Can you afford to live where you choose?

Local approaches to making it affordable for people to live in their communities

future cities collaborative

THE UNITED STATES STUDIES CENTRE at the University of Sydney

The Future Cities Collaborative is an initiative of the United States Studies Centre at the University of Sydney, in Australia.

In 2007, the world reached an invisible but momentous milestone: more than half of its population now lives in cities[1]. Cities are the heart of the world's economy and are home to the majority of people, but they also present monumental challenges. The Future Cities Collaborative responds to these challenges by supporting city leaders with thought leadership, new research and policy directions, and collaborative approaches to developing sustainable, productive and liveable cities of the future.

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Sandy Burgoyne
Director, Future Cities Collaborative

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1. *United Nations, "World Urbanisation Prospects", United Nations, New York, 2014*

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Research conclusions are derived independently and authors represent their own view, rather than an institutional one of the United States Studies Centre.

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Foreward

With this communiqué, the Future Cities Collaborative, with its partner cities, takes an affirmative step toward enhancing the vision and powers of local government in New South Wales (NSW) to address the pressing affordable housing crisis facing communities throughout the state.

This communiqué sets out concrete land use and finance proposals which communities throughout NSW can pursue to address the crisis in housing affordability, as well as how those initiatives can be supported at the state and even federal level. It comes at a pivotal moment in Australian housing, tax and governance policy review.

Challenges to Affordable Housing in Australia

Recent collaboration with federal and State policy makers, industry representatives, community housing associates and other stakeholders, demonstrates a high degree of professional commitment, skill and optimism about the prospect for crafting a vibrant affordable housing policy nationwide. This optimism occurs in the face of serious challenges facing Australia, NSW and metropolitan Sydney in meaningfully addressing the affordable housing crisis. These include, but are not limited to, current real estate taxation settings; lack of consistent and permanent sources of funding to support affordable housing; and limited policy mechanisms, at present, to secure affordable housing through the planning system.

Rental Housing Does Not Exist as an Investment Asset Class in Australia

Australia suffers from another key constraint in developing a viable affordable housing strategy: the lack of rental housing as an identified institutional investment asset class. The social housing sector, as an alternative source of stable, affordable rental housing, only represents approximately 4 per cent of all housing in Australia. My recent discussions across Australia[1] with federal and State policy makers, community housing associations and affordable housing researchers suggests that the social housing business model is broken, failing to provide positive operating cash flow or investment in refurbishment of the housing stock.

These challenges must be addressed with consistent, long-term policy, and fiscal commitment, at every level of government, and in close partnership with the for-profit and nonprofit development and finance sectors.

2. Australian Bureau of Statistics, "Census of Population and Housing", Australian Bureau of Statistics, Canberra, 2011

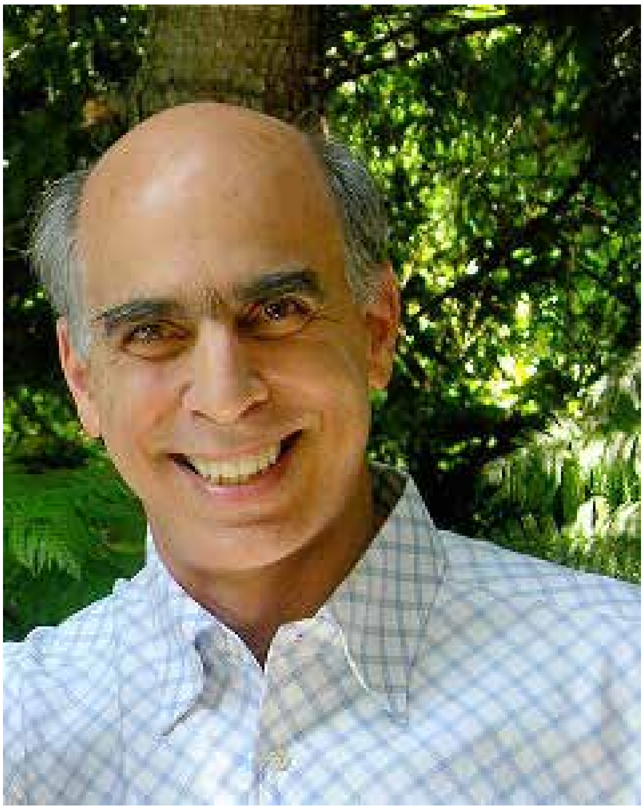
Framing the Local Role

The communiqué does an excellent job of framing the role of local government in securing and providing affordable housing, consistent with a long-term vision for the growth and sustainability of a vibrant metropolitan region. In particular, the Communiqué outlines opportunities to develop inclusionary housing policies in order to capture value from the zoning and development of land to assure a meaningful percentage of private, market-rate housing is reserved for very long-term affordable housing for both renters and owners. It offers a rigorous analytic methodology to quantify achievable affordable housing requirements from inclusionary zoning using market real estate economic analysis of residual land value.

Importantly, the communiqué also lays out a framework for a comprehensive affordable housing strategy, which local governments can use to mobilise the public and private sector resources necessary to produce and preserve affordable housing at a scale necessary to respond to the region's crisis. The local role in planning for and participating in the development of affordable owner and rental housing is critical. However, it cannot achieve its goals without active participation by the NSW State government, as well as the federal government.

This Communiqué is an important step along that path to a sustainable and affordable future for Australian renters and owners.

David Rosen, PhD
Oakland, California
November 2015



Dr David Rosen, California

Executive Summary

What is affordable housing?

Affordable housing is housing that is appropriate to a households needs and is within the financial means of households earning very low, low and moderate incomes (i.e. up to 120 per cent of regional median income). It can include market and non-market types of housing, including public and community or social housing; housing that is offered to eligible households at below market rents (such as through the former National Rental Affordability Scheme); shared equity housing; market housing that is offered in conjunction with subsidies or special finance arrangements; and, housing that by the nature of its size and design can be offered at an affordable price. Housing is generally deemed to be affordable where the cost of occupying a dwelling (i.e. rent or mortgage payments) does not exceed thirty per cent of a household's income.

Why is it needed?

In New South Wales (NSW) there is a very small and declining stock of housing that is affordable to very low, low, and moderate income households. Lack of affordable housing is especially acute in Sydney's inner and middle ring suburbs, which offer good access to amenity, education and employment opportunities. The consequence is that many very low, low, and moderate income households are now in housing stress, meaning that they are spending more than 30 per cent of their income on housing. Low and moderate income households, including younger households and key workers, are also leaving their communities and/or commuting very long distances in order to meet their housing needs. This is creating potential long-term risks for the social cohesion and economic and environmental performance of the metropolitan region.

The current metropolitan strategy for Sydney recognises the need for action to address the declining stock of affordable housing.[3] However, there are currently few meaningful ways that local governments in NSW can respond to local and regional housing challenges, particularly the need for designated affordable housing.

This communiqué

This communiqué, developed by the Housing Affordability Working Party of the Future Cities Collaborative, focuses on the growing issue of housing affordability in Sydney. It is inspired by international initiatives to deliver affordable housing, and the desire of the city leaders who have participated in the Future Cities program to see change within their own communities. Through case studies of three local government areas (LGAs), namely, Waverley Council, Pittwater Council, and the City of Canada Bay, this communiqué outlines:

- Key housing challenges in different areas of the metropolitan region (that are characterised by different housing markets, demographic trends, and development opportunities)
- Examples of past and current initiatives to address affordable housing needs at the local government level
- Future policy directions that are being explored and developed at the local government level to address key areas of housing need

In conclusion, it sets out the components of a comprehensive strategy to address housing affordability in NSW, and how local government directions and initiatives in this area can be supported through higher-level policy, research and analysis, and implementation support.

3. Department of Planning and Environment, "A Plan for Growing Sydney," Department of Planning and Environment, Sydney, NSW, 2014.

Observations

1. The impact of Sydney's rising housing costs has been largely borne by lower income households in the private rental sector, particularly older renters on fixed incomes, younger households who are forming and/or attempting to enter home ownership, key workers who are typically on incomes set at the state level, and lower paid service sector workers
2. Owing to different housing market and demographic trends, locational factors, land use patterns, and development opportunities, key housing challenges and scope to address affordable housing need varies across local jurisdictions
3. In the context of significant gentrification and demographic change, Waverley Council has secured affordable rental housing units for its social and affordable rental housing programs through voluntary planning agreements with developers and has worked with the Department of Housing (DOH) to develop new social rental units to maximise opportunities on a site-by-site basis as they have arisen, in an environment with limited redevelopment opportunities
4. In the outer suburban Pittwater Council area, lack of appropriate, affordable housing is one factor that is contributing to the outmigration of younger people (18-34 year-olds) from the area. As the lack of housing for this age group relates to a number of factors, including the lack of rental housing, lack of smaller dwellings, and comparatively high house prices, council is considering a range of potential approaches to deliver more compact and affordable housing forms as part of future redevelopment of one of its town centres, as well as opportunities to potentially secure designated affordable rental housing through the planning system
5. In the City of Canada Bay, high house prices and rents have made it difficult for local service providers to retain key workers, particularly hospital and aged care staff. While council has used voluntary planning agreements in the past to successfully secure over 20 affordable rental units, several of which are reserved for Concord hospital staff, provision has been relatively sporadic. To ensure that future renewal processes do not further price out low and moderate income households, council is pursuing an inclusionary housing mechanism at Rhodes East, the next major renewal area of the city. The approach will capture some of the value uplift from a major rezoning for the provision of public benefit — affordable housing for key workers. Council will work with the Department of Planning and Environment to undertake detailed feasibility
6. While local governments have had some success in securing affordable housing to address local housing needs, delivery has thus far come on a small scale

There is a great need for councils to develop affordable/ key-worker housing strategies to contest housing affordability in areas undergoing urban renewal. This will not only provide socially diverse and sustainable communities but will importantly increase local economic productivity.

Councillor Neil Kenzler,
City of Canada Bay

Recommendations

To support local governments in addressing local housing needs, the NSW Government should:

- Expand the list of jurisdictions with identified housing need in State Environmental Planning Policy 70 — Affordable Housing (Revised Schemes) (SEPP 70), to enable inclusionary housing policies to be adopted more widely and to maximise opportunities to secure affordable housing through the planning system
- Provide key data and analytic support to assess the feasibility of affordable housing contribution requirements, in particular as part of urban renewal. This will ensure that opportunities to capture value uplift are maximised while, at the same time, ensuring feasible development requirements
- Establish affordable housing contribution requirements as part of the planning of state-owned sites and major renewal areas
- Work with the development industry to demonstrate innovation in housing design to foster lower cost housing forms
- Work with local and commonwealth government to develop public land for designated affordable housing

We also recommend that the NSW Government, in conjunction with local and commonwealth government, and stakeholders from housing, development and finance industries, work together to:

- Quantify housing need in Sydney and NSW
- Define what constitutes affordable housing costs at different income levels
- Quantify the "affordability gap" between what lower income households can afford to pay for housing and current market rates
- Quantify the total capital requirement to meet defined housing needs in Sydney and NSW
- Establish permanent, annually renewable sources of public capital to finance renter and owner housing affordability gaps
- Ensure higher-level land use planning policies enable the development of designated affordable housing
- Review landlord-tenant law and barriers to institutional investment in rental housing in NSW
- Pursue public-private partnership with the banking industry, capital markets, superannuation funds, and other sources of institutional capital for investment in the construction, long-term financing and preservation of affordable housing for both owners and renters throughout the State
- Support capacity building in the not-for-profit development and housing sector

About this Communiqué

The Future Cities Collaborative

The Future Cities Collaborative brings together policy, practice and research to increase knowledge and generate inspired action around building great cities.

