



# Affordable Housing Strategy

Rhodes East Priority Precinct  
Investigation Area

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# Executive summary

The NSW Department of Planning and Environment and the City of Canada Bay have identified Rhodes East as a Priority Precinct Investigation Area. Rezoning proposals are being prepared that would open the way for significant new development in the area, including medium to high density residential development. The increase in density and associated land value uplift create the opportunity to deliver affordable housing.

The City of Canada Bay is taking the lead in responding to the significant housing affordability challenge facing Sydney. Specifically at Rhodes East, Council has committed to delivering 5 percent affordable housing.

This Affordable Housing Strategy:

- » Identifies a clear need for affordable housing at Rhodes East
- » Proposes preferred mechanisms for delivering affordable housing
- » Reviews the feasibility of a mandatory affordable housing contribution
- » Recommends the establishment of a mandatory affordable housing contribution of five percent
- » Proposes streamlined administrative arrangements for the management of the portfolio.

## Recommendations

1. It is recommended that Council establish a mandatory affordable housing contribution for Rhodes East through seeking amendment of SEPP 70, and preparing a suitable LEP and scheme.
2. It is recommended that Council specify flexibility within its mandatory affordable housing contribution for Rhodes East to allow dwellings, land or cash contributions to be delivered.
3. It is recommended that Council require the contribution of any dwellings or land to be at zero cost, and within the Rhodes East precinct.
4. It is recommended that Council establish a mandatory affordable housing contribution of five percent for Rhodes East.
5. It is recommended that Council engage a single CHP as manager of its affordable housing portfolio and any new dwellings delivered at Rhodes East. For ease of administration, Council may wish to engage a separate manager for affordable housing dwellings in Rhodes East in the short to medium term, ahead of consolidation of the portfolio.
6. It is recommended that Council specify in its policy that the housing manager should be a registered CHP. Council will continue to include innovation as a priority in assessing tender submissions from potential affordable housing managers.
7. It is recommended that Council ensures that a suitable proportion of very low and low income households are eligible for its affordable housing portfolio.

The implementation of these recommendations may be subject to further review by Council.

# 1 Strategic context

## 1.1 Sydney's housing affordability challenge

Sydney faces a significant housing affordability challenge. As the southern hemisphere's only truly global city, demand for housing is high and expected to continue to rise with the projected growth in population; at the same time, commercial and residential developments compete for land, further increasing land values. Especially in parts of the city which offer good access to employment, transport, shops and services, or highly valued amenities such as water views or proximity to open space, households on up to moderate incomes struggle to find housing which is affordable. Where such households pay more than 30 percent of gross income on rent or mortgage payments, they are considered to be in "housing stress".

Lack of affordable housing has a negative impact on:

- » Individuals and households – contributing to housing stress, after housing poverty and long/expensive commuting to work
- » The local community – leading to lack of diversity
- » The local economy – making it hard for employers to attract and retain staff
- » Society as a whole – through the environmental and productivity costs of commuting, under employment or unemployment.

## 1.2 Current initiatives

Improving housing affordability is a growing priority across a range of NSW Government agencies. In particular, there is renewed interest in identifying the most effective ways to use the planning system to generate additional supply of affordable housing. *A Plan for Growing Sydney* targets a minimum of 664,000 additional dwellings by 2031, with a specific action to "deliver more opportunities for affordable housing". The plan requires Councils to prepare local housing strategies, seeks to facilitate medium density housing in appropriate areas, and anticipates Government-led developments will include affordable housing requirements. This is in addition to the existing planning mechanisms which facilitate affordable housing supply such as:

- » State Environmental Planning Policy (Affordable Rental Housing) (the ARHSEPP) which provides incentives for the development of affordable housing projects
- » State Environmental Planning Policy No 70 Affordable Housing (SEPP 70) which permits a limited number of Councils to collect developer contributions to fund the supply of additional affordable housing.

At the same time, there is a renewed commitment from the NSW Government to expand the social housing system, which targets very low and low income households. *Future Directions for Social Housing in NSW* sets out the Government's ambition of providing up to 23,000 new and replacement social housing dwellings, through the redevelopment of the existing portfolio and increased partnerships with the private and community sectors. At a Commonwealth Government level, there are signs of increased interest in housing affordability, especially in the context of a new agenda for cities.

## 1.3 Council's current approach

The City of Canada Bay is taking the lead in the supply of additional affordable housing, through development of its existing portfolio and the preparation of a rationale for inclusionary zoning to generate significant additional dwellings. In its *Affordable Housing Policy*, Council sets out its commitment to “enabling affordable housing in the City of Canada Bay to maintain a diverse, vibrant and healthy community and to alleviate housing stress experienced by some individuals and families in the private rental market”<sup>1</sup>. In the policy Council also commits to identifying suitable sites for affordable housing.

In addition, Council has worked extensively through the Future Cities Collaborative with David Paul Rosen and Associates, including the articulation of a detailed model for assessing project feasibility under inclusionary zoning scenarios.<sup>2</sup>

Council's local planning strategy commits to investigation of inclusionary zoning for affordable housing. Specifically for the Rhodes East precinct, Council has committed to delivering 5 percent affordable housing. Council also sees Rhodes East as a potential model for future urban development projects within the LGA.

Affordable housing generated through planning mechanisms at Rhodes East would add to Council's existing small portfolio of affordable housing, generated through funds raised under Voluntary Planning Agreements with subsidies under the National Rental Affordability Scheme (NRAS). These dwellings are used to provide affordable rental housing to low and moderate income households, targeting key workers within the LGA or nearby areas.

Under Council's *Affordable Housing Policy*, eligible households must include at least one member in permanent employment, and must neither be living in subsidised housing nor owning property/assets which could be used towards housing. In addition, priority is given to households working in specified industries including health care, child care, education, emergency services, public transport, retail and hospitality. A small number of the dwellings are specifically allocated to eligible staff of Concord Hospital.

While Council retains ownership of the portfolio, tenancy and property management services are provided by SGCH, a large registered community housing provider (CHP). This contract is currently subject to a new tender process.

## 1.4 Purpose of this strategy

At the request of the City of Canada Bay, the NSW Government has identified the eastern half of the Rhodes Peninsula (Rhodes East) as a Priority Precinct Investigation Area. The NSW Department of Planning and Environment is currently working with Council to prepare rezoning proposals that would open the way for significant new development in the area, including medium to high density residential development.

Among the five core objectives for the Priority Investigation Area are:

- » Delivery of affordable housing, including determination of a minimum affordable housing target
- » Increased residential density, provisionally through buildings of two to fifteen storeys.

