Affordable Housing in Melbourne’s Inner Urban Region
A Strategic Framework

Inner Region Housing Working Group
June 2004
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Summary

Affordable housing in inner Melbourne is evaporating

Affordable housing in Melbourne’s Inner Urban Region is rapidly disappearing. The stock of private rental units available at rents equal to or less than 25% of the (national) 40th percentile household income halved between 1996 and 2001, falling from 14,328 to 7,336 dwellings. If this rate of decline continues, affordable private rental housing will be virtually non-existent in the Region by 2030.

Over 60% of low income households in private rental in the Region are suffering housing stress.

Traditional policy responses are not likely to solve the problem

The mainstream policy responses to housing stress are the provision of public housing (supplemented by small quantities of community managed / government owned housing), and the provision of income top-ups to households through Commonwealth Rent Assistance (CRA).

Funds available for public housing under the Commonwealth – State Housing Agreement (CSHA) have declined over the past decade. The Office of Housing is struggling to maintain its existing dwellings let alone add to the stock. These forces are all the more intense in the Inner Urban Region. There is likely to be mounting pressure on the OoH to ‘cash-in’ on some of its high value land assets in the Region and deploy these resources in more affordable housing markets elsewhere in the metropolitan area.

CRA is capped and is not regionally differentiated. In the vast majority of cases, receipt of CRA, whilst welcome, is unlikely to mean the difference between affordable housing and persistent housing stress.

Private investment will be needed

In the absence of rapid and substantial re-capitalisation of public housing, expansion of affordable housing in the Inner Urban Region will require private investment. This can occur through a variety of models, including private proponents leasing stock to affordable housing tenancy managers (like the Office of Housing and community housing groups) or not for profit affordable housing providers (like the Inner City Social Housing Company) sourcing private sector debt finance.

Regardless of the mechanism used to tap private capital, there will be a need to fund the inevitable gap between the return generated from affordable housing operations and the return required by commercial investors.
Securing cash or in-kind resources to bridge this gap in an efficient and equitable manner is a major challenge in tapping private capital for affordable housing.

Use of affordable housing models which rely on private capital poses other policy dilemmas. Firstly, these models encourage providers to target those households in the upper reaches of the sub 40th percentile income distribution, namely working families and key service workers. This is simply because the gap between what these households can afford and the rents which will give investors an adequate return is less, compared to targeting households that are wholly dependent on statutory incomes. To the extent that the affordable housing provider is relying on government provided funds to make the bridging payments to investors, targeting these slightly higher income groups could be seen to be a diversion of resources from those most in need.

Secondly, leveraging private finance to provide affordable housing stock is likely to be more expensive in the longer term, compared to building up this stock via direct capital injections from government. The major advantage of using private finance leverage is that it is possible to generate a much greater yield of affordable housing in the short term, for a given quantum of government spending.

No easy options in funding the affordability gap

The funds required to bridge the gap between affordable rents and commercial returns to private investors (or simply to invest directly into affordable housing stock acquisition) can be sourced from:

- The introduction of **explicit new taxes**. Models here include local government rate surcharges for affordable housing, extension of Land Tax to provide cash flows for affordable housing and betterment taxes.
- The **hypotheication of existing cash flows** to affordable housing or the **foregoing of cash flows** as part of an affordable housing program; examples here include:
  - dedication of all or part of the VicUrban dividend to affordable housing initiatives;
  - providing Stamp Duty concessions to eligible home buyers; and
  - dedication of the proceeds of government land sales to affordable housing (or the provision of such sites at less than market value for affordable housing projects).
- **Regulatory measures** requiring the creation of affordable housing as part of the development process. These include:
  - **Impact mitigation conditions** in development approvals, whereby proponents would be required to replace affordable housing stock directly destroyed or withdrawn from an affordable rental band as a result of the development in question.
  - **Inclusionary zoning**, whereby all residential, commercial, industrial and other development within a district or region would be required to incorporate a given proportion of affordable housing, or pay the cash equivalent to a designated affordable housing provider in the area.
  - Bonus systems, whereby proponents are offered greater development intensity on their sites in return for contributions towards affordable housing.
  - **Negotiated or voluntary contributions** for affordable housing.
- Enforcement of affordable housing contributions as 'infrastructure charges', whereby affordable housing is deemed to be in the same category as roads, drains and parks and rendered subject to standard DCP principles and practice.

- Philanthropy and ethical investment, which also includes harnessing volunteer effort.

The focus in this paper is on ‘regulatory measures’, partly because this range of initiatives is most open to influence by local government. However, new broad based taxes and betterment capture also have considerable policy merit.

### Inclusionary Zoning is the preferred regulatory measure

This paper finds that Inclusionary Zoning is the best of the regulatory options to address the affordable housing issue in the Inner Urban Region. The pros and cons of the various measures are summarised in the following table.

<table>
<thead>
<tr>
<th>Regulatory Measure</th>
<th>Economic Merits</th>
<th>Scale of Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact Mitigation Conditions (IMC’s) in Development Approvals</td>
<td>Requires the planning legislation to acknowledge that social mix can be a valued aspect of “environment” that can merit protection via planning instruments. On this basis this regulatory measure has a strong economic argument in terms of mitigating the negative externalities of development.</td>
<td>Minor. At best, this measure would only prevent loss of large and identifiable clusters and forms of affordable housing (e.g. low cost rooming houses). The measure would struggle to cope with affordable housing loss through gentrification and incremental redevelopment.</td>
</tr>
<tr>
<td>Inclusionary Zoning</td>
<td>Would also require that the planning legislation acknowledge social mix as an environmental value. Relatively non-distortive as it would apply to all development forms across large districts. Developers would have certainty regarding the affordable housing inclusion requirement and could factor this into land bids, potentially passing some of the burden back to land sellers.</td>
<td>Potentially substantial. Relatively small per sq metre cash in lieu payments, spread over a large number of developments would provide a significant cash flow that could be used in conjunction with private finance leveraging schemes to generate sizeable expansion in affordable housing stocks, at least in the medium term.</td>
</tr>
<tr>
<td>Bonus Systems</td>
<td>Economically flawed as they require either arbitrary constraints on environmental development capacity (thereby driving up costs in the housing sector generally), or the imposition of environmental costs on surrounding communities when proponents take up ‘overdevelopment’.</td>
<td>Minor to moderate. Subject to the willingness of developers to take up the bonuses, which is likely to be dependent upon local market conditions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Negotiated Arrangements</td>
<td>Problematic in that they effectively rely on the threat of development approval delays to extract voluntary contributions for affordable housing. This uncertainty can push up housing costs across the system.</td>
<td>Minor to moderate. Again, only likely to be effective in high price / high volume development markets.</td>
</tr>
<tr>
<td>Infrastructure Charges (Linkage Fees)</td>
<td>Difficult to justify the provision of affordable housing as support infrastructure in the same sense as roads, drains, water supply and sewerage etc.</td>
<td>Potentially substantial. (Quantums would be determined in a similar way to Inclusionary Zoning)</td>
</tr>
</tbody>
</table>

Inclusionary Zoning has been successfully applied in the Ultimo Pyrmont peninsula in Sydney. All development in this area is required to incorporate affordable housing or pay a cash in lieu rate of around $30 / m² of floorspace.

With its references to ‘conservation of special cultural value’ and ‘explicit consideration of social and economic effects’ when determining use and development of land, the Planning and Environment Act in Victoria would appear to support the implementation of Inclusionary Zoning. Application of Inclusionary Zoning in the Inner Urban Region would require the introduction of a new Overlay in the VPP, similar to that governing DCP’s.

**How would Inclusionary Zoning affect affordability outcomes in the Region?**

If an Inclusionary Zoning cash in lieu rate comparable to that applied in Ultimo Pyrmont were to be introduced in the Inner Urban Region, around $7.85 million per annum would be generated, taking into account only residential development. Once commercial, retail and other development is incorporated,¹ this revenue stream is likely to be considerably greater.

If this revenue stream ($7.85 million) were to be applied to outright stock acquisition, approximately 25 units could be added to the Region’s affordable housing stock each year. Naturally this stock would accumulate over time. Alternatively, if the revenue stream were to be wholly and permanently applied in private leveraging schemes, some 325 units could be added to the affordable stock in year one and maintained at that level on an indefinite basis. Outright stock acquisition would overtake leveraging schemes after 12 years or so (see figure below).

¹ This information on non-residential development was not available for this study.
Impact of Inclusionary Zoning (Residential Development Component Only) – Purchase versus Leveraging Strategies

Inclusionary Zoning is likely to return a positive cost–benefit ratio

Taking into account the experience in Ultimo Pyrmont and elsewhere, a working assumption can be made that the Inclusionary Zoning provisions may be applied so as to be ‘non-distortive’. That is, the cash-in-lieu rate would not deter development activity that would otherwise have occurred in the Region but would instead be absorbed in reduced margins for developers and/or lower residual land values and/or higher end user prices.

On this basis the principal costs and benefits of applying Inclusionary Zoning in the Region would be as follows:

<table>
<thead>
<tr>
<th>Marginal Costs</th>
<th>Marginal Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Loss of consumer surplus on the part of middle and higher income buyers and renters temporarily displaced from the inner suburban market.</td>
<td>(D) Gain in consumer surplus by low income renters otherwise excluded from the inner suburbs market.</td>
</tr>
<tr>
<td>(B) Additional costs incurred by Councils in formulating and administering Inclusionary Zoning policies.</td>
<td>(E) Avoided future litigation costs in establishing that planning measures to retain affordable housing and social diversity are lawful.</td>
</tr>
<tr>
<td>(C) Operating costs for the additional social housing units generated by the regulatory changes</td>
<td>(F) Reduced health and social program costs as a result of stable and higher quality housing for the additional low income households accommodated in the targeted regions.</td>
</tr>
<tr>
<td></td>
<td>(G) Improved labour productivity amongst the lower income households able to secure quality affordable housing under the regulatory changes</td>
</tr>
<tr>
<td></td>
<td>(H) Saved private sector rental operating costs</td>
</tr>
<tr>
<td></td>
<td>(I) Retained environmental value of social diversity</td>
</tr>
</tbody>
</table>
It is likely that cost (A) will be cancelled out by benefit (D), that cost (B) will be largely offset by benefit (E) and that cost (C) will be matched by benefit (H). This would leave the application of Inclusionary Zoning in the Region with strong net benefits, including health and social program savings, superior labour productivity and improved environmental amenity consequential upon maintenance of reasonable social mix in the inner city.

Thus, there is prima facie case that Inclusionary Zoning would return a strongly positive benefit cost ratio when assessed under the State’s Regulatory Impact procedures.

Where to from here?

This report recommends the following 3 step process for implementing Inclusionary Zoning in the Inner Urban Region. It is most important that implementation occurs with substantial lead time notification of the development sector, so that there is maximum opportunity for the cost burden involved to be passed back to land sellers.

**Step 1  Amendment of the VPP to introduce an Inclusionary Zoning Overlay.** The overlay would be available for general use across the State, though its take up would need to be justified in terms of the adverse social, economic and cultural impacts of a failure to maintain adequate stocks of affordable housing in the targeted area. In the first instance, the four inner urban region Councils that are party to this project would be invited to simultaneously propose amendment of their planning schemes to activate the Overlay.

**Step 2  Activation of the Overlay.** This would require an assessment of affordable housing needs across the Region (in terms of stock numbers) and consideration of these against anticipated development trends. On this basis a cash in lieu rate per sq metre can be established following the methodology adopted in Ultimo Pyrmont. Activation of the Overlay would necessarily involve public exhibition of the proposals and, most probably, a full public enquiry via a planning panel.

**Step 3  Establishment of arrangements to ensure permanent deployment of Inclusionary Zoning stock and cash in lieu funds for affordable housing.** The most practical option could be to direct all asset and cash acquisitions from the Inclusionary Zoning scheme to the Housing Association Registrar. Operating under clear, Government approved, protocols the Registrar would provide these resources as supplementary capital funding to the Housing Associations ‘franchised’ to operate in the Inner Urban Region.
1 Introduction

1.1 Terms of Reference

SGS was engaged by the Inner Region Housing Working Group to:

- Document current housing stress levels in the Inner Urban Region taking into account likely development activity over the next decade.
- Develop a framework for an affordable housing strategy for the Inner Urban Region, including discussion of how private sector finance can be combined with subsidy flows and appropriate affordable housing vehicles to rapidly boost stock availability. (In outlining this strategy, the main focus of SGS work was to be on those households below the 40th percentile in the income distribution but who cannot access public housing).
- Within this framework, define suitable planning mechanisms to expand affordable housing, including an “Inclusionary Zoning” approach like that applied in Ultimo Pyrmont in Sydney.
- Prepare a range of ‘what if’ scenarios, exploring the impacts of different Inclusionary Zoning ratios and cash in lieu payments.
- Examine and report on the statutory and institutional barriers that will need to be addressed in implementing a suitable Inclusionary Zoning regime in the Inner Urban Region.
- Set out a broad framework for social cost benefit analysis for a preferred affordable housing strategy / Inclusionary Zoning regime.

Important Note
The views expressed in this paper are those of SGS. They do not necessarily reflect the views of other corporations or organisations with which SGS or its Directors or staff might be associated.

1.2 What is “Affordable Housing”?

For the purposes of this paper, ‘affordable housing’ is defined as accommodation that is appropriate for low-income households in terms of size, standards and access to services and facilities. The definition also requires that housing costs should not exceed 25 per cent of gross household income, after any applicable Commonwealth Rent Assistance is deducted from the rent (home buyers are deemed to be able to commit 30% of their income to housing costs)\(^2\). The poorest 40 per cent of households in the income distribution are deemed to be ‘low-income’\(^3\).

\(^2\) A figure between 25% and 30% is widely accepted as a benchmark guide to affordability, even though it is also recognised that different types of households have different needs and capacity to pay. It was acknowledged by the 1991 National Housing Strategy (Issues Paper 2, Canberra,
Housing is only truly affordable if it is well serviced, well-located, safe, secure and accessible to people in need. ‘Affordable housing’ is therefore considered broadly in terms of the relationship between the dwelling and the residents, their capacities and their needs; it is not solely a physical or financial characteristic of the dwelling and cannot be measured in monetary terms alone.

Affordable housing in this paper therefore has a broad scope. It is not confined to households on statutory incomes who are eligible for social or emergency housing. The scope includes the working poor and those on the margins of home ownership.
2 Affordable Housing Needs in Melbourne’s Inner Region

Affordable housing is looming as a persistent and potentially intractable problem in many of Australia’s urban areas. Indeed, as Yates et al highlight, there is now a considerable body of literature concerning the increasing scale and scope of affordability issues in Australia, particularly with regards to the supply of accommodation for low-income households in inner metropolitan regions (2004, p.1).

For the most part, declining affordability has stemmed from a decade of sustained growth in metropolitan housing markets, catalysed by structural factors such as low general inflation, low interest rates, escalating household incomes and growth in the number of households relative to population (Yates et al 2004, p. 2).

In a Metropolitan Melbourne context, these trends have come at a time when the supply of greenfield land on the urban fringe has been curtailed under the vital and overarching aims of sustainable development. Unfortunately, the introduction of an Urban Growth Boundary has brought ever increasing development pressures and, to some extent, militated against the downward filtering of housing in Melbourne’s established inner urban areas.

Whilst many of the aforementioned factors have resulted in an unprecedented level of housing activity and benefited a great number of households, evidence shows that housing stress in the inner region now afflicts more than sixty percent of all low income rental households and a staggering two thirds of all low income home purchasers4.

For households in the region with the most acute affordability problems or special needs, the outlook is even less certain. Demand for public housing in the inner city far exceeds supply, whilst the region’s stocks of alternative forms of low income accommodation, such as rooming houses and share accommodation, are threatened by the omnipresent process of gentrification and financial lure of residential re-development.

For households displaced from the region due to drastically declining affordability and evaporating stocks of low cost accommodation, there is often little choice but to relocate into peripheral locations where access to public transport infrastructure, community services and key employment nodes may be less than adequate (City of Port Phillip 2004, p. 23). And whilst this process comes at a considerable cost to both Government and individual households, the increasing spatial polarisation of Metropolitan Melbourne has disturbing ramifications for the City’s renowned vibrancy, social equality, cultural diversity and economic sustainability (City of Port Phillip 2004).

The remaining sections of this chapter seek to quantify some of these issues and outline the spatial distribution of housing affordability in the inner region.

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4 Housing stress data derived from ABS special request cross tabulations of household income and accommodation expenditure. Data drawn from 2001 Census of Population and Housing.
The level of housing stress in the region is identified, as well as change over time in the supply of affordable housing stock, with specific regard to dwellings available within the private rental market.

