twenty per cent of the IMAP + MV region are in need of housing assistance. The figures for inner Melbourne are useful for guiding partnerships, shared advocacy and policy responses. In the IMP region, there is a shortfall of 29,500 affordable and social housing dwellings, compared to 44,750 for the IMAP + MV region.

Metropolitan Melbourne

In metropolitan Melbourne, 231,250 households are currently in need of affordable and social housing. There is a gap of 182,250 affordable and social homes in current supply. Thirteen per cent of all households are in need of affordable and social housing.

City of Melbourne

People experiencing homelessness
279 people are sleeping rough¹ **1750** people are experiencing homelessness²

Total households in need of affordable housing
9450 excluding tertiary students without children **20,300** including all households experiencing rental stress

Households living in social housing
3950

Shortfall in affordable and social housing
5500 excluding tertiary students without children **16,300** including all households

Inner Melbourne Action Plan + Moonee Valley region

People experiencing homelessness
5200

Total households in need of affordable housing
62,350 **20 per cent**

Households living in social housing
17,550

Shortfall in affordable and social housing
44,750

Inner Metro Partnership region

People experiencing homelessness
3950

Total households in need of affordable housing
41,000 **24 per cent** of all households

Households living in social housing
11,550

Shortfall in affordable and social housing
29,500

Metropolitan Melbourne

People experiencing homelessness
20,450

Total households in need of affordable housing
231,250 **13 per cent** of all households

Households living in social housing
49,000

Shortfall in affordable and social housing
182,250

4.3 Projected demand (2036)

Future need will be affected by property market and employment trends, and patterns of income growth. This section provides the key findings from the demand analysis for each region. Appendix Two includes detail regarding the household types requiring affordable housing.

City of Melbourne

By 2036, it is estimated that there will be demand for a total of 338,000 social and affordable housing units across metropolitan Melbourne, reflecting an increase of 106,800 affordable dwellings. The demand for 106,800 social and affordable dwellings could be accommodated across metropolitan Melbourne in a range of ways. Four different scenarios for distributing future demand in the City of Melbourne were modelled by SGS Economics and Planning in the Housing Needs Analysis. The City of Melbourne is using Scenario 3 to reflect projected demand by 2036.

Scenario 1 - Household (total) weighted distribution

This allocates future demand for social and affordable housing in proportion with the current number of households across the municipalities of Melbourne. This results in the City of Melbourne accommodating 6.2 per cent of metropolitan demand. This represents a 'fair share' scenario.

Scenario 2 - Household (by type) weighted distribution

Scenario 2 refines the method used in Scenario 1. In Scenario 1, the City of Casey has the greatest share of households in 2036, which are primarily family households. As lone person households form the greatest share of demand for social and affordable housing across metropolitan Melbourne, it would result in the City of Casey being allocated an inappropriately large amount of lone person household demand. In Scenario 2, the demand for each household type is distributed in alignment with the number of households of that type across the municipalities of Melbourne. This still represents a 'fair share' scenario but avoids the misalignment of household types that occurs in scenario 1.

Scenario 3 - Household weighted distribution in accessible locations (adopted scenario)

This excludes the least accessible parts of metropolitan Melbourne from the distribution. This scenario assumes that the future demand for social and affordable housing will be excluded from areas of Melbourne which have a poor level of accessibility to jobs and services. This is achieved using a measure known as effective job density (EJD). In Scenario 3, the geographic scope for allocating demand is restricted by excluding areas which have an EJD in the lowest quartile. Demand for social and affordable housing is allocated based on the relative quantum of households (i.e. all households, regardless of whether they require affordable housing) within this area.

Scenario 4 - Key worker adjusted distribution

This scenario allocates demand in a manner which prioritises the needs of Key Workers. It attempts to predict the demand for social and affordable housing spatially to align with the workplaces of Key Workers.

Key findings

The City of Melbourne is forecast to have an additional 192,700 residents or 88,100 households between 2016 and 2036, resulting in a total of 340,700 people and 156,700 households in 2036 (see Figure 5.1).

As shown in the table to the right, it is estimated that if there is no addition to the City of Melbourne's social and affordable housing stock, the shortfall will grow to between 16,900 and 29,700 dwellings by 2036 depending on the share of metropolitan growth in affordable housing need assigned to the municipality. To meet this projected demand, between 13.3 per cent and 21.5 per cent of the City of Melbourne's total dwelling stock in 2036 would need to be affordable rental housing. At present, affordable and social rental housing represents less than 6 per cent of all housing in the City of Melbourne.

Scenario 1 results in demand for 20,850 social and affordable housing dwellings, or 13.3 per cent of the total dwelling stock in the City of Melbourne by 2036. This reflects a current gap in supply of 16,900 social and affordable dwellings.

Scenario 2 results in demand for 26,000 social and affordable housing dwellings, or 16.6 per cent of the total dwelling stock in the City of Melbourne by 2036. This reflects a current gap in supply of 22,050 social and affordable dwellings.

Scenario 3 (adopted scenario) results in higher demand within the City of Melbourne, and lower demand within most Growth Area municipalities. In this scenario, there will be demand for 30,150 social and affordable housing dwellings, or 19.2 per cent of total dwelling stock in the City of Melbourne by 2036. This reflects a current gap in supply of 26,200 social and affordable dwellings.

Scenario 4 results in demand for almost 33,650 social and affordable housing dwellings, or 21.5 per cent of total dwelling stock in the City of Melbourne by 2036. This is the highest across the four scenarios. This reflects a current gap in supply of 29,700 social and affordable dwellings. This includes the need for 7850 affordable housing units for key workers.

In all scenarios, over 50 per cent of the demand for affordable dwellings is from lone person households. This is a result of the relatively high share of lone person households forecast within the municipality. Group households also form a large component. While households with dependents form a relatively small share of demand, between 2500 and 6000 households, they will likely require a larger subsidy due to their dwelling requirements and the expenses of dependents. Very low income households comprise the largest component of demand across all four scenarios. For City of Melbourne to provide for households with a disability at the same rate as the metropolitan average, approximately 1650 to 2400 dwellings will be required by 2036. Over 70 per cent of these will be for lone person households. These households may require dwellings with special design attributes.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
City of Melbourne				
Total households in need of affordable housing	20,850	26,000	30,150	33,650
Demand share of total households	13.3 per cent	16.6 per cent	19.2 per cent	21.5 per cent
Shortfall in affordable and social housing	16,900	22,050	26,200	29,700
IMP region				
Total households in need of affordable housing	39,450	48,500	56,200	59,150
Demand share of total households	13.3 per cent	16.4 per cent	19 per cent	20 per cent
Shortfall in affordable and social housing	27,900	36,950	44,650	47,600
IMAP + MV region				
Total households in need of affordable housing	64,500	75,700	88,300	89,800
Demand share of total households	13.3 per cent	15.6 per cent	18.2 per cent	18.5 per cent
Shortfall in affordable and social housing	46,900	58,150	70,750	72,250
Metropolitan Melbourne				
Total households in need of affordable housing	338,050			
Demand share of total households	13.3 per cent			
Shortfall in affordable and social housing	289,000			

Scenario 3 has been adopted for projecting future demand. The rationale for applying this scenario is that it excludes areas of Melbourne which have poor accessibility to jobs and services. SGS Economics and Planning applies a 10 per cent discount to account for those only temporarily in housing stress, establishing demand for 27,150 dwellings and a gap of 23,200 accounting for existing supply. Page 18 (1. Residual target) includes further refinement of the demand analysis accounting for anticipated supply by current state and federal government programs.