A significant amount of background research and investigation has already been conducted in the area. Currently, therefore, work is progressing on preparing proposals for a draft Precinct Plan, along

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<sup>1</sup> City of Canada Bay 2016 *Affordable Housing Policy* as updated 19 April 2016, p. 2

<sup>2</sup> Future Cities Collaborative and United States Studies Centre (nd) *Can you afford to live where you choose? Local approaches to making it affordable for people to live in their communities*

with an Urban Design Report, Public Domain Strategy, Traffic and Transport Report, Infrastructure Schedule and Infrastructure Delivery Plan, and this Affordable Housing Strategy. Work on all these elements is being co-ordinated by lead consultants Roberts Day, in liaison with the Department and with Council. Elton Consulting has been sub-contracted to develop the Affordable Housing Strategy.

This Affordable Housing Strategy identifies opportunities and mechanisms for affordable housing delivery and describes how these may be applied. The report is based on a variety of data and research, which are documented throughout the document, and recommendations are made about implementing recommended approaches. As the expectation is that Council will lead implementation of the Strategy, the recommended approach is one that, once established, can be administered at the local level without an excessive administrative burden. It is also expected that Council will give detailed consideration to the implementation of the recommendations of this Strategy.



## 2 Demographic analysis

### Current population

Rhodes East currently has a small population (733 people in 2011) and like many middle ring suburbs its population is ageing – in 2011, almost 20 percent of residents were aged 65 or over, compared to less than 15 percent across the LGA. The household mix closely reflects that of the wider LGA and 59 percent of households comprised a couple or a couple with children. Three quarters of dwellings in Rhodes East are detached homes, with the remainder being semi-detached or townhouse dwellings. There are at present no units or apartments in Rhodes East.

Residents of Rhodes East are slightly more likely than the rest of the LGA to own their home either outright or with a mortgage. However, the area shows notably higher incidences of household stress than the rest of the LGA: 37 percent of families with incomes in the lower two quintiles experience housing stress in Rhodes East, compared to 27 percent elsewhere in the LGA.

According to the Land and Housing Corporation, there are currently only six social housing properties.

### Anticipated future population

Looking to the future, Canada Bay's population is expected to increase by almost 40 percent in the period to 2031, and Rhodes East is expected to make a substantial contribution to accommodating this growth.

Future redevelopment can confidently be expected to transform the population profile as high density modern apartments replace older houses. Consequently, it is likely that the future population will increasingly resemble the adjoining area of Rhodes West, which has already undergone significant redevelopment. Accordingly, demographic information for Rhodes West has been used as a reasonable proxy for the future profile of Rhodes East.

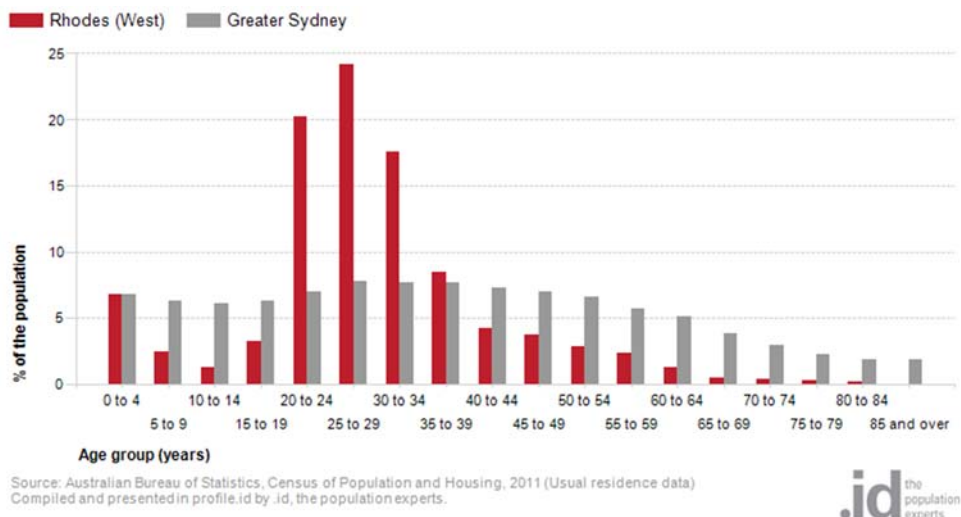
Data from the Census 2011 shows that Rhodes West is characterised by a predominantly young adult population with a relatively low proportion of children. Reflecting the age profile and the large number of resident students, the majority of households are renters and incomes are similar to those in the wider area.

Key population characteristics in Rhodes West, as identified by the 2011 Census:

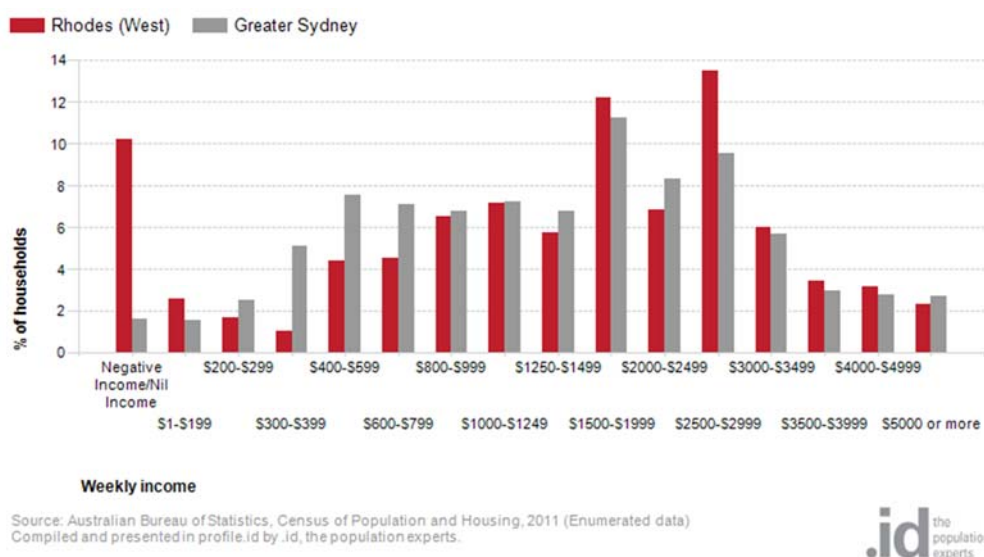
- » Two thirds of residents were aged 18-34 – a mix of students and young white collar workers.
- » One in five households was a lone person (similar to the LGA) but only 16 percent were couples with children (less than half the average for the LGA). A relatively large proportion of residents lived in group households (11 percent)
- » One in three households were couples without children. The number of one-parent families was low. A large proportion (10 percent) of households were listed as Non Classifiable, probably reflecting a mix of extended families and ad hoc arrangements.
- » Incomes were relatively high, but the median was below that for the LGA, and significantly lower than in areas dominated by more mature households. This is probably partly due to the relative youth of most residents, and in part to the large proportion of dependent adults with no income.
- » Nearly 70 percent of residents were overseas-born, the great majority born in China and South Korea.