It is an initiative of the United States Studies Centre at The University of Sydney (USSC), whose primary role is to promote sustainable urban development by supporting city leaders with innovative approaches to urban development, creating a forum in which city shapers can share ideas and information, and being a site for capacity building and development of skills and knowledge in building sustainable cities.

The United States Studies Centre

Since opening its doors in 2007, USSC has taken significant strides towards increasing understanding of the United States (US) in Australia. Through one-of-a-kind educational programs and leading think tank research, USSC is leading the way in the study of the US outside America and in building bridges between the two countries.

USSC has provided a focus on the intersection between urban planning and the environment, leveraging Australian and US resources since 2009 with the foundational support of the Dow Chemical Company's Sustainability Program and the NSW Government. USSC is proud to be building stronger links between Australia and he US through policy development, knowledge exchange, and programs such as the Future Cities Collaborative

Oakland, California

Why are city leaders focusing on local housing affordability?

Informed by insights from city leaders and local government staff during the Future Cities Program and City Exchange to the US, seven focus areas have been identified: strategic precinct planning; urban renewal; activation; urban living; partnerships; placemaking; and, housing affordability, each of which incorporates issues such as access to finance, planning instruments, local/state government responsibilities and capacity building. For each focus area, observations, enablers, and inhibitors, as well as policy implications and benefits, have been outlined.

This communiqué, developed by the Future Cities Housing Affordability Working Party, explores current and potential local approaches to addressing housing affordability in NSW. It recognises that city leaders want cities which provide jobs, services, and social cohesion, as well as being places where people can afford to choose where they want to live. City leaders have recognised that they cannot achieve this vision alone. Collaboration with other levels of government and partnerships with business and the community are vital if they are to fulfil the needs of their communities both today and into the future.

This communiqué outlines ideas and case studies for discussion and, importantly, serves as a call to action for a collaborative approach to making the cities of NSW sustainable, resilient, and thriving cities of the future.

The Housing Affordability Working Party recognises that the delivery of housing to first homebuyers, low and moderate income households, including essential service workers such as nurses, teachers and police, and those who need affordable rental and social housing, is a significant issue across the state of NSW. Moreover, current federal and state taxation arrangements, including negative gearing, capital gains, and stamp duty, favour existing property owners and investors and place upward pressure on property prices. In addition, studies have identified a disconnect between the housing stock currently being provided (for example, detached dwellings) and that which is desired by consumers, having regard for trade-offs between location, price and size of dwelling (i.e. semi-attached dwellings and flats).

For local government, there are currently very few meaningful ways to respond to these housing challenges. In particular, opportunities to deliver housing that is affordable relative to household incomes, and financially-assisted social housing, are limited. In NSW, the social dislocation, economic disadvantage, and risks caused by the inability to deliver housing of the form and price required by key segments of the market is likely to continue to worsen unless meaningful and urgent measures are taken.

In the US, cities have addressed housing affordability and affordable housing through a number of levers created at local, state and federal government levels, including the provision of tax incentives to fund affordable housing projects; affordable housing targets set at the regional level; inclusionary zoning; and, increased diversity of housing products (e.g. decoupling car parking requirements). Strong leadership and a coordinated, whole-of-metropolitan approach have been keys to successfully addressing the issue.

Key enablers

- A clear state government housing policy position
- A metropolitan plan supported by subregional strategies that sets housing targets and requires annual progress reports
- Local and state planning policies that facilitate affordable housing and diversity of housing products through mechanisms such as inclusionary zoning
- A review of taxation barriers and incentives

City leaders who have participated in the Future Cities program, supported by the NSW Government, have seen what is possible in terms of delivering affordable housing using innovative financing and policy instruments and are committed to seeing change within their own communities.

Patchogue, New York

City leaders who have participated in the Future Cities program, supported by the NSW Government, have seen what is possible in terms of delivering affordable housing using innovative financing and policy instruments and are committed to seeing change within their own communities.

Introduction

A Plan for Growing Sydney **recognises that there are high incidences of housing stress amongst the region's lower income households, and that "more needs to be done to meet the housing needs of people on very low, low, and moderate incomes." The strategy sets an action (Action 2.3.3) to "deliver more opportunities for affordable housing." Included under that action is a commitment by state government to: develop a comprehensive approach to addressing the issue; provide affordable housing in government-led urban renewal projects and on government-owned sites; and, require local councils to address affordable housing in their local housing strategies, in response to local demand. At present, however, there are few practical tools available to address diverse housing need. This gap is most obvious at local government level but it is also a problem at state government level.**

Without adequate tools to address the full spectrum of housing need in Sydney, spatial inequality is likely to increase, with implications for equity of access to education and employment, labour recruitment and retention, and commuting times and transport costs. The latter will be borne by lower income households in particular, who are already being forced to more peripheral areas to secure affordable housing. These outcomes could have potential, long-term negative effects on the efficiency of Sydney's labour market and its economic competitiveness, the social cohesion of the region, and the achievement of environmental sustainability goals[5].

Many other global cities are addressing the need for affordable housing as a key component of urban infrastructure (see statistics in box below). The Housing Affordability Working Party would like to see more opportunities to address affordable housing need in Sydney. This parallels recent calls from a variety of interest groups, including the development industry, for strategies and policy mechanisms to address the supply of affordable housing in the region[6]. The Housing Affordability Working Party would like to see more opportunities to utilise the land use planning system to support diverse and affordable housing outcomes, particularly where significant growth is forecast.

In December, 2014, only three per cent of rental housing stock in the Sydney metropolitan region was affordable to households on very low incomes.[7]

The proportion of dwelling stock for purchase in the Sydney metropolitan region that is affordable to moderate income households has declined in recent years, and was only 12 per cent in December, 2014.[8]

In Greater London, 37 per cent of new housing delivered between 2010 and 2013 was in affordable housing tenures (including social and affordable rental and shared ownership).[9]

In the San Francisco Bay Area, just over 30 per cent of housing permits issued between 2007 and 2014 were for affordable housing, including 13 per cent for very low households.[10]

5. Mike Berry, "Housing affordability and the economy: a review of macroeconomic impacts and policy issues," Australian Housing and Urban Research Institute, Melbourne, 2006 AND Judith Yates and Vivienne Milligan, "Housing affordability: a 21st century problem," Australian Housing and Urban Research Institute Final Report No.105, Australian Housing and Urban Research Institute, Melbourne, 2007 AND Gilbert, C., Nicole Gurran and Peter Phibbs, "Targets for affordable housing: supporting equitable and sustainable urban growth," in Instruments of planning: tensions and challenges for more equitable and sustainable cities, eds. R. Leshinsky and C. Legacy (New York, Routledge, 2015), 80-91.
6. Jacob Saulwick, "Affordable housing audit of government land proposed: developers want social quota," Sydney Morning Herald, August 13, 2015.
7. Centre for Affordable Housing, "Table M3a: Proportion of rental stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015.
8. Centre for Affordable Housing, "Table M3b: Proportion of purchase stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015.
9. Mayor of London, London Plan Annual Monitoring Report 10, 2012-13, Greater London Authority, London, 2014.
10. Association of Bay Area Governments, Bay Area Progress in Meeting 2007-2014 Regional Housing Need Allocation (RHNA), ABAG, Oakland, 2015.

It is within this context that this communiqué seeks to draw a sharper focus on the growing issue of housing affordability in Sydney. Through three case studies from city members of the Future Cities Collaborative, it highlights:

- Key housing challenges in different Sydney localities, with different housing markets, demographic trends, and development opportunities
- Past and current initiatives to address affordable housing needs at the local level
- Future policy directions that are being explored and developed to address key areas of housing need, as well as the actions required to further these directions

Drawing on these case study findings, and international experience and practice, the conclusion sets out the necessary components for a comprehensive strategy to address housing affordability in NSW.

Background: housing and land use planning in Australia and NSW

Australia's housing stock includes a diversity of dwelling types and tenures, although the majority of the nation's housing stock is in the home ownership and private rental tenures. In NSW, these sectors accounted for 67 per cent (ownership) and 17 per cent (private rental) of dwellings at the last census.[11] Other types of housing include temporary and permanent accommodation that is subsidised by government and made available to eligible households, and housing for rent and home ownership that is provided by not-for-profit community housing providers.

Figure 1, developed by the City of Sydney, illustrates this housing supply continuum.[12]

Figure 1: A housing supply continuum

<table>
<tr><th colspan="8">The housing supply continuum</th></tr>
<tr><td>Emergency shelters/crisis accomodation</td><td>Transitional/ supported housing</td><td>Social housing (including public housing)</td><td>Affordable (community rental) housing</td><td>Affordable home owenership/ shared ownership</td><td>Private market affordable rental housing (including boarding houses and student accommodation, which may be government subsidised)</td><td>Private market rental housing</td><td>Home ownership</td></tr>
<tr><td colspan="3">Government subsidised housing (including housing provided by the government and the community sector)</td><td colspan="2">Non-market housing (community housing sector)</td><td colspan="3">Market housing</td></tr>
</table>

Source: City of Sydney, 2015, 3.

11. Australian Bureau of Statistics, "Census of Population and Housing", Australian Bureau of Statistics, Canberra, 2011
12. City of Sydney, "Housing Issues Paper," City of Sydney, Sydney, 2015.

The term "affordable housing" encapsulates a range of market and non-market housing products attainable at or below an affordable price benchmark.[13] It includes a variety of low cost home purchase products such as shared equity housing, market housing offered in conjunction with subsidies or special finance arrangements, and housing that by the nature of its size and design is offered at an affordable price. Affordable rental housing can include public and community or social housing, as well as housing that is offered to eligible households at below market rents (such as through the former National Rental Affordability Scheme).

A property can be considered to be affordable if it is appropriate to the needs of a household (considering household size and structure) and the cost of renting or purchasing the property is within the household's capacity to pay, which is measured in relation to household income.[14] It is generally accepted that housing costs at or below 30-35 per cent of total household income is affordable.

In discussing housing need, and for housing policy purposes, households are typically classified as very low, low or moderate income, with indicative income levels defined in relation to the area or regional median. Approximate income ranges for very low, low, and moderate income households for the Sydney metropolitan region at the time of the last census (2011) are shown in the table below.