Inner Melbourne

13.3 to 20 per cent of all households in the IMP region and 13.3 to 18.5 per cent of the IMAP + MV region are in need of housing assistance. Very low income households comprise the largest component of demand across all scenarios.

Metropolitan Melbourne

Metropolitan Melbourne is expected to grow by almost 770,000 households between 2016 and 2036. Assuming no changes to the existing market structure, such as the distribution of incomes and rents and the efficiency of matching between rental properties with households, demand for social and affordable housing will grow by 106,800 over the 20-year period. This will represent 13.3 per cent of all households by 2036.

The greatest demand will be from lone person households and those on very low incomes.

It is estimated that there will be 27,800 households with people with special needs due to a disability or mental health condition. These households are more likely to require greater access to health services, public transport and may require specialist dwelling forms. This figure does not include all households with a member who has a disability, but the groups that are most vulnerable to homelessness or in need of housing support with special considerations.

5. POTENTIAL CITY OF MELBOURNE TARGETS

As established in Section 4.3, the City of Melbourne’s shortfall in social and affordable housing will grow to between 16,900 and 29,700 dwellings by 2036 if there is no additional supply. To meet the municipality’s projected demand, between 13.3 per cent and 21.5 per cent of the municipality’s total dwelling stock in 2036 would need to be affordable rental housing. Currently, affordable and social rental housing represents less than 6 per cent of all housing in the City of Melbourne.

It is forecast that there will be an additional 192,700 people, or 88,100 households in the City of Melbourne between 2016 and 2036. Between 2014 and 2018, there were an average of 5950 dwellings constructed per year.

Establishing an ambitious and achievable target

A target for affordable housing delivered by 2036 can be set in one of two ways:

1. Residual target

Supplying the gap of affordable housing dwellings delivered by state and federal government

Based on current policy, it is anticipated that state and federal governments will contribute approximately 250 new social and affordable dwellings by 2036. This is an incredibly small amount compared to projected demand. A residual target would mean the City of Melbourne would fill the gap in provision. The residual approach would leave the City of Melbourne with a very high target of 22,950 additional social and affordable housing dwellings by 2036. This figure presents an ambitious target of 26 per cent of all new dwellings in the municipality. To meet the demand-based target, one in every four new dwellings provided would need to be social or affordable housing. This is an unprecedented rate in the Australian context and high by international standards.

The residual target of 22,950 was established by using the projected figure of 30,150 from Scenario 3 (discussed in Section 4.3). A nominal discount of 10 per cent was applied to factor in households that meet the technical definition of housing stress but do not require a social and affordable housing response (as they may be students, holiday makers, etc). Existing and projected future affordable and social housing supply was then subtracted. This includes 3950 existing, and an estimated 250 new social and affordable dwellings to be provided by state and federal governments based on current programs.

Figure 5.1 - Population, households and dwellings forecast for the City of Melbourne (2016 - 2036)

Year	Residents	Households	Dwellings
2016	148,000	68,600	75,900
2036	340,700	156,700	179,200
Increase	192,700	88,100	103,300

Source: .id, City of Melbourne population forecast, February 2019.

2. Precedent target (preferred)

An extrapolation of precedents from other local government policies

Precedent target

There are a range of affordable housing targets included in aspirational policies, planning policies and site specific planning negotiations in other Australian local governments. While examples range from 0.4 to 20 per cent, they tend to be in the order of 5 per cent to 10 per cent of all dwellings.

As shown in Figure 5.2, a target of:

- 5 per cent would aim to deliver 4400 dwellings.
- 7 per cent would aim to deliver 6600 dwellings.
- 10 per cent would aim to deliver 8800 dwellings.
- 5.8 per cent would maintain the 2016 level of social housing provision as a proportion of total dwellings by 2036, and would aim to deliver 5100 dwellings.

In meeting these targets, it is important to recognise that there will be a potential delay in any planning policy coming into effect of between 12 to 24 months. Once in effect, planning applications assessed under the policy may take some time to be approved and delivered which may take another two years. Assuming an affordable housing provision rate of 10 per cent and a policy ramp up period that sees this policy taking effect in 2021, it is estimated that City of Melbourne could deliver in the order of 4300 affordable dwellings via an inclusionary approach. The balance of the 8,800 additional dwellings might be met via floor area uplift mechanisms, direct investment or through Registered Housing Associations leveraging gifted stock to acquire additional dwellings.

Figure 5.2 - Potential affordable housing targets and examples

Potential target*	Dwelling target by 2036	Average number of dwellings / year	Rationale / example
5%	4400	260	Affordable housing rate requirement for Altona North precinct in Hobsons Bay City Council (Amendment C88).
5.8%	5100	300	Maintain the 2016 proportion of social housing in City of Melbourne.
7.5%	6600	400	City of Port Phillip 7.5 per cent target of affordable housing. Sustainable Sydney 2030 7.5 per cent target for all housing in the city to be affordable housing.
10%	8800	500	8-10 per cent target of affordable or public rental housing applied in Ultimo Pyrmont, Sydney.
26%	22,950	1350	Residual target (gap between total demand for affordable housing in City of Melbourne and contribution of other governments).

6. OPTIONS TO ENABLE AFFORDABLE HOUSING PROVISION IN THE CITY OF MELBOURNE

6.1 Potential roles

There are many forces and institutions affecting housing affordability in the municipality which are beyond the influence of the City of Melbourne. These relate to general economic conditions across the state and nation and the dynamics of the housing cycle.

However, we play an important role in supporting the delivery of housing. City of Melbourne can have a significant impact on affordable housing supply in its own right or through partnership with other local governments, institutions and the private sector. The potential contribution of City of Melbourne to local housing affordability and affordable housing outcomes is categorised into three tiers. Tier 1 represents the lowest level of commitment to providing affordable housing, Tier 3 the highest. The City of Melbourne can act across multiple tiers to enable the provision of affordable housing. Where the City of Melbourne focuses efforts across these tiers will be addressed through the development of the affordable housing policy.

Tier 1 - Facilitating efficient housing markets

Tier 1 relates to running an efficient planning and development control system so that the supply side of the market can respond as smoothly as possible to local demand. If City of Melbourne confines itself to this tier, it would be taking an entirely 'hands off' role in the provision of affordable housing, seeing this as exclusively the role of state and commonwealth governments. Examples of actions across Tier 1 include:

- Ensuring adequate land supply and availability
- Implementing planning policies and strategies
- Development approvals processes
- Provision of infrastructure
- Dissemination of information.