Under the overarching definition of 'low income households', two primary sub-groups are identified. They are:

- Households on very low incomes who are receiving statutory income support including Commonwealth Rent Assistance; and,
- The remaining households within the 40th percentile of the national income distribution.

In terms of households living in housing stress, the analysis focuses on households renting in the private rental market, as well as households in the process of purchasing a home (i.e. paying off a mortgage).

### 2.1.1 Housing Stress Data

The following analysis relies on data drawn primarily from the 2001 Census of Population and Housing and, where appropriate, from relevant contemporary literature. Where possible, information is presented at the level of ABS ‘Postal Areas’ in order to highlight the spatial distribution of housing affordability across the inner region.

ABS Postal Area boundaries do not precisely match those of the inner region, as defined by the Department of Sustainability and Environment. For this reason, housing stress data has also been presented at the level of Statistical Local Area (SLA). The Inner Urban Region is comprised of the following ABS SLA’s:

- Melbourne (C) - Inner
- Melbourne (C) - S'bank-D'lands
- Melbourne (C) - Remainder
- Port Phillip (C) - St Kilda
- Port Phillip (C) - West
- Stonnington (C) - Prahran
- Yarra (C) - North
- Yarra (C) - Richmond

To maintain statistical accuracy, all 'total' housing stress figures are based on aggregated SLA data, rather than on aggregated Postal Area data.

All housing stress cross tabulations are attached as Appendix 1.
2.2 Housing Stress in the Inner Region

2.2.1 Rental Households

There are 16,202 low income rental households in Melbourne’s inner region. Of these, 10,143 (63%) are living in housing stress. The areas around Carlton, St. Kilda, Richmond and South Yarra are home to the highest outright quantum of rental households living in housing stress, however these neighbourhoods also accommodate relatively large populations of low income households per se.

It is evident that Richmond, North Melbourne and Kensington contain relatively low proportions of households living in housing stress, relative to other suburbs in the region.

Conversely, the data highlights the thoroughly gentrified nature of suburbs such as Toorak, East Melbourne and Parkville. These suburbs are home to a very small populous of low income households, almost all of which are living in housing stress.

Furthermore, an analysis of housing stress by household type reveals that:

- Half (50%) of the low income households in the region are lone person households. By comparison, family households make up 37% and group households make up 13% of low income households in the region;
- 81% of all low income group households in the region are living in housing stress. By comparison, housing stress afflicts 66% of lone person and 51% of family households in the region;
- Low income family households are most prevalent in Richmond, Kensington, Carlton and North Melbourne. In these areas, the proportion of family households living in housing stress is lower than that in the majority of the regions other suburbs. Consequently, these suburbs may be described as relatively attractive to family households when compared with other suburbs in the region;
- Group households are most prevalent in the areas around Carlton, North Melbourne and Melbourne. Housing stress amongst these households is also very high, with over 90% of group households living in housing stress in Carlton and Melbourne;
- Low income lone person households are most prevalent in the areas around St. Kilda, Richmond, Prahran, Kensington and Carlton. With the exception of Kensington, in these suburbs more than half of all lone person households are living in housing stress.

2.2.2 Home Purchaser Households

As table 2 overleaf shows, there are 1305 low income households in the process of purchasing a home in the inner region. Of these households, 895 - or more than two thirds (69%) - are living in housing stress.
The high price of home ownership in the inner region is highlighted by the fact that there are more than twelve times as many low income rental households in the inner region, than there are low income home purchaser households. As expected, those suburbs which are home to the highest number of low income home purchaser households are also the most relatively affordable in terms of housing stress levels.

Premium suburbs such as Carlton, Armadale, Toorak and Parkville accommodate very few low income households. In many cases, the proportion of low income households living in housing stress in these suburbs is equal to or approaching 100 percent.

In terms of household types, the data shows that:

- Low income family households make up the majority (57%) of the regions home purchaser households;
- As expected, the level of housing stress in each household category varies in inverse proportion to the total number of households purchasing a home in each household category;
- Two thirds (67%) of all family households purchasing a home in the region are living in housing stress. By comparison, 72% of all low income lone home purchaser households are living in housing stress. Whilst the proportion of housing stress amongst group households is also very high (66%), there are only 56 low income home purchaser group households in the region;
- In thirteen of the twenty six suburbs analysed, all lone person home purchaser households are living in housing stress.

Table 1. Private Rental Households in Housing Stress, Melbourne Inner Region.

<table>
<thead>
<tr>
<th>Statistical Local Area</th>
<th>Number of Private Rental Households</th>
<th>Number of Low Income Private Rental Households</th>
<th>Proportion Low Income Private Rental Households</th>
<th>Number of Households in Housing Stress</th>
<th>Percentage of Low Income Households in Housing Stress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melbourne C - Inner</td>
<td>2206</td>
<td>662</td>
<td>30%</td>
<td>635</td>
<td>96%</td>
</tr>
<tr>
<td>Melbourne C – Southbank and Docklands</td>
<td>1209</td>
<td>137</td>
<td>11%</td>
<td>127</td>
<td>93%</td>
</tr>
<tr>
<td>Melbourne C - Remainder</td>
<td>8004</td>
<td>3,263</td>
<td>41%</td>
<td>2,203</td>
<td>68%</td>
</tr>
<tr>
<td>Port Phillip C – St. Kilda</td>
<td>12295</td>
<td>3,246</td>
<td>26%</td>
<td>2,413</td>
<td>74%</td>
</tr>
<tr>
<td>Port Phillip C - West</td>
<td>4656</td>
<td>1,616</td>
<td>35%</td>
<td>711</td>
<td>44%</td>
</tr>
<tr>
<td>Stonnington C - Prahran</td>
<td>9183</td>
<td>2,552</td>
<td>28%</td>
<td>1,587</td>
<td>62%</td>
</tr>
<tr>
<td>Yarra C - North</td>
<td>6795</td>
<td>2,987</td>
<td>44%</td>
<td>1,594</td>
<td>53%</td>
</tr>
<tr>
<td>Yarra C - Richmond</td>
<td>3884</td>
<td>1,739</td>
<td>45%</td>
<td>873</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48232</strong></td>
<td><strong>16,202</strong></td>
<td><strong>34%</strong></td>
<td><strong>10,143</strong></td>
<td><strong>63%</strong></td>
</tr>
<tr>
<td>Suburb / Area</td>
<td>Number of Private Rental Dwellings</td>
<td>Number of Low Income Private Rental Households</td>
<td>Proportion of Low Income Private Rental Households</td>
<td>Number of Households in Housing Stress</td>
<td>Percentage of Low Income Households in Housing Stress</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-----------------------------------</td>
<td>-----------------------------------------------</td>
<td>--------------------------------------------------</td>
<td>--------------------------------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>Carlton</td>
<td>1,020</td>
<td>1516</td>
<td>47.6%</td>
<td>1020</td>
<td>67%</td>
</tr>
<tr>
<td>St. Kilda / St. Kilda West</td>
<td>969</td>
<td>1351</td>
<td>24.9%</td>
<td>969</td>
<td>72%</td>
</tr>
<tr>
<td>Richmond / Burnley / Cremorne</td>
<td>873</td>
<td>1739</td>
<td>33.0%</td>
<td>873</td>
<td>50%</td>
</tr>
<tr>
<td>Balaclava / St. Kilda East</td>
<td>810</td>
<td>1106</td>
<td>30.4%</td>
<td>810</td>
<td>73%</td>
</tr>
<tr>
<td>South Yarra</td>
<td>759</td>
<td>1103</td>
<td>22.4%</td>
<td>759</td>
<td>69%</td>
</tr>
<tr>
<td>Melbourne</td>
<td>725</td>
<td>762</td>
<td>29.9%</td>
<td>725</td>
<td>95%</td>
</tr>
<tr>
<td>Kensington</td>
<td>648</td>
<td>1556</td>
<td>47.0%</td>
<td>648</td>
<td>42%</td>
</tr>
<tr>
<td>Prahran / Windsor</td>
<td>632</td>
<td>1126</td>
<td>26.4%</td>
<td>632</td>
<td>56%</td>
</tr>
<tr>
<td>Elwood</td>
<td>591</td>
<td>737</td>
<td>21.3%</td>
<td>591</td>
<td>80%</td>
</tr>
<tr>
<td>North Melbourne</td>
<td>590</td>
<td>1182</td>
<td>47.8%</td>
<td>590</td>
<td>50%</td>
</tr>
<tr>
<td>Clifton Hill / Fitzroy North</td>
<td>459</td>
<td>912</td>
<td>29.7%</td>
<td>459</td>
<td>50%</td>
</tr>
<tr>
<td>South Melbourne</td>
<td>365</td>
<td>795</td>
<td>32.1%</td>
<td>365</td>
<td>46%</td>
</tr>
<tr>
<td>Fitzroy</td>
<td>364</td>
<td>716</td>
<td>37.3%</td>
<td>364</td>
<td>51%</td>
</tr>
<tr>
<td>Collingwood</td>
<td>321</td>
<td>745</td>
<td>51.0%</td>
<td>321</td>
<td>43%</td>
</tr>
<tr>
<td>Carlton North</td>
<td>296</td>
<td>410</td>
<td>23.6%</td>
<td>296</td>
<td>72%</td>
</tr>
<tr>
<td>Fairfield / Alphington</td>
<td>269</td>
<td>377</td>
<td>29.9%</td>
<td>269</td>
<td>71%</td>
</tr>
<tr>
<td>Toorak</td>
<td>267</td>
<td>303</td>
<td>16.9%</td>
<td>267</td>
<td>88%</td>
</tr>
<tr>
<td>Armadale</td>
<td>245</td>
<td>392</td>
<td>24.2%</td>
<td>245</td>
<td>63%</td>
</tr>
<tr>
<td>Port Melbourne</td>
<td>191</td>
<td>527</td>
<td>27.7%</td>
<td>191</td>
<td>36%</td>
</tr>
<tr>
<td>Parkville</td>
<td>171</td>
<td>204</td>
<td>25.0%</td>
<td>171</td>
<td>84%</td>
</tr>
<tr>
<td>Middle Park</td>
<td>157</td>
<td>297</td>
<td>19.0%</td>
<td>157</td>
<td>53%</td>
</tr>
<tr>
<td>Abbotsford</td>
<td>128</td>
<td>171</td>
<td>26.3%</td>
<td>128</td>
<td>75%</td>
</tr>
<tr>
<td>West Melbourne</td>
<td>102</td>
<td>139</td>
<td>30.1%</td>
<td>102</td>
<td>73%</td>
</tr>
<tr>
<td>Melbourne (St. Kilda Rd and Queens Rd)</td>
<td>80</td>
<td>88</td>
<td>10.2%</td>
<td>80</td>
<td>91%</td>
</tr>
<tr>
<td>East Melbourne</td>
<td>80</td>
<td>91</td>
<td>9.4%</td>
<td>80</td>
<td>88%</td>
</tr>
<tr>
<td>Southbank</td>
<td>68</td>
<td>71</td>
<td>9.2%</td>
<td>68</td>
<td>96%</td>
</tr>
<tr>
<td>Statistical Local Area</td>
<td>Number of Home Purchaser Households</td>
<td>Number of Low Income Home Purchaser Households</td>
<td>Proportion Low Income Home Purchaser Households</td>
<td>Number of Households in Housing Stress</td>
<td>Percentage of Low Income Households in Housing Stress</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------------------------------------</td>
<td>------------------------------------------------</td>
<td>------------------------------------------------</td>
<td>--------------------------------------</td>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>Melbourne C - Inner</td>
<td>296</td>
<td>40</td>
<td>14%</td>
<td>29</td>
<td>73%</td>
</tr>
<tr>
<td>Melbourne C – Southbank and Docklands</td>
<td>266</td>
<td>32</td>
<td>12%</td>
<td>21</td>
<td>66%</td>
</tr>
<tr>
<td>Melbourne C - Remainder</td>
<td>2054</td>
<td>145</td>
<td>7%</td>
<td>98</td>
<td>68%</td>
</tr>
<tr>
<td>Port Phillip C – St. Kilda</td>
<td>4021</td>
<td>355</td>
<td>9%</td>
<td>238</td>
<td>67%</td>
</tr>
<tr>
<td>Port Phillip C - West</td>
<td>2393</td>
<td>139</td>
<td>6%</td>
<td>99</td>
<td>71%</td>
</tr>
<tr>
<td>Stonnington C - Prahran</td>
<td>2747</td>
<td>190</td>
<td>7%</td>
<td>131</td>
<td>69%</td>
</tr>
<tr>
<td>Yarra C - North</td>
<td>3454</td>
<td>254</td>
<td>7%</td>
<td>182</td>
<td>72%</td>
</tr>
<tr>
<td>Yarra C - Richmond</td>
<td>1895</td>
<td>150</td>
<td>8%</td>
<td>97</td>
<td>65%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17126</strong></td>
<td><strong>1305</strong></td>
<td><strong>8%</strong></td>
<td><strong>895</strong></td>
<td><strong>69%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Suburb / Area</th>
<th>Number of Home Purchaser Households</th>
<th>Number of Low Income Home Purchaser Households</th>
<th>Proportion Low Income Home Purchaser Households</th>
<th>Number of Households in Housing Stress</th>
<th>Percentage of Low Income Households in Housing Stress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richmond / Burnley / Cremorne</td>
<td>1,944</td>
<td>136</td>
<td>7.0%</td>
<td>100</td>
<td>74%</td>
</tr>
<tr>
<td>Balaclava / St.Kilda East</td>
<td>1,403</td>
<td>127</td>
<td>9.1%</td>
<td>90</td>
<td>71%</td>
</tr>
<tr>
<td>St.Kilda / St. Kilda West</td>
<td>1,456</td>
<td>94</td>
<td>6.5%</td>
<td>81</td>
<td>86%</td>
</tr>
<tr>
<td>Kensington</td>
<td>1,423</td>
<td>91</td>
<td>6.4%</td>
<td>70</td>
<td>77%</td>
</tr>
<tr>
<td>Prahran / Windsor</td>
<td>1,341</td>
<td>88</td>
<td>6.6%</td>
<td>69</td>
<td>78%</td>
</tr>
<tr>
<td>Clifton Hill / Fitzroy North</td>
<td>1,516</td>
<td>82</td>
<td>5.4%</td>
<td>68</td>
<td>83%</td>
</tr>
<tr>
<td>Fairfield / Alphington</td>
<td>910</td>
<td>99</td>
<td>10.9%</td>
<td>65</td>
<td>66%</td>
</tr>
<tr>
<td>Elwood</td>
<td>1,279</td>
<td>86</td>
<td>6.7%</td>
<td>65</td>
<td>76%</td>
</tr>
<tr>
<td>Melbourne</td>
<td>376</td>
<td>40</td>
<td>10.6%</td>
<td>37</td>
<td>93%</td>
</tr>
<tr>
<td>South Yarra</td>
<td>926</td>
<td>43</td>
<td>4.6%</td>
<td>37</td>
<td>86%</td>
</tr>
<tr>
<td>Port Melbourne</td>
<td>938</td>
<td>47</td>
<td>5.0%</td>
<td>35</td>
<td>74%</td>
</tr>
<tr>
<td>South Melbourne</td>
<td>703</td>
<td>36</td>
<td>5.1%</td>
<td>33</td>
<td>92%</td>
</tr>
<tr>
<td>Abbotsford</td>
<td>386</td>
<td>43</td>
<td>11.1%</td>
<td>32</td>
<td>74%</td>
</tr>
<tr>
<td>North Melbourne</td>
<td>419</td>
<td>35</td>
<td>8.4%</td>
<td>27</td>
<td>77%</td>
</tr>
<tr>
<td>Fitzroy</td>
<td>544</td>
<td>33</td>
<td>6.1%</td>
<td>26</td>
<td>79%</td>
</tr>
<tr>
<td>Collingwood</td>
<td>396</td>
<td>30</td>
<td>7.6%</td>
<td>25</td>
<td>83%</td>
</tr>
<tr>
<td>Toorak</td>
<td>627</td>
<td>28</td>
<td>4.5%</td>
<td>25</td>
<td>89%</td>
</tr>
<tr>
<td>Middle Park</td>
<td>741</td>
<td>27</td>
<td>3.6%</td>
<td>24</td>
<td>89%</td>
</tr>
</tbody>
</table>
2.2.3 CRA Recipients

The analysis of housing stress amongst private rental households includes CRA recipient households. However, it is useful to separately identify the level of housing stress amongst CRA recipients, as these individuals and households are often on very low incomes and may be expending an extremely high proportion of their income on housing.

Whilst a key objective of the CRA program is to improve housing affordability for low income people living in private rental accommodation, a recent study conducted by the Australian Council of Social Service (ACOSS) and National Shelter found that over one third (35%) of CRA recipients in Australia spend more than 30% of their total income on rent, whilst almost one in ten recipients spend more than 50% of their total income on rent (2003, p.4).