- » A particularly large proportion of residents worked in professional, scientific and finance occupations.
- » Around three quarters work outside the LGA.

**Table 1: Age Structure, five year age groups, 2011.**



**Table 2: Weekly household income 2011**



It is likely that, given the proximity to transport, Rhodes East will in future accommodate a large number of commuters, whose place of work is the Sydney CBD, Macquarie Park or other major employment centres. In the absence of policy intervention, it is anticipated that the population will exhibit some of the “gaps” currently found in Rhodes West, notably the low numbers of people working locally in “key worker” occupations. For example, the number of teachers, health sector employees and care workers living in Rhodes West is well below the Sydney average. Similarly, the economic profile of residents shows only a small number of low income households who might be expected to provide domestic and unskilled services.

## 3 The affordability gap

### 3.1 What is affordable housing?

The *NSW Affordable Housing Ministerial Guidelines* (the *Ministerial Guidelines*) define affordable housing as “housing that is appropriate for the needs of a range of very low, low and moderate-income households, priced to ensure households are able to meet other essential basic living costs”<sup>3</sup>. The accepted benchmark for affordability is that housing costs (that is, rent or mortgage repayments) do not exceed 30 percent of gross household income. This benchmark is especially used in relation to very low, low and moderate income households.

It has become increasingly evident over recent years that the open market (private rental and housing for sale) is unable to meet the affordability needs of large numbers of these households, and the “affordability gap” between incomes and housing costs has widened steadily as the price of housing has continued to rise much faster than income. For instance, among Greater Sydney households whose needs would be met by a two bedroom dwelling, the most that 60 percent of them could afford to pay for the dwelling is around \$375,000. However, only two percent of two bedroom dwellings were priced at or below this level in 2016.<sup>4</sup>

Under the *Ministerial Guidelines* and also under NSW planning legislation (Environmental Planning and Assessment Act and related State Environmental Planning Policies) the three income bands to which affordable housing may be targeted are:

- » Very low income: under 50 percent of median income
- » Low income: 50-80 percent of median income
- » Moderate income: 80-120 percent of median income

In principle, affordable housing may be delivered as rental housing or affordable housing for sale. However, the gap between affordability and market pricing in most parts of Greater Sydney is now so large that very few households from the target groups, particularly in middle ring and inner areas, could afford to purchase even at a significant discount. Consequently, the focus of the current study is rental housing.

### 3.2 Cost of housing

Existing housing in Rhodes East does not reflect the anticipated future product, so the following information is based primarily on Rhodes West. The dwellings in this area are almost exclusively modern units, with a median sale price for units in June 2016 of \$850,000, and a median rent for units of \$630 per week.<sup>5</sup> Some data is also provided for nearby Wentworth Point as an additional point of comparison. A more complete analysis of the market in the area has been prepared by Hill PDA<sup>6</sup>.

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<sup>3</sup> NSW Family and Community Services 2013, updated 2015, *NSW Affordable Housing Ministerial Guidelines*, p. 1

<sup>4</sup> Unpublished analysis based on household income data indexed to 2015, and on Residex market data

<sup>5</sup> realestate.com.au accessed June 2016

<sup>6</sup> HillPDA *Rhodes East: Property Market Appraisal and Development Feasibility, Draft, June 2016*

The following tables illustrate price ranges for apartments in the area (based on a review of internet advertisements in February 2016).

**Table 3: Rhodes West – price ranges**

Dwelling type	Purchase	Rent (per week)
1 bedroom apartment	\$650,000-735,000	\$490-530
2 bedroom apartment	\$829,000-1,070,000	\$580-700
3 bedroom apartment	\$950,000-1,700,000	\$775-1,150

**Table 4: Wentworth Point – price ranges**

Dwelling type	Purchase	Rent (per week)
1 bedroom apartment	\$525,000-560,000	\$440-475
2 bedroom apartment	\$670,000-1,150,000	\$540-600
3 bedroom apartment	\$900,000-1,150,000	\$720-950

To purchase a typical apartment priced at \$850,000 would cost a buyer \$912 per week, assuming a 10 percent deposit and the current standard variable mortgage interest rate of 4.72 percent (comparison rate). It would also require the buyer to provide a minimum deposit of \$85,000 plus property taxes. Renting the same apartment would typically cost \$630 per week.

### 3.3 Household income

Eligibility for affordable housing is based on gross household income benchmarks that are calculated at the level of the Sydney Statistical Division. According to the *Ministerial Guidelines*, the annual income range for each band for 2015-16 is as follows:

- » Very low income: up to \$40,600
- » Low income: \$40,600 to \$64,900
- » Moderate income: \$64,900 to \$97,400

Current median incomes in Canada Bay are higher than the Sydney average: median household income is approximately \$95,000, compared to approximately \$80,000 across the Sydney Statistical Division.

Wages and salaries for workers in many key occupations are a key consideration when thinking about affordability. The following is a sample of key worker occupations showing the average annual pre-tax earning at the time of the last survey by the ABS in May 2014:<sup>7</sup>

- » Primary School Teacher: \$66,508
- » Police Officer: \$98,436
- » Emergency Services Worker: \$79,040
- » Registered Nurse: \$63,440
- » Sales Assistant: \$38,012

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<sup>7</sup> ABS: 6306.0 - Employee Earnings and Hours, Australia, May 2014

These figures relate to all workers in each occupation. Younger employees with a limited period of service generally earn significantly less than the average. For instance, the ABS data on earnings by occupation, sampled above, shows that on average a 24 year old earns around 45 percent less than a 45 year old.

### 3.4 Affordability gap

There is a significant affordability gap for buyers and renters in Canada Bay, which provides a strong rationale for the provision of affordable housing in Rhodes East. The following analysis is based on the affordability benchmarks used in the *Ministerial Guidelines*, which assume that the maximum affordable housing cost (rent or home loan repayment) is 30 percent of gross household income.

For potential buyers:

- » The affordability benchmark for a median income household is approximately \$460 per week. The cost of servicing a standard home loan on a median priced unit in Rhodes is around \$912 per week, which is more than double the affordable cost.
- » Even among households already living in Canada Bay LGA less than one in five have adequate income to affordably purchase a median priced unit in Rhodes.

For potential renters:

- » The median cost of renting a unit is around \$630 per week, which is one third more than the affordability benchmark for a median income household.
- » Among households already living in the LGA, only around half of all households could affordably rent a median priced unit in Rhodes. Although the rental price of studios is lower, starting at around \$500 per week, this is unaffordable for the great majority of single person households.
- » Households with children face particular challenges because they need larger (two or three bedroom) apartments, likely to cost upwards of \$700 per week.