Tier 2 - Facilitating affordable housing supply

Tier 2 would see the City of Melbourne going further in policy efforts by facilitating local affordable housing supply. This could include partnerships with local providers and community-based groups, as well as applying its regulatory powers to induce affordable housing provision by others, including applicants for permits. Activity in this tier would see the City of Melbourne take a strong advocacy position in favour of social and affordable housing backed by a well-articulated policy and strategy. Examples of actions across Tier 2 include:

- Implementing policies and strategies
- Community engagement and leadership
- Housing partnerships
- Development contributions or mandatory requirements for affordable housing.

Tier 3 - Investing in affordable housing

Tier 3 would see the City of Melbourne becoming a direct agent of affordable housing supply, investing ratepayer funds and other assets. Examples of actions across Tier 3 include:

- Establishing a housing trust
- Ad hoc joint ventures
- Equity investment in housing associations.

6.2 Potential policy levers

Depending on how the City of Melbourne wishes to act across the three tiers, and the household types that it wishes to assist, there are a wide range of levers that can be applied to achieve affordable housing outcomes. These broadly fall into three overlapping categories - Regulation, Partnership and Investment.

An overview of potential levers that the City of Melbourne could apply is shown in Figure 6.1. These can be applied in various combinations. Further details regarding each of these options and their impact is shown in Figure 6.2. A matrix showing the likelihood of successful implementation of these mechanisms is included in Appendix Three.

Regulation interventions include various mechanisms available to City of Melbourne under the Planning and Environment Act 1987. These include both voluntary and quasi-mandatory arrangements whereby proponents provide affordable housing dwellings or cash in lieu. Council routinely applies its planning (regulatory) function in the maintenance of an efficient local housing market by ensuring that there are no undue constraints on the generation of supply.

Partnership interventions include City of Melbourne working with private or community sector proponents to help them achieve affordable housing outcomes. Examples include brokerage of partnerships between corporate developers and registered housing providers, assisting private sector proponents to trial or demonstrate projects which improve affordability, or working with the Victorian Government to increase yield from public housing assets.

Investment interventions include the City of Melbourne applying its own assets - either cash, land or underwriting capacity - to directly generate an expansion of social and affordable housing in the municipality. Providing relief from rates is another form of ratepayer investment in affordable and social housing.

Figure 6.1: Potential levers and mechanisms

Regulation	Partnership	Investment
Ad hoc voluntary agreements at planning permit stage enforced via Section 173 of the Planning and Environment Act 1987	Facilitated redevelopment of (state) public housing assets	Vesting of City of Melbourne land and buildings for affordable housing
Voluntary Section 173 agreements at planning permit stage backed by strategic policy built into the Melbourne Planning Scheme	Facilitation of innovative affordable housing product - Build to Rent	Provision of an annual or one off cash investment in affordable housing provision
Mandatory inclusionary requirements at planning permit stage	Facilitation of innovative affordable housing product - Rental housing on Community Land Trust sites	Waiver of rates and charges to support social and affordable housing projects
Floor area uplift in return for provision of affordable housing (value capture)	Information and brokerage to connect developers to registered social housing providers	Establishment of a Trust to receive and deploy affordable housing contributions and City of Melbourne cash investments
Uniform value capture provisions incorporated into a Planning Scheme Amendment		
Planning waivers and concessions in return for provision of affordable and social housing		

Figure 6.2: Potential levers and mechanisms

Regulation			
	Mechanism	Benefits	Challenges/limitations
1	<p>Ad hoc voluntary (s173) agreements at Planning Permit stage</p> <p><i>A voluntary legal agreement between a proponent and permit issuing authority about any lawful matter, including affordable housing.</i></p>	<ul style="list-style-type: none"> Available under current legislation. Development sector improved understanding of City of Melbourne requirements. 	<ul style="list-style-type: none"> Resource intensive. Customised case by case agreements. Only enforced if the proponent agrees. Unlikely to survive if challenged at VCAT.
2	<p>Voluntaries (s173) agreements at Planning Permit stage backed by a strategic policy in the Melbourne Planning Scheme</p> <p><i>As above but backed by a strategic policy in Melbourne Planning Scheme to prevent challenge at VCAT.</i></p>	<ul style="list-style-type: none"> Provides a stronger case to seek developer agreement. Planning permit conditions likely to be more robust if challenged at VCAT. Requirements of developers can be 'codified' and telegraphed, thereby reducing transaction costs. 	<ul style="list-style-type: none"> Only enforced if the proponent agrees.
3	<p>Mandatory inclusionary requirements at Planning Permit stage</p> <p><i>A land use planning intervention that mandates or incentivises a proportion of a residential development to include a number of affordable housing dwellings.</i></p>	<ul style="list-style-type: none"> Immune from appeal at VCAT. Provides greater clarity and certainty to developers of requirements in advance of site purchase, reducing transaction costs. Delivers a more predictable flow of affordable housing. 	<ul style="list-style-type: none"> Not legislated in Victoria.
4	<p>Floor area uplift in return for social and affordable housing (value capture)</p> <p><i>A planning mechanisms which offers proponents the option of providing affordable housing in exchange for additional development rights.</i></p>	<ul style="list-style-type: none"> Principle of public benefit in return for floor area uplift is embedded in the Melbourne Planning Scheme via Am C270 Central City Built Form Controls. There is potential to extend the model to other growth areas in the city and include a more ambitious value capture regime. 	<ul style="list-style-type: none"> Am C270 is complex in incentivising the provision of affordable housing. The equivalent Fishermans Bend scheme is simpler but less flexible.
5	<p>Uniform value capture provisions incorporated into Planning Scheme Amendment</p> <p><i>A planning mechanisms applied when land is rezoned to require a proportion of affordable housing.</i></p>	<ul style="list-style-type: none"> Requires a substantial contribution for public benefit, including affordable housing, when land is being re-zoned. There are several examples across Melbourne where this has been attempted. 	<ul style="list-style-type: none"> Land traders factor in a speculated value uplift into their transactions and this may impact support for value sharing.
6	<p>Planning waivers and concessions in return for provision of affordable and social housing</p> <p><i>City of Melbourne offering proponents cost or time saving benefits such as car parking requirements, rebates on development contributions or fast tracking.</i></p>	<ul style="list-style-type: none"> Has a long history of practice across Victoria / Australia. 	<ul style="list-style-type: none"> Conceptually flawed in that some public benefits are sacrificed to achieve another (social and affordable housing).