The report also found that single unemployed CRA recipients living in a one bedroom flat in Inner Melbourne would need to spend a crippling 85% of their income on rent, assuming that such a household could obtain access to a dwelling in the lowest quintile of the distribution of rental values in the region. After paying for accommodation, the household would be left with a meagre $33.45 to live on each week (ACOSS, National Shelter 2003, p.24).

As the tables overleaf show, housing stress amongst CRA recipients in inner Melbourne is widespread. Although data does not include family households and is only available at the level of ‘post code ranges’, it can be concluded that - within the selected areas – at least nine out of every ten CRA recipients living in either lone person or sharer households are expending more than 25% of their total income (including CRA) on rent.

Whilst this figure is telling enough, the level of housing stress presented for the selected post code ranges may in fact under-represent the actual level of housing stress within the inner region as defined by this study. The post code ranges extend to beyond the boundaries of the inner region and studies have shown that - in general - rental values in Melbourne tend to decrease with distance from the inner city (King and Melhuish 2003, p.4)

In summary, it is clear that:

---

5Rental value based on the median rental value of dwellings in the lowest quintile of the rental distribution in Inner Melbourne
The level of housing stress amongst CRA recipients is considerably higher than the level of housing stress amongst all private rental households or all home purchaser households (92% for CRA recipients versus 63% and 69% respectively); across the selected areas, 89% of CRA recipients living by themselves (referred to as single CRA recipients) are living in housing stress, whilst 94% of CRA recipients living in share accommodation (referred to as sharer recipients) are living in housing stress; the level of housing stress does not vary greatly between localities within the selected areas.

The spatial disaggregation of housing stress offered by the ACOSS and National Shelter data also highlights the extent of the affordability problem in inner regions, relative to Metropolitan Melbourne as a whole. Using data incorporated into the 2003 Productivity Commission Enquiry into Government Services, King and Melhuish establish that across Metropolitan Melbourne, approximately 36% of CRA recipients were living in housing stress (using a 30% affordability benchmark) (2003, p.8).

Whilst it can be assumed that if the affordability benchmark were dropped to 25% a greater number of households would fall into the stress category, it is unlikely that the level would approach that attached to the inner region.

Table 3. CRA Recipients in Housing Stress – Selected Households – June 2002

<table>
<thead>
<tr>
<th>FaCS Postcode Range</th>
<th>Inner Region suburbs within postcode range</th>
<th>Proportion of Single CRA Recipients Living in Housing Stress</th>
<th>Proportion of Sharer CRA Recipients Living in Housing Stress</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>3003-3010</td>
<td>Melbourne, East Melbourne, West Melbourne, Southbank.</td>
<td>98%</td>
<td>96%</td>
<td>97%</td>
</tr>
<tr>
<td>3047-3100</td>
<td>North Melbourne, Parkville, Carlton, Carlton North, Fitzroy, Collingwood, Abbotsford, Clifton Hill, Fitzroy North, Fairfield, Alphington</td>
<td>89%</td>
<td>93%</td>
<td>92%</td>
</tr>
<tr>
<td>3101-3148</td>
<td>Richmond, Burnley, Cremorne, South Yarra, Toorak, Armadale, Prahran, Windsor</td>
<td>87%</td>
<td>93%</td>
<td>91%</td>
</tr>
<tr>
<td>3181-3210</td>
<td>Prahran, Windsor, St. Kilda, St. Kilda West, Balaclava, St. Kilda East, Elwood, South Melbourne, Middle Park, Port Melbourne</td>
<td>90%</td>
<td>94%</td>
<td>90%</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>91%</td>
<td>94%</td>
<td>92%</td>
</tr>
</tbody>
</table>

[Note: The data presented in Table 3 was adapted from ACOSS and National Shelter (2003, pg. 20) and was originally supplied by the Department of Family and Community Services (FaCS). All data was collated from fortnightly income support payment forms submitted to Centrelink. The ACOSS study deemed that recipients were living in housing stress if they were expending more than 30% of their total income, including CRA, on rent].
2.3 Supply of Affordable Rental Housing

The housing stress data presented in section 2.2 paints a comprehensive picture of the affordability problem in inner Melbourne. For example, it can be concluded that, as a minimum, there is a direct need to improve housing affordability for the 11,038 households currently living in housing stress in the region. This figure does not account for the quantum of households displaced or excluded from the region due to shortfalls in low value housing stock.

Conversely, the quantum of low income households not living in housing stress is representative of the regions stock of affordable housing (not including vacant dwellings). From this perspective, the data tables show that across all three household categories, in 2001 there were approximately 6059 affordable rental dwellings in the region, accounting for 13 per cent of all rental stock. This analysis assumes that different household types are consuming housing that is appropriate to their needs. It is likely however, that many households are living in unsatisfactory conditions in order to meet their affordability objectives.

Table 4 confirms that the supply of affordable housing in the region –as measured by low income households not living in housing stress - is most prevalent in Collingwood, Kensington and North Melbourne, with affordable housing making up more than one quarter of all dwelling stock in each of those suburbs. Conversely, affordable housing has all but vanished from the central city suburbs of Southbank, East Melbourne and Melbourne. In general, those suburbs that were traditionally working class or artisan in nature are still home to the regions most significant stocks of low cost accommodation.

Table 4. Affordable Housing Supply, Inner Melbourne, 2001

<table>
<thead>
<tr>
<th>Statistical Local Area</th>
<th>Number of Affordable Dwellings</th>
<th>Proportion of Total Dwelling Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melbourne C - Inner</td>
<td>27</td>
<td>1%</td>
</tr>
<tr>
<td>Melbourne C - Southbank and Docklands</td>
<td>10</td>
<td>1%</td>
</tr>
<tr>
<td>Melbourne C - Remainder</td>
<td>1,060</td>
<td>13%</td>
</tr>
<tr>
<td>Port Phillip C - St. Kilda</td>
<td>833</td>
<td>7%</td>
</tr>
<tr>
<td>Port Phillip C - West</td>
<td>905</td>
<td>19%</td>
</tr>
<tr>
<td>Stonnington C - Prahran</td>
<td>965</td>
<td>11%</td>
</tr>
<tr>
<td>Yarra C - North</td>
<td>1,393</td>
<td>21%</td>
</tr>
<tr>
<td>Yarra C - Richmond</td>
<td>866</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,059</strong></td>
<td><strong>13%</strong></td>
</tr>
<tr>
<td>Neighbourhood</td>
<td>Postcode</td>
<td>Number of Affordable Dwellings</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>----------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>Collingwood</td>
<td>3066</td>
<td>424</td>
</tr>
<tr>
<td>Kensington</td>
<td>3031</td>
<td>908</td>
</tr>
<tr>
<td>North Melbourne</td>
<td>3051</td>
<td>592</td>
</tr>
<tr>
<td>Fitzroy</td>
<td>3065</td>
<td>352</td>
</tr>
<tr>
<td>Port Melbourne</td>
<td>3207</td>
<td>336</td>
</tr>
<tr>
<td>South Melbourne</td>
<td>3205</td>
<td>430</td>
</tr>
<tr>
<td>Richmond / Burnley / Cremorne</td>
<td>3121</td>
<td>866</td>
</tr>
<tr>
<td>Carlton</td>
<td>3053</td>
<td>496</td>
</tr>
<tr>
<td>Clifton Hill / Fitzroy North</td>
<td>3068</td>
<td>453</td>
</tr>
<tr>
<td>Prahran / Windsor</td>
<td>3181</td>
<td>494</td>
</tr>
<tr>
<td>Armadale</td>
<td>3143</td>
<td>147</td>
</tr>
<tr>
<td>Middle Park</td>
<td>3206</td>
<td>140</td>
</tr>
<tr>
<td>Fairfield / Alphington</td>
<td>3078</td>
<td>108</td>
</tr>
<tr>
<td>Balaclava / St. Kilda East</td>
<td>3183</td>
<td>296</td>
</tr>
<tr>
<td>West Melbourne</td>
<td>3003</td>
<td>37</td>
</tr>
<tr>
<td>St. Kilda / St. Kilda West</td>
<td>3182</td>
<td>382</td>
</tr>
<tr>
<td>South Yarra</td>
<td>3141</td>
<td>344</td>
</tr>
<tr>
<td>Abbotsford</td>
<td>3067</td>
<td>43</td>
</tr>
<tr>
<td>Carlton North</td>
<td>3054</td>
<td>114</td>
</tr>
<tr>
<td>Elwood</td>
<td>3184</td>
<td>146</td>
</tr>
<tr>
<td>Parkville</td>
<td>3052</td>
<td>33</td>
</tr>
<tr>
<td>Toorak</td>
<td>3142</td>
<td>36</td>
</tr>
<tr>
<td>Melbourne</td>
<td>3000</td>
<td>37</td>
</tr>
<tr>
<td>East Melbourne</td>
<td>3002</td>
<td>11</td>
</tr>
<tr>
<td>Melbourne (St. Kilda Rd and Queens Rd)</td>
<td>3004</td>
<td>8</td>
</tr>
<tr>
<td>Southbank</td>
<td>3006</td>
<td>3</td>
</tr>
</tbody>
</table>

2.4 Change over time in the supply of affordable rental housing

The range of affordable rents payable by low income households in both 1996 and 2001 is shown in Table 5. The maximum rental value represents 25 per cent of the maximum income earned by households within the bottom two quintiles of the income distribution in 2001. The 1996 value has been adjusted to account for inflation, as measured by CPI growth (CPI growth between June 2001 and June 1996 = 133.8/199.8 = 1.116) (ABS Cat 6401).
Table 5. Maximum Affordable Rental Values, 1996 and 2001

<table>
<thead>
<tr>
<th>Maximum value in second income quintile, 2001</th>
<th>Maximum affordable rental value, 1996</th>
<th>Maximum affordable rental value, 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>$419 / week</td>
<td>$0-$94 / week</td>
<td>$0-$105 / week</td>
</tr>
</tbody>
</table>


Unfortunately, ABS Census data is collected in ranges that encompass, but do not precisely match the ‘affordable’ rental ranges shown above. However, the ABS range of 0-$99 per week, which was included in both the 1996 and 2001 Census, provides a very close approximation of the rental values that are deemed to be affordable for low income households, as measured by the housing stress benchmark.

Table 6 presents the number of private rental dwellings in inner Melbourne that were leased for less than $99 per week in 1996 and 2001. As can be seen, the stock of low value (i.e. affordable) dwellings in the inner region almost halved over the five year period between Census collection nights. Interestingly, Port Phillip (St. Kilda) suffered the most significant loss of affordable dwellings (69%), whilst Port Phillip (West) retained more affordable dwellings than any other SLA in the inner region.

Of particular concern is the speed with which the supply of affordable rental housing is disappearing. At the current average annual rate of change, by 2030 the inner region will be home to only 151 affordable private rental dwellings. Whilst, from a pragmatic perspective, the issue is unlikely to reach such disturbing proportions, all of the available evidence suggests that new and effective policy action is required as a matter of utmost urgency.
### Table 6. Low Value Private Rental Stock 1996 - 2001, Melbourne Inner Region

<table>
<thead>
<tr>
<th>Area</th>
<th>1996</th>
<th>2001</th>
<th>Decline</th>
<th>Avg. Annual Change</th>
<th>Affordable Stock at 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melbourne (C) - Inner</td>
<td>58</td>
<td>25</td>
<td>57%</td>
<td>-15%</td>
<td>0.2</td>
</tr>
<tr>
<td>Melbourne (C) - S'bank- D'lands</td>
<td>N/A</td>
<td>3</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Melbourne (C) - Remainder</td>
<td>2481</td>
<td>1262</td>
<td>49%</td>
<td>-13%</td>
<td>25.0</td>
</tr>
<tr>
<td>Port Phillip (C) - St Kilda</td>
<td>3032</td>
<td>926</td>
<td>69%</td>
<td>-21%</td>
<td>1.0</td>
</tr>
<tr>
<td>Port Phillip (C) - West</td>
<td>1715</td>
<td>1141</td>
<td>33%</td>
<td>-8%</td>
<td>107.4</td>
</tr>
<tr>
<td>Stonnington (C) - Prahran</td>
<td>2004</td>
<td>1124</td>
<td>44%</td>
<td>-11%</td>
<td>39.3</td>
</tr>
<tr>
<td>Yarra (C) - North</td>
<td>3142</td>
<td>1784</td>
<td>43%</td>
<td>-11%</td>
<td>66.9</td>
</tr>
<tr>
<td>Yarra (C) - Richmond</td>
<td>1896</td>
<td>1071</td>
<td>44%</td>
<td>-11%</td>
<td>39.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14328</strong></td>
<td><strong>7336</strong></td>
<td><strong>49%</strong></td>
<td><strong>-13%</strong></td>
<td><strong>151.1</strong></td>
</tr>
</tbody>
</table>

3 Expanding Affordable Housing Opportunities – Engaging the Private Sector

3.1 Why Private Sector Involvement?

The traditional method of delivering housing assistance in Australia – at least for most of the post war period – was through the provision of public housing. In this model, the government landlord offers state owned housing to lower income households at an affordable rental and absorbs the cost of foregone market rentals in a reduced return on assets.

It has been recognised for some three decades that this traditional model cannot, by itself, meet the national housing assistance challenge. While several evaluations, including by the Productivity Commission, have demonstrated that direct government investment in public housing is the most cost–effective method of providing affordable housing (see below), it is, by definition, highly demanding of government capital. Particularly in a climate of public sector borrowing restraint, it has proven difficult to sustain high rates of new government investment in public housing.

There are many other reasons why reliance on a conventional public housing model of housing assistance delivery has proven unsustainable. It is a model dependent on scale efficiencies and the provision of standardised services. Some have argued that the operations of public housing authorities ultimately became captive to their internal housing production apparatus to the detriment of clients. Thus, large concentrations of undifferentiated public housing were created, often in inappropriate locations.

Consequently, commencing in the early 70’s, housing assistance delivery in Australia began to diversify through various efforts to spread the assistance safety net wider, offer clients of socially owned housing more choice and draw in off-budget finance for the expansion of the social housing stock. Key measures included:

- Introduction of Commonwealth Rent Assistance (CRA), an income support payment linked to the eligible household’s private rental costs;
- Adoption of various forms of tenant participation in the management of public housing;
- Seeding of not for profit organisations to hold and manage socially owned housing on behalf of the State - utilising their balance sheets and cash flows to help fund stock expansion while drawing on their community links to attract philanthropic and other capital at sub-market cost; and
- Promotion of various home ownership products targeted at lower income households, including low start loans, capital indexed loans and shared equity schemes.

Although the last 3 decades have seen a great deal of experimentation, the vast majority of Australians in receipt of housing assistance today benefit from just two programs – traditional public housing funded under the Commonwealth State Housing Agreement (CSHA) and CRA. In a sense, nothing much has changed.
The imperative for change is now escalating rapidly, and no more so than in the inner urban regions of Australia’s big cities. Some of the forces behind this include the following:

- The capacity for net stock expansion in socially owned housing has all but evaporated as a result of static or declining funding commitments under the CSHA. Given its now ageing housing assets and greatly diminished rent streams (resulting from the targeting of available vacancies to those most in need), the Victorian Office of Housing has been forced to dedicate the bulk of CSHA capital allocations to stock renewal. Net stock expansion is now at a virtual standstill. Total Government expenditure under the CSHA was approximately $1.4 billion in 2000-01, significantly lower than a decade earlier (see Figure below).

- Although the quantum of CRA payment made to a given household partly reflects the amount paid in rent, the scheme is not regionally differentiated. Australia wide, one third of CRA recipients pay more than 30% of their income in rent. The ratio would be much higher in certain metropolitan rental markets and certainly so in Melbourne’s inner city region.

- The supply of affordable private rental housing, once relatively abundant in the older, run down housing stocks of the inner cities, has shrunk alarmingly as these suburbs have become prized locations for high income earners in Australia’s new, globally engaged, economy (see Section 2).

- In the post GST environment, uncertainty surrounds the respective on-going roles of the Commonwealth and the States and Territories in the provision of housing assistance.

Against this background, there is now an urgent need to substantively diversify public policy responses to the affordable housing issue. In particular, there is a need to:

- Attract private sector investment, especially institutional investment, in the provision of affordable housing;
- Find new and equitable sources of funding for the subsidies required to bridge the gap between affordable and market rents for those on very low incomes; and
- Develop new procurement and delivery infrastructures, including Non Government Organisations that can provide a compelling offer to equity and debt providers as well as managing affordable housing in a client responsive manner.
3.2 Closing the Funding Gap to Induce Private Sector Investment

In the absence of a major reversal of trends in the Commonwealth’s commitment of funds to public housing, securing private capital for the expansion of affordable housing will be essential if Melbourne’s inner urban region is to avoid becoming the exclusive province of knowledge workers and other relatively well to do segments of the community.