The picture for key workers is particularly poor. A police officer with an average salary can afford \$565 per week in housing costs, a primary teacher \$385 and a registered nurse \$366.

The above data, based on medians and averages, masks differentials between different population groups. It has already been shown that younger people generally have lower incomes and may consequently experience greater affordability challenges (although living as a group household alleviates this for some young singles), and that larger households need more space.

The Centre for Affordable Housing has addressed some of these differentials by calculating median annual income for a range of household types, and hence the affordable cost of housing. The following table shows affordable housing costs for a sample of household types.

**Table 5: Affordable weekly rent by income band, 2015-16**

Household type	Very low income household	Low income household	Moderate income household
Single person	Up to \$154	\$155-246	\$247-369
Single parent family, one child	Up to \$200	\$201-320	\$321-472
Couple	Up to \$231	\$232-369	\$370-553
Couple, two children	Up to \$323	\$324-517	\$518-775

Source: Calculation by the authors drawing on CAH income data for Sydney SD.

These rents provide an indication of what would be required from an affordable housing product at Rhodes East. Perhaps the most notable aspect of these figures is that they show that almost none of the household types could afford the rents currently prevalent in the Rhodes area.

The following data, also prepared by the Centre for Affordable Housing, shows the proportion of households that could afford accommodation in the City of Canada Bay. Essentially it demonstrates that Canada Bay is unaffordable for almost all households. The data shows the percentage of new rental lettings and dwelling sales over the six months to September 2014 that were affordable to the three lowest income bands as defined earlier.

**Table 6: Percentage of housing that is affordable to lower income bands, Canada Bay 2014**

	Renters	Purchasers
Very low income	<1%	0%
Low income	2%	0%
Moderate income	28%	0%

Source: Centre for Affordable Housing.

The following table shows the level of housing stress in the LGA at the time of the 2011 Census, where housing stress refers to housing costs greater than 30 percent of gross household income. The current picture is almost certainly significantly worse than this, as housing costs in the LGA have surged ahead at a much faster rate than incomes since 2011.

**Table 7: Canada Bay LGA: Percentage of household in housing stress, 2011.**

	Private Renters	Purchasers
Very low income	98%	74%
Low income	86%	68%
Moderate income	63%	63%

## 3.5 Rhodes East: the opportunity

Like many parts of Sydney, Canada Bay faces a significant housing affordability challenge. This applies to the Rhodes East precinct, both in its current and anticipated forms.

The redevelopment of Rhodes East, however, represents a substantial opportunity as well as a challenge. The primary driver of the opportunity to generate affordable housing through the planning system comes from land value uplift, for example, through rezoning. Increased density or other change of use makes land more valuable and triggers redevelopment proposals. Well designed mechanisms such as inclusionary zoning have the capacity to capture a proportion of the value uplift and use the funds for affordable housing.

For residential developments, the greater the density, the greater the value uplift. This provides the opportunity to capture funds or acquire dwellings, as well as to build the portfolio of affordable housing rapidly, due to the rapid expansion in housing supply.

Increased density in residential areas is frequently contentious within the existing community and this is anticipated to be the case at Rhodes East. However, there is an opportunity to focus density on those parts of the precinct which are closest to major transport, shops and services. These locations are closest to Rhodes West, which is a strong example of successful high density development.

In addition, while all new developed dwellings in Rhodes East are anticipated to be expensive, as demonstrated by the comparable locations of Rhodes West and Wentworth Point, dwellings will be produced across a range of prices. Across the precinct, and even within individual developments, prices will vary according to:

- » Size of the dwelling, including the number of bedrooms and the size of the bedrooms and living spaces
- » Features of the dwelling, including the number of bathrooms, access to parking, or access to storage
- » Amenity of the building, including any common facilities such as a swimming pool
- » Location of the development within the precinct, for example, proximity to the train station or parks
- » Aspect of the dwelling within the development, for example, whether the dwelling offers water views.

## 4 Overview of mechanisms to promote affordability

This chapter presents a short overview of options for promoting affordable housing production. The focus is options which are under the control of, or can be influenced by, local government. Given the context at Rhodes East, options for retention of existing affordable housing have not been included as there is almost none in the area.

International and interstate experience suggests that the most successful approaches to affordable housing delivery are multi-pronged. Major cities like New York, London and Toronto all adopt a range of mechanisms that include substantial subsidy programs and use of government land for affordable housing, planning incentives, tax exemptions, compact housing options, and mandatory requirements for affordable housing contributions. The impact can be impressive – in London, 30 to 50 percent of dwellings in new housing developments are affordable housing. Such approaches require close co-operation between all levels of Government, ideally including financial, taxation and policy support from the Commonwealth Government. In the absence of a clear national policy on housing affordability, or at a state level a whole-of-government policy on affordable housing, the NSW Government is not currently in a position to implement a complex suite of subsidies, access to land and planning incentives. This chapter therefore focuses on the role of local government (supported by the State Government) in the Rhodes East context.

### 4.1 Open market

Affordability problems may be moderated where there is an adequate supply of housing, but there is no evidence that supply initiatives alone can meet the needs of low income households in large thriving conurbations like Sydney. This is in part because of the inelasticity of land supply in areas within reasonable travelling distance of employment, and partly because of the fixed costs involved in producing a dwelling. It is true that in periods of falling house prices, affordability is likely to improve, but in such circumstances, the production of new homes can be expected to slow or cease.

Design-based initiatives for open market housing have proved useful in the USA and parts of Europe, although in most cases cost savings have been due to reduction in the size of dwellings (compact homes, micro-apartments etc). Typically, these are not intended for long term occupation, but instead offer a step up towards mainstream market rental and purchase for young working people and students. Such projects are usually market driven, with affordability as the stated aim but often not the outcome. Very small apartments would generally require a change in regulated minimum standards in NSW.

### 4.2 State and Commonwealth Government initiatives

Most of the direct subsidies available for affordable housing production come from State and Commonwealth programs, which change periodically. The NSW Government recently committed to a series of reforms and initiatives under the *Future Directions* policy statement, which aim to provide up



to 23,000 new and replacement social housing dwellings. A proportion of affordable housing dwellings will also be generated through programs including:

- » The Communities Plus program of redevelopment of social housing estates, retaining or increasing social housing and introducing a component of affordable housing alongside new supply of market housing
- » The Social and Affordable Housing Fund (SAHF) which will provide revenue support for selected large-scale schemes involving partnerships with the private sector and CHPs, mainly where land is available at no cost. The focus of the SAHF is strongly on the provision of social housing. In addition, the first round of the SAHF, which is currently in procurement, requires very large portfolios of a minimum of 500 social/affordable dwellings. Future rounds of the SAHF may have different scale and targeting requirements, and so may be of more interest to Council.
- » A program of transfers of social housing properties to CHPs, which may also result in leverage of additional affordable or social housing properties.