Table 1: Very low, low, and moderate income levels (Sydney Metropolitan Region)

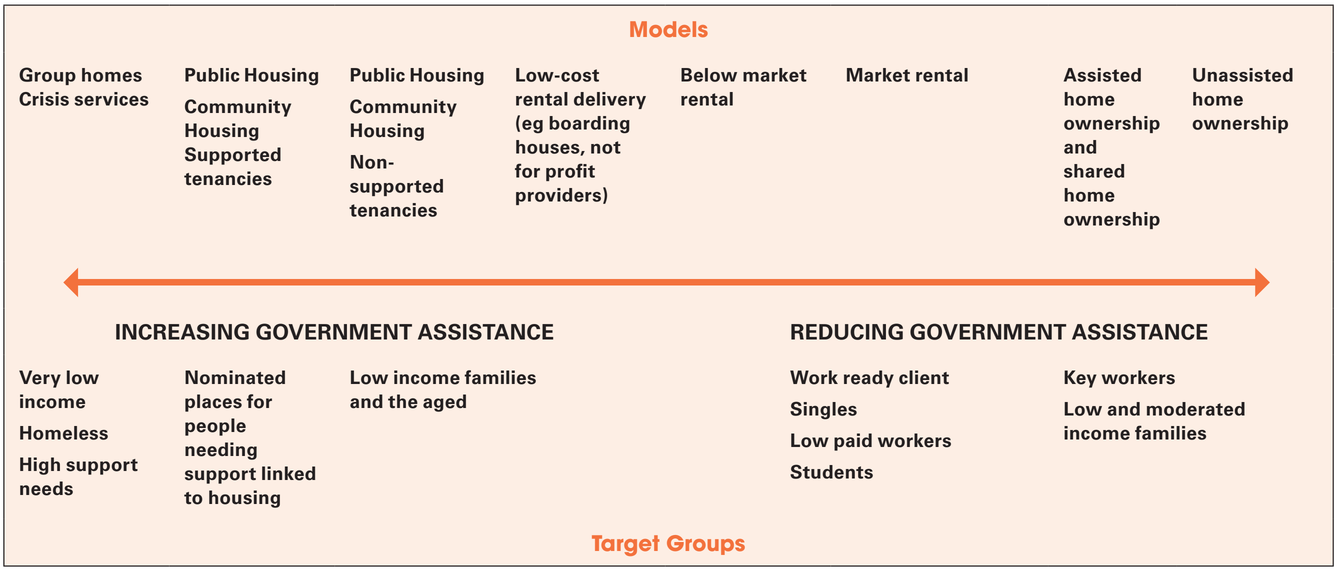
Household type	Measure	Approximate gross income (based on Sydney regional median, 2011 Census)
Very low income	Below 50 per cent of the census median equivalised income	Below $38,000
Low income	50-80 per cent of the census median equivalised income	$38,000-$60,000
Moderate income	80-120 per cent of the census median equivalised income	$60,000-$90,000

Source: the authors (information derived from Centre for Affordable Housing, 2013 AND Australian Bureau of Statistics, 2011)

13. Vivienne Milligan, Nicole Gurran, et al, "Innovation in affordable housing in Australia: Bringing policy and practice for not-for-profit organisations together," Final Report, Australian Housing and Urban Research Institute, Melbourne, 2009, 17.
14. Centre for Affordable Housing, "Glossary, References and Additional Sources" http://www.housing.nsw.gov.au/Centre+For+Affordable+Housing/NSW+Local+Government+Housing+Kit/Glossary+References+and+Additional+Resources.htm.

Figure 2, which is drawn from a study by Milligan et al 2007, illustrates how different housing models (and products) address the needs of different target groups, at various points on the income scale.[15] While public and community housing typically supports the needs of very low income households and people with special support needs, housing that is offered at below market rent or for affordable home ownership, is typically targeted to working households who have low or moderate incomes. This can include key workers, such as nurses and emergency service workers, whose wages are set at the state level, and single income households, such as lone person and lone parent households. As different tenures and types of affordable housing are targeted to different income groups, with differing capacity to pay for housing, the extent of subsidy required to make housing affordable to target groups varies. Affordable housing products designed to accommodate households with no or very low incomes, such as crisis accommodation and public housing, are subsidy intensive, while affordable housing that is targeted to low and moderate income working households, including key workers, typically requires less subsidisation to be offered at an affordable price.

Figure 2: Milligan et al. (2007) Continuum of Housing



Source: Vivienne Milligan, Peter Phibbs, Nicole Gurran and Kate Fagan, "Approaches to evaluation of affordable housing initiatives in Australia," in National Research Venture 3: Housing affordability for lower income Australians, Research Paper No. 7, Australian Housing and Urban Research Institute, Melbourne, 2007, 29.

15. Vivienne Milligan, Peter Phibbs, Nicole Gurran and Kate Fagan, "Approaches to evaluation of affordable housing initiatives in Australia," in National Research Venture 3: Housing affordability for lower income Australians, Research Paper No. 7, Australian Housing and Urban Research Institute, Melbourne, 2007, 29.

While the housing system in Australia and NSW includes a diversity of housing products aimed at addressing different housing needs, in practice, demand for affordable housing significantly outstrips supply. Therefore, many low income households struggle to meet their housing costs in the private rental or home ownership sectors. This can result in "housing stress."

"Housing stress" is a measurement of housing affordability problems. It can be defined in one of the following two ways:

a. households whose gross income falls in the bottom 40 per cent of income distribution who are paying more than 30 per cent of their household income to meet their housing costs (referred to as the 30/40 rule);

b. households whose income is below 120 per cent of median income who are paying more than 30 per cent of their household income to meet their housing costs[16]

Very low, low and moderate income households experiencing housing stress may be at risk of losing their home, and/or be unable to afford other basic goods and services, including food, medicine and transport.

Housing affordability and the supply of affordable housing in NSW

According to the Centre for Affordable Housing, very little of the housing stock in NSW is affordable to very low, low and moderate income households to rent or purchase. For example, at the end of 2014, it was estimated that less than ten per cent of rental housing stock in NSW was affordable to very low income households, while only three per cent was affordable in the Sydney metropolitan region (Centre for Affordable Housing 2015). At the same time, less than a quarter of housing stock in NSW was affordable to moderate income households to purchase while, across the Sydney Metropolitan region, the figure was lower at only 13 per cent.[17]

Unsurprisingly, incidences of housing stress are high in NSW amongst very low, low and even moderate income households. Using data from the last census, the Centre for Affordable Housing estimates that, in 2011, 92 per cent of very low income renters in NSW, and 95 per cent of very low income renters in Sydney, were in housing stress. Rates of rental stress were also high for low income households, at 62 per cent across NSW and 69 per cent in Sydney. In the metropolitan region, incidences of housing stress are also high amongst moderate income renters and home purchasers, at 43 per cent of households.[18] This suggests that demand for housing at the lower end of the market is not currently being met.

Current opportunities to address affordable housing need through the land use planning system in NSW

The land use planning system presents a potentially significant opportunity to support affordable housing provision at the local government level, and particularly where significant new development will occur. The state planning policy framework for NSW, including the Environmental Planning and Assessment Act 1979 (EPAA) and State Environment Planning Policy, currently provides a number of opportunities for local governments to address affordable housing as part of new development.

16. Centre for Affordable Housing, 2013.
17. Centre for Affordable Housing, "Table M3a: Proportion of rental stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015 AND Centre for Affordable Housing, "Table M3b: Proportion of purchase stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015.
18. Centre for Affordable Housing, "Table M2: Number of households in housing stress," Department of Family and Community Services, Sydney, NSW, 2015.

Inclusionary housing requirements

Section 94F (S94F) of the EPAA allows local councils to seek affordable housing as a development contribution, through an inclusionary zoning mechanism. While this provides a potentially significant opportunity to address the need for designated affordable housing, the provisions of S94F are limited to areas currently identified as having affordable housing need in SEPP 70. At present, only the City of Sydney, the City of Willoughby, and Leichhardt Council are listed in SEPP 70. The extension of the S94F provisions to other jurisdictions will require an amendment to SEPP 70.

SEPP 70 stipulates that affordable housing delivered through the policy must be rented to appropriately qualified tenants at an appropriate rate of gross household income (SEPP 70, Schedule 2, Item 4). Developer contributions under S94F can be sought in the form of dwellings or monetary contributions.

Voluntary planning agreements

Section 93F of the EPAA allows for voluntary agreements between planning authorities and developers to require a developer to dedicate land, to provide a monetary contribution, or to provide other material public benefit, which can include the provision of (or recoupment of cost for the provision of) affordable housing. Planning agreements can be negotiated when a change is sought to a planning instrument or at the development application stage. Planning agreements are typically negotiated in the context of a planning policy variation that allows for additional development yield.

Protecting and enabling affordable rental housing

State Environmental Planning Policy (Affordable Rental Housing) (ARHSEPP), introduced in 2009, seeks to support the retention of existing forms of low cost housing, and to offer incentives for the production of lower cost housing forms and affordable rental housing. The policy requires the consent of the relevant council and the concurrence of the Department of Planning and Environment for the demolition, change of use, alteration or strata subdivision of boarding houses, and the alteration and strata subdivision of low cost residential flat buildings. Where consent is granted, mitigation strategies to address the impact of the loss of low cost housing are often required. The policy also offers incentives for the development of diverse and affordable housing through density bonuses and implied development rights. Provisions include:

- Permitting of medium density residential development (including townhouses, villas and low-rise residential flat buildings) in residential areas, provided they are accessibly located and include a minimum of 50 per cent affordable rental housing
- Floor space bonuses for residential flat building developments in accessible locations that included between 20 and 50 per cent affordable rental housing
- Streamlined planning application processes for diverse dwelling types, including secondary dwellings, group homes and social housing
- Permitting of diverse housing types, including secondary dwellings and boarding houses, in a wider breadth of locations than would typically be permitted under local planning controls[19]

ARHSEPP stipulates that, where not developed by a public authority, any affordable housing delivered through the policy's floor space bonus mechanism must be managed by a registered community housing provider and must remain affordable for ten years (Clause 17).

19. NSW Government, "Affordable Rental Housing SEPP Review," NSW Government, Sydney, 2010, 7.

Utilising the planning system to support affordable home ownership in other states

As outlined above, planning policies to support affordable housing inclusion in NSW have been designed to deliver affordable rental housing. However, the Housing Affordability Working Party is also interested in models which could support affordable home ownership in NSW. In recent years, a number of other states have utilised the planning system, in conjunction with new finance products and programs, to deliver affordable homes for purchase by eligible low and moderate income households. Government agencies have also encouraged design innovation to support the development of more affordable market-rate housing.

South Australia introduced a requirement in 2005 that all "significant new development" include at least 15 per cent affordable housing. The requirement pertains to development on government-owned land, major new developments, and applicable sites identified in local development plans.[20]

Housing is considered to be affordable (and to address the requirement) if it is:

- Offered for sale at or below an affordable price benchmark (updated annually)
- Offered to eligible buyers, including qualifying low and moderate income home purchasers or affordable rental housing providers
- If it is subject to a legal agreement[21]

In some locations, developers have been able to deliver homes at or below the affordability benchmark through design innovations alone, including through smaller lots and more compact dwelling forms. In areas of higher value, the benchmark prices have been achieved by offering dwellings in conjunction with special financing arrangements or through shared ownership/equity sharing programs.

Renewal SA is also working with the development industry in South Australia to development more compact and space efficient housing designs, to reduce construction costs, and to maximise utilisation of land. They are also exploring opportunities to minimise running costs to dwelling owners/occupants, for example, by maximising opportunities for passive heating and cooling and ensuring that landscaping maximises light access and cross ventilation.[22]

In Queensland, the former Urban Land Development Authority (ULDA) worked with the development industry to develop a range of diverse and lower cost dwelling designs to meet affordability targets for market housing on its sites. ULDA sites were used to demonstrate the commercial viability of innovative, lower cost housing designs.[23]

20. Government of South Australia, "Developer responsibilities for affordable housing," retrieved Sept. 27, 2015, from http://www.sa.gov.au/topics/housing-property-and-land/industry-professionals/planning-professionals/developer-responsibilities-for-affordable housing.
21. Renewal SA, "Affordable Housing," retrieved Sept. 27, 2015 from https://renewalsa.sa.gov.au/building-our-future/affordable housing/.
22. Renewal SA, "Affordable Housing: Including Affordable Housing in your Development," Government of South Australia, Adelaide, 2015.
23. Urban Land Development Authority, "Housing Innovations," Urban Land Development Authority, Brisbane, 2012.