There is no mystery to the attraction of private investment in affordable housing. This investment will flow, provided the return (versus the risk taken on) is adequate. In broad terms, the task of securing private sector funding for social housing can be summarised as follows:

- Net revenues from affordable housing operations, that is the difference between rent collected and the costs associated with tenancy and stock management, is unlikely to exceed, say, 3% of the acquisition cost of the housing in question, if the stock is targeted at households on very low incomes.

- Private sector providers of capital for the acquisition of this housing will generally be looking for a return of, say, 10% (the precise figure will depend on the scale of the capital placement, perceptions of risk and the social orientation of the investor).

- Thus, affordable housing providers will face an annual funding shortfall of perhaps 7% of acquisition cost of the housing (that is, the difference between the return they can provide (3%) and the return private investors want (10%)).

- This gap must be bridged by a subsidy, gift or donation. Typical methods of finding the money to fill the gap include:
- Recruiting an investor who is prepared to provide capital at much less than the market rate or for no return at all.
- Gaining an explicit Government subsidy (e.g. under the State Government’s SHIP initiative).
- Dedicating a proportion of local taxes (rates) to this task.
- Finding a social housing partner who is willing to provide the land or other resources for free or at a price significantly below market.
- Generating an alternative flow of funds for these subsidies, for example, development contributions.

- Assuming the social housing provider has arranged the resources required to bridge the gap between returns on housing operations and market returns, the vehicles used to raise the substantive capital for the housing are many and varied. They include:
  - Equity funding arrangements
    - Formation of a listed company to raise capital for social housing operations; and
    - Formation of a private joint venture company involving the social housing provider and, say, a private developer, with the latter bringing the capital for housing acquisition.
  - Debt funding arrangements
    - The social housing provider seeks out standard mortgage finance from individual lenders;
    - An umbrella body or auspice organisation raises debt finance for member social housing providers, using the pooled equity amongst members as collateral; and
    - The government or some auspice body raises ‘wholesale’ debt finance by selling bonds to the investment market.

The table overleaf identifies the main features of the capital raising vehicles/strategies as found in the recent literature.
| Bond Scheme | The Federal Govt provides a subsidy to the States and Territories to be used to leverage private sector investment in social housing (ACG 2001:46). There are two approaches that could be followed, as well as two methods by which the subsidy could be delivered. Approach 1: States issue bonds at a guaranteed minimum rate of return to raise funds to purchase social housing. The Federal subsidy could be used to bridge the gap between the rental yield and the guaranteed minimum return. Approach 2: The States could use the subsidy to directly leverage the construction of social housing by private developers with the condition that an amount of housing is provided. Subsidy Option 1: Issue bonds at a below market rate, however provide a tax concession that ensures the after-tax return is equivalent to the market rate. Subsidy Option 2: Issue bonds at a market rate with normal tax rates applying. A new outlays program would subsidise the gap between the net rental returns and the sale of the housing at the end of the transaction. |
| Listed Company | A listed company is established with: • 20 percent Government equity • 30 percent shareholder equity; and • 50 percent borrowed funds. The government’s equity would be subordinated. That is, it would be available to satisfy investors’ returns up to a predetermined level. In addition, the govt equity would be discounted to the extent that the asset price movements did not maintain the cost base plus CPI. The housing would be valued each year and the underlying share price would reflect property prices and any government support received through discounting the govt’s equity. For dividend payments, a return of 10 percent would be the minimum required by professional investors. It is unlikely that the net rental income would reach this percentage so further government subsidies would be required to bridge the difference. |
| Pooled Funds | The major participants in the pooled fund would be: • Investors • CHO’s, which would manage social housing properties on a fee-for-service basis. • Government, which would provide incentives for investors and equity funds for joint ventures (e.g., tax concessions). Government could also be an investor • Funds manager which would provide administrative services in respect of the funds raised, again on a fee for service basis. • Facilitators such as banks, underwriters and insurers. The success of this arrangement would rely on the provision of free equity (from government) and the targeting of housing tenants in receipt of income over and above Centrelink payments. |
Joint Ventures
(Brian Elton & Assoc 2000)

Joint ventures, in various combinations, have been established between govt, community organisations and private investors and/or developers to create social housing. Often these arrangements rely on the provision of land by one of the parties at zero or below market cost.

Debt Finance at market rates or at low cost through social investors
(Brian Elton & Assoc 2000)

CHO’s may seek debt funding from standard lenders (e.g. banks) or from wholesalers. The lending could take place on a one on one basis, as per household investment loans. Alternatively, the CHO’s could borrow through a purpose built company to reduce risk premiums and gain maximum leverage from current social housing assets. Examples of the latter include the operations of the Community Housing Ltd on behalf of the Common Equity Rental Co-operatives in Victoria.

3.3 Using Private Capital Involves Policy Trade – Offs

Impact of Targeting

One difficult issue thrown up by the pressing need to engage the private sector in the expansion of affordable housing in the Inner Urban Region concerns the targeting of subsidies. A given quantum of subsidy funding – whether it be generated from the tax – transfer system, or whether it arises from innovative funding strategies, including planning measures, will obviously go a lot further if targeted at somewhat higher income groups that require less assistance to bridge an affordability gap. Using limited funds to provide mortgage interest assistance to those on the margins of home ownership will enable many more households to be assisted, than using the same funds to close the affordability gap for those in after housing cost poverty in the private rental sector. In this scenario, assisting more people into home ownership comes at the expense of those in greatest need. In a similar way, if an affordable housing provider were to target households in the upper end of the sub-40th percentile segment in the income distribution, the net returns from rental operations could be closer to 4% or 5% of the acquisition cost of housing, which means that the gap to the rate of return required by a commercially motivated investor will be reduced. In these circumstances, a given pool of subsidy funding to bridge this gap will obviously generate more affordable housing opportunities in a given time period, compared to targeting income households at the bottom end of this income segment.

Given that funding allocations under the CSHA have been static for an extended period, considerable policy development effort has gone into ‘alternative financing mechanisms’ for
affordable housing. These can all be seen as derivatives of the basic financing dynamic outlined in the foregoing subsection. They include:

- capital raising for affordable housing through Government supported bond schemes; stock exchange listed companies where the returns are, to some extent, underwritten by Government;
- non-profit housing trusts;
- listed property trusts where low income tenants are subsidized to provide a commercial return to investors in the trust, and where the tenants also enjoy a share of the capital gain;
- shared equity models with institutional investors holding joint ownership;
- headleasing; and
- not for profit joint ventures.

Many of these models implicitly or explicitly assume that the housing in question will be occupied by households at the "upper end of the low income range", that is, a significantly different group to those currently being assisted through public housing and its community housing equivalents.

This does not mean that such models do not have an important part to play in a balanced inner urban housing strategy for Melbourne. For example, they are particularly well adapted to addressing the need for 'key worker' housing. Nevertheless, good policy is served if the targeting of subsidies in any proposed alternative or innovative scheme is made explicit and open to evaluation.

**Inter-generational trade offs**

Another issue that tends to escape focussed debate with alternative financing schemes for affordable housing concerns the trade-offs which are made between assisting a large number of households in the short term (through leveraging or private financing schemes) and assisting large numbers of households in the longer term (through dedication of government capital). The simplest form of 'leveraging' (again a derivative of the financing dynamic outlined above) is where Government simply tops up the return to a private landlord, that is, Government pays the difference between an affordable rent and the market rent (adjusted for any risk premium attaching to the households in question). By way of illustration, consider a couple with 2 children in receipt of Family Assistance payments with a total income of, say, $36,800 per annum. The maximum affordable rent for such a household would be $177 per week or $9,200 per annum. The rent required to induce a private investor (through whatever vehicle) to provide a newly constructed 3 bedroom dwelling in a suitable location for this household may be $300 per week, assuming the dwelling has a capital value of $300,000. The subsidy stream to support this private investment deal would therefore be approximately $6,400 per annum ($100 million / $150,000). Assume that the net present value cost to Government of renting the same type of dwelling to the same household under a traditional public housing model is $150,000 (that is, rental income provides a small surplus after operations, maintenance and asset replacement costs are offset by future land value capture). Given these parameters, and leaving aside any market shock effects, a $100 million housing assistance budget in year 1 could be used to provide affordable housing to some 15,600 households using private leveraging schemes ($100 million / $6,400) compared to just 667 households under a traditional government capital allocation model ($100 million / $150,000).
This simple example underlines the great boost to short term affordable housing stocks achievable by switching from government capital allocation to leveraging (private financing) schemes. But there is a price to be paid for this benefit. Continuing with the same hypothetical household and assistance budget, year 2 would again see 15,600 households assisted under the private sector leveraging schemes, while, under the government acquisition model, some 1,300 households would be assisted. In year 3, households assisted through leveraging would remain unchanged while a further 667 households could be assisted under government capital acquisition. And so the trend would continue until the number of households assisted under traditional acquisition actually overtakes that for leveraging schemes (see the Figure 2). Of course, the exact location and slopes of these curves will vary depending, mainly, on the rent payable by the households in question (hence the implied imperative in many models to target slightly higher income groups). But the essential dynamic of trading off future housing assistance for current assistance remains unchanged. The principal reason why the capital acquisition model provides superior assistance volumes in the long run is the implicit reinvestment of returns from the housing portfolio into further housing acquisition. In leveraging models there is an inevitable leakage of capital returns to the private investors.

Good policy would again be served if the short run vs. long run trade offs in the effectiveness of housing assistance were made explicit in the development of alternative financing models.

Having made these observations, it is clear that any strategy for expanding and retaining affordable housing in inner Melbourne will require a mix of assistance and delivery models across a range of groups in the needs spectrum.

**Figure 2. Private Capital Leveraging vs. Government Housing Stock Acquisition – Trade Off Effects**
4 Bridging the Funding Gap

4.1 Introduction

As explained in the foregoing Section, there are ample supplies of private capital available for investment in affordable housing. There has been extensive research work on the best ways of raising wholesale investment funds for affordable housing. The major barrier is sourcing the funds required to bridge the gap between the net return from affordable housing operations and the return required by private investors.

There have been calls for this funding gap to be financed as an on-budget expenditure item by the Commonwealth, as part of an affordable housing bonds scheme. But, despite its clear efficiency and equity benefits, this model has not (yet) met with a positive response from the Commonwealth.

In the context of the present assessment of conditions and options for Melbourne’s inner urban region, the search for efficient and equitable subsidy sources will have to be undertaken in other domains, namely within the taxation and regulatory responsibilities of State and local government.

4.1.1 Broad Options

The State Government’s options for funding affordable housing subsidies (regardless of how these might be deployed from public housing provision to home purchase assistance) fall into 4 broad categories:

- **The introduction of explicit new taxes.** Models here include local government rate surcharges for affordable housing, extension of Land Tax to provide cash flows for affordable housing and betterment taxes.
- **The hypothecation of existing cash flows to affordable housing or the foregoing of cash flows** as part of an affordable housing program; examples here include:
  - dedication of all or part of the VicUrban dividend to affordable housing initiatives;
  - providing Stamp Duty concessions to eligible home buyers; and
  - dedication of the proceeds of government land sales to affordable housing (or the provision of such sites at less than market value for affordable housing projects).
- **Regulatory measures** requiring the creation of affordable housing as part of the development process. In the limited cases where these have been used in Australia, the regulatory framework in question has been the planning approval system.
- **Philanthropy and ethical investment**, which also includes harnessing volunteer effort.

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6 The ideas and concepts set out in this section of the report have benefitted greatly from work commissioned by the QDoH in the ongoing formulation of an affordable housing strategy for Queensland.
The fourth of these options, philanthropy and ethical investment, should form part of a well balanced affordable housing strategy principally because these help raise awareness of housing issues and can expand the group of stakeholders in this field of policy, thereby enriching the base of thinking and partnerships from which genuine innovation can continue to flow. Nevertheless, we do not dedicate further discussion to this topic in this report, as it is unlikely that reliance on outright ‘charity’ or on individuals or enterprises foregoing market value will ever provide sufficient funds to make a serious dent in the affordable housing task confronting inner Melbourne.

4.1.2 New Taxes

Given its wider agenda to promote investment in Victoria, the State Government will be cautious about new taxation options. In this environment, only specialised and targeted taxes with a strong and transparent rationale are likely to be considered, if any are to be considered at all.

A local government rates surcharge for affordable housing makes a degree of sense if rates are viewed as a form of wealth tax. The rates surcharge, especially if limited to properties surpassing a relatively high threshold value, would generally target those areas where the affordability crisis is most acute and where local property owners have enjoyed something of a ‘windfall’ from the structural economic adjustments which have transferred so much investment into the inner city, coastal areas and other high amenity / high accessibility locations. The surcharge could be characterised as a necessary measure to maintain social mix in otherwise rapidly gentrifying neighbourhoods (see further discussion below in relation to planning measures), and this could be reinforced if there were a commitment to re-invest locally collected surcharges in locally expanded affordable housing options.

Despite these arguments, a rates surcharge could meet significant resistance from Councils who might be tempted to portray it as a shift (yet again) of responsibility from the State to local government. These concerns could be ameliorated through the development of new delivery models which saw local Councils assuming significant control over tenancy allocation matters. There are already successful models for this, for example, local Councils like Port Phillip engaging in joint ventures with the OoH on social housing projects (by giving up Council land at less than market value – arguably a rate surcharge in another form) in return for tenancy nomination rights. Using these approaches, the surcharge could rightly be promoted as a local community development initiative rather than an inter-governmental shift in fiscal responsibilities.

Perhaps the power of this proposition to local government would be enhanced if the State Government were prepared to absorb some political pain as well, through the application of some Land Tax revenues to the initiative. This could be way of hypothecation of Land Tax for affordable housing, or introduction of a State equivalent of the affordable housing rate surcharge.

Certainly, the local rates surcharge would be much more compelling for the State Government if the Cities of Melbourne, Port Phillip, Yarra and Stonnington put forward a package on the concept as a united group.

Betterment levies also have a compelling logic, though they too present major implementation difficulties
Betterment is the increase in land value that results from the actions of persons other than the owner of the land or property. This increase could be due to actions of the public sector, via a change in zoning/land use provisions and/or the provision of infrastructure.

A betterment levy is the amount paid to a government authority due to a rise in property/land value (windfall) that may accrue to property owners following a planning decision to upgrade development rights, or following the provision of public infrastructure. Betterment levies seek to recover, for public purposes, “the value that regulation and major public investment confer on private land assets” (Fensham & Gleeson, 2001).

Although traditionally used in urban fringe localities where rural land is being up-zoned to residential land, betterment levies could also be applied in inner-urban areas where traditional industrial and other lower value uses are being replaced by residential and commercial uses. Fensham & Gleeson (2001) note that inner urban areas benefiting from government intervention, such as renewal areas, are ideal candidates for betterment capture.

It has been argued that a component of ‘betterment’ is already captured via Capital Gains Tax. Applying a Capital Gains Tax to the post betterment levy value of the land could, however, obviate this concern.

The strength of betterment levies is that they aim to correct a market failure (‘windfall gains’) in an equitable manner. Betterment levies have been proposed in areas such as Seattle, USA, as they are considered to be “the most equitable resolution to capital budget constraints” on providing required infrastructure (Gihring, 2001).

If applied appropriately, a betterment levy could generate significant revenue.

Another major advantage of betterment levies is that if they were to operate as planned – i.e. taxing away part of the unearned increment for land sellers – they are non-distortive. That is, they do not, in themselves, change development patterns. Developers will still pursue the same types of projects in the same areas, as their financial equation (as distinct from the land seller’s) remains unaffected. It should be noted, however, that it is difficult – although not impossible – to design and implement a betterment levy that is not simply transferred as an additional increase in the sale price of land.

Application of a betterment levy would need to be cognisant of some of the practical, political and administrative difficulties that have been associated with such levies in the past (Smith 2000). In particular, it is important that:

- Calculations of increases (or decreases) in prices overall are undertaken in a transparent and fair manner;

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• The capture of betterment is properly monitored. If not properly monitored, the betterment levy may be passed on to the end-consumer, rather than being borne from the unearned increment accruing to the land seller;
• The proceeds are clearly accounted for and dedicated to their intended purposes.
• For equity purposes, a ‘worsenment’ (or compensation) fund should accompany the introduction of a betterment levy to account for those situations where planning and infrastructure initiatives negatively affect the land owner’s development opportunity.

Examples

All examples below are taken from Fensham & Gleeson (2001).