Potential scale of impact	Potential households assisted	Implementation	Example
Small.	Across the housing spectrum.	Already implemented. Council is already negotiating affordable housing contributions on an ad hoc basis.	S173 agreement for seven dwellings for key workers at 383 Macaulay Road, Kensington.
Moderate.	Across the housing spectrum.	Immediate. Potential to use the model established in Fishermans Bend.	Fishermans Bend 6 per cent affordable housing target.
Moderate - High.	Across the housing spectrum.	Not currently available. Requires advocacy to State Government to introduce new mechanism to planning system.	Ultimo Pyrmont Affordable Housing Scheme in NSW.
Low. Am C270 has not yet delivered any social housing after two years.	Across the housing spectrum.	Immediate. Potential to use established models which can be recalibrated to improve social and affordable housing yield.	Am C270 Melbourne Planning Scheme. Fishermans Bend Social Housing for Floor Area Uplift Scheme.
High for any given site.	Across the housing spectrum.	Arden Macaulay could produce significant social and affordable housing under this mechanism.	Am C088 Hobsons Bay Planning Scheme
Low. Likely to be erratic.	Across the housing spectrum.	Immediate.	Waivers of parking requirements where there is discretion under the Planning Scheme.

Figure 6.2 (continued): Potential levers and mechanisms

Partnership			
	Mechanism	Benefits	Challenges/limitations
7	Facilitated redevelopment of (state) public housing assets.	<ul style="list-style-type: none"> There are some significant Director of Housing holdings in the City of Melbourne which may be able to support a higher number of dwellings. 	<ul style="list-style-type: none"> There are a limited number of State Government public housing sites to generate additional housing in the municipality.
8	Facilitation of innovative affordable housing product - build to rent.	<ul style="list-style-type: none"> There is latent private sector interest in build to rent. 	<ul style="list-style-type: none"> The level of subsidy required to induce build to rent is unclear.
9	Facilitation of innovative affordable housing product - rental housing on Community Land Trust sites.	<ul style="list-style-type: none"> Lessons from many examples of this approach in other jurisdictions. 	<ul style="list-style-type: none"> Labor intensive. Each project likely to require a customised agreement.
10	Information and brokerage to connect developers to registered social housing providers.	<ul style="list-style-type: none"> A low risk / low cost option for City of Melbourne. 	<ul style="list-style-type: none"> By itself, this approach could be seen as tokenistic.
Investment			
11	Vesting of City of Melbourne land and buildings for affordable housing.	<ul style="list-style-type: none"> Tangible evidence of City of Melbourne commitment to boosting affordable housing. 	<ul style="list-style-type: none"> Likely to be administratively costly, requiring considerable investment in project management.
12	Provision of an annual or one off cash investment in affordable housing provision.	<ul style="list-style-type: none"> Opportunity to leverage City of Melbourne cash flows via housing agency borrowings. Administratively less onerous than land dedications. 	<ul style="list-style-type: none"> City of Melbourne would need to gauge ratepayer appetite for such a scheme.
13	Waiver of rates and charges to support social and affordable housing projects.	<ul style="list-style-type: none"> Administratively simple. City of Melbourne has a rates discount scheme in place for affordable housing. 	<ul style="list-style-type: none"> Hidden subsidy - less accountable.
14	Establishment of a Trust to receive and deploy affordable housing contributions and City of Melbourne cash investments.	<ul style="list-style-type: none"> Tangible evidence of City of Melbourne commitment to boosting affordable housing. 	<ul style="list-style-type: none"> Could be seen to be duplicating other instruments already available for funds pooling (e.g. the trusts set up by other relevant agencies).

Potential scale of impact	Potential households assisted	Implementation	Example
Low - moderate overall. High for individual sites.	Very low income households.	Requires a partnership with the State Government.	
High. If institutional investment in built to rent is mobilised via tax breaks and other subsidies.	Moderate income households.	In principal, no impediment to immediate implementation. City of Melbourne could improve viability by advocating for new definitions and zonings for this use, thereby implicitly reducing land values.	Rent-to-buy model approved at 383 Macaulay Road, Kensington which includes seven dwellings for key workers.
Very low.	Across the housing spectrum.	In principal, no impediment to immediate implementation.	
Very low.	Low income households.	In principal, no impediment to immediate implementation.	
Low.	Across the housing spectrum.	Immediate.	City of Port Phillip involvement in provision of social housing (1985-2006).
Low.	Very low income households and homeless.	Immediate.	City of Port Phillip 'In Our Backyard' policy
Low.	Very low income households and homeless.	In principal, no impediment to immediate implementation.	City of Melbourne rates rebate for new affordable housing of 35 per cent.
The Trust itself would not generate housing.	Across the housing spectrum.	In principal, no impediment to immediate implementation other than time required to set up.	Established at cities of Port Phillip, Moreland and Hobsons Bay.

7. DEVELOPING AN ECONOMIC CASE FOR INTERVENTION

The Housing Needs Analysis assesses the market impacts if City of Melbourne were to introduce mandatory requirements for social and affordable housing. It investigates whether any costs generated by these interventions are outweighed by positive impacts leading to a net community benefit. Appendix Four includes further information about the methodology.

7.1 Property market impacts of inclusionary requirements

Assuming the City of Melbourne had a means of enforcing affordable housing contributions via the planning system, and that it chooses to apply such a tool, the level of impact on the local property market would depend on the scale of the mandatory requirement (see Figure 7.1).

SGS Economics and Planning concluded that **a mandatory requirement of up to 10 per cent could be supported without detrimentally effecting housing supply** adequate to accommodate projected population growth in the City of Melbourne.

While some landowners will suffer a loss of value in their property, **mandatory requirements would deliver a strong net benefit of 3:1 for the whole community**, as outlined in Section 7.2.

Findings

Capacity for housing on available sites

Based on City of Melbourne's current capacity data, criteria and density assumptions, there is capacity for a maximum of 175,950 new dwellings in the municipality on 1350 sites.

Feasibility of residential development on available sites

Preliminary modelling suggests that development of 500 sites would be commercially feasible. These sites would host 116,500 dwellings. This is considered the base case.

Impact of affordable housing requirements

Figure 5.1 shows that an affordable housing requirement of:

- 5 per cent reduces the number of feasible sites to 450 (9 per cent reduction) and feasible dwellings to 109,650 (6 per cent reduction).
- 10 per cent reduces the number of feasible sites to 400 (18 per cent reduction) and feasible dwellings to 103,400 (11 per cent reduction).

Higher affordable housing requirements will have a greater impact on feasibility and more widespread property market impacts, as demonstrated by 20 per cent affordable housing requirement (see Figure 7.1).

Figure 7.1 - Impact of affordable housing requirements (AHR) on feasible development sites and dwellings

	Sites			Dwellings		
Available sites and estimated dwelling capacity	1337			175,940		
Feasible sites - Base case (no affordable housing requirement)	494			116,481		
	Feasible sites with AHR	Reduction in feasible sites due to AHR	Percentage reduction in feasible sites due to AHR	Feasible dwellings with AHR	Reduction in feasible dwellings with AHR	Reduction in feasible dwellings due to AHR
Impact of 5 per cent affordable housing requirement	451	43	9 per cent	109,636	6844	6 per cent
Impact of 10 per cent affordable housing requirement	404	90	18 per cent	103,381	13,100	11 per cent
Impact of 20 per cent affordable housing requirement	229	265	54 per cent	75,121	41,360	36 per cent

Source: SGS, 2019, Housing Needs Analysis and City of Melbourne residential capacity data, 2018. Note dwelling counts differ to City of Melbourne figures due to the global application of 75 per cent efficiency rate (gross net floor space).