Local Government Area Case Studies

Case Study 1

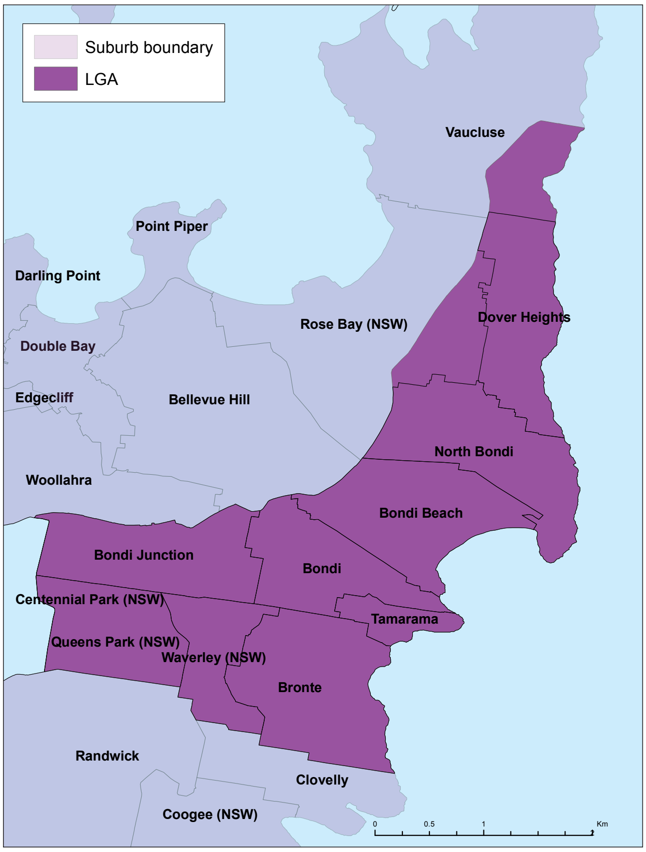
Delivering and managing social and affordable housing in Waverley

Introduction

The Waverley council area, in Sydney's eastern suburbs, has been experiencing gentrification over the past three decades. Median house prices and rents in the area are now some of the highest in the metropolitan region. While the area was once home to large numbers of lower income renters, gentrification processes, particularly the redevelopment of traditionally lower cost housing, have greatly reduced the supply of affordable rental housing in the area. In this context, Waverley Council has worked to maintain community diversity through the development of social and affordable rental housing, using a range of mechanisms. The longevity of council's affordable housing programs provides an opportunity to explore key enablers in relation to program outcomes, and to foster insights around policy administration and affordable housing program management.

Community profile

Figure 3: Waverley Council area and suburbs

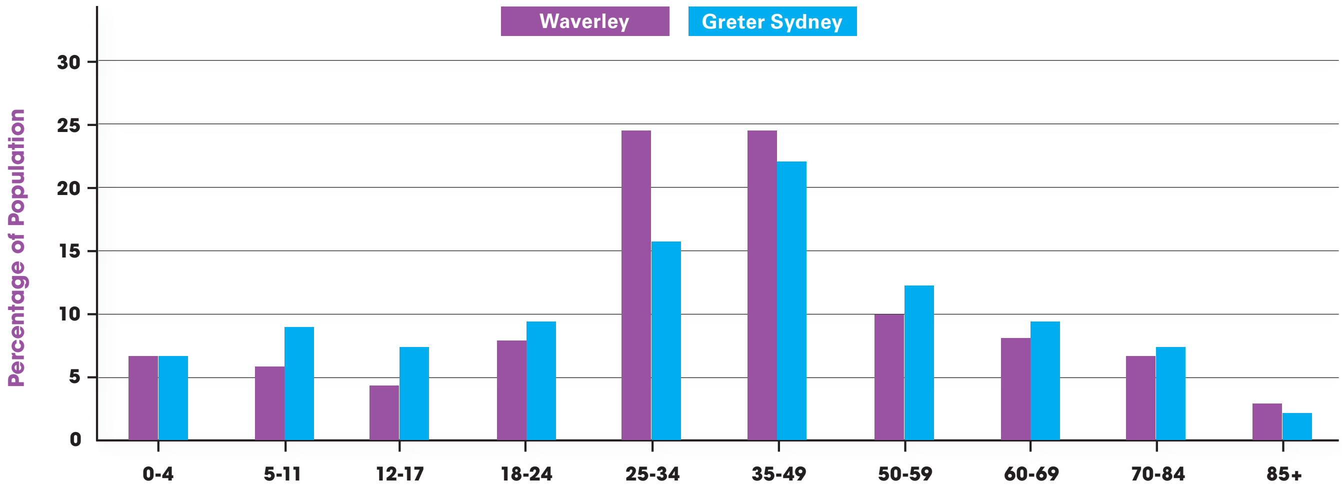


Source: the authors

Waverley is small in area, but densely populated. In 2014, the LGA had an estimated 71,770 residents, and a population density of 77.6 persons per hectare, making it the most densely populated LGA in Australia. In contrast to the Sydney metropolitan region, the area has a high proportion of medium and high density dwellings, with approximately half of Waverley residents (50.3 per cent) living in a flat or unit (compared with 19.2 per cent in Greater Sydney).

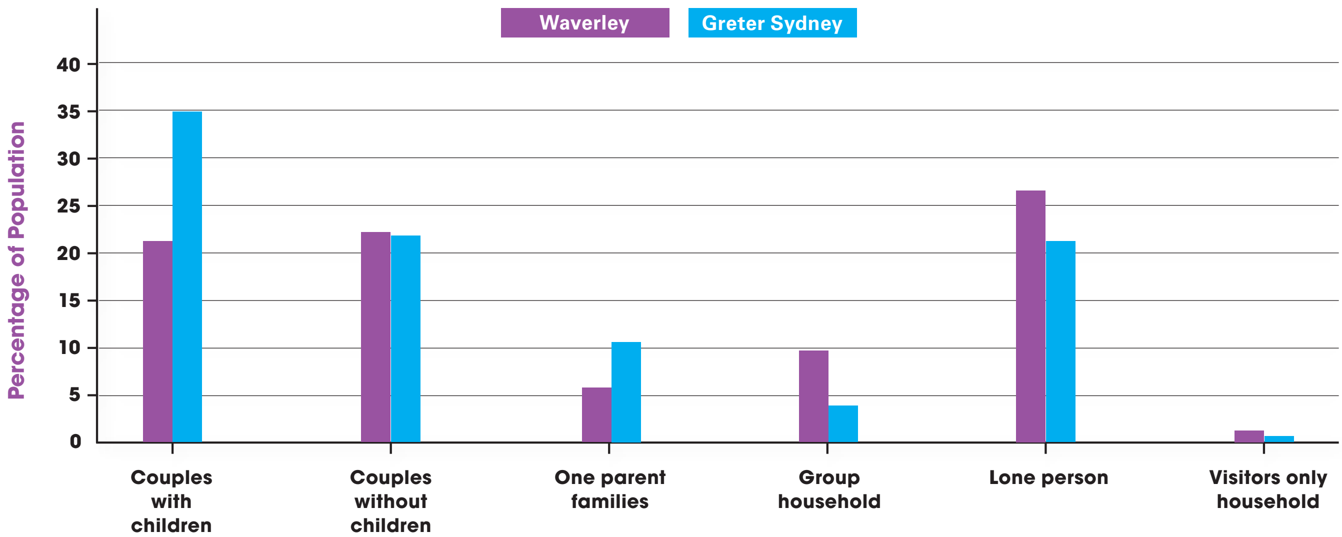
The area is attractive to younger households, as indicated by the significantly higher proportion of residents aged 25-49. Reflecting the age profile, Waverley also has a higher proportion of group, lone person and visitor only households, compared to the Greater Sydney average. Conversely, there are fewer couples with children and lone parent families.

Figure 4: Population by service age group (Waverley LGA)



Source: the authors (data derived from Australian Bureau of Statistics, "Census of Population and Housing," Australian Bureau of Statistics, Canberra, 2011.)

Figure 5: Household structure (Waverley LGA)



Source: the authors (data derived from Australian Bureau of Statistics, "Census of Population and Housing," Australian Bureau of Statistics, Canberra, 2011.)

The proportion of dwellings in Waverley that are rented (42.5 per cent, compared to 30.4 per cent across Greater Sydney) is still high. The rental housing stock in the area is predominantly private. At the last census, only two per cent of dwellings were in the social rental tenure, compared to five per cent across Greater Sydney. Proportionally fewer dwellings in Waverley are fully owned (23.3 per cent) or being purchased (21.3 per cent).[24]

Gentrification has been occurring in Waverley since the 1980s, and median house prices are now amongst the highest in Sydney. Rent and sales data from Housing NSW shows that in the December quarter of 2014, the median price of a detached dwelling in Waverley was $1,900,000, while the median price for a strata-titled dwelling was $855,000. Rents are also comparatively high, particularly for larger dwellings. In the March quarter of 2015, the median weekly rent for a two bedroom dwelling in Waverley was $695, while the median for a three bedroom dwelling was $1,020. That compares to medians of $500 per week for both two and three bedroom dwellings across Greater Sydney.[25]

While housing costs in Waverley are high, overall, instances of housing stress (i.e. households spending more than 30 per cent of their income on housing costs) are lower than the metropolitan region average as a large number of households in the area have high incomes. However, the supply of housing that is within the means of lower income households has declined in recent years. It is now increasingly difficult for lower income groups to afford appropriate accommodation in the area. Data from the Centre for Affordable Housing shows that the proportion of rental properties in Waverley that are affordable to households earning 50-80 per cent of the Sydney region median income has been at or below six per cent of stock for the past five years.[26] Likewise, there are almost no opportunities for low and moderate income households to purchase a home in Waverley. Data from the Centre for Affordable Housing shows that the proportion of properties for purchase that are affordable to moderate income households has not exceeded four per cent of stock since 2010[27].

Table 2: Proportion of housing stock for rent in Waverley that is affordable to low income households

Area	Rental stock that is affordable to low income households (%)									
	Jun 10	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14
Waverley	7.4	5.6	6.0	5.2	5.3	4.9	5.5	3.6	3.8	4.4
Greater Sydney	18.6	16.0	16.3	14.4	15.0	13.9	17.8	13.7	11.9	13.4

Source: Centre for Affordable Housing, "Table M3a: Proportion of rental stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015

Table 3: Proportion of housing stock for purchase in Waverley that is affordable to moderate income households

Area	Purchase stock that is affordable to moderate income households (%)									
	Jun 10	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14
Waverley	0.6	0.8	1.8	1.6	3.5	3.8	3.0	2.3	3.7	0.1
Greater Sydney	16.1	11.3	12.3	17.3	20.7	20.9	24.3	21.8	17.4	12.4

Source: Centre for Affordable Housing, "Table M3b: Proportion of purchase stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015

24. Australian Bureau of Statistics, "Census of Population and Housing," Australian Bureau of Statistics, Canberra, 2011.
25. Department of Family and Community Services, "Rent and Sales Report No.111," NSW Government, Sydney, 2015.
26. Centre for Affordable Housing, "Table M3a: Proportion of rental stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015.
27. Centre for Affordable Housing, "Table M3b: Proportion of purchase stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015.

The need for affordable housing in Waverley

While these statistics indicate that there are some (although very few) affordable homes at market rate in Waverley, there is no guarantee that low and moderate income households are able to secure those properties, or even that they make suitable dwellings. For example, a studio apartment might be affordable in terms of price, but it is inappropriate for many household types. Given the lack of overall affordable housing supply in Waverley, and the potential for affordable market-rate housing to be inappropriate or inaccessible to households in need, social and affordable housing (for which rents are set at affordable levels and eligibility is restricted) is playing an essential role in addressing local housing needs at the lower end of the income spectrum.

Over the past two decades, in the context of significant gentrification, Waverley Council has demonstrated innovation in securing social and affordable rental housing to address the needs of lower income groups. Council's affordable housing programs, which are now at a mature stage, are described here. In particular, the case study highlights how the delivery of affordable housing for target groups has been enabled.