British Example
An early legislative milestone was the Housing and Town Planning Act 1909 which “introduced a 50 per cent levy on increases in value caused by the ‘making of any town planning scheme’, while conversely, compensation could be awarded for any injurious effect of a scheme” (Balchin & Kieve, 1985)

Early New South Wales Legislation
In NSW, a system of betterment taxes applied to non-urban land between 1970 and 1973 (see Archer, 1976). The Land Development Contribution Act 1970 and Land Development Contribution Management Act 1970 imposed a levy on specified non-urban lands of the Sydney Metropolitan Region. The following features defined the system:
• The levy applied at the rate of 30 per cent of the increase in the unimproved capital value of the land between 1st August 1969 and the value at the date of rezoning (as adjudged by the NSW Valuer-General and adjusted for inflation;
• The levy was payable by the land owner at the time the land was sold or when given planning permission to develop. When the land was sold before rezoning the landowner paid the levy on the increase in value indicated by the sale price, with the new owner liable to pay on any further increase in value to the date the land was rezoned;
• The tax collected was only to provide for public works and services in the specified areas and was not for general taxation.

Australian Capital Territory
The system of land tenure in the ACT provides for the capture of betterment. In this jurisdiction, the government is the monopoly land owner and distributes 99 year leases as land is designated urban. Value increments are thus captured by government at the point of land conversion. Furthermore, where the developer / leaseholder successfully applies for a lease variation to upgrade development rights, the Australian Valuation Office undertakes an assessment of the unimproved value of the land pre and post the lease variation decision, and a betterment charge is levied at 75 per cent of the difference.

The application of betterment levies to support affordable housing would probably require special legislation in Victoria. Indeed, the legislation would need to reinstate a UK style provision that had
been in Victoria’s previous planning legislation – the Town and Country Act – whereby up to half of the increase in land value attributable to planning scheme changes could be recovered by the planning authority. An alternative approach would be to capture betterment via the Local Government Act by applying special rates to properties undergoing upward valuation as a result of a development approval or rezoning.

4.1.3 Hypothecation and Foregone Revenue

Hypothecation of existing tax and other revenue flows to Government is a perennial option. Generally, this approach is not favoured by policy makers as it restricts budget flexibility and may be difficult to ‘unwind’ when circumstances change. However, given the structural housing problem facing the Inner Region, structural forward commitment of all or part of VicUrban’s dividend for affordable housing initiatives deserves consideration, as one of this Corporation’s key purposes is to improve affordable housing outcomes. Moreover, if its contribution to subsidised housing is not through dividend hypothecation or periodically reviewed funding allocations, there will be a continuing pressure on VicUrban management to divert its attention from vital matters of housing market efficiency. With VicUrban capitalising on its commercial mandate, the corporation’s dividend will continue to provide a quantum of funding substantial enough to make a major impact on affordable housing stocks throughout the State, especially if combined with private capital leveraging schemes as discussed earlier.

Options which involve foregoing revenue to assist particular players in the housing market such as Stamp Duty exemptions for home buyers, State taxation concessions for owners of low income rental housing and land tax concessions for investors in affordable housing, can be administratively convenient. The biggest shortcoming of these mechanisms is that they tend to be less transparent and accountable than equivalent program expenditures such as direct grants.

The remainder of this section focuses on the third of the categories outlined earlier in this Section – regulatory measures to boost affordable housing. The primary sub-options in this category are:

- Impact mitigation conditions;
- Inclusionary Zoning;
- Bonus Systems;
- Negotiated or voluntary contributions for affordable housing; and
- Enforcement of affordable housing contributions as ‘infrastructure charges’.

4.1.4 Regulatory Measures

**Impact Mitigation Conditions in Development Approvals**

‘Impact mitigation’ measures are conditions attached to a development approval to compensate for an identified adverse environmental impact of development. For example, redevelopment of existing affordable housing may be permitted if the proponent replaces it with (say) an equivalent supply of affordable housing (whether as part of a larger development on the site, or in another
location). Alternatively, a cash contribution, or relocation costs for displaced residents, may be payable.

Such measures can only be applied where the impact on the supply of affordable housing (i.e. through loss of or increased demand for stock) is directly attributable to a proposed development. The application of impact mitigation conditions (IMC’s) in the Victorian context would depend upon the scope of the planning legislation and, in particular, its treatment of the definition of ‘environment’. If a definition of environment that encompassed social as well as ecological considerations were to be upheld in the courts, IMC’s would apply in specific areas where social diversity is identified as an important environmental value requiring protection (see Section 5 for further discussion).

‘Demolition controls’ are a similar measure, in that they are intended to protect certain types of existing affordable housing (such as boarding houses) and to address the impacts of development and redevelopment on marginal forms of housing provision for low-income households. By themselves, demolition controls do not produce contributions to affordable housing. However they may be applied as a trigger for other measures requiring compensation or contributions.

Impact mitigation measures can provide a comprehensive and consistent basis for the protection of affordable housing or to partially mitigate its loss. However, they are only useful for the maintenance or preservation of the existing level of affordable housing at best. In areas where further affordable housing is required, these mechanisms would need to be coupled with other strategies.

Furthermore, adopting impact mitigation measures could be construed as directly penalising owners who have been ‘socially responsible’ in the past and provided low rental housing.

By definition impact mitigation conditions would be open to appeal on a case by case basis.

Examples
Some examples of the application of impact mitigation measures can be found in NSW’s State Environmental Planning Policy (SEPP) 10: Protecting Low Rent Housing. Two case studies are provided below.

Case 1
A development application was submitted in 1995 to change the use of a building from a boarding house to an educational establishment in the Waverley Local Government Area. The property had been licensed as a boarding house for 33 years (along with the adjoining property) and accommodated socially-disadvantaged and mildly intellectually-disabled persons. In the past, two development applications had been successfully lodged for alterations and additions. The property was originally licensed for 36 persons and after the additions it increased to 50 persons. The premises were subject to the Department of Community Service’s additional requirements and the two properties were subsequently listed for sale. The Department of Housing purchased one of the properties to use for youth accommodation. The existing tenants needed to relocate and, following continuing pressure from Council, community organisations and the owner, an assessment panel was set up to help find other
accommodation. The owner submitted an application to convert the remaining boarding house to an educational establishment.

**Assessment**
The main areas of assessment of the remaining boarding house involved:
- Compliance with SEPP 10
- Compliance with Waverley’s DCP No. 14 – Bicycle and Car Parking
- Considerations of general matters under the *Environmental Planning and Assessment Act 1979.*

**Determination**
A deferred commencement consent was granted subject to:
- The concurrence from the Director-General of the Department of Housing
- Payment of a section 94 contributions of over $36,000 to the Council’s Housing Trust Fund due to the likely loss of rental housing for low and moderate income groups by the proposed development.

**Case 2**
A development application was submitted in early 1998 to strata subdivide a residential flat building containing 18 apartments in the Leichardt Local Government Area.
The building provided a substantial amount of affordable 'lower end' rental accommodation in an excellent location for middle to lower income earners.

**Assessment**
The application was referred to the Director-General of the Department of Housing for comment. The Department of Housing recommended refusal on grounds that the application failed to demonstrate evidence of sufficient comparable accommodation. An analysis of DOH housing stocks and waiting lists indicated a severe shortage of affordable accommodation existed in the locality.

**Determination**
DOH suggested strata subdivision in multiple unit allotments, as this would retain most units in the rental market. The applicant suggested an alternative proposal for a legal agreement with Council which retained half of the units to be leased at low rental for three years. Council and DOH supported the outcome, which was reflected in appropriate conditions of consent.

### Inclusionary Zoning

Inclusionary Zoning is a planning provision requiring incorporation of a certain use or facility in approved developments. In some cases, a monetary contribution can be supplied in lieu of the facility or use. In this case, the responsible authority would use the obtained monies to provide the required use or facility on other parcels of land.

Typical "Inclusionary Zoning" provisions include:

- Requirements for developments to include adequate car parking;
- Requirements for developments to include on-site run-off detention;
- Requirements for developments to provide adequate public open space;
- Requirements for developments to include design features that harmonise with a heritage setting.
Mandatory inclusions of this nature are predicated on preserving or enhancing the environmental values, functionality and liveability of an area. Importantly, cash in lieu arrangements under Inclusionary Zoning ought not be confused with taxes or ‘user pays’ levies on development. They are an option offered to development proponents to enable them to meet mandated requirements off-site.

Where environmental conditions warrant, Inclusionary Zoning principles could be applied to the provision of affordable housing in developments, or the provision of cash in lieu. Inclusionary Zoning represents a means by which local governments are able to achieve identified environmental objectives to do with preserving or achieving a desired social value (such as social diversity), through the adoption of pro-active planning policies.

Local needs and circumstances would determine the nature of the Inclusionary Zoning requirements. Inclusionary Zoning requirements aimed at housing outcomes could range from requiring all non-exempt development to dedicate a proportion of their developments to:

- Higher density dwellings; and/or,
- A mix of allotments, including smaller allotments, so that a variety of housing types may be accommodated; and/or,
- Units/dwellings that would be retained as affordable for a period of time or in perpetuity.

As noted, an alternative to the above inclusions would be contributions to an agency that could deliver the desired Inclusionary Zoning objectives off-site.

Where it is necessary to ensure the ongoing maintenance of dwellings as ‘affordable’ housing, complementary arrangements would need to be established to ensure that the affordable housing created to meet Inclusionary Zoning requirements does not become a windfall gain for the first generation of buyers of the housing (who could on-sell the properties at market prices). This will generally (though not always) mean vesting the housing in some appropriate social housing provider.

Inclusionary Zoning for affordable housing is not a new concept in Australia. It has been successfully applied for many years in Ultimo/Pyrmont in Sydney (see Text Box).

The Ultimo/Pyrmont Regional Environmental Plan (REP) for affordable housing was not made under that State’s planning regulations for developer contributions (section 94). Rather, the REP relies on the argument that social mix forms part of the ‘environmental values’ that needed to be protected in Ultimo/Pyrmont.

As noted, the affordable housing contributions in Ultimo/Pyrmont are not a charge as such, but a works or cash in lieu option that developers can use in fulfilling the obligation to maintain and enhance the environmental quality of the area. Contributions collected are directed to the City West Housing Company (CWHC) which utilises them to provide affordable housing.
As with IMC’s to protect affordable housing, the applicability of Inclusionary Zoning in Victoria may depend upon the definition of ‘environmental impacts’ in the planning legislation.

The major strengths of an Inclusionary Zoning system for affordable housing are as follows:

- Because contributions are set against a target and based on expected levels of development, there is a high degree of certainty regarding the amount of affordable housing that will be provided in an area;
- Due to the transparent nature of the Inclusionary Zoning requirements, the development sector will benefit from greater certainty in its dealings with planning authorities and land sellers;
- Because Inclusionary Zoning is a regulatory and not a voluntary mechanism, all developments (unless explicitly exempt) face the same assessment processes. That is, Inclusionary Zoning spreads the burden for maintaining the environmental quality of ‘social diversity’ across all developments;
- Unlike other mechanisms such as bonuses, which tend to be ad hoc, most developments occurring under an Inclusionary Zoning policy will be designed within the environmental limits identified in the planning scheme. Under bonus schemes, planning authorities may be inclined to approve ‘over development’ of sites in order to gain an affordable housing contribution. Alternatively, planning authorities might be inclined to artificially limit the development potential of sites in order to make room for negotiated bonuses for affordable housing (see below); and,
- There is flexibility in the Inclusionary Zoning approach, as developers who are reluctant to provide affordable dwellings on their proposed development site can opt to provide a monetary contribution.

Example

**City West, Sydney Regional Environmental Plan (REP) No. 26**

Adapted from Williams, Australian Planner, Vol 34, No1, 1997

**Description**

Regional Environmental Planning Instrument made under the Environmental Planning and Assessment Act (1979). REP facilitated jointly by NSW and Commonwealth Governments through Building Better Cities Program.

Covers the inner city precincts of Everleigh and Ultimo-Pyrmont. Prepared for the purposes of redevelopment of the Everleigh and Ultimo-Pyrmont.
Includes Inclusionary Zoning provisions in relation to the provision of affordable housing. Statutory requirements for private developers within the Ultimo-Pyrmont Precinct of City West to contribute to affordable housing provision.

**Aim in relation to Affordable Housing:**
Provide 600 units of affordable housing over the next 20 – 30 years (6%-7% of total stock). Commonwealth Better Cities funds and State contributions from land sales to provide 400 of these. With the remaining 200 units provided through Inclusionary Zoning – either provision of housing or cash-in-lieu developer contributions.

Department of Housing to provide another 100 units of public housing.

**General approach to determining the number of affordable units / monetary contribution required:**
Consent Authority prefers the provision of affordable housing within each proposed development (on-site contribution) based on the following formula;

On site contribution =

m2 total floor area required for 200 units of affordable housing*  
m2 total floor area of residential and residential – business zones in Ultimo-Pyrmont

On site contribution = 20,000m2 / 1,800,000m2  
= 1.1% of total floor area

*It is assumed that the average size of one unit of affordable housing is 100m2 total floor area

Cash-in-lieu also allowed based on the following formula;

- In Lieu contribution = Total cost for 200 units of affordable housing**/ m2 total floor area of residential and residential-business zones in Ultimo-Pyrmont

**Average cost of providing one unit of affordable housing = $200,000 (1994 prices, subject to indexing).

In Lieu contribution = $40,000,000/ 1,800,000m2  
= approximately $23 per m2 total floor area.

**Process:**
Development application lodged  
Consent authority calculates floor area to be provided as affordable housing, or the amount to be paid as an in-lieu monetary contribution

Condition of consent is attached to development approval, noting requirements for affordable housing

Subsequent management of affordable housing funds or dwellings is undertaken either by or in conjunction with City West Housing Company Pty Ltd, a non-profit company set up to manage and deliver the Affordable Housing Program.

If Inclusionary Zoning were to be applied in Victoria it might need to be confined to areas which currently and/or historically have been characterised by a rich social mix that is valued by the community at large (as per the Ultimo Pyrmont example). To avoid potentially fruitless debate on
the social mix qualities of particular neighbourhoods, to maximise the affordable housing benefit of this initiative and to equitably spread the Inclusionary Zoning ‘burden’ across the development sector, it would make sense to apply these provisions to all development over a relatively large area – for example, the whole of the inner urban region encompassing the municipalities of Melbourne, Port Phillip, Stonnington and Yarra. Other areas at risk of loss of social diversity could be included via case by case amendment of their planning schemes.

**Bonus Systems**

Bonus systems involve application of concessions in planning controls to encourage the provision of affordable housing in designated areas. In this approach developers may be offered additional development capacity for a site through the relaxation of height and density restrictions, in return for providing affordable housing or some other benefit for the community.

Bonus systems offer the prospect of more intense or higher value development if the proponent is prepared to include affordable housing in the project or contribute to an affordable housing fund. Advocates of the bonus system believe that bonuses increase the overall value of a project and make the provision of affordable housing units more economical, creating a so called ‘win – win’ situation.

Critics argue that bonus systems often compromise neighbourhood amenity or produce costs for the land owner, depending how the bonuses are determined. If the pre bonus level of permissible development is set in line with local environmental limits, granting of the bonuses is likely to mean that the local community will bear certain costs, for example, overlooking or overshadowing, or overloading of local infrastructure networks.

If, on the other hand, the pre bonus level of permissible development is set below environmental limits, persons selling land will bear most of the cost, assuming a competitive market applies. The requirement to provide affordable housing in order to access the full development potential of a site would effectively amount to a tax on that marginal development capacity. This tax would be reflected in a lower residual land value (unless the developer enjoys a price making position, in which case the costs may be passed forward to end users).

Where restrictive ‘as of right’ conditions are set to make bonuses more attractive, but developers opt not to take up the bonuses, the result is under-utilisation of development capacity, leading in turn to higher costs in the housing system.

Another weakness of bonus systems is that they have not produced large numbers of affordable dwellings due to a reliance on opportunities ‘as they arise’. Bonus systems have also been criticised as being imprecise and requiring intense negotiation upon each application.

**Example**

Waverley Council’s Affordable Housing Program offers a bonus to developers as part of their residential development policy. The bonus is provided through planning incentives – developers...
may increase the floor space ratio, develop a larger building envelope or do a combination of the two. The bonus is negotiated and assessed using the council’s Affordable Housing Calculator (AHC).

In the Waverley LGA a bonus is offered only to projects where the increased density is compatible with the surrounding environment. If the developer accepts the density bonus some of the additional units must be affordable housing. The council retains a proportion of affordable housing within a development by putting conditions on the development consent that set out the general requirements for providing affordable housing through a covenant under the Conveyancing Act 1919 (this is registered on the title to ensure the property is kept as affordable housing).