7.2 Cost benefit analysis of mandatory affordable housing requirements

SGS Economics and Planning performed an economic evaluation of mandatory inclusionary affordable housing. This is on a per dwelling basis, using conventional cost benefit analysis as prescribed in the State Government state public finance guidelines.

Findings

Over 20 years and using a commercial discount rate of 7 per cent, the analysis returned a benefit cost ratio of more than 3:1. That is, **community benefits valued at more than \$3 were generated for each \$1 of cost incurred by all parties in the implementation of mandatory inclusionary requirements.**

In this sense, this intervention is economically warranted.

A conservative scenario, under which the largest benefits which stem from key worker retention and educational benefits are excluded, results in a benefit cost ratio of 1.74, which still represents a net positive economic and community outcome for Victoria.

On the cost side, the analysis considered dwelling construction costs, maintenance and operating costs, and reduction in Residual Land Value.

The offsetting benefits included:

- Health cost savings.
- Reduced domestic violence.
- Reduced costs of crime.
- Enhanced human capital.
- Worker retention
- Educational benefits.
- Improved community pride and social justice.
- Retained cultural value.
- Enhanced social capital.
- The gain in housing services.

Figure 7.2 provides a summary of these monetised benefits.

Figure 7.2 - Summary of monetised benefits of affordable housing (per household per annum)

Group	Health cost savings	Reduced domestic violence	Reduced crime costs	Enhanced human capital	Key worker retention	Educational benefits	Total benefit	Gain in housing services ¹
Typical household	\$2253	\$935		\$3169	\$6323	\$4719	\$17,400	Transfer
Homeless	\$8590	\$6334	\$6379	\$437			\$19,645	\$589,000
Indigenous household	\$2253	\$3181		\$3169	\$6323	\$4719	\$18,489	Transfer
Lone parent (employed full time) with child in housing stress	\$2253	\$935		\$3169	\$6323	\$5808	\$3350	Transfer
High service-use household (pensioner or person with a disability)	\$1479	\$1871					\$12,681	Transfer
Single person household (part-time worker / unemployed or underemployed)	\$2253	\$935		\$3169	\$6323		\$21,740	Transfer
Creative worker	\$2253	\$935		\$3169			\$6358	Transfer

Source: SGS, 2019, Housing Needs Analysis.

¹ Gain in housing services is given in net present value terms, not annual benefit

8. CONCLUSION

The research conducted as part of the Housing Needs Analysis provides an evidence base of current and projected need for affordable housing. The Housing Needs Analysis conducted by SGS Economics and Planning highlights that there is a current need of at least 5500 affordable dwellings. By 2036, there will be need for 23,200 affordable dwellings applying scenario 3 and the anticipated supply from current state and federal government policy and programs.

This research presents a range of potential targets for affordable housing within the municipality, in addition to opportunities for the City of Melbourne to enable greater provision of affordable housing through regulation, partnerships or investment.

This research provides the foundation to inform the preparation of an affordable housing strategy, working in consultation with the Victorian Government, other Councils and key stakeholders. A draft affordable housing strategy will be made available for public consultation in early 2020.

9. APPENDIX ONE - HOUSING NEEDS ANALYSIS METHODOLOGY SUMMARY

Figure 9.1 shows the methodology used by SGS Economics and Planning to conduct the Housing Needs Analysis. This includes an assessment of demand for affordable housing, identification of potential targets, and an assessment of economic and social impacts of introducing mandatory requirements.