There are currently no Commonwealth Government subsidies or initiatives for affordable housing, since the National Rental Affordability Scheme (NRAS) was discontinued. There is, however, renewed interest in such approaches at the moment, as affordability continues to decline. The Council on Federal Financial Relations recently issued a discussion paper on affordable housing, which canvassed a range of financing models. Any subsidy or initiative arising from this work may be of significant interest to Council as it seeks to maximise the amount of affordable housing which can be generated.

## 4.3 Local government initiatives that require State Government support

Mandatory affordable housing contributions (also known as inclusionary zoning or inclusionary housing) refer to the definition of zones in the Local Environmental Plan in such a way there is a requirement that development in certain zones must make an affordable housing contribution either in kind or by way of a cash contribution. The requirement is enforced through a condition of consent. The impact of this mechanism is to reduce the value of development land somewhat: it may be seen as a means of obtaining some public benefit from the windfall to landowners when land is rezoned to a higher use. Consequently, the mechanism must normally be introduced at the time of rezoning.

To date the use of this approach has been strictly limited by the NSW Government, and is only available in locations identified in SEPP70, notably Green Square and Ultimo-Pyrmont in the City of Sydney. It is, however, widely used overseas. A similar approach is currently in use in South Australia.

Adoption of mandatory affordable housing contributions is supported by the City of Canada Bay, as it is proven to be effective, equitable and relatively easy to administer. It also provides certainty both for the developer (who can include it in feasibility assessments) and for Council (in terms of outputs). Further details about the possible application of this mechanism are in subsequent sections of this report.

Affordable housing may be viewed as essential infrastructure arising from the development of more expensive open market housing and it could be argued that this would provide grounds for levying development contributions towards its provisions. A State Infrastructure Contribution is proposed at Rhodes East, however this is not intended to deliver affordable housing.

## 4.4 Other possible local government initiatives

Other options that local Councils may consider can be expected to result in a small contribution to affordable housing, although, as the City of Canada Bay and a few other Councils have found, over

time this can build up worthwhile portfolio. Such options should preferably be viewed as secondary to a more robust approach like mandatory affordable housing contributions.

- » Contribution of Council owned land is a significant option, where available. Council has identified the former Rhodes school site as potentially suitable and well located in relation to transport, shops and services. However the site may be subject to heritage issues, which make it difficult to use for affordable housing. The site is currently noted for “civic and community uses” in the draft structure plan. Use of the site has not been determined, and will be subject to Council endorsement and determination of highest and best use. Community consultation as part of the investigation project largely supported the idea of affordable housing, with a preference for it to be distributed throughout the precinct. Where community members preferred concentration of affordable housing, their recommended locations were close to the station (in the “gateway” area) or near Concord Hospital (outside the Priority Precinct Investigation Area).<sup>8</sup>
- » Density bonuses (in effect, the sale of additional development rights) offer developers additional development capacity in exchange for providing an affordable housing contribution. This mechanism could be considered in a high value location like Rhodes East, so long as planning controls are based on pre-determined standards – it is unlikely to be compatible with performance based systems. It requires controls (such as density/height limits) to be set at a conservative level so that the additional rights do not result in adverse environmental impacts. To be financially attractive to the developer, only a small sum can be levied per additional permitted unit.
- » Reduction in minimum standards (for example, reduced parking requirements, reduced landscaping requirements) works in the same way as the previous example, except in this case the incentive is a reduced requirement. Concessions on minimum parking provision may not be taken up where a developer considers that providing adequate parking spaces is necessary for sales purposes.
- » Affordable housing as an additional permitted use (for example, in retail or office developments).
- » Section 94 rebates/reductions in return for affordable housing contributions have been suggested as a possible mechanism. However, under this arrangement less funding is available to meet the increased need for public amenity and services resulting from the development. In effect, the community would trade off between amenity/services and affordable housing, which is not ideal.
- » Voluntary planning agreements are currently at the core of Council’s approach. Developers are sometimes willing to negotiate provision of an affordable housing contribution as part of a set of community benefits, although the likely contribution will normally be small compared to mandatory mechanisms. Council has expressed a strong preference to move away from ad hoc arrangements, which are dependent on negotiation with developers.
- » The importance of support for CHPs wishing to develop affordable housing is often overlooked. Flexibility and speed of approvals may be important for a CHP, especially as subsidy schemes sometimes offer access to a pool of funds for projects that are “ready to go”.

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<sup>8</sup> Elton Consulting, April 2016 *Rhodes East Priority Precinct Investigation Area Workshops Outcomes Report*

# 5 Mandatory affordable housing contributions

## 5.1 Definition

Mandatory affordable housing contributions are achieved through a planning mechanism technically known as inclusionary zoning. This requires developers of market-rate schemes to contribute a proportion of floor-space for use as affordable housing, or to make a financial payment in lieu. It works by establishing statutory contribution requirements that are enforceable as conditions of development consent in specific land use zones and/or locations.

## 5.2 Justification

- » There is a need for a substantial amount of affordable housing in the area as a result of the widening gap between incomes and housing prices, and the large number of households who cannot affordably secure accommodation. Voluntary mechanisms could only be expected to deliver a very small number of affordable units.
- » The proposed rezoning at Rhodes East provides an opportunity to secure affordable housing at no direct net cost, other than a modest reduction in the windfall gain to existing landowners that will result from rezoning.
- » Unlike any other local option, this mechanism is straightforward and creates certainty both for developers contemplating a development and for the community in terms of affordable housing delivery.

## 5.3 Planning context

The Environmental Planning and Assessment Act, at Section 94F, already makes provision for mandatory affordable housing contributions but this provision is only available in locations listed in SEPP 70. The SEPP currently identifies only four locations where these provisions may be used, and they are in active use in only two of these. The City of Canada Bay has applied to the State Government for inclusion under the SEPP.

The Affordable Housing Principles at Schedule 2 of SEPP 70 state that affordable housing must be delivered and managed in such a way that it helps to create a mixed and balanced community, with improved social diversity. It must provide dwellings for a mix of very low, low and moderate income households. The SEPP also says that housing provided under these provisions must be rented to appropriately qualified tenants at an appropriate rate of gross household income.

Once included in SEPP 70, Councils are must prepare two documents in order to enact it:

- » An LEP setting out the contribution requirements and when they will apply; and
- » A program or scheme describing how the contributions will be received and managed.

**Recommendation 1:**

**It is recommended that Council establish a mandatory affordable housing contribution for Rhodes East through seeking amendment of SEPP 70, and preparing a suitable LEP and scheme.**

## 5.4 LEP provisions

The introduction of a mandatory requirement to provide affordable housing must normally occur as part of the rezoning of land. This is because it taps into the increased land value that arises from the rezoning. Retrospective introduction of such a requirement into existing zoning in the area is likely to result in strong opposition and may not prove achievable.