In summary, it is very difficult for bonuses to be applied in a comprehensive manner, as they are completely voluntary. Even where developers are keen to take up the offers of bonuses, studies have shown that in many cases considerable person-hours are required with little overall return in affordable housing provision. And perhaps most importantly, although the take up of bonuses may lead to an increase in affordable housing and therefore benefit a portion of the community, relaxations of important planning standards can reduce environmental benefit for the community in an overall sense.

**Negotiated Arrangements**

Developers may enter into a negotiated agreement with a Council with regard to the provision of affordable housing (or other benefits of a community or public character) in conjunction with a development, whether on site or off site, in cash or in kind.

Due to the inconsistent basis upon which they are utilised, bonuses / relaxations can also be regarded as a negotiated arrangement, albeit on a more formalised basis (i.e. planning schemes can explicitly mention the bonuses ‘on offer’).

Negotiated agreements are arbitrary and depend on the willingness of both the local government and the developer to enter into discussions. As a result, this method of securing contributions offers no certainty or consistency. These arrangements often take many person-hours of negotiation. A system of case-by-case negotiations can be said to be open to abuse, if the processes are not transparent.

The uncertain and opportunistic nature of negotiated agreements suggests that given the increasing need for affordable housing such a mechanism could not provide a reliable outcome. Rather, affordable housing provided through negotiated arrangements could be considered additional to the targets set by other means.

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8 DUAP, 2001, Managing affordable housing: 3 case studies on affordable housing, Affordable Housing Service, DUAP
**Infrastructure Charges (Linkage Fees)**

Under this mechanism, affordable housing is treated as ‘support infrastructure’ for development in much the same way as water supply, sewerage, drainage and roads. The underpinning argument is that major retail, commercial and tourist developments in particular generate a requirement for a range of low and middle income workers like cleaners, security officers, police officers, teachers and so on. If these ‘essential’ and lower paid workers cannot find accommodation close by, they will have to commute, thereby generating a requirement for more roads and public transport infrastructure. To overcome the need for this additional infrastructure investment, development is required to be relatively ‘self contained’ in terms of affordable housing.

There are no precedents for this approach in Australia, other than in remote locations and some tourist resorts where local worker housing is required. However, it has been used in a range of US cities and is being pursued in some inner city areas in Britain.

Construing affordable housing as ‘infrastructure’ is highly debatable.

**Overview of Economic Merits and Housing Impacts**

The table below brings together the key arguments regarding the effectiveness of the regulatory initiatives discussed in this Section. Inclusionary Zoning plus clarification of the capacity of Councils to place affordable housing mitigation conditions on development approvals emerge as the preferred options.

**Table 7. Summary of Merits/Impacts of Regulatory Measures to Support Affordable Housing**

<table>
<thead>
<tr>
<th>Regulatory Measure</th>
<th>Economic Merits</th>
<th>Scale of Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact Mitigation Conditions (IMC’s) in Development Approvals</td>
<td>Requires the planning legislation to acknowledge that social mix can be a valued aspect of “environment” that can merit protection via planning instruments. On this basis this regulatory measure has a strong economic argument in terms of mitigating the negative externalities of development.</td>
<td>Minor.</td>
</tr>
<tr>
<td></td>
<td>At best, this measure would only prevent loss of large and identifiable clusters and forms of affordable housing (e.g. low cost rooming houses). The measure would struggle to cope with affordable housing loss through gentrification and incremental redevelopment.</td>
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</tr>
<tr>
<td>Inclusionary Zoning</td>
<td>Would also require that the planning legislation acknowledge social mix as an environmental value. Relatively non-distortive as it would apply to all development forms across large districts.</td>
<td>Potentially substantial. Relatively small per sq metre cash in lieu payments, spread over a large number of developments would provide a significant cash flow that could be used in conjunction with private finance</td>
</tr>
<tr>
<td><strong>Developers would have certainty regarding the affordable housing inclusion requirement and could factor this into land bids, potentially passing some of the burden back to land sellers.</strong></td>
<td><strong>leveraging schemes to generate sizeable expansion in affordable housing stocks, at least in the medium term.</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Bonus Systems</strong></td>
<td><strong>Economically flawed as they require either arbitrary constraints on environmental development capacity (thereby driving up costs in the housing sector generally), or the imposition of environmental costs on surrounding communities when proponents take up ‘overdevelopment’ rights in return for affordable housing contributions.</strong></td>
<td><strong>Minor to moderate.</strong> Subject to the willingness of developers to take up the bonuses, which is likely to be dependent upon local market conditions.</td>
</tr>
<tr>
<td><strong>Negotiated Arrangements</strong></td>
<td><strong>Problematic in that they effectively rely on the threat of development approval delays to extract voluntary contributions for affordable housing. This uncertainty can push up housing costs across the system.</strong></td>
<td><strong>Minor to moderate.</strong> Again, only likely to be effective in high price / high volume development markets.</td>
</tr>
<tr>
<td><strong>Infrastructure Charges (Linkage Fees)</strong></td>
<td><strong>Difficult to justify the provision of affordable housing as support infrastructure in the same sense as roads, drains, water supply and sewerage etc.</strong></td>
<td><strong>Potentially substantial.</strong> (Quantums would be determined in a similar way to Inclusionary Zoning)</td>
</tr>
</tbody>
</table>
5 An Inclusionary Zoning Strategy for the Inner Region

5.1 Introduction

Assuming that the State Government and the Councils in the Inner Region do not wish to pursue a broad based taxation strategy – like rate or Land Tax surcharges - to fund the subsidies required for expansion of affordable housing opportunities, Inclusionary Zoning emerges as the best of the regulatory options to address this issue.

This Section considers the feasibility and potential impact of applying this approach in the Inner Region. As noted above, the discussion is set against the assumption that Inclusionary Zoning will be applied uniformly across all 4 municipalities with no significant exemptions as far as development types are concerned.

5.2 Statutory Feasibility

The key statutory issue is whether Inclusionary Zoning is allowed for under Victoria’s planning legislation.

There is certainly no prescribed overlay that can be used for this purpose. However, the Act itself can be seen to support application of such mechanism.

Under the Planning and Environment Act 1987, the objectives of planning in Victoria are specified as:

- (a) to provide for the fair, orderly, economic and sustainable use, and development of land;
- (b) to provide for the protection of natural and man-made resources and the maintenance of ecological processes and genetic diversity;
- (c) to secure a pleasant, efficient and safe working, living and recreational environment for all Victorians and visitors to Victoria;
- (d) to conserve and enhance those buildings, areas or other places which are of scientific, aesthetic, architectural or historical interest, or otherwise of special cultural value;
- (e) to protect public utilities and other assets and enable the orderly provision and coordination of public utilities and other facilities for the benefit of the community;
- (f) to facilitate development in accordance with the objectives set out in paragraphs (a), (b), (c), (d) and (e);
- (g) to balance the present and future interests of all Victorians.
The objectives of the planning framework established by this Act are—

(a) to ensure sound, strategic planning and co-ordinated action at State, regional and municipal levels;
(b) to establish a system of planning schemes based on municipal districts to be the principal way of setting out objectives, policies and controls for the use, development and protection of land;
(c) to enable land use and development planning and policy to be easily integrated with environmental, social, economic, conservation and resource management policies at State, regional and municipal levels;
(d) to ensure that the effects on the environment are considered and provide for explicit consideration of social and economic effects when decisions are made about the use and development of land;
(e) to facilitate development which achieves the objectives of planning in Victoria and planning objectives set up in planning schemes;
(f) to provide for a single authority to issue permits for land use or development and related matters, and to co-ordinate the issue of permits with related approvals;
(g) to encourage the achievement of planning objectives through positive actions by responsible authorities and planning authorities;
(h) to establish a clear procedure for amending planning schemes, with appropriate public participation in decision making;
(i) to ensure that those affected by proposals for the use, development or protection of land or changes in planning policy or requirements receive appropriate notice;
(j) to provide an accessible process for just and timely review of decisions without unnecessary formality;
(k) to provide for effective enforcement procedures to achieve compliance with planning schemes, permits and agreements;
(l) to provide for compensation when land is set aside for public purposes and in other circumstances.

Unlike other, more recently adopted planning legislation in Australian jurisdictions, Victoria’s Planning and Environment Act does not explicitly define ‘environment’ and ‘environmental impacts’ as extending beyond natural systems and buildings. But such a broad interpretation of what the ‘environment’ means seems to be implicit in the objectives of the Planning Framework established by the Act, and particularly by Clause (d) in this Framework. Indeed, Clause (d) appears to mandate consideration of social and economic effects when formulating planning schemes and assessing development applications.

While SGS does not profess to be expert in finer legal points, it would seem implausible that the Planning and Environment Act would, on the one hand, direct planning authorities to consider social and environmental impacts ‘when decisions are made about the use and development of land’, but rule out the use of planning scheme mechanisms, like Inclusionary Zoning, to mitigate anticipated negative social or environmental impacts. This is especially so where mitigation of social and environmental impacts through Inclusionary Zoning and the like would lead to an increase in net community benefit from development (see Section 6).
It would seem that the incorporation of the highlighted items in the objectives of planning and the planning framework in Victoria have irretrievably broadened the scope of what constitutes a ‘planning matter’ in this State. This, in turn, throws the focus on whether the loss of affordable housing from the inner urban region can be considered a “social or economic” effect, or indeed, a diminution of “special cultural value”.

It would take considerable conceptual gymnastics to argue that the displacement of lower income groups from the inner city was not a social or cultural impact. The notion of gentrification and its potential adverse effects in terms of cultural ‘homogenisation’ have been well documented.

If the scope of planning matters has, indeed, been opened up to the extent suggested above, it raises the further question of where planning authorities should ‘draw the line’ in terms of using planning schemes to correct for adverse social and economic outcomes. For example, is it appropriate to require ‘in sequence’ developers on the urban fringe to fully fund schools and health services that might otherwise lag in provision over several years? Similarly, is it the developer’s responsibility to solve local employment or public transport problems, if the development is otherwise totally consistent with physical planning policies for the area in question.

To some extent, the question of where the ‘line is to be drawn’ regarding interventionism in the planning system must be answered in the context of the wider policy framework for dealing with the economic, social or cultural issues in at hand. To this point at least, State Government continues to take responsibility for fully funding education and public transport services through taxation and various user pays strategies. For as long as these commitments are in place, use of planning interventions could reasonably be criticised as cost or responsibility shifting. The same argument might have been applied in the case of housing assistance when, in rhetoric at least, Governments claimed to fully address the issue through the CSHA, CRA and related programs. Over the past decade it has become clear both in the words of governments (e.g. calls for diversification of housing assistance arrangements under the CSHA) and in their collective funding allocations, that ‘mainstream’ housing programs are no longer adequate for or, more to the point, are no longer expected to do the job of protecting lower income groups from housing stress. Under these (regrettable) circumstances it would appear reasonable to exploit the potential to use planning interventions to directly support affordable housing objectives via Inclusionary Zoning.

5.3 Other Institutional Capacity Issues

In the current fiscal environment, generating a supplementary funding stream from Inclusionary Zoning is likely to be a crucial element in any strategy to deal with the inner urban region’s affordable housing crisis. But securing such a funding stream would be but one aspect of an effective strategy. Appropriate institutional arrangements need to be in place to manage and direct these funding flows in an accountable and transparent manner. A number of jurisdictions around Australia have confronted this challenge through the establishment of arm’s length ‘affordable housing vehicles’, which are differentiated from traditional community housing organisations as well as public housing corporations.
SGS recently commissioned Robyn Zakharov of "The Policy Practice" to research recent experience with the formation of affordable housing vehicles in various parts of the country. An edited version of Zakharov’s findings is provided here, under sections 5.3.1 to 5.3.4 inclusive.

5.3.1 Why are New Affordable Housing Vehicles Required

NSW has had the longest experience with a specialised vehicle for developing and managing affordable housing. The City West housing company, established in 1994, is funded through equity grants from state and federal governments and proceeds of a developer contribution scheme that operates in the local area (Pyrmont/Ultimo).

In 1999 the ACT government established a public company, Community Housing Canberra Ltd, to hold assets transferred from public housing, with the initial purpose of improving the viability of community managed housing in Canberra. There is now apparently an intention for this organisation to play a role in developing new affordable housing. In 2002 it completed a project using private sector finance and in partnership with a private sector developer, involving the redevelopment of an old public housing estate and the construction of new affordable and market-priced housing.

The Queensland Government established the Brisbane Housing Company in 2002 in partnership with the Brisbane City Council, to develop new affordable housing supply in the inner suburbs of Brisbane. It has also received considerable equity funding from the government partners as well as the proceeds of voluntary developer contributions for affordable housing.

Each of these organisations is an "arm’s length" entity, essentially owned by government but operating with sufficient separation to achieve public benevolent institution and charitable institution status.

City West in Sydney, Canberra Community Housing Limited and the Brisbane Housing Company, were created for the sole purpose of raising and managing finance for affordable housing supply, and the procurement and management of portfolios\(^9\). Of the three organisations, only City West also adopts the tenancy management role as well. The other two organisations focus on a direct role in asset management and financial management, as well as determining policy objectives for tenancy management. They outsource their tenancy management to community based tenancy managers, already active in the social housing sector.

\(^9\) New South Wales also has a strategy for growing its community housing associations, primarily through stock transfers from public housing. These organisations are essentially tenancy managers, however, as they secure their stock on a five year lease only, rather than capital acquisition. As such, they are really not playing a large part in expanding the overall supply of social or affordable housing except when government housing agencies run a capital investment program in community housing.
The creation of new affordable housing entities involves considerable time and effort by governments to establish the rationale and structure of the entity and assemble the financial arrangements. Invariably a partnership is involved between two or even three spheres of government. The entities are also backed by substantial government support in the form of cash and/or property assets. Why have governments chosen this strategy rather than graft the new arrangements onto the existing social housing sector?

There is presently a widespread view within governments that existing community housing organisations lack core skills and capacity to undertake the new roles involved in a fully-fledged affordable housing company. It seems that governments want to ensure they have a highly professional structure in place to be willing to entrust it with complete control over procurement and expenditure. The fact that governments are also unwilling to expand supply through the public housing system suggests that they are more comfortable in experimenting with new structures and organisations than with the existing social housing providers.

A key feature of these entities is their active and direct role in procuring an asset portfolio that will meet the long term requirements of the organisation. The entities represent a direct merger of property development and management skills with social housing objectives. Private sector expertise has been brought in to conduct the asset planning and creation process, unencumbered by internal government processes. City West, for example, claims that its structure enables it to operate with speed and flexibility in the asset procurement process, without tiers of approvals from other partners. BHC similarly is able to operate flexibly in the housing market, being accountable to its management board for the detail of its operations. Accountability back to the government owners is primarily through performance reporting.

This is in contrast to the environment in public housing organisations where the focus is on juggling the financial demands of a very large and ageing portfolio, alongside the distractions of responding to various government policy directions at strategic and operational levels and increasingly time consuming internal governance processes.

The small scale of most community housing providers means that they simply do not employ asset managers in the development and guidance of their portfolio. Most community housing portfolios have been assembled through site specific grants or through leasing agreements on stock controlled by the government housing agencies. There are a small number community housing organisations that are expanding their portfolio through a variety of sources rather than relying solely on grant processes, and are developing capability in strategic asset management as well as an entrepreneurial outlook. Overall, skills in the community sector are primarily in social housing tenancy management. This is, however, still a very important component of housing management, especially in determining the quality of housing outcomes for tenants.

5.3.2 Targetting and Rent Setting

Affordable housing projects that attract entrepreneurial private finance will need to be explicit about their financial performance for the life of the project. This necessarily means that close attention needs to be paid to the financial viability of these arrangements, to ensure private partners achieve the return they sought when entering the project. The notion of “affordable
“Affordable housing” raises some important policy issues regarding targeting and rent setting. Arm’s length vehicles are structured to be viable under known financial conditions, such as access to capital and debt finance, an accurate assessment of operating costs and a predictable income stream from rents. These organisations need to be explicit about targeting of their services in terms of likely household income. An assessment needs to be made of the likely rent levels and the affordability of the rent levels by different income types.

The establishment of explicit targeting for the organisation’s housing requires very clear expectations, especially on the part of the government supporting the organisation. If there is an expectation that the organisations will replicate the services provided through public or community housing and be accessible by very low income people, perhaps with high support needs, this needs to be built into the cost and revenue structures of the entity. For example, if an affordable housing project is to be targeted to young people, the rent levels need to reflect the very low incomes of some young people. Of course there will also be higher management costs associated with some types of tenancies. A project which targets homeless people in the inner city needs to not only provide the appropriate forms of accommodation and pricing, but also requires a style of tenancy management which will help sustain tenancies, for example if tenants have a mental illness or are affected by substance abuse. This sort of tenancy management requires staff who have time to make additional site visits if required, referrals to other services and the skills to manage the tenancy with sensitivity to the tenant’s individual needs.