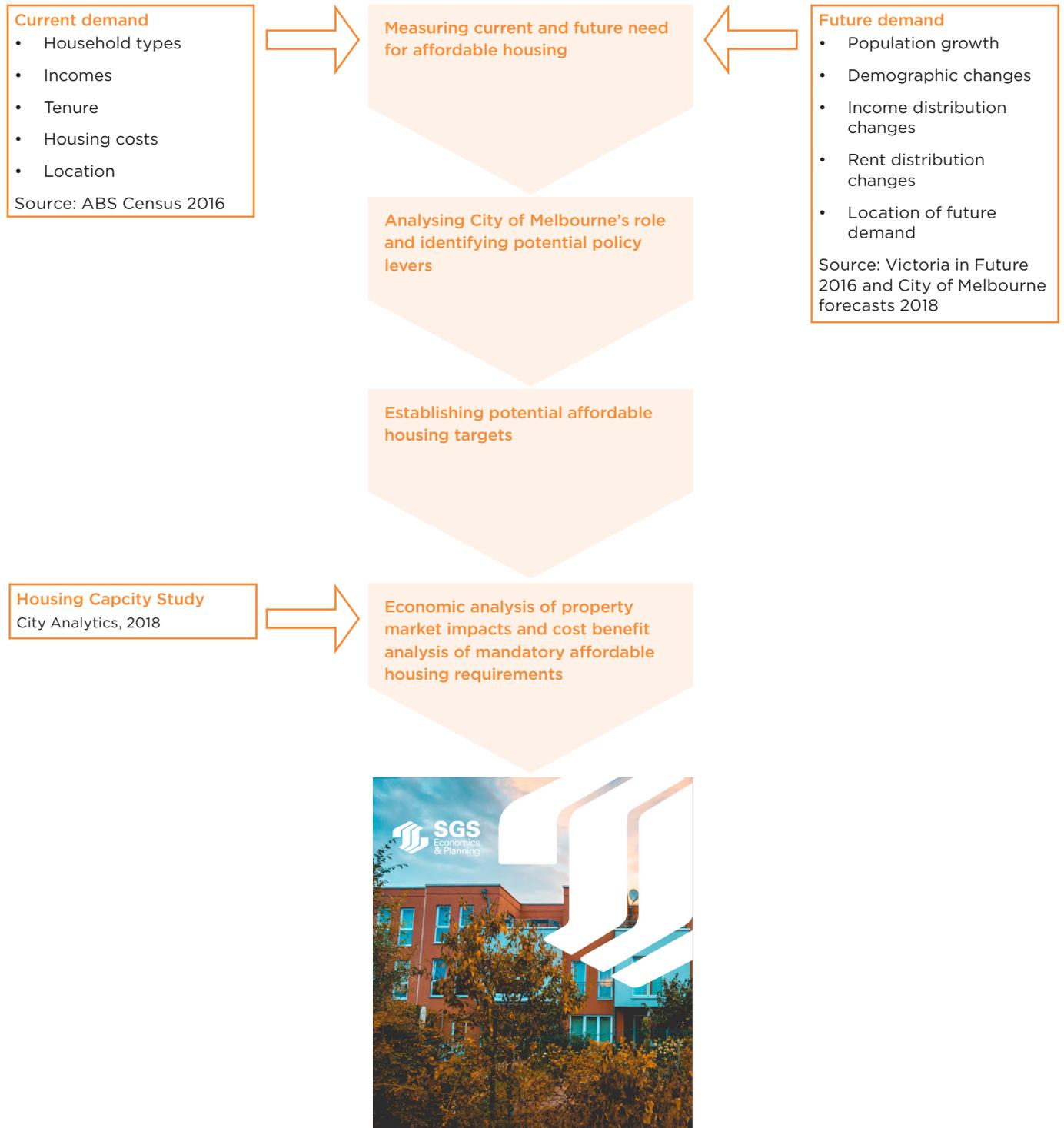


Figure 9.1: Overview of methodology for Housing Needs Analysis

9. APPENDIX TWO – DEMAND FOR SOCIAL AND AFFORDABLE HOUSING METHODOLOGY

Figures 9.2 to 9.12 provide detailed analysis of the types of households with current or future demand for affordable housing. This analysis informed the overall findings presented in Section 4.

Figure 9.2 - Households experiencing rental stress in the City of Melbourne - excluding students without dependents (2016)

	Demand for social and affordable housing	Tertiary student households in rental stress	Discount applied to adjust demand total	Adjusted demand for social and affordable housing
Couple family with children	1033	228	0	1033
Couple family with no children	2749	1778	1778	971
One parent family	1464	197	0	1464
Other family	1054	923	923	131
Group household	4033	3787	3787	246
Lone person household	9935	4345	4345	5590
All households	20,269	11,258	10,833	9436

Source: SGS, 2019, Housing Needs Analysis based on ABS Census 2016 and VIF 2016.

Figure 9.3 - City of Melbourne housing market segmentation by income group for all households (2016)

	Rental households not in stress and non-rental households	Households in moderate rental stress	Households in severe rental stress	Households outside private market	Total households	Quantum of demand	Demand share of total households
Homeless				1725	1725	1725	100 per cent
Living in social housing				3970	3970	3970	100 per cent
Very low income households	6049	772	5706		12,526	6477	52 per cent
Low income households	4318	1998	2217		8533	5215	49 per cent
Moderate income households	6570	2985	897		10,452	3882	37 per cent
All households	48,328	5755	8820	5695	68,598	20,269	30 per cent
Gap in supply						16,299	

Source: SGS, 2019, Housing Needs Analysis based on ABS Census 2016 and VIF 2016.

Figure 9.4 - City of Melbourne housing market segmentation by household type, 2016

	Rental households not in stress and non-rental households	Households in moderate rental stress	Households in severe rental stress	Households outside private market	Total households	Quantum of demand	Demand share of total households
Couple family with children	5818	377	279	377	6852	1033	15 per cent
Couple family with no children	14,574	1322	1151	276	17,323	2749	16 per cent
One parent family	2092	246	337	882	17,323	1464	16 per cent
Other family	1921	400	555	99	2975	1054	35 per cent
Group household	6268	1366	2458	209	10,301	4033	39 per cent
All households	48,328	5755	8820	5695	68,598	20,269	30 per cent

Source: SGS, 2019, Housing Needs Analysis based on ABS Census 2016 and VIF 2016.

Figure 9.5 - Inner Metro Partnership (IMP) region housing market segmentation by income group (2016)

	Rental households not in stress and non-rental households	Households in moderate rental stress	Households in severe rental stress	Households outside private market	Total households	Quantum of demand	Demand share of total households
Homeless				3690	3690	3690	100 per cent
Living in social housing				11,540	11,540	11,540	100 per cent
Very low income households	15,093	1754	8616		35,464	10,371	41 per cent
Low income households	11,374	4100	3790		19,264	7890	41 per cent
Moderate income households	17,022	5837	1667		24,526	7504	31 per cent
Above moderate income households	84,085				84,085	0	0 per cent
All households	127,575	11,691	14,073	15,230	168,569	40,994	24 per cent
City of Melbourne share of region	38 per cent	49 per cent	63 per cent	37 per cent	41 per cent	49 per cent¹	

Source: SGS, 2019, Housing Needs Analysis based on ABS Census 2016 and VIF 2016.

¹ This figure includes all students as included in Figure 3.2.

Figure 9.6 - Inner Metropolitan Action Plan plus Moonee Valley region housing market segmentation by income group (2016)

	Rental households not in stress and non-rental households	Households in moderate rental stress	Households in severe rental stress	Households outside private market	Total households	Quantum of demand	Demand share of total households
Homeless				5201	5201	5201	100 per cent
Living in social housing				17,570	17,570	17,570	100 per cent
Very low income households	33,404	3617	12,663		49,683	16,280	33 per cent
Low income households	26,446	7225	5306		38,978	12,532	32 per cent
Moderate income households	36,253	8558	2203		47,014	10,761	23 per cent
All households	242,185	19,400	20,172	22,771	304,528	63,343	20 per cent
City of Melbourne share of region	20 per cent	30 per cent	44 per cent	25 per cent	23 per cent	33 per cent ¹	

Source: SGS, 2019, Housing Needs Analysis based on ABS Census 2016 and VIF 2016.

¹ This figure includes all students as included in Figure 2.2.

Figure 9.7 - Metropolitan Melbourne housing market segmentation by income group (2016)

	Rental households not in stress and non-rental households	Households in moderate rental stress	Households in severe rental stress	Households outside private market	Total households	Quantum of demand	Demand share of total households
Homeless				20,429	20,429	20,429	100 per cent
Living in social housing				48,978	48,978	48,978	100 per cent
Very low income households	300,997	30,359	52,672		384,027	83,013	22 per cent
Low income households	279,465	35,822	14,837		330,124	50,659	15 per cent
Moderate income households	320,328	23,577	4564		348,470	28,141	8 per cent
Above moderate income households	641,333				641,333	0	0 per cent
All households	1,542,123	89,758	72,073	69,407	1,773,361	231,238	13 per cent
Gap in existing supply						182,260	

Source: SGS, 2019, Housing Needs Analysis based on ABS Census 2016 and VIF 2016.

Figure 9.8 - Demand (households) for social and affordable housing by household type in the City of Melbourne (2036)

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Couple family with children	2423	850	1053	1681
Couple family with no children	3061	3288	3972	4814
One parent family	3643	1621	2002	2269
Other family	433	851	970	993
Group household	1638	5221	5698	5563
Lone person household	9650	14,179	16,444	18,320
Total demand	20,848	26,009	30,139	33,640
Demand as per cent of total households	13.3 per cent	16.6 per cent	19.2 per cent	21.5 per cent
Existing social housing	3970	3970	3970	3970
Gap in existing supply	16,878	22,039	26,169	29,670

Source: SGS, 2019, Housing Needs Analysis based on ABS Census 2016 and VIF 2016.