Addressing the need for affordable housing in Waverley

Since the early 1990s, Waverley Council has worked to increase the supply of affordable housing within the LGA through the use of planning provisions, and by using its own assets to leverage substantial additional investment in affordable housing by the NSW Government. Council holds two distinct portfolios that target different needs within the community. One is a portfolio of social housing that targets the needs of older and disabled people within the community. The other is a portfolio of affordable rental housing that addresses the needs of the area's low and moderate income working households. Both programs aim to maintain diversity within the local community. There are currently over 90 people in Waverley being housed through these programs.

Social housing for older and disabled people

Predominantly through partnerships with Housing NSW, Waverley Council has been amassing a portfolio of social housing over the last twenty years. The housing contained in this portfolio supports two council programs: Waverley Housing for Older People (WHOP); and, the Waverley Community Living Program (WCLP).

WHOP developed in response to gentrification processes that were threatening to push long-term, lower income renters out of the area. Older renters on fixed incomes were found to be one of the groups hardest hit by rapidly rising prices. In that context, WHOP provides secure, affordable accommodation to Waverley households aged over 55 who are on the NSW Housing waiting list. To be eligible, households must have lived in Waverley continuously for five years, or have lived in Waverley for ten of the last fifteen years.

At June 30th 2015, 55 individuals were being housed through WHOP. The average age of tenants was 77, and all tenants were on very low incomes, averaging $464 per week ($24,138 per annum) for an individual.

WCLP provides transitional accommodation for people with a minor intellectual disability who are on a low income. Waverley residents can access the program through an application directly to the WCLP.

The combined housing portfolio of these programs currently consists of 54 dwellings, ranging in size from bedsits to two bedroom units. Of these, 51 dwellings are provided to WHOP and three to WCLP. The properties are either wholly owned by council or are owned in partnership with Housing NSW.

Both social housing programs provide secure tenure for as long as residents are able to live independently, with or without community support services. Rents are set at 30 per cent of tenants' income (including rent assistance) or at 25 per cent of their income plus 100 per cent of rent assistance, depending on when the tenancy commenced.

Affordable rental housing for low and moderate income working households

Waverley Council established the Waverley Affordable Housing Program in 1999 to support the provision of affordable rental housing for local households on low to moderate incomes. In the context of gentrification and amidst the loss of traditional lower cost rental housing, including boarding houses and shop top housing, WAHP was developed to offset some of the affordability impacts of new development in the area.[28] With a time limit of three years on tenancies, WAHP aims to provide eligible households with a period of relief from high rents, or a "boost" that enables saving. To be eligible, households must have an income of $57,000-$92,000 per annum, and must demonstrate that they have either lived in Waverley for a minimum of three years or lived and/or worked in the area for a minimum of five years. Rents for properties are set at at least 25 per cent below median market rent for Waverley (as defined by the Rental Review Board). Consistent with NSW Affordable Housing guidelines, tenants do not pay out more than 30 per cent of their income on rental costs.

To date, council has secured 28 properties (21 of which are owned by council and seven of which are leased) for WAHP through voluntary planning agreements with developers. All dwellings are in private, strata-titled buildings. As of June 30, 2015, WAHP was housing 34 adults and five children, with an average household income of $1,155 per week, or approximately $60,000 per annum. Rents for new tenancies are set at between $333-$384 per week for one bedroom units and $442-$510 per week for two bedroom units.

Portfolio and program management

The operating policies and budgets of the above programs are managed by Caring Waverley, while Bridge Housing is contracted for the day-to-day management of properties, including tenancies, maintenance, and repairs. The programs cover their own costs and produce small operating surpluses that are invested in Council's Social Housing and Affordable Housing Reserves. A detailed overview and comparison of the two housing portfolios is provided in Table 4.

"...social and affordable housing (for which rents are set at affordable levels and eligibility is restricted) is playing an essential role in addressing local housing needs at the lower end of the income spectrum."

28. Waverley Council, "Waverley Affordable Housing Program Policy 2007 (Amendment No.1)," Waverley Council, Bondi Junction, 2010.

Table 4: Overview of Waverley housing programs

	Affordable Housing Program	Social Housing Program
Rationale	Gentrification Loss of rental housing Increasing instances of housing stress Limited stock of public housing	Gentrification (particularly affecting older, longer term renters)
Acquisition	Voluntary planning agreements with private developers	Council development in partnerships with NSW Housing
Portfolio	Council owned: 14 x 1 bedroom, 7 x 2 bedroom = 21 Leased: 4 x 1 bedroom, 3 x 2 bedroom = 7 **Total: 28** All council-owned properties are classified as community land All are units are in private strata blocks	WHOP: 7 x Bedsit, 29 x 1 bedroom, 15 x 2 bedroom = 51 WCLP: 3 x 2 bedroom = 3 **Total: 54** All council-owned properties classified as community land All are units in six-unit blocks wholly owned by council or owned in partnership with NSW Housing
Financial Performance	Program covers own costs Operating surplus added to Affordable Housing Reserve	Program covers own costs Operating surplus returned to a Social Housing Reserve (for investment in building maintenance for future program sustainability)
Program Aims	To maintain diversity in the Waverley community	To maintain diversity in the Waverley community through the provision of secure, affordable housing for aged or disabled people on very low to low incomes who can demonstrate a connection to Waverley
Tenancy Policy	*Waverley Affordable Housing Tenancy Policy* Consistent with NSW Affordable Housing guidelines Tenants pay 65-75% of Waverley's median market rent, and have a limit of three years on program *Rents for new tenants at 30 June 2015:* 1 bedroom: $333-$384 pw 2 bedroom: $442-$510 pw	*Waverley Older Persons Housing Policy* *Waverley Community Living Tenancy Policy* Consistent with NSW Social Housing guidelines *Waverly Older Persons Housing Program* Targets households on very low to low incomes over 55 and on NSW Housing waiting list *Waverley Community Living Program* Three two-bed properties are used to support WCLP which provides limited-term transition accommodation for people with an intellectual disability Tenants pay 30% of their income (including rent assistance) or 25% of their income + 100% of rent assistance depending on commencement of tenure Tenants have secure tenure for as long as they are able to live independently with or without community support services
Management	Waverley Council - operating policies and budget Bridge Housing - program management (following a competitive tender process)	Waverley Council - operating policies and budget Bridge Housing - program management (following a competitive tender process)
Outcomes	Housing 34 adults and five children in 27 households (one vacancy) (30 June 2015) Average income of tenants was $1,155 per week ($60,060 per annum) Program housed people aged from 24 -73	WHOP housing 55 individuals in 49 households (30 June 2015) 82% reliant on the age pension for their income All were "very low" income earners, with an average individual income of $464 per week ($24,138 per annum) The average age of people in program was 77 years

Source: Waverley Council

Strategies and mechanisms to support affordable and social housing delivery

Waverley Council has developed its social and affordable housing portfolios over a period of twenty years by using its own assets to leverage substantial additional investment in affordable housing by the NSW Government, and through the use of planning-based incentives and mechanisms. The key enablers are outlined below.

Maximising partnerships and site-specific opportunities

Partnerships between Waverley Council and Housing NSW have played an important role in enabling the development of social housing in the area. Council also continues to work with Housing NSW and not-for-profit housing providers in the management of properties and programs. Partnership arrangements have varied on a project-by-project basis, as outlined in Table 5.

Table 5:
Examples of partnership arrangements

Social housing development	Partnership arrangements
Development A	Joint ownership of properties by council and DOH Properties managed by Bridge Housing
Development B	Joint ownership of properties by council and DOH Redeveloped by DOH with federal funds reducing council's interest but increasing the number of units available Properties managed by Bridge Housing
Development C	Development undertaken by DOH of council-owned car park Some car parking retained for community use Units managed by DOH Council has nomination rights to five units

Source: the authors (information provided by Waverley Council)

Every social housing development (or redevelopment) undertaken in Waverley has been unique, reflecting the circumstances around different times, policies, and opportunities. The approach has been to work with partners to maximise these opportunities as they arise.

"Further legislative mechanisms are required to provide a robust policy framework for the delivery of affordable housing, particularly given the significant economic, social and environmental outcomes it has demonstrated to deliver."

Planning incentives and agreements

Planning-based incentives and voluntary agreements with private developers have enabled the delivery of 28 affordable rental units for the WAHP. These mechanisms continue to provide funds to support affordable housing. Council's current policy is to allocate ten per cent of all development contributions secured through voluntary planning agreements to affordable housing.

Prior to the adoption of the Standard Instrument Local Environmental Plan (LEP) in 2010 (Bondi Junction) and 2012 (Waverley LGA), floor space ratio (FSR) standards were contained in the Waverley Development Control Plan. Therefore, council was able to exercise a degree of flexibility in assessing development applications seeking a variation to FSR standards. As was outlined in the Development Control Plan 2006 (DCP), additional floor space in multi-unit residential developments could be permitted, conditional upon an applicant's voluntary participation in the WAHP.

In accordance with WAHP policy, the value of additional floor space granted was shared equally between public (council) and private (developer) interests, meaning that council would capture 50 per cent of the value uplift as a contribution for affordable housing. Contributions could be made in a number of ways, including: through the transfer of completed dwellings to council for provision as affordable housing in perpetuity; by providing dwellings for a set lease term to be managed by Council's Community Housing Provider for the purposes of affordable rental housing; or, through a monetary contribution to Council's affordable housing fund. An excel-based WAHP calculator was developed to determine the value of additional floor space, and to support negotiation and determination processes.[29] Council received a significant number of applications seeking to utilise this bonus FSR scheme. As noted above, it produced 28 perpetually affordable dwellings in otherwise private strata schemes, as well as contributing to an affordable housing reserve fund.

Figure 6: Overview of the Waverley Affordable Housing Program Calculator (WAHPC)

To determine the benefit to be delivered to council from additional floor space allowances, the calculator used the following inputs:

- Purchase price/market value of site
- Site area
- Developable area
- Max FSR allowable under council standard
- Bonus FSR proposed
- Market rent/sales value of units and net yield for investors

Council required all information pertaining to market values to be prepared by a valuer, and for FSR calculations to be prepared and certified by a surveyor.

Based on these inputs, the WAHPC was used to calculate:

- Gross floor area (GFA) permissible on the site under the existing code (by multiplying the site area by the FSR)
- Bonus GFA (by multiplying the site area by the bonus FSR)
- Purchase price or market value per square metre of base GFA
- Benefit to the developer (calculated by multiplying the bonus GFA by the market value per square metre of GFA)

The WAHPC was publicly available and supported transparency in administering the policy.

Source: the authors (information derived from Waverley Council, "Waverley Affordable Housing Program Policy 2007 (Amendment No.1)," Waverley Council, Bondi Junction, 2010)

29. Waverley Council, 2010.

The Waverley DCP 2006 was superseded with the adoption of the Waverley LEP 2012. However, the WAHP has been integrated within the new policy framework. Council's current Planning Agreement Policy, adopted in 2014, allows for 15 per cent variation to FSR standards, if the variation passes the acceptability test under Clause 4.6 of the Waverley LEP. Carrying forward the earlier approach, the marginal gross profit of the additional FSR is split equally between the applicant and council. The additional FSR is subject to a valuation and costing process by both the applicant and council, and a Voluntary Partnership Agreement negotiation meeting is conducted to determine the agreed value and the associated public benefit to be delivered. Council's current policy is that ten per cent of all planning agreement contributions be allocated as a monetary contribution to WAHP fund. The allocation of ten per cent of all monetary contributions to the WAHP is considered appropriate, given the value of the WAHP and its performance over the past five years.