Most social housing providers operate income-geared rent arrangements, where the level of rent paid is dependent on the level of income of the tenant. If access to the housing is targeted to very low income households, such as single people on pensions, to maintain affordability the organisation must plan for its rent levels and therefore revenue at that level. There may be an expectation that mixed funding affordable housing projects will generally not target the very lowest income clients – public and traditional models of community housing are expected to continue to service this population. Affordable housing entities, in order to establish long term viability, would need to target at the very least a mix of income levels, unless it was to receive additional subsidy from government to support very low income tenants.

City West tackles the dilemma of providing affordable housing through income geared rent and meeting revenue targets by establishing an allocation regime based on percentages of income levels to be housed. It draws tenants from three income groups, ranging from very low to moderate. Through the tenancy allocation process a mix of different income households is maintained in each building to ensure revenue targets are met and to provide a diverse socio-economic mix. The Brisbane Housing Company has avoided the problem altogether by applying a property based rent, regardless of income. Rents are established and tested through modelling of their affordability of different income types and by offering a range of dwelling types at different rent levels. It is then the choice of the tenant whether to pay a rent for a unit within an affordable range or to pay a higher rent for a larger or better unit. This approach means that the rent revenue stream is highly predictable, based on the structure of the portfolio, and a reasonable level of affordability to the target group is assured.

It is noteworthy that both City West and the Brisbane Housing Company are able to borrow funds for capital investment, but are not as yet doing so. It is unlikely that their operations can generate sufficient surpluses to expand their portfolio without underlying support from government, which is
why the potential of developer contributions and levies has become so important to the growth of portfolios. It is conceivable that some may pursue more commercial activities to generate funding for their core business in affordable housing – there are examples of this in the United States where public housing agencies have invested in commercial developments that underwrite the operations of their social housing development. However care needs to be taken to separate commercial from “social” business activities in order to maintain PBI tax status.

5.3.3 Asset and Tenancy Management

The range of housing management activities being undertaken, especially by those arms length entities undergoing steady growth (i.e. City West and BHC), represent a range of functions not experienced by most in the existing community housing sector. The mechanics of determining finance, assembling and managing a housing portfolio replicates much private sector experience. However affordable housing entities may find the bigger challenges in the detail of social housing tenancy management. While affordable housing does not necessarily equate with social housing, experience to date indicates that affordable housing companies are expected to accommodate, to a point, a similar target group to public and community housing and provide a similar style of tenancy management. This is certainly anticipated in Victoria (see below).

Tenancy management in social housing involves a far greater range of activities than private tenancy management and requires considerable sensitivity to the social objectives of the organisation. The approach adopted by the Brisbane Housing Company in outsourcing its tenancy management means that organisation can focus its operational efforts on financial and asset management and utilises experienced social housing providers for the more “social” aspects of its business. This has required BHC to be very clear about its expectations of service standards and to establish policies on how the key tenancy management processes are to be conducted, for example, waitlist management, tenant selection, neighbourhood disputes, rental arrears and eviction. To do this, the entity has to have a good understanding of the style of tenancy management it wishes to adopt, as this is how its performance will be judged by those shareholders and stakeholders whose main interest is the tenants’ welfare.

Another feature of social housing, particularly in the community sector, is the opportunity for tenant participation. This not only provides for more responsive management, but it builds skills and experience in tenants as well as building relations between tenants on a site. If the affordable housing entity is not the tenancy manager, it again needs to determine its policies in relation to tenant participation and specify to its agents its expectations about how this should be conducted. For example, BHC contracted the Queensland Public Tenants Association to provide it with advice about establishing tenancy participation activities and structures in its developments. The entity needs to assign resources to establish and sustain participatory activities on its sites. City West sees the formation of tenant groups as important for strengthening the sense of ownership and social connectedness among tenants and as a channel for gaining valuable feedback about service improvement. City West also conducts annual tenant surveys to monitor client satisfaction. Social and affordable housing organisations need to maintain a strong focus on tenant outcomes as they were originally established to provide housing for tenants who have little in the way of choices in
5.3.4 Relationships with other Housing Assistance Players

It is not clear exactly where these new entities fit within the broad framework of housing assistance and market supply. While the style of asset management adopted by the entities reflects market practices, there is little doubt they are being created by governments to ease the pressure on the declining public housing system and small community housing system. This suggests they need to be well integrated with social housing providers operating in the same market in terms of planning, communication and tenancy referrals. The nature of this relationship will depend on the organisational model and scope of functions established for the entity as well as the nature of targeting to be adopted.

Good relationships with organisations in the social housing sector need to be established at the outset, starting with good communication. The Brisbane Housing Company faced considerable suspicion for a period as the community sector questioned the commitment of government funds to a new organisation when resources were needed elsewhere in social housing. Targeting of the new affordable housing was also an issue in the context of it receiving government funding. There were community concerns that not only was funding being redirected from public and community housing, but it would benefit higher income households.

If stock transfers are involved between public housing and the new entity, there will again need to be good communication about the rationale and process for transfer. In other jurisdictions there has been some community concern about new models of affordable housing, being viewed as privatisation of social housing.

Part of the communication and integration of a new entity with the existing social housing service system should involve exploring the likely relationships between organisations. For example the entity is likely to have a direct relationship with social housing providers in the following ways:

- It may receive referrals of housing applicants from public and community housing organisations (e.g., direct referral from existing social housing applicants or from people contacting other housing agencies for assistance).
- It may outsource some of its housing management functions to other housing agencies, specifically in the community sector, for example tenancy management and tenant participation activities.
- It may be involved with other social housing providers as a joint venture partner, for example on a public housing redevelopment site. In Melbourne a new housing management company is being created to manage new public and affordable housing at a major redevelopment site in Kensington.
- It may negotiate with other social housing providers to transfer tenants or even tenancies to other managers if this is in the best interest of the client.

When the Queensland Government was setting up the Brisbane Housing Company, it established protocols within its public housing system for referrals to BHC. This included considerations such
as the terms of the tenancy, for tenants originally seeking public housing (would they have an option to retain their place on the waiting list if they were unsatisfied with the new provider?) and the communication process with waitlisted tenants (how were they contacted and advised about an alternative affordable housing option? Were they given the choice to remain on the waiting list?).

5.3.5 Approach in Victoria

Experimentation with alternative affordable housing vehicles has also occurred in Victoria, but progress has been modest compared to the jurisdictions reviewed in the foregoing section. In an important initiative, the City of Melbourne founded the Inner City Social Housing Company to develop affordable housing in inner metropolitan Melbourne. The Company was registered in October 2000 and operates with an independently appointed Board of Directors. The Company has not been able to fully capitalise on its a well skilled board and management team because of its limited capital base.

More recently, the State Government has moved to deliver on its election promise to establish at least 4 "Housing Associations" to pursue innovative and sustainable affordable housing strategies along the lines of those followed by City West. According to the Government’s Consultation Paper regarding the policy and operating arrangements for the Housing Associations, some $70 million has been set aside to capitalise these newly formed or expanded affordable housing vehicles. The Government’s Housing Association proposals have come about in response to four key trends (OoH, 2003):

- "Buoyant private rental and home purchase markets;
- Commonwealth Rent Assistance has not kept pace with increases in private rental costs;
- Funding under the Commonwealth State Housing Agreement has declined for over 10 years to the point where State Housing Authorities cannot provide growth in the public and community sectors; and
- The large scale gentrification of many former low cost housing units in the inner city areas of Melbourne”

In the start up phase of this program, Housing Associations will be registered by the Office of Housing. The Government has foreshadowed that ultimately an independent body will be set up to register and regulate the Associations. In broad terms, the Housing Associations will have the following features (OoH, 2003):

- "Each Association will have the potential to manage or own a relatively large portfolio of properties with a capital growth program agreed with the Office of Housing;
- Associations will be eligible to receive growth funding for capital purposes from the Government, and will use these funds to provide housing assistance to households who meet public housing eligibility or qualify for Commonwealth Rent Assistance;
- They will be innovative in delivering housing and creating partnerships;
- They will be able to borrow funds from the private sector to contribute to their growth program;
- They will be financially viable businesses with approved business plans reflecting their borrowing capacity over an agreed timeframe;
• **Associations will have independent, appropriately-skilled Boards as well as active tenant participation;**
• **They will provide high quality housing assistance with professional and skilled housing management;**
• **They will meet regulatory requirements including annual financial and service audits;**
• **They will comply with Residential Tenancies law and other legislative requirements, including Corporations Law; and**
• **Associations may be established from among existing providers as well as new providers.”**

According to the Consultation Document, “Housing Associations will complement existing community housing providers and the Public Housing System, which will continue to be the mainstay of social housing in Victoria, as the largest provider of housing assistance.” Importantly, it also makes clear that after their initial capitalisation by Government, Associations will be expected to be financially self-sustaining; “new housing acquisitions using the $70 million will not attract recurrent State Government subsidy”.

Although there is no barrier to existing community housing groups applying for registration (and capitalisation) as a Housing Association, it clear that the Government sees the community housing sector as quite separate and focussed on a similar clientele as that served by traditional public housing. The Government has stated that while there will be no forced amalgamation of smaller providers, their capacity to grow will be limited, as capital funding will, in the main, be targeted to Housing Associations.

Housing Associations are expected to secure funding from:

• Private sector financing through borrowing or equity arrangements;
• Commonwealth Government Rent Assistance for eligible tenants; and
• State Government capital funding for growth of affordable housing stock.

Interestingly, the Government has not foreshadowed access to funding generated via the planning system, though it envisages that Housing Associations will be ‘innovative’ in tapping local social capital.

It also clear from the Consultation Document that the Government fully expects some diversion of housing subsidies away from the most needy reflecting the inevitable policy trade offs canvassed in Section 3.3 of this report. **The State Government will not be providing recurrent funding for new Housing Associations as they should be able to meet their ongoing operating costs from tenants’ rents. Housing Association tenants will include those on somewhat higher incomes (based on current eligibility for Commonwealth Government Rent Assistance) than existing public housing tenants and, with access to Commonwealth Government Rent Assistance, should generate sufficient rent revenue to meet costs (OoH 2003, 6).**

There are no quantitative criteria set out in the Consultation Document regarding the degree to which housing subsidies are to be spread across to somewhat higher income groups. Rather Housing Associations will be expected to maintain the ‘affordable housing outcomes’ set out in their charter as approved by the registration agency. **Initially the Office of Housing but subsequently the Registrar, once established, will give final approval for rent policies adopted by Housing**
Associations, including approval for subsequent changes (OoH 2003, 8). In addition, four key principles have been suggested by Government to guide the eligibility and allocations policies of Associations:

- “Housing Associations will provide assistance to households who meet public housing eligibility or qualify for Commonwealth Government Rent Assistance;
- Housing Associations will provide assistance to a proportion of applicants currently on public housing waiting lists, including the “early housing” waiting list;
- There should be a common point of entry for housing assistance applicants for fair and efficient allocations across all providers including public and community housing and Housing Associations; and
- There should be policy flexibility to allow Housing Associations to be innovative and to address local needs within their communities” (OoH 2003, 9).

The Government has made significant progress in establishing the policy ground-rules for a strong Housing Association sector in the State. Unlike other jurisdictions, Victoria has favoured an ‘institution building’ approach as opposed to seeding one or two affordable housing companies.

It seems reasonable to assume that appropriate institutional arrangements for managing cash flows from an Inclusionary Zoning scheme will be in place by the time these proposed planning reforms have reached fruition in the inner urban region.

5.4 Impact Scenarios

In the decade to 2001, an average of 2618 dwellings were added to Melbourne’s inner urban region\(^{10}\) each year. Assuming this production rate continues and that the average floor area of new dwellings is 100 m\(^2\), the annual expansion in residential floorspace would be of the order of 261,800 m.\(^2\)

Applying a cash in lieu rate of $30 per m\(^2\), a figure comparable with that successfully levied in Ultimo Pyrmont, an annual revenue stream of some $7.85 million would be generated if all future residential development were to be subject to Inclusionary Zoning. The revenue stream would be significantly greater with the inclusion of non-residential development, but SGS has no figures by which the scale of this supplementary income flow might be gauged.

As alluded to earlier, the impact of a revenue stream of $7.85 million plus on the affordable housing problem in the inner city would depend upon whether this income was used for outright stock purchase or as a ‘bridging payment’ in a public – private partnership or leveraging deal. On the assumption that there would be a small net operating surplus in renting the affordable housing units in question to households in the upper reaches of the sub 40\(^{th}\) percentile income range, the net present value cost of acquiring a dwelling unit in the region might be around $300,000. If so,

\(^{10}\) Inner urban region here is defined to include the Cities of Melbourne, Port Phillip, Stonington and Yarra.
the $7.85 million income stream would enable the addition of some 26 affordable housing units each year. Thus, stock accumulation after 10 years would be 260.

If the $7.85 million were to be deployed via leveraging schemes, the early year impacts would be significantly larger. If the gap between the return required by investors and the return generated by affordable housing rental operations is around 8% of capital value, an effective payment of some $24,000 per unit per year would be required to induce private partners to lease stock on an ongoing basis to an affordable housing provider. On this basis, outlays of $7.85 million would secure around 327 units. To keep these units within the affordable housing portfolio, the bridging payments would need to continue each year at $24,000 per unit.

As can be seen from Figure 3, the outright purchase strategy overtakes the leveraging strategy in terms of the number of affordable housing units on offer, after some 12 years.

**Figure 3. Impact of Inclusionary Zoning (Residential Development Component Only) – Purchase versus Leveraging Strategies**

The point at which outright acquisition becomes the superior option does not vary much with plausible changes in the assumptions cited above. Table 8 below provides a broad brush analysis of the sensitivity of affordable housing supply outcomes to variations in key assumptions.
### Table 8. Impact of Changed Assumptions

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Inclusionary Zoning Rate per sq. m.</th>
<th>Net Affordable Unit Acquisition Cost</th>
<th>Financing Gap</th>
<th># of Purchased Units Year 1</th>
<th># of Leased Units Year 1 and Ongoing</th>
<th>Year in which Purchase Strategy Overtakes Leasing re Affordable Housing Stock Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Base Case</td>
<td>$30</td>
<td>$300,000</td>
<td>8%</td>
<td>26</td>
<td>327</td>
<td>2016</td>
</tr>
<tr>
<td>B</td>
<td>$25</td>
<td>$300,000</td>
<td>8%</td>
<td>22</td>
<td>273</td>
<td>2016</td>
</tr>
<tr>
<td>C</td>
<td>$25</td>
<td>$350,000</td>
<td>8%</td>
<td>19</td>
<td>234</td>
<td>2016</td>
</tr>
<tr>
<td>D</td>
<td>$25</td>
<td>$350,000</td>
<td>9%</td>
<td>19</td>
<td>208</td>
<td>2015</td>
</tr>
<tr>
<td>E</td>
<td>$30</td>
<td>$250,000</td>
<td>8%</td>
<td>31</td>
<td>393</td>
<td>2016</td>
</tr>
<tr>
<td>F</td>
<td>$30</td>
<td>$250,000</td>
<td>7%</td>
<td>31</td>
<td>449</td>
<td>2018</td>
</tr>
</tbody>
</table>
6 Regulatory Impact and Social Cost Benefit Analysis

6.1 Purpose of Regulatory Impact Assessment

Victoria, like most other Australian jurisdictions, requires significant new regulatory initiatives to be subjected to cost benefit analysis. The purpose is to ensure that in applying a regulatory solution to a problem in one particular element of the Victorian community or economy (in this case the housing market), bigger problems are not created elsewhere in the community.

Social cost benefit analyses of proposed regulations generally focus on ‘allocative’ or ‘efficiency’ impacts. That is, the analysis is directed at understanding whether the proposed regulations will make Victorians as a whole better off. To achieve this, the sum of the benefits to ‘winners’ from the initiative must be greater than the dis-benefits endured by those who stand to lose from the proposed regulatory measure. Effects that are purely distributive in nature, for example, where one member of the community makes a gain at the direct expense of another, are discounted from the analysis as they do not affect net community welfare or wellbeing. The idea is that regulation and other government interventions in markets should grow the overall benefit ‘cake’ – the aggregate pool of income, and then governments can deploy taxation measures of various sorts to redistribute that pool of income, bearing in mind that some taxes may be distortive in an allocative sense.

This Section of the report provides a framework for assessing the regulatory impacts of an Inclusionary Zoning regime for Melbourne’s inner urban region. This framework was developed by SGS in compiling a regulatory impact statement for a similar initiative proposed by the Queensland Government in 2002.