Figure 9.9 - Overview of affordable housing need in City of Melbourne (2036)

Needs category		Very low income households	Low income households	Moderate income households
Typical household types		Households at risk of homelessness Households disengaged from the workforce	Households at risk of homelessness Households with intermittent engagement in the workforce	'Key worker' households 'Creatives' with intermittent and multiple portfolio work
Projected total need (dwelling units) including existing social	Scenario 1	13,789	4527	2533
	Scenario 2	16,158	6054	3798
	Scenario 3	18,787	6933	4360
	Scenario 4	18,787	6933	7860
Housing services required		-Emergency shelters / crisis accommodation - Transitional / supported housing - Social housing (public and community housing)	-Emergency shelters / crisis accommodation - Transitional / supported housing - Social housing (public and community housing)	- Social housing (public and community housing) - Affordable rental housing other than that included in social housing - could be operated by NFPs and private sector under special agreements

Source: SGS, 2019, Housing Needs Analysis based on ABS Census 2016 and VIF 2016.

Figure 9.10 - Demand (households) for social and affordable housing by income group in the City of Melbourne, Inner Metro Partnership region and Inner Metropolitan Action Plan region plus Moonee Valley (2036)

		Scenario 1	Scenario 2	Scenario 3	Scenario 4
Very low income	City of Melbourne	13,789	16,158	18,787	18,787
	IMP region	20,089	30,608	35,591	35,591
	IMAP region + Moonee Valley	42,649	48,398	56,661	56,661
Low income	City of Melbourne	4527	6054	6993	6993
	IMP region	8565	11,020	12,734	12,734
	IMAP region + Moonee Valley	14,001	16,949	19,716	19,716
Moderate income	City of Melbourne	2533	3798	4360	7860
	IMP region	4793	6859	7870	10,820
	IMAP region + Moonee Valley	7835	10,348	11,942	13,426
Total demand	City of Melbourne	20,848	26,009	30,139	33,640
	IMP region	39,447	48,487	56,194	59,159
	IMAP region + Moonee Valley	64,485	75,695	88,319	89,804
Demand share of total households	City of Melbourne	13.3 per cent	16.6 per cent	19.2 per cent	21.5 per cent
	IMP region	13.3 per cent	16.4 per cent	19 per cent	20 per cent
	IMAP region + Moonee Valley	13.3 per cent	15.6 per cent	18.2 per cent	18.5 per cent
Existing social housing stock	City of Melbourne	3970			
	IMP region	11,540			
	IMAP region + Moonee Valley	17,570			

Source: SGS, 2019, Housing Needs Analysis based on ABS Census 2016 and VIF 2016.

Figure 9.11 -Forecast demand (households) for social and affordable housing, Metropolitan Melbourne (2016 - 2036)

	2016	2036	Change
Couple family with children	20,274	39,282	10,008
Couple family with no children	33,711	49,631	15,920
One parent family	40,488	49,075	18,588
Other family	5266	7026	1760
Group household	20,829	26,560	5668
Lone person household	101,608	156,467	54,859
Total	231,238	338,040	106,802
Very low income	152,438	223,573	71,135
Low income	50,659	73,394	22,735
Moderate income	28,141	41,073	12,932

Source: SGS, 2019, Housing Needs Analysis based on ABS Census 2016, VIF 2016 and City of Melbourne household forecasts.

Figure 9.12 -Forecast demand (households) for social and affordable housing due to a disability or mental health condition, Metropolitan Melbourne (2016 - 2036)

	2016	2036	Change
Couple family with children	1998	2724	726
Couple family with no children	411	649	238
One parent family	7,587	19,762	3175
Group household	213	314	101
Lone person household	8876	13,349	4473
Total	19,084	27,797	8713

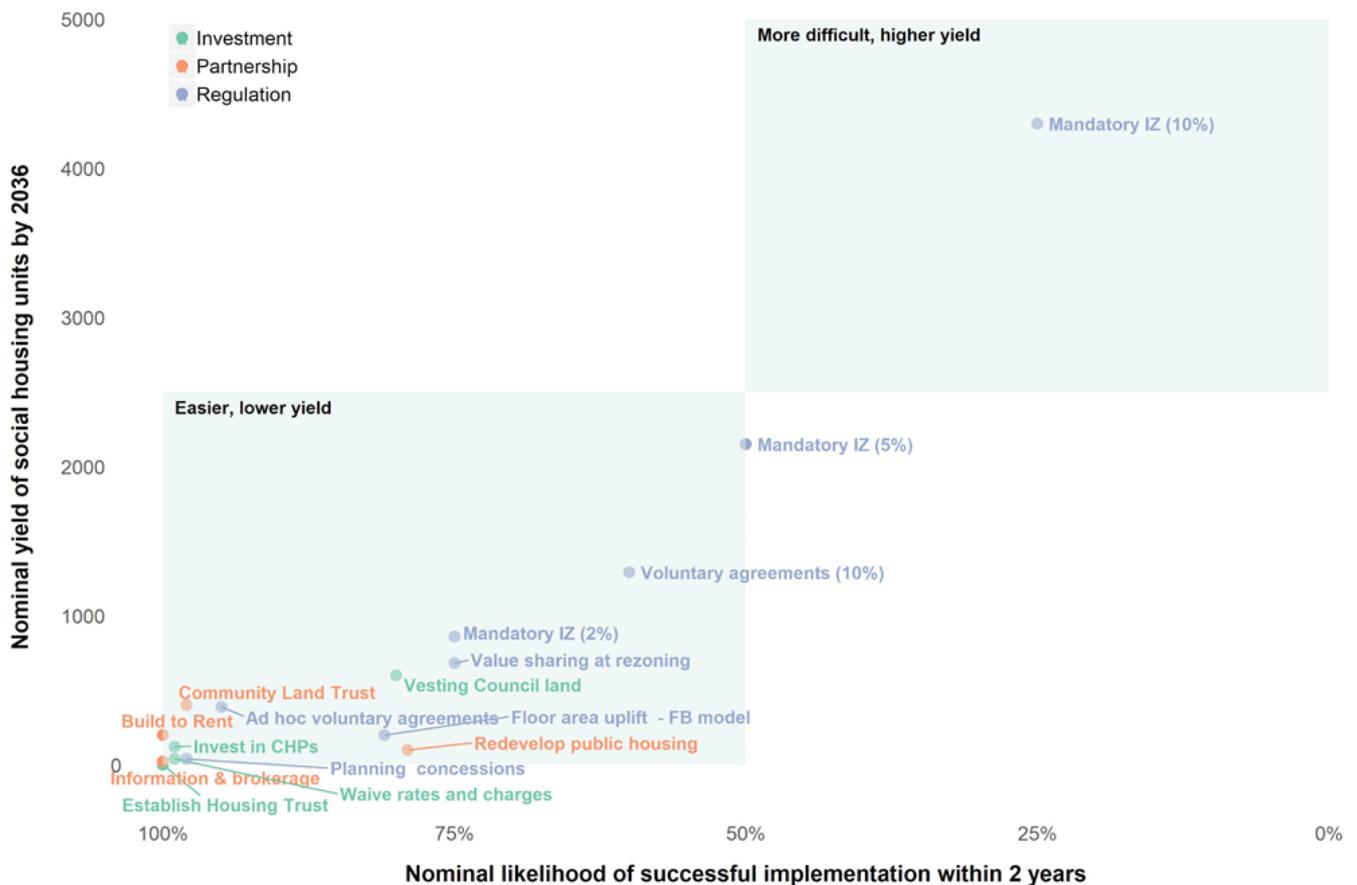
Source: SGS, 2019, Housing Needs Analysis based on ABS Survey of Disability, Aged, and Carers (2015) and VIF 2016.