Waverley Council continues to contribute to the delivery of affordable housing in its LGA through available mechanisms in the current legislative framework. However, further legislative mechanisms are required to provide a robust policy framework for the delivery of affordable housing, particularly given the significant economic, social and environmental outcomes it has demonstrated to deliver.

"Waverley Council has developed its social and affordable housing portfolios over a period of twenty years by using its own assets to leverage substantial additional investment in affordable housing by the NSW Government, and through the use of planning-based incentives and mechanisms."

Case Study 2

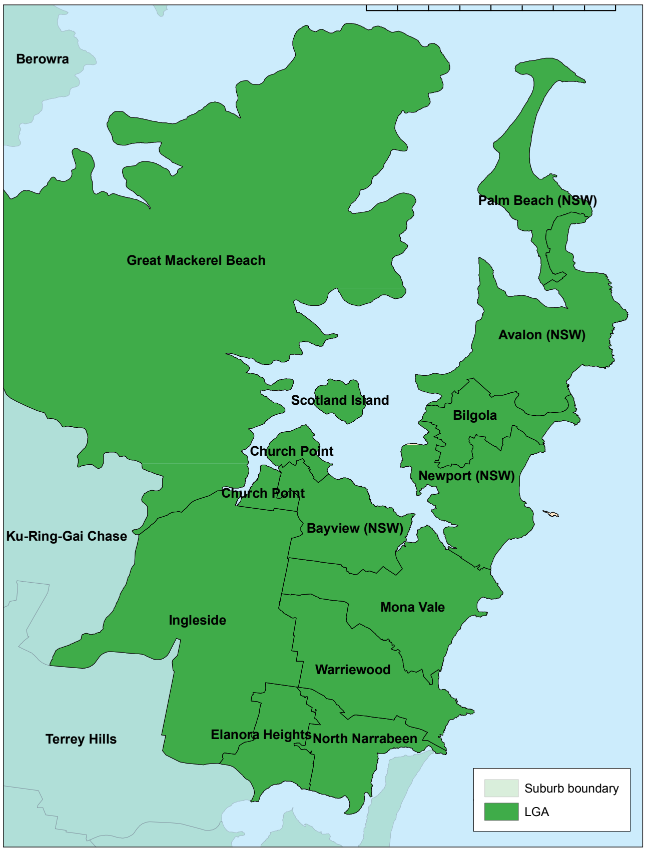
Seeking opportunities to secure housing for young people in Pittwater

Introduction

Median house prices and rents in Pittwater are higher than the metropolitan region average, and are significantly higher than the median for other outer ring Sydney suburbs. Moreover, the area's housing stock is dominated by detached, single family homes. Owing to these, and other factors, there is a significant net migration out of the area of 18-34 year olds. These people are leaving family, friends and community networks to move to areas with lower priced housing, and better access to jobs, education and entertainment. In this context, Pittwater Council is exploring strategies to support the provision of housing that is better suited to the needs of these younger households.

Community profile

Figure 7: **Pittwater Council area and suburbs**



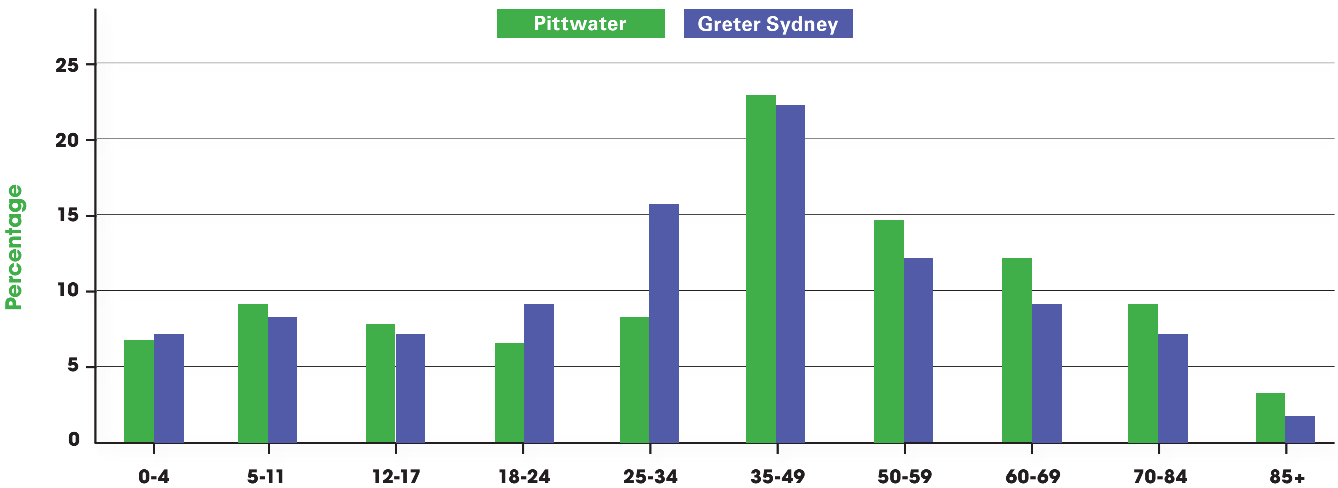
Source: the authors

The Pittwater LGA is located approximately 30 kilometres from the Sydney CBD on Sydney's north shore. The area is predominantly residential in character and offers significant natural amenity, including beaches, bays and conservation areas. There is heavier population concentration in the more accessible coastal suburbs of North Narrabeen, Mona Vale, and Newport than there is in more westerly areas, which remain sparsely populated.

Detached, single houses are the most dominant form of housing in Pittwater, across all suburbs. There is a significant proportion of medium density housing (i.e. townhouses, villas and low-rise apartments) in the suburbs of Warriewood (50 per cent) and Warriewood-Ingleside (33 per cent), as well as in some of the more northerly coastal areas. Higher density housing forms (i.e. flats of three storeys or above) are rare, except in the town centres of Mona Vale and Newport. Pittwater's dwelling stock is also, on average, larger than that of the metropolitan region.[30] There are comparatively few one and two bedroom dwellings, while the proportion of dwellings with four and five or more bedrooms is significantly higher.[31]

The population of Pittwater is older than that of the Sydney metropolitan region. As shown in the figure below, the council area has a comparatively high proportion of empty nesters and retirees (aged 60-69), seniors (aged 70-84) and elderly people (aged 85 and over), and significantly fewer young adults at early independence and tertiary education (i.e. aged 18-24) and early career (i.e. 25-34) stage. Reflecting this age profile, the most common household size in Pittwater is two persons, accounting for approximately one-third of households. Couples with children and couples without children are the dominant household types. There are few lone person and group households, likely reflecting the high cost of housing in the area and lower public transport accessibility.[32]

Figure 8: Population by service age group (Pittwater LGA)



Source: the authors (data derived from Australian Bureau of Statistics, "Census of Population and Housing," Australian Bureau of Statistics, Canberra, 2011.)

30. Australian Bureau of Statistics, 2011.
31. Ibid.
32. Ibid.

The most common tenure of housing in Pittwater is home ownership, and the area hosts a high proportion of outright home owners (38 per cent compared to 29 per cent across Greater Sydney). Conversely, the proportion of dwellings in the rental sector is significantly below the metropolitan average (17 per cent, versus 25 per cent across Greater Sydney). There is almost no social housing in Pittwater. The tenure accounts for only 0.4 per cent of dwellings (compared to five per cent of housing in the metropolitan region).[33]

House prices and rents in Pittwater are high, particularly compared to other outer ring Sydney suburbs. In December 2014, the median price of a strata-titled dwelling in Pittwater was $720,000, which is approximately 1.5 times the median for other outer ring suburbs. The median price for a detached dwelling, which is the dominant house type in the area, was $1,250,000, which is double the outer ring suburb average. Data from Housing NSW shows that rental properties are also comparatively expensive, with median weekly rents significantly above the metropolitan region and outer ring suburb averages.[34]

On the whole, however, Pittwater residents are comparatively advantaged. Median incomes across all of the area's suburbs are above the metropolitan average, as is the proportion of high income households (i.e. earning $2,500 per week). Reflecting this income profile, and the comparatively high proportion of dwellings that are fully owned, incidences of housing stress (i.e. households spending more than 30 per cent of their income to meet their housing costs) are lower than the metropolitan region average (six per cent versus 12 per cent, as of the most recent census). However, data from the Centre for Affordable Housing shows that incidences of housing stress amongst low and moderate income households (i.e. households earning between 50-80 per cent and 80-120 per cent of regional median income, respectively) are much higher than the averages of the metropolitan region, particularly for renters.[35] This is shown in Table 6.

Data from the Centre for Affordable Housing shows that the proportion of rental housing stock in Pittwater that is affordable to low income households has fluctuated between approximately four and nine per cent since 2010.[36] The proportion of dwellings for purchase that are affordable to moderate income households has rarely exceeded two per cent since 2010 [37].

"there is a significant net migration out of the area of 18-34 year olds. These people are leaving family, friends and community networks to move to areas with lower priced housing, and better access to jobs, education and entertainment."

33. Ibid.
34. Department of Family and Community Services, 2015.
35. Centre for Affordable Housing, "Table M2: Number of households in housing stress," Department of Family and Community Services, Sydney, NSW, 2015.
36. Centre for Affordable Housing, "Table M3a: Proportion of rental stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015.
37. Centre for Affordable Housing, "Table M3b: Proportion of purchase stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015.

Table 6: Proportion of households in Pittwater (by income) in rental and home purchase stress

Area	Households in rental stress (%)			Households in home purchase stress (%)		
	Very low income	Low income	Moderate income	Very low income	Low income	Moderate income
Pittwater	95	91	65	76	66	54
Greater Sydney	95	69	43	78	60	43

Source: Centre for Affordable Housing, "Table M2: Number of households in housing stress," Department of Family and Community Services, Sydney, NSW, 2015

Table 7: Proportion of housing stock for rent in Pittwater that is affordable to low income households

Area	Rental stock that is affordable to low income households (%)									
	Jun 10	Dec 10	Jun 11	Jun 11	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14
Pittwater	7.5	8.5	7.0	7.0	6.8	6.8	8.8	5.3	3.7	4.9
Sydney SD	18.6	16.0	16.3	16.3	15.0	13.9	17.8	13.7	11.9	13.4

Source: Centre for Affordable Housing, "Table M3a: Proportion of rental stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015

Table 8: Proportion of housing stock for purchase in Pittwater that is affordable to moderate income households

Area	Purchase stock that is affordable to moderate income households (%)									
	Jun 10	Dec 10	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14
Pittwater	1.1	1.2	5.2	1.0	0.7	1.7	2.1	0.8	1.6	2.2
Greater Sydney	16.1	11.3	12.3	17.3	20.7	20.9	24.3	21.8	17.4	12.4

Source: Centre for Affordable Housing, "Table M3b: Proportion of purchase stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015

Housing need in Pittwater

The statistics outlined above suggest that while house prices and rents in Pittwater are high, the area is also home to many high income households, as well as outright home owners (reflecting the high proportion of older residents). Overall, instances of housing stress are comparatively low. However, what the average figures fail to capture is the high instance of housing stress amongst the area's low and moderate income households, and the inability of low and moderate income households to form in the area for affordability reasons. As outlined in Pittwater's Local Planning Strategy 2011, there has been a particularly significant migration out of the area of younger people in recent years.[38] That trend is reflected in the low proportion of households in the 18-34 age bracket at the last census. Younger people from the area are relocating to more affordable localities, particularly on the central coast, and to locations offering greater urban amenity and access to employment and educational opportunities. In this context, Pittwater Council is considering a number of initiatives to support the housing needs of younger households.