6.2 Regulatory Impact – Inclusionary Zoning and Related Measures

6.2.1 Characteristics of the Regulatory Initiative

To recap, the Inclusionary Zoning proposal would see a ‘blanket requirement’ for developers in targeted areas (the inner urban region, but potentially including other districts that have traditionally supported affordable housing and a significant social mix) to incorporate a certain proportion of affordable housing within their projects. If this is not practical for land use mix, site area or marketing reasons, the proponent may opt to make a cash in lieu payment. Most developers are likely to favour this option. The Inclusionary Zoning requirement would apply to all
forms of development (residential, commercial, retail and industrial) and would cover very large and very small projects alike.

The amount of the cash in lieu payment in the inner urban region will depend upon the targeted expansion in affordable housing and the anticipated quantum of development. For the purposes of discussion in this report, we have assumed that the per m² cash in lieu rate will be of the order of $25 to $50, in line with the Ultimo Pyrmont scheme referred to in Section 4. An appropriate figure will need to be confirmed before an analysis such as that set out below can be properly actioned. Serious distortive effects (e.g. capital flight from housing development) could become evident at higher contribution figures, depending on the state of the market. In the following discussion, it is assumed that such distortions will not arise.

In regulatory impact assessments, costs and benefits are measured against what would have happened anyway in the absence of the initiative in question (i.e. the ‘Base Case’). We have taken as a given that in the absence of Inclusionary Zoning and any related amendments to planning legislation, Councils would have no power to enforce impact mitigation conditions related to the loss of affordable housing, or to proactively require provision of such housing as part of approval conditions. Given this, and the other assumptions just outlined, the initiative would see the same quantum of housing and other development occurring in the targeted areas compared to the Base Case, but a certain proportion of the housing produced would be effectively redirected to lower income households.

6.2.2 Identification of Marginal Costs and Benefits

From a competition point of view, the proposed regulatory changes would, most likely, not erect any new barriers to entry to the housing markets in question. All proponents of new development in the identified areas will face the same requirement to incorporate affordable housing in much the same way as they currently face the same scrutiny on other aspects of sustainability (e.g., transport impacts, overshadowing, heritage, etc).

Given the expectation that Inclusionary Zoning measures will not deter investors in the inner suburbs, the regulatory changes are not likely to provide a significant competitive advantage to non-inner suburbs developers versus inner suburbs developers.

Nevertheless, the proposed regulatory changes can be expected to have a range of other impacts. These are summarised in the Table below. In line with cost benefit analysis conventions, this has been constructed on the basis of a society (Victoria) wide perspective.

The Table also assumes that Inclusionary Zoning would be implemented via an Overlay under the VPP so that provision of stock or cash in lieu would become a non-appellable development requirement, once the required Planning Scheme amendments have been approved (see Section 7).
Table 9. Marginal Costs and Benefits of Proposed Regulatory Change

<table>
<thead>
<tr>
<th>Marginal Costs</th>
<th>Marginal Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Loss of consumer surplus on the part of middle and higher income buyers</td>
<td>(D) Gain in consumer surplus by low income renters otherwise excluded from the</td>
</tr>
<tr>
<td>and renters temporarily displaced from the inner suburban market.</td>
<td>inner suburbs market.</td>
</tr>
<tr>
<td>(B) Additional costs incurred by Councils in formulating and administering</td>
<td>(E) Avoided future litigation costs in establishing that planning measures to</td>
</tr>
<tr>
<td>Inclusionary Zoning policies.</td>
<td>retain affordable housing and social diversity are lawful.</td>
</tr>
<tr>
<td>(C) Operating costs for the additional social housing units generated by the</td>
<td>(F) Reduced health and social program costs as a result of stable and higher</td>
</tr>
<tr>
<td>regulatory changes.</td>
<td>quality housing for the additional low income households accommodated in the</td>
</tr>
<tr>
<td></td>
<td>targeted regions.</td>
</tr>
<tr>
<td></td>
<td>(G) Improved labour productivity amongst the lower income households able to</td>
</tr>
<tr>
<td></td>
<td>secure quality affordable housing under the regulatory changes</td>
</tr>
<tr>
<td></td>
<td>(H) Saved private sector rental operating costs</td>
</tr>
<tr>
<td></td>
<td>(I) Retained environmental value of social diversity</td>
</tr>
</tbody>
</table>

The opportunity cost of the capital used in supplying the additional affordable housing units in the targeted areas is not included in the table because, as noted, this capital would also be deployed for housing in these areas under the ‘Base Case’ scenario.

6.2.3 Measuring the Costs and Benefits

Initial Sieving

Cost (A) and Benefit (D) can reasonably be assumed to cancel each other out. While measured preparedness to pay for inner suburban housing would, no doubt, be higher for middle and higher income groups compared to their lower income counterparts, this is merely a reflection of the constrained income of the latter. It is common practice in cost benefit analysis to introduce ‘distributional weights’ to avoid a systematic bias in findings against lower income groups – that is, the willingness to pay of lower income groups would be assessed on the basis that the marginal utility of a dollar is much the same for them as for the general population. Under this approach the consumer surplus loss for higher income groups would be fully offset by the increase in housing value for lower income groups accommodated in the inner city as a result of the Inclusionary Zoning initiative.

The regulatory changes will give rise to some administrative costs. The VPP will require amendment and Councils will need to prepare appropriate planning schemes to give effect to Inclusionary Zoning. On the other hand, the proposed changes will obviate some litigation costs that would arise in the ‘without regulatory change’ scenario – namely disputation over the scope of
'environmental impacts' in the Victorian legislation and whether this supports the application of Inclusionary Zoning and impact mitigation conditions for loss of social diversity. Thus, Cost (B) would also be largely cancelled out by Benefit (E).

The proposed changes will generate a sizeable increase in the affordable housing stock that will carry with it certain stock and tenancy management costs. The assumption has been made in this assessment that this affordable housing stock will come as a direct substitute for private rental stock – which carries its own operating costs. Arguably, per unit ‘affordable housing’ operating costs may be lower than in the private sector because of economies of scale. On the other hand, the tenancy profile of the affordable housing, and the management ethos in this sector may have the effect of pushing up unit operating costs. On balance, it can again be reasonably expected that Cost (C) and Benefit (I) will cancel each other out.

Thus, even prior to estimation of the impacts in $ terms, it can be argued that implementing Inclusionary Zoning in inner Melbourne would generate a net community benefit in terms of:

(F) Reduced health and social program costs as a result of stable and higher quality housing for the additional lower income households accommodated in decent conditions;

(G) Improved labour productivity amongst the lower income households able to secure quality affordable housing under the regulatory changes; and

(I) The retained environmental value of social diversity in the inner city.

**Estimation**

A range of techniques can be used to estimate the value of these residual costs and benefits. These are outlined in the following table.

**Table 10. Approaches to $ Measurement of Impacts**

<table>
<thead>
<tr>
<th>Impact</th>
<th>Estimation Method(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(F) Reduced health and social program costs as a result of stable and higher quality housing for the additional lower income households accommodated in decent conditions</td>
<td>Application of the average OoH rebate rate per unit of additional affordable housing generated. The rebate can be reasonably assumed to be a measure of the community’s willingness to pay to avoid social dysfunction and the associated health and crime costs caused by inadequate provision of affordable housing in well serviced locations.</td>
</tr>
<tr>
<td>(G) Improved labour productivity amongst the lower income households able to secure quality affordable housing under the regulatory changes</td>
<td>Application of assumptions that would see higher engagement in training amongst lower income households accommodated in more accessible locations. These assumptions can be informed by comparisons of the training and labour force participation rates between otherwise similar households resident in well serviced versus poorly serviced areas. The value to the community of higher participation rates induced by affordable housing in quality locations can be estimated by the present value</td>
</tr>
<tr>
<td>(I) The retained environmental value of social diversity in the inner city.</td>
<td>Community willingness to pay for retention of areas of high social mix can be estimated by the additional travel costs borne by households in visiting 'more diverse' inner city retail and entertainment offerings versus intervening suburban offers.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>of the increased lifetime earning capacity of these households.</td>
<td></td>
</tr>
</tbody>
</table>
7 Implementation

The implementation strategy for Inclusionary Zoning in Melbourne’s inner urban region would involve three key elements as follows.

1. **Amendment of the VPP to introduce an Inclusionary Zoning Overlay.** In format and operation, this could work like the Development Contribution Plan Overlay, though clearly, the cash in lieu payments under Inclusionary Zoning would not be regarded as ‘user pays charges’.

   The overlay would be available for general use across the State, though its take up would need to be justified in terms of the adverse social, economic and cultural impacts of a failure to maintain adequate stocks of affordable housing in the targeted area. In the first instance, the four inner urban region Councils that are party to this project would be invited to simultaneously propose amendment of their planning schemes to activate the Overlay.

2. **Activation of the Overlay.** This would require an assessment of affordable housing needs across the region (in terms of stock numbers) and consideration of these against anticipated development trends. On this basis a cash in lieu rate per sq metre can be established following the methodology adopted in Ultimo Pyrmont.

   Activation of the Overlay would necessarily involve public exhibition of the proposals and, most probably, a full public enquiry via a planning panel.

3. **Establishment of arrangements to ensure permanent deployment of Inclusionary Zoning stock and cash in lieu funds for affordable housing.** The most practical option could be to direct all asset and cash acquisitions from the Inclusionary Zoning scheme to the Housing Association Registrar. Operating under clear, Government approved, protocols the Registrar would provide these resources as supplementary capital funding to the Housing Associations ‘franchised’ to operate in the inner urban region.

   As noted in the body of this report, franchised Housing Associations would need to have approved eligibility, allocations and rent setting policies which clearly preserve housing affordability, albeit with a wider spread of housing subsidies compared to traditional public housing.

   To render themselves eligible to receive supplementary capital funding via Inclusionary Zoning, participating Housing Associations would need to enter into a stock expansion protocol that would also be monitored and ‘enforced’ by the Registrar. These stock expansion plans could involve leveraging strategies using private sector debt or equity financing.
References


Berry, M (with Hall, J.) (2002), *New Approaches to expanding supply of affordable housing in Australia: an increasing role for the private sector*, Australian Housing and Urban Research Institute and RMIT Research Centre, May.


King, A., Melhuish, T. (2003), *The regional Impact of Commonwealth Rent Assistance*, Australian Housing and Urban Research Institute, Melbourne, August


Office of Housing Victoria (2003), *Consultation Document – Strategy for Growth in Housing for Low Income Victorians*

### Appendix 1. Housing Stress Cross-Tabulations

<table>
<thead>
<tr>
<th>Statistical Local Area</th>
<th>Family Rental Households</th>
<th>Household Rental Stress</th>
<th>Total Low Income Households</th>
<th>Percentage of Low Income Households in Housing Stress</th>
<th>Total Private Rental Households</th>
<th>Percent of Total Households Living in Housing Stress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melbourne (C) - Inner</td>
<td>130,315</td>
<td>29,106</td>
<td>259,421</td>
<td>42.9%</td>
<td>2,066</td>
<td>20.9%</td>
</tr>
<tr>
<td>Melbourne (C) - Shank-Gailes</td>
<td>64,000</td>
<td>13,800</td>
<td>107,800</td>
<td>31.4%</td>
<td>576</td>
<td>16.7%</td>
</tr>
<tr>
<td>Melbourne (C) - Reservoir</td>
<td>156,600</td>
<td>34,000</td>
<td>190,600</td>
<td>34.8%</td>
<td>1,026</td>
<td>21.6%</td>
</tr>
<tr>
<td>Port Philip (L) - St Kilda</td>
<td>128,200</td>
<td>27,000</td>
<td>155,200</td>
<td>36.5%</td>
<td>860</td>
<td>15.5%</td>
</tr>
<tr>
<td>Port Philip (L) - West</td>
<td>133,700</td>
<td>28,800</td>
<td>162,500</td>
<td>37.1%</td>
<td>960</td>
<td>15.0%</td>
</tr>
<tr>
<td>Stonnington (L) - Prahran</td>
<td>120,900</td>
<td>26,300</td>
<td>147,200</td>
<td>29.3%</td>
<td>860</td>
<td>13.1%</td>
</tr>
<tr>
<td>Yarra (L) - North</td>
<td>144,800</td>
<td>31,400</td>
<td>176,200</td>
<td>35.2%</td>
<td>960</td>
<td>16.9%</td>
</tr>
<tr>
<td>Yarra (L) - Richmond</td>
<td>150,100</td>
<td>32,700</td>
<td>182,800</td>
<td>34.3%</td>
<td>1,026</td>
<td>15.6%</td>
</tr>
</tbody>
</table>

**Source:** ABS (2004) Special Request Cross Tabulations, Data drawn from the 2001 Census of Population and Housing.

**Note:** A low income rental household is deemed to be living in housing stress if total housing costs exceed 25% of gross household income, after any applicable statutory support payment has been deducted from the rent. Households in the lowest two quintiles of the national income distribution are deemed to be 'low income'.

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### Home Purchaser Households

<table>
<thead>
<tr>
<th>Statistical Local Area</th>
<th>Households in Housing Stress</th>
<th>Households in Housing Stress</th>
<th>Total Low Income Households</th>
<th>Percentage of Low Income Households in Housing Stress</th>
<th>Total Home Purchaser Households</th>
<th>Percentage of Households in Bottom Two Income Quintiles</th>
<th>Total Home Purchaser Households Living in Housing Stress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melbourne (C) – Inner</td>
<td>3 0 0 3 10 16 3 25</td>
<td>3 0 0 3 10 16 3 25</td>
<td>3 0 0 3 10 16 3 25</td>
<td>65.6% 84.2% 100.0% 72.5% 266 13.8% 9.8%</td>
<td>77.6% 77.6% 100.0% 74.5% 266 12.5% 7.9%</td>
<td>84.2% 100.0% 72.5% 266 13.8% 9.8%</td>
<td></td>
</tr>
<tr>
<td>Melbourne (C) – Shire of Canterbury</td>
<td>3 0 0 3 10 16 3 25</td>
<td>3 0 0 3 10 16 3 25</td>
<td>3 0 0 3 10 16 3 25</td>
<td>65.6% 84.2% 100.0% 72.5% 266 13.8% 9.8%</td>
<td>77.6% 77.6% 100.0% 74.5% 266 12.5% 7.9%</td>
<td>84.2% 100.0% 72.5% 266 13.8% 9.8%</td>
<td></td>
</tr>
<tr>
<td>Melbourne (C) – Shire of Moorabbin</td>
<td>3 0 0 3 10 16 3 25</td>
<td>3 0 0 3 10 16 3 25</td>
<td>3 0 0 3 10 16 3 25</td>
<td>65.6% 84.2% 100.0% 72.5% 266 13.8% 9.8%</td>
<td>77.6% 77.6% 100.0% 74.5% 266 12.5% 7.9%</td>
<td>84.2% 100.0% 72.5% 266 13.8% 9.8%</td>
<td></td>
</tr>
<tr>
<td>Port Philip (C) – Shire of Mornington</td>
<td>47 23 5 73 120 58 239</td>
<td>47 23 5 73 120 58 239</td>
<td>47 23 5 73 120 58 239</td>
<td>65.6% 84.2% 100.0% 72.5% 266 13.8% 9.8%</td>
<td>77.6% 77.6% 100.0% 74.5% 266 12.5% 7.9%</td>
<td>84.2% 100.0% 72.5% 266 13.8% 9.8%</td>
<td></td>
</tr>
<tr>
<td>Port Philip (C) – Shire of Mornington</td>
<td>47 23 5 73 120 58 239</td>
<td>47 23 5 73 120 58 239</td>
<td>47 23 5 73 120 58 239</td>
<td>65.6% 84.2% 100.0% 72.5% 266 13.8% 9.8%</td>
<td>77.6% 77.6% 100.0% 74.5% 266 12.5% 7.9%</td>
<td>84.2% 100.0% 72.5% 266 13.8% 9.8%</td>
<td></td>
</tr>
<tr>
<td>Stonnington (C) – Shire of Frankston</td>
<td>47 23 5 73 120 58 239</td>
<td>47 23 5 73 120 58 239</td>
<td>47 23 5 73 120 58 239</td>
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| Total | 150 59 9 229 452 364 785 | 150 59 9 229 452 364 785 | 150 59 9 229 452 364 785 | 65.6% 84.2% 100.0% 72.5% 266 13.8% 9.8% | 77.6% 77.6% 100.0% 74.5% 266 12.5% 7.9% | 84.2% 100.0% 72.5% 266 13.8% 9.8% |

### Source:

**Note:** A low income home purchaser household is deemed to be living in housing stress if total housing costs exceed 30% of gross household income, after any applicable statutory support payment has been deducted from the rent. Households in the lowest two quintiles of the national income distribution are deemed to be 'low income'.