9. APPENDIX THREE - IMPLEMENTATION AND IMPACT OF MECHANISMS

Section 6.2 identifies a range of mechanisms to enable affordable housing. Some of the mechanisms are able to be readily applied in the City of Melbourne, while others are dependent on the state government providing the right authorising environment. For example, there is no current mechanism in the Victorian Planning System for the enforcement of mandatory inclusion of affordable housing in new developments.

Figure 9.13 shows the likelihood of successful implementation of mechanisms within the next two years, and the likely yield of affordable housing.

Figure 9.13 - Comparison of housing yield versus likelihood of successful implementation within two years



Source: SGS, 2019, Housing Needs Analysis.

9. APPENDIX FOUR – ECONOMIC CASE METHODOLOGY

Property market impacts of inclusionary requirements

Methodology

Framing in the context of notional mandatory contributions

The purpose of the analysis is to investigate the potential effect of notional mandatory affordable housing requirements on land values and the quantum of development activity in the City of Melbourne.

It is acknowledged that currently there is no provision for mandatory inclusionary requirements in the Victorian Planning System. However, the analysis is based on the such a tool being available for use by the City of Melbourne. From an 'adverse market impact' point of view, this establishes a worst case scenario.

Research question and data sources

The analysis relies on an assessment of the residual land values (RLV) that would result from the development of sites likely to be available for new housing in the next 20 years.

The Housing Capacity Study, which provides data on available sites and their respective development capacities, is a key input in this assessment.

The key question this analysis seeks to address is whether the imposition of social and affordable housing requirements, through the planning system, would dampen the residual land values to the point where development sites will be withheld from the development process.

In this analysis, it is assumed that planning-related affordable housing obligations will be satisfied via the transfer of newly constructed dwellings to registered housing agencies at zero cost.

Residual land value and development feasibility

Development feasibility is typically assessed by comparing the residual land values (RLV) to the existing use value (or, where appropriate next highest value for a site). The RLV can be thought of as the maximum amount a rational developer would pay for a development site. RLV is estimated by deducting all development costs, including profit and risk, from anticipated revenues. The amount left over from the equation – the 'residual' – is capitalised into the value of the land.

A development is feasible if the RLV is sufficient to entice the current landowner to sell their site for redevelopment. What is deemed 'sufficient' will vary from site to site and landowner to landowner. It is a function of a range of factors including the income generated by the existing use, options for alternative future uses, general market conditions and individual landowner circumstances and motivations.

Impact of affordable housing on property markets

Commentary on the economic impact of additional development costs (such as development contributions, open space requirements, affordable housing, etc.) typically assumes that these costs can be, and will be, passed forward, meaning that they are added to the price faced by end buyers. However, this perspective overlooks the fact that developers of new housing cannot simply increase the price of new housing to cover higher input costs. Developers are 'price takers' rather than 'price makers': the price of new dwellings (or any other marketed floorspace) is determined by the operation of broader housing markets that include both existing dwellings and new dwellings in other locations.

The most likely impact of additional development costs, where they are known in advance, is that they will be passed back to the owners of potential development sites. Because land for development is valued on a residual basis, additional development costs reduce the RLV and therefore the amount a rational developer will be willing to pay for a development site.

Passing additional development costs backwards, reducing the RLV, will impact development feasibility. The key question when assessing the impact of affordable housing requirement on property development is to determine whether the RLV, after the requirements are considered as a development cost, is sufficient enticement for the incumbent landowner to sell their land to a prospective developer.

Cost benefit analysis of mandatory affordable housing requirements

Methodology

Major regulatory initiatives in Victoria must be demonstrated to generate a net community benefit. That is, the value of welfare gains by beneficiaries moving from a normal business scenario to the new regulatory regime must be shown to be greater than the value of any welfare losses from this shift, when expressed in present value terms.

If the regulatory reform delivers a net community benefit in these terms, it is deemed to result in a more economically efficient allocation of Victoria's collective resources than under the business as usual scenario.

Base case, project case, costs and benefits

The purpose of the cost benefit analysis is to test whether a policy of mandatory affordable housing requirements in the City of Melbourne would represent an efficient regulatory reform. That is, to test the net community benefit of moving from the base case to the project case.

The base case assumes the current status quo. A significant number of households in the City of Melbourne are unable to access affordable housing, and as a result, suffer a range of negative consequences, from rental stress to homelessness. In the base case the current number of social and affordable housing dwellings remains static, while the total number of dwellings in the City of Melbourne increases by 88,000 dwellings between 2016 and 2036.

The project case assumes that the introduction of regulation would result in an increase in the supply of social and affordable housing stock in the City of Melbourne. It is assumed that the program will achieve the following outcomes:

- provide affordable housing for homeless persons, and
- provide affordable housing for those who would otherwise experience housing stress.

It has been assumed that the regulations will have two distinct impacts on the supply of housing stock between 2016 and 2036:

1. A share of the private dwellings provided in the base case will be provided as social and affordable housing dwellings in the project case. This replacement effect assumes that there would be no increase in demand as a result of the regulation, and therefore no change to total dwelling supply.

2. Where homeless people are provided with secure housing this would constitute a net increase in housing supply relative to the base case. These households would not have been accommodated under the base case.

Therefore, it is assumed the introduction of mechanisms to increase the supply of affordable housing stock will result in an overall net increase in occupied dwellings.

Finally, the project case assumes that the benefits of social and affordable housing stem from the alleviation of housing stress or homelessness rather than any changes in households' locations. That is, the broad locational characteristics of a household affected by the project (e.g. accessibility) will be similar across the base and project cases. This assumption precludes the need to explicitly define where each household would move from if an affordable dwelling was made available in the City of Melbourne. This can be interpreted as assuming that the households affected are those that would have chosen to reside within the City of Melbourne under the base case.

How to contact us

Online:

melbourne.vic.gov.au

In person:

Melbourne Town Hall - Administration Building
120 Swanston Street, Melbourne
7.30am to 5pm, Monday to Friday
(Public holidays excluded)

Telephone:

03 9658 9658
7.30am to 6pm, Monday to Friday
(Public holidays excluded)

Fax:

03 9654 4854

In writing:

City of Melbourne
GPO Box 1603
Melbourne VIC 3001
Australia



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