"The lack of housing for younger households in Pittwater relates to a number of issues, including: the lack of smaller, one and two bedroom dwellings; the lack of rental housing; and, the high cost of housing generally, both for rent and home purchase. As a result, a range of policy mechanisms will be necessary to address this supply gap."

38. Pittwater Council, "Pittwater Local Planning Strategy: Planning for Pittwater towards 2031," Pittwater Council, Mona Vale, 2011.

Future opportunities and potential strategies

To address the outmigration of younger households, Pittwater Council is exploring opportunities to deliver more diverse and affordable housing types that better meet the needs of the 18-34 year-old demographic. A key opportunity to deliver such housing is through the future development of Mona Vale town centre. Community consultation in early 2015 as part of the place planning process for the town centre found that there is general community support for increasing housing diversity in the area, and for more mixed use development within the locality's light industrial areas. Council has identified a number of priority directions for the area, including to explore rezoning opportunities, where appropriate, to allow for higher densities and mixed use development, and to review the development controls in council's DCP to allow for, and encourage, more innovative housing forms.

The lack of housing for younger households in Pittwater relates to a number of issues, including: the lack of smaller, one and two bedroom dwellings; the lack of rental housing; and, the high cost of housing generally, both for rent and home purchase. As a result, a range of policy mechanisms will be necessary to address this supply gap.

Potential strategies might include:

- Enabling more diverse and lower cost housing types through built form/design by:
  - Ensuring zoning and development controls allow for diverse and traditionally lower cost dwelling types, such as shop top apartments
  - Reviewing and reducing car parking requirements, where appropriate, and examining opportunities to decouple car parking
  - Providing leadership in exploring alternative mixed use housing typologies, such as housing combined with workshop space, for example, to house apprentices
- Seeking opportunities to deliver designated affordable rental housing, potentially through:
  - Voluntary planning agreements with developers
  - Statutory requirements for development contributions towards affordable housing in designated locations
  - Exploring with state government opportunities to use state-owned land to deliver designated affordable housing over the longer term

Actions to enable these potential strategies are outlined in Table 9.

39. Pittwater Council, "Imagine Mona Vale: Engagement Summary for Mona Vale Place Plan," Pittwater Council, Mona Vale, 2015.
40. Ibid.
41. Ibid., 65.

Table 9: **Potential strategies and key enablers**

<table>
<tr><th>Potential strategy</th><th>Enabler</th></tr>
<tr><td>Ensure zoning and development controls allow for diverse dwelling types</td><td>• Rezoning of sites to allow for higher density and mixed use (where appropriate)
• Review of DCP to encourage more diverse and affordable housing forms
• Examine opportunities to reduce or decouple car parking requirements
• Expand additional permitted uses in Schedule 1 of the LEP
• Enable and support more diverse and affordable housing forms through additional local provisions*</td></tr>
<tr><td>Maximise opportunities to deliver designated affordable rental housing</td><td>• Potentially consider utilising S93F of the EPAA to support affordable housing in the area and, if applicable, develop a strategy and guidelines for planning agreements for affordable housing provision
• Potentially seek amendment to SEPP 70 to include Pittwater/Mona Vale town centre</td></tr>
<tr><td colspan="2">* The Leichhardt Local Environmental Plan 2013, for example, includes two additional local provisions that may be relevant to securing more diverse housing in the Mona Vale town centre:

Clause 6.12: Residential Accommodation in Zone B7
This clause allows for the development of a residential dwelling in the business park zone only where a dwelling is part of a mixed use development, and where the same person or persons will occupy the dwelling and the ground floor light industrial or office space.

Clause 6.13: Diverse Housing
This clause applies to the development of residential flat buildings and shop top housing (comprising of four or more dwellings). The clause states that, to the nearest whole number, at least 25 per cent of dwellings should be self-contained studios or one bedroom dwellings, and that no more than 30 per cent should include at least three bedrooms.</td></tr>
</table>

Source: the authors

Council recognises that while delivering more diverse market housing, such as smaller apartments, will provide increased housing options within the town centre, smaller dwellings will not necessarily be affordable to households on low and moderate incomes. In addressing the need for housing that is suitable for younger people, council will need to undertake further work to quantify the affordability gaps for target groups, and to prioritise strategies accordingly. There will likely be a need to maximise opportunities to secure designated affordable housing, in addition to supporting and enabling less costly and more diverse housing forms.

Case Study 3

Seeking to deliver affordable housing as part of urban renewal in Canada Bay

Introduction

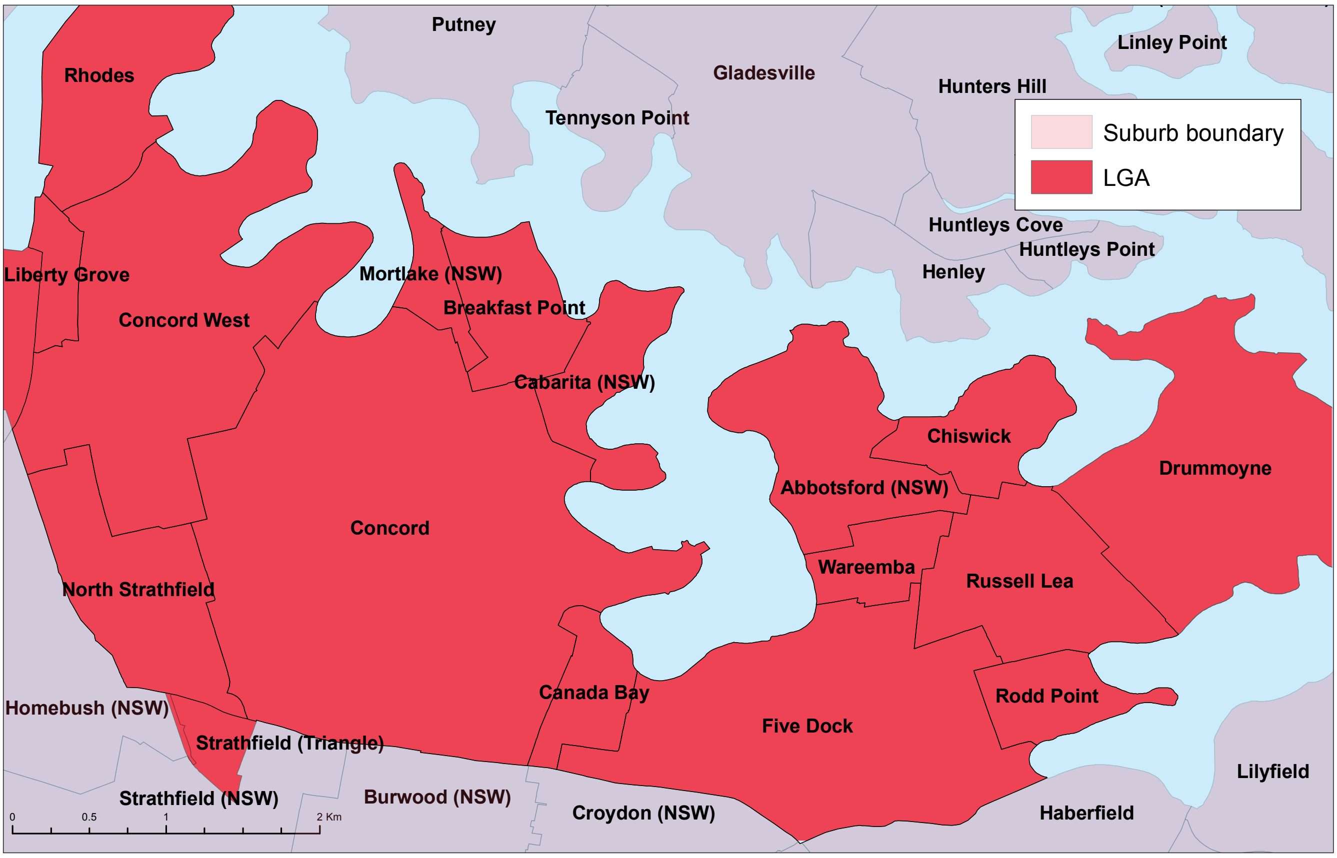
The City of Canada Bay is expected to grow by 39.1 per cent from 2011-31.[42] Much of the anticipated growth will occur as a result of urban renewal, particularly the redevelopment of industrial land and land around rail stations and other public transport routes. Given the close proximity of Canada Bay to the City of Sydney, and its attractive location on the Parramatta River (affording water access and views), the redevelopment of land within the City of Canada Bay is likely to continue to produce upward pressure on property values. Unless there is intervention to support the provision of designated affordable housing, renewal processes are likely to push already high purchase prices and rents further out of reach for low and moderate income households, including key workers such as police, fire fighters, nurses and aged care staff.

The need to address housing affordability is recognised in the City of Canada Bay's strategic plans. The City of Canada Bay Council's FuturesPlan20 seeks to encourage and support the provision of a diverse range of housing stock in the LGA, in response to changing community needs.[43] Likewise, the City of Canada Bay Local Planning Strategy (2010) commits to investigate the potential for inclusionary housing mechanisms to support affordable housing delivery in the area.[44] As discussed in this section, there is significant evidence of need for designated affordable housing in the City of Canada Bay. However, without specific policies to address the need for affordable housing, feasibility analysis, and implementation mechanisms, renewal processes will further price out low and moderate income households, including key workers, who already struggle to find accommodation within the city. Support from state government will be essential in implementing new policy directions to address this need.

42. NSW Department of Planning and Environment, "New South Wales State and Local Government Area Population Projections: 2014 Final," NSW Department of Planning and Environment, Sydney, 2014.
43. City of Canada Bay, "Futures Plan 20: Our 20 Year Vision," City of Canada Bay, Drummoyne, 2013.
44. City of Canada Bay, "City of Canada Bay Local Planning Strategy 2010-2031," City of Canada Bay, Drummoyne, 2010.

Community profile

Figure 9: **City of Canada Bay area and suburbs**



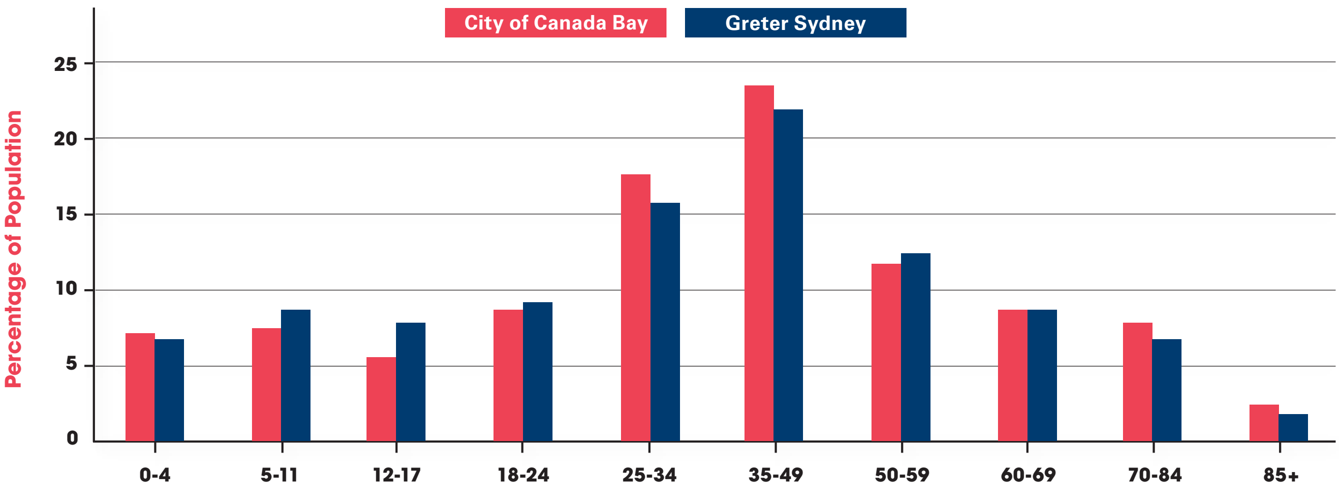
Source: the authors

The City of Canada Bay is located approximately six kilometres from Sydney's CBD, in the inner west subregion. Its population density (40 people per hectare) is significantly above the metropolitan region average, but is typical of the subregion. The built form is varied, reflecting different periods of development. While inland areas have maintained a more traditional built form, consisting of main retail streets, smaller retail centres, and low to medium density residential neighbourhoods, waterfront areas have undergone considerable change as redundant waterfront industrial land has been redeveloped, predominantly for mixed use and high density residential. One such redevelopment area — Rhodes West — is the most densely populated locality in the LGA (107 people per hectare).

The dwelling stock profile is also varied, reflecting different periods of development and levels of accessibility. On average, Canada Bay has fewer detached dwellings than the metropolitan region as a whole (43.5 per cent versus 58.9 per cent of dwellings), and more high density housing (i.e. residential flat buildings three storeys high or above (36.0 per cent versus 20.7 per cent)). High density housing dominates in the recently redeveloped areas of Rhodes West and Breakfast Point, as well as in the waterside suburb of Chiswick, while detached housing is most common in the inland suburbs of Concord, Concord West, and Russell Lea-Rodd Point, as well as Rhodes East. The majority of the dwelling stock across the LGA is two and three bedroom dwellings (35 per cent and 36 per cent, respectively).

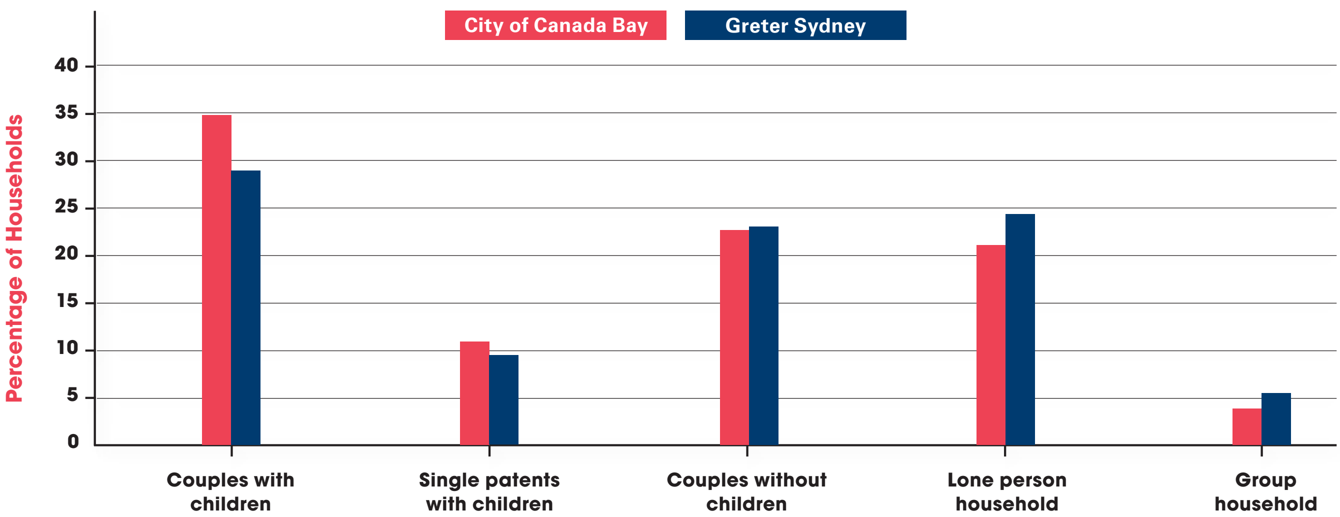
As shown in the figures below, Canada Bay's population includes a higher proportion of working aged adults (25-49) and older people (70+) than the metropolitan region as a whole. Consistent with the age structure, Canada Bay is home to a proportionally greater number of couples with children, lone parent households, and older person households. Its population includes fewer lone person and group households than the metropolitan average, which may reflect the comparatively high cost of living.

Figure 10: **Population by service age group (City of Canada Bay LGA)**



Source: the authors (data derived from Australian Bureau of Statistics, "Census of Population and Housing," Australian Bureau of Statistics, Canberra, 2011)

Figure 11: **Household structure (City of Canada Bay LGA)**



Source: the authors (data derived from Australian Bureau of Statistics, "Census of Population and Housing," Australian Bureau of Statistics, Canberra, 2011)

45. Australian Bureau of Statistics, 2011.
46. Ibid.

Compared to the metropolitan region average, the City of Canada Bay has a slightly higher proportion of homes that are owned outright (31 per cent versus 29 per cent regionally), likely reflecting the city's high proportion of older people. Canada Bay also has a higher proportion of households renting in the private rental market (28.2 per cent versus 25 per cent regionally). As shown in the figure below, lower income households are predominantly in rental housing, or residing in a home that they own outright. The latter group is most likely older, retired households who no longer have a mortgage (see Figure 13). A much higher proportion of higher income households are currently purchasing their homes. These households are most likely working aged households. There is some variation in tenure mix between suburbs, with Chiswick, Rhodes (West) and Strathfield (Triangle) having significantly higher proportions of households who are renting.

Figure 12: Housing tenure by income for family households in Canada Bay (2011 Census)

Source: the authors (data derived from Australian Bureau of Statistics, "Census of Population and Housing," Australian Bureau of Statistics, Canberra, 2011)

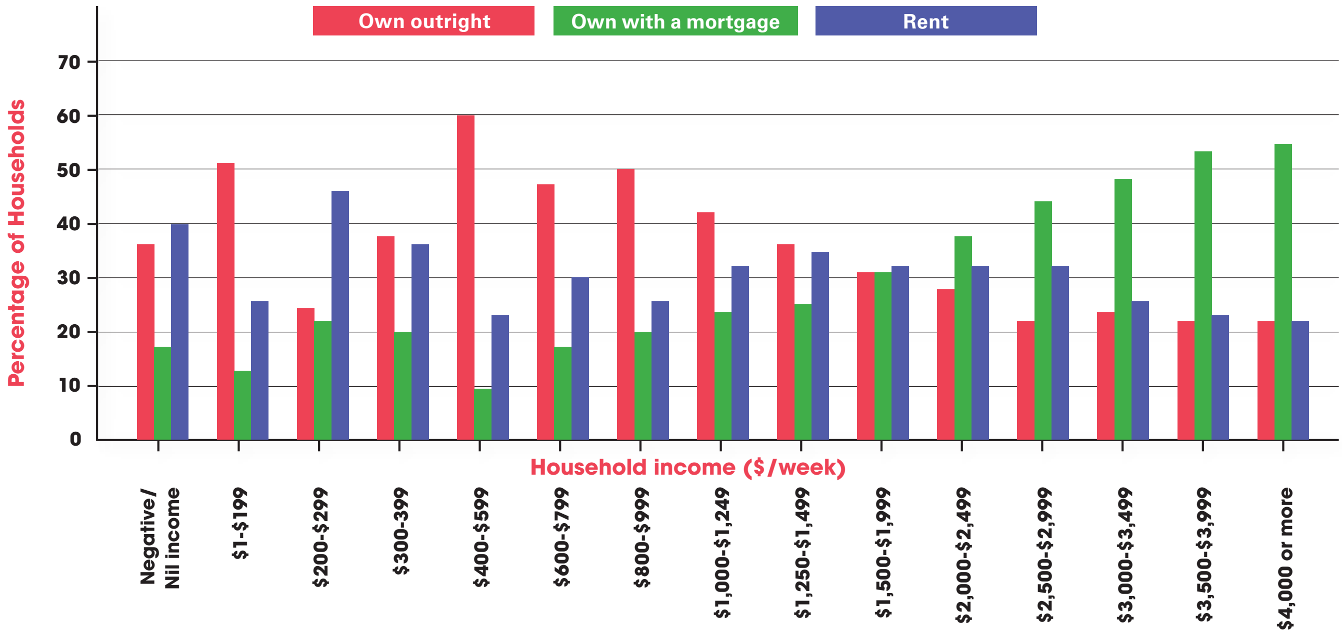
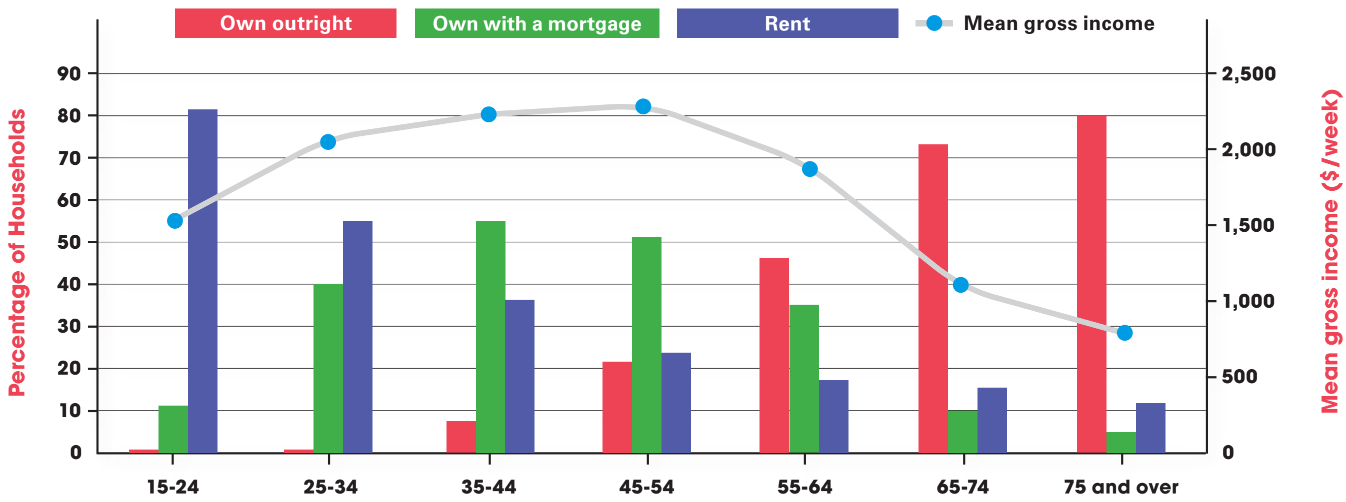


Figure 13: Tenure by household age (Australia, 2011-12)



Source: the authors (data derived from Australian Bureau of Statistics, "Housing Occupancy and Costs 2011-12", Australian Bureau of Statistics, Canberra, 2013

The City of Canada Bay has a very small stock of social rented housing, accounting for less than three per cent of housing stock. That compares to five per cent across the metropolitan region.[47]

On average, the City of Canada Bay is more socio-economically advantaged than the metropolitan region as a whole. Data from the last census shows that the median weekly household income ($1817) is significantly higher than that of the metropolitan region ($1447), while the unemployment rate is significantly lower (4.4 versus 5.8).[48] Likewise, the Socio-Economic Indexes For Areas (SEIFA) index of socio-economic disadvantage, which scores local areas on a range of socio-economic variables (with lower scores indicating a higher degree of disadvantage), scores Canada Bay at 1067.0, compared to a score of 1011.3 for the broader metropolitan region.[49] However, while Canada Bay, as a whole, is comparatively advantaged, there are significant differences between local areas. The