The wording of the LEP must include:

- » Details of the locations, zones and types of development application to which the provisions apply. Council intends mandatory affordable housing contributions to apply only to residential development, including the residential component of mixed developments. This helps ensure that lower-return commercial and retail developments are not unduly constrained.
- » Details of types of development that are excluded, such as repairs, changes of use, upgrades or small developments. Developments with a very low yield face more significant feasibility challenges, and may legitimately be excluded.
- » Details of a requirement to provide an affordable housing contribution as part of a development to which the provisions apply, and an explanation of how this will be subject to an enforceable condition of approval of any such development.
- » An explanation of the way the contribution will be calculated, based on a percentage of the floor space of the development (for example, a contribution rate of 5 percent of the approved residential floorspace) including the option of an “in lieu” cash contribution to be calculated at a defined and indexed rate per square metre (see discussion below). HillPDA has modelled a contribution of \$325 per square metre of gross floor area, based on current prices. This would need to be indexed or reviewed periodically.

## 5.5 Housing delivery

Affordable housing contributions can be delivered in three ways:

- a) *Contribution of dwellings.* The simplest option is the delivery of completed units free of cost by the developer to Council.
- b) *Contribution of land.* In some cases, a land contribution to the equivalent value could be acceptable to Council. This could be used by a CHP to develop its own affordable housing. SEPP 70 requires the transfer of the land or dwellings to the consent authority.
- c) *Cash contributions.* In lieu cash contributions may be appropriate where completed dwellings are not a feasible option (for example, where fractions of dwellings would be required) or where the housing manager does not wish to hold rental units (for example, in premium developments with high strata and other operating costs). Contributions should be paid into a special purpose fund held by Council.

The affordable housing contribution delivery methods have different implications for the level of flexibility offered to developers and the options for governance and management.

Cash and land contributions:

- » May be preferred by developers where they hold concerns about the market impact, for example, where the developer anticipates that the price achieved for market housing may be reduced in mixed developments, or where the sales program may be slower
- » Allow Council greater control over the location, type and amenity of affordable housing
- » Provide the opportunity for dedicated affordable housing developments, led by Council or potentially by registered CHPs – consolidated portfolios are generally considered easier to manage
- » Require a greater level of governance and management by Council
- » Make it easier to manage contributions consisting of fractions of dwellings
- » May be hard to spend effectively within the precinct where land is expensive and tightly held.

The contribution of dwellings:

- » Ensures a high level of dispersal of affordable housing throughout the precinct and within individual developments, leading to a more genuinely integrated community
- » Provides a streamlined approach for Council, removing any requirement for Council to manage procurement processes
- » Maximises the delivery of affordable housing within the precinct
- » Is likely to be more financially viable for developers
- » May result in high maintenance, strata or occupancy costs, where developments include premium features and amenities such as swimming pools.

Council has a preference for a flexible affordable housing strategy, allowing developers to select the delivery method for each development based on financial and other considerations. While Council considers that affordable housing is easier to manage when delivered in consolidated locations, this will only occur if developers opt for cash or land contributions.

It is worth noting that community consultation undertaken as part of the investigation project expressed a preference for affordable housing to be distributed throughout the precinct.<sup>9</sup> Council also has a strong preference for any land to be contributed within the precinct, and for any cash to be expended within the precinct.

**Recommendation 2:**

**It is recommended that Council specify flexibility within its mandatory affordable housing contribution for Rhodes East to allow dwellings, land or cash contributions to be delivered.**

**Recommendation 3:**

**It is recommended that Council require the contribution of any dwellings or land to be at zero cost, and within the Rhodes East precinct.**

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<sup>9</sup> Elton Consulting, April 2016 *Rhodes East Priority Precinct Investigation Area Workshops Outcomes Report*

## 5.6 Overview of procedures for a development proposal

1. The proponent discusses its proposals with Council and where appropriate with the affordable housing manager. The manager indicates whether it would wish to receive dwellings within the proposed development if this is a feasible option.
2. The development application is submitted. Applicants are provided with information to allow them to calculate the level of contribution which will be required. Council formally calculates and confirms the amount of the affordable housing contribution. The manner of making the contribution must then be determined and documented. If dwellings are to be provided, the applicant must prepare plans for the proposed units for approval by Council, and where appropriate the affordable housing manager.
3. Once these details are finalised, the consent authority is able to issue development approval with an appropriately worded condition of consent.
4. If completed units are to be provided, prior to issuing a Construction Certificate, Council approves a legally binding agreement to transfer title of completed units either to Council itself or to the housing provider (these options are discussed later in this report). The transfer is subsequently duly completed under this agreement.
5. If cash is to be paid in lieu, a Bank Guarantee must be provided before the Construction Certificate can be issued or alternatively full payment may be made at this stage. If a bank guarantee is provided, full payment must be made before the Occupation Certificate is issued.

## 5.7 Setting the contribution rate

Council has publicly committed to delivering 5 percent affordable housing in the Rhodes East precinct. Council also sees Rhodes East as a potential model for future urban development projects within the LGA.

In the Rhodes East context, the proposed mechanism would be introduced as part of a rezoning process. At present, the area is zoned for low or medium density housing or general industrial, with a residential FSR limit of 0.5:1 metres and a height limit of up to 9 metres. Rezoning, particularly to permit high density housing, would greatly increase development capacity across the area, which can be expected to create substantial windfall increases in land value for the landowners.

Developer contributions, whether for affordable housing or any other purpose, have the potential to reduce the residual land value or developer margins. There is a risk that too great a reduction in either may deter development, as landowners or developers believe the potential project does not represent value. Developers may opt for projects in other areas without mandatory contributions. Mitigating this risk is the indication that developers have already shown a strong interest in Rhodes East, through acquisition of land and options over land.

HillPDA<sup>10</sup> has undertaken financial modelling of the impact of contribution rates of between zero and ten percent of gross floor area, across four sample sites within the Rhodes East precinct. Feasibility is assessed against two hurdle rates: a project internal rate of return of 20 percent; a target development (or profit risk) margin of between 18 and 22 percent. The target development margin increases with the scale of the development, as this leads to longer development timeframes and higher risk profiles. HillPDA notes that contribution rates have less of a financial impact when the

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<sup>10</sup> HillPDA *Rhodes East: Property Market Appraisal and Development Feasibility, Draft, June 2016*

dwellings are gifted within the development, rather than when cash equivalents are paid. This reflects the difference between cost price and value, as well as the additional impact on cashflow: cash contributions may require project finance, depending on when they fall due, which would increase capitalised interest and financial risk. In line with Council's stated preference for flexibility, the developer would be able to select the most suitable option for each development.

## Results

The results indicate that a modest mandatory affordable housing contribution rate is financially feasible on developments other than those with a very low yield.

### Waterfront

Developments typically consist of six terraces per lot, with marginal feasibility due to the very high land values and low development yields in this character area.

### Concord Road East

The sample project modelled indicates that a mandatory affordable housing contribution rate of five percent of gross floor area would be viable, with either dwellings or cash to be contributed.

### Blaxland Road and Cavell Avenue

The sample project modelled indicates that a mandatory affordable housing contribution rate of five percent of gross floor area would be viable, with either dwellings or cash to be contributed.

### Leeds Street

The sample project modelled indicates that a mandatory affordable housing contribution rate of 2.5 percent of gross floor area would be viable. A mandatory affordable housing contribution rate of five percent would only be viable with an additional yield of 25 dwellings or more. The additional yield is in the order of ten percent of the total development. With this concession, the sample project would be viable with either dwellings or cash to be contributed.

Council has a preference for a flat mandatory affordable housing contribution rate across the precinct, rather than a different rate for different character areas. This is not only administratively more straightforward, but also fair and transparent, which will significantly assist to ensure the support of the community and potential developers. A mandatory affordable housing contribution rate of five percent of gross floor area is financially viable on all eligible sample developments modelled, other than Leeds Street. The modest additional yield required to ensure financial viability of the rate at Leeds Street is considered supportable.

### Recommendation 4:

**It is recommended that Council establish a mandatory affordable housing contribution of five percent for Rhodes East.**

This recommendation takes into account:

- » The significant affordability gap at Rhodes East identified in the research
- » The indication that a mandatory contribution at this level would not impact appreciably on development margins, with the exclusions and concessions set out
- » The scale of the opportunity at Rhodes East, which allows Council to generate a significant portfolio of affordable housing

- » Council's strong public commitment to affordable housing, including the specific commitment to deliver five percent affordable housing in the Rhodes East precinct.

It should be noted that this recommendation would not automatically achieve Council's commitment of delivering five percent affordable housing as some developments are excluded. Nevertheless it would make a significant contribution towards this target. The affordable housing portfolio could be increased towards the full target of five percent by:

- » Contribution of land, where available, for the purposes of affordable housing developments
- » Use of any cash contributions to fund development of affordable housing by registered CHPs, taking advantage of their charitable status and tax concessions to reduce development cost and required margins
- » Preference with any contribution of dwellings to receive smaller dwellings which would increase the number of dwellings within the required five percent of gross floor area.



## 6 Ownership and management issues

### 6.1 Selecting an affordable housing provider

Tenancy and property management services for Council's current affordable housing portfolio of 25 dwellings are provided by SGCH, a large registered community housing provider (CHP). This contract is currently subject to a new tender process, which will result in a new five year management contract with a selected manager. Council may wish to discuss the implementation of the recommendations of this Strategy with the selected manager, following completion of the tender process.

An appropriate affordable housing manager will be required for the additional portfolio delivered at Rhodes East. Unless the scale of the affordable housing program is large, efficiency will be promoted by appointing a single CHP that can take advantage of advantages of scale and geographical proximity of managed units. Depending on the timing of the delivery of affordable housing dwellings at Rhodes East, Council may wish to engage a separate manager for the short to medium term, before considering whether to consolidate the portfolio under a single manager for the longer term.

On current yield estimates at Rhodes East, a five percent affordable housing requirement would result in approximately 185 dwellings. A single CHP could comfortably manage an affordable housing portfolio of up to 500 dwellings. If council expands its portfolio significantly beyond Rhodes East and its existing portfolio, it could consider establishing a panel of CHPs rather than continue to work with a single provider.

#### **Recommendation 5:**

**It is recommended that Council engage a single CHP as manager of its affordable housing portfolio and any new dwellings delivered at Rhodes East. For ease of administration, Council may wish to engage a separate manager for affordable housing dwellings in Rhodes East in the short to medium term, ahead of consolidation of the portfolio.**

Council's *Affordable Housing Policy* specifies that management will be outsourced in accordance with its procurement processes, to a "Housing manager with demonstrated experience and expertise in the management of affordable housing"<sup>11</sup>. It does not specify a registered CHP. Registered CHPs specialise in managing affordable rented housing and are regulated by the NSW Government under strict operating rules. Registered CHPs are required to demonstrate compliance with a robust Regulatory Code, which covers:

- » A full suite of tenant and housing services, including eligibility, allocations, rent setting and maintaining satisfaction with the overall quality of housing services
- » Asset management including property management/maintenance
- » Community engagement
- » Good governance

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<sup>11</sup> City of Canada Bay 2016 *Affordable Housing Policy* as updated 19 April 2016, p. 7

- » Probity
- » Organisational management
- » Financial viability.

In addition to the capabilities covered in the Regulatory Code, Council prioritises innovative approaches to management of the portfolio.

**Recommendation 6:**

**It is recommended that Council specify in its policy that the housing manager should be a registered CHP. Council will continue to include innovation as a priority in assessing tender submissions from potential affordable housing managers.**

## 6.2 Asset ownership

Council currently owns its affordable housing portfolio and engages a CHP to manage it. It is acknowledged that Council's preference is to retain ownership of all existing and new affordable housing dwellings.

This delivers full control over the asset to Council, allowing it to make portfolio management decisions such as disposal and redevelopment. It also enables Council to change its affordable housing manager, if it wishes, and to investigate shared equity options in future.

This approach has a key drawback: unless it holds title to the assets, the CHP which manages the portfolio is significantly constrained from borrowing to construct additional affordable housing. Currently, most larger CHPs are able to raise debt finance to meet part of the cost of new housing, but existing assets, as well as cashflows, are required to secure this. If Council transferred title to the CHP, Council would need to use contractual and legal mechanisms to ensure compliance with its requirements in relation to the targeting of tenant cohorts, length of tenure, and the ongoing affordability of rents. Council would need to seek legal advice in drafting a suitable charge or covenant to be placed on the title, to ensure that the housing continues to be used and let in the approved manner.

In particular, in situations where a developer pays cash in lieu of dwellings, the most efficient and cost-effective use of these funds would be to allocate them to a CHP for use in developing or procuring dwellings. In this situation, Council could consider allowing the CHP to hold title to the dwellings, and to use any surpluses and leverage opportunities to generate additional affordable housing in the LGA. Alternatively, Council could consider using the funds to develop or procure dwellings directly.

## 6.3 Housing management

### Eligibility

Whether or not the CHP appointed by Council receives title to the portfolio, it will be responsible for asset management and tenancy management, largely as set out in Council's *Affordable Housing Policy*. In particular, the CHP will be responsible for selecting tenants and setting rents in keeping with agreed criteria.

Council's current approach is to use NRAS eligibility criteria, supplemented with priorities as set out in its guidelines. NRAS eligibility criteria vary from those used by the Centre for Affordable Housing in the *Ministerial Guidelines*. Currently 24 of Council's portfolio of 25 affordable housing dwellings receive

NRAS subsidies, and will continue to do so for the full ten year program timeframe. However, as the program has been cancelled its eligibility criteria will become less relevant over time.

Council may wish to amend its *Affordable Housing Policy* to refer to the *Ministerial Guidelines* when the NRAS subsidies roll off. There are minor differences in eligibility, which can be transitioned for non-NRAS properties over the medium term by the CHP.

Formal rules to ensure probity and equity in tenant selection and rent setting are already in place across the community housing sector, including variations relevant to different types of project or target group, and it is anticipated that relevant models could readily be identified for use at Rhodes East. In particular, the *Ministerial Guidelines* set out procedures and policies relevant to affordable rented housing. Specific additional provisions reflecting Council's additional requirements should be included in Council's contract with the CHP.

The following will need to be considered:

- » SEPP 70 requires that affordable housing is "made available to a mix of very low, low and moderate income households" (Schedule 2). The objective is to promote socio-economic diversity and balanced communities. However, drawing tenants from a mix of income groups also supports ongoing financial viability for the provider. There may therefore be an advantage in agreeing targets with the CHP for the proportion of lettings to each income group (very low, low, and moderate).
- » Similarly, as SEPP 70's objectives are to promote social diversity and a balanced community, rigid eligibility rules that target certain occupations (such as key workers) may therefore not be acceptable. However, Council could appropriately arrange for key workers who meet affordable housing income criteria to be given preference in the selection process, in accordance with its current *Affordable Housing Policy*.

Council's preference is to house predominantly moderate income households in its affordable housing portfolio, in order to avoid taking on the State Government's role of housing people who are eligible for social housing (very low and low income households). For very low and low income households in affordable housing, Council indicates that it will give preference older residents or residents with a disability, in order to support continuation of community connection.

#### **Recommendation 7:**

**It is recommended that Council ensures that a suitable proportion of very low and low income households are eligible for its affordable housing portfolio.**

### **Rent setting**

There are two standard rent models applied in affordable housing. The first is to charge a discounted market rent – typically 75 percent of market, especially where properties are managed by CHPs. This ensures relative affordability against the full market rate, and removes the need for regular income assessment. However, especially in high cost markets, a discounted market rent may still be unaffordable for some target cohorts. The second rent model in common usage is to charge rent based on income – typically 25 or 30 percent of income. This ensures affordability, however it requires regular income assessment and makes portfolio sustainability challenges.

Council's *Affordable Housing Policy* sets out a balanced approach between setting rents at 75 percent of the market rent for a comparable property, and setting rents at 30 percent of household income. The policy also sets out a rental lifting strategy to promote some properties to higher income households (within eligibility criteria). The balance ensures that the affordable housing portfolio is used to alleviate housing stress amongst very low, low and moderate income households, while ensuring the financial viability of the program. Council is currently transitioning rents in its affordable housing portfolio to 75 percent of market for all new tenancy agreements. The *Ministerial Guidelines*

require that any very low or low income tenants pay no more than 30 percent of income in rent. Council's balanced approach is consistent with this requirement.

Council's *Affordable Housing Policy* assumes that eligibility will be assessed annually, in line with NRAS guidelines, to ensure that households which are no longer eligible transition out of the property. The policy assumes that households will not live permanently in affordable housing but will "establish savings for the private rental market or home ownership"<sup>12</sup>. The policy currently sets a maximum tenure term of five years.

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<sup>12</sup> City of Canada Bay 2016 *Affordable Housing Policy* as updated 19 April 2016, p. 6

# 7 Administrative arrangements

## Calculation of contributions

A mandatory affordable housing contributions arrangement cannot be introduced without State Government approval, as it requires amendment to SEPP 70 (or creation of a new SEPP). The State Government may also wish to participate in the development of an acceptable framework for the affordable housing program.

Council will be responsible for drafting LEP clauses to enact the arrangement.

The development consent process (including calculation of contributions) will be the responsibility of the consent authority (normally Council).

Where units are to be provided directly, the consent authority's primary role is simply to ensure that a legally binding agreement to the transfer is entered into and that the transfer actually occurs. Appropriate arrangements will also be required to receive in lieu cash contributions into a special purpose account (see below).

## Portfolio administration

Tenancy and property management services for Council's current affordable housing portfolio of 25 dwellings are provided by a registered CHP. The contract is currently subject to a new tender process, which will result in a new five year management contract for a selected manager. Council retains ownership of the portfolio and sets its expectations for management of the portfolio in its *Affordable Housing Policy*.

Under the *Affordable Housing Management Guideline* appended to the policy, Council has established an inter-departmental project group to monitor the portfolio and its management. The project group allocates responsibilities to Council and the selected affordable housing manager across a range of actions including:

- » Tenant selection, length of tenure and ongoing eligibility
- » Eligibility register for applicants
- » Rent setting and review
- » Property inspections
- » Representation on Owners Associations
- » Representation at the tenancy tribunal
- » Maintenance and capital works
- » Reporting and compliance.

The affordable housing manager's performance is reviewed under the terms of the management agreement, which sets out their responsibilities and performance standards, consistent with Council's *Affordable Housing Policy*. The policy is reviewed annually, with consideration given to management and maintenance issues, Council's use of affordable housing revenues, tenant access to support and economic opportunities, the impact on the local community and economy.

In light of the anticipated expansion of the portfolio over the coming years with new affordable housing at Rhodes East, Council could expand the next annual review of the policy to include consideration of:

- » Level of resourcing required to manage the policy and monitor portfolio management under current arrangements
- » Review of comparable Councils' administration of affordable housing, noting that few Councils have invested in affordable housing to the level of Canada Bay
- » Consideration of alternative administrative arrangements.

### **Affordable housing operating account**

A special purpose account is required to hold funds from in-lieu affordable housing contributions. Council already has such an account for use in its existing affordable housing program and it may be possible simply to use this. If there is a need to separately hold and account for Rhodes East funds, a second account may be required.

In keeping with the agreed affordable housing program, Council would determine how funds held in the account are allocated, so long as they are used to provide additional affordable housing. Options include:

- » Allocating funds to the existing manager, to procure additional stock
- » Negotiating allocations with registered CHPs with the capacity to operate in the area, with priority being given to those that have access to development sites and/or additional finance
- » Allocating funding on a competitive basis for use in procuring or developing housing.

The greatest benefit will be achieved if funds from the account are allocated to projects that maximise the affordable housing outcome, for instance through leveraged debt, partnerships with private developers, or participation in government-backed subsidised schemes.

Participation in any new Commonwealth or State Government subsidy programs is to be investigated as opportunities arise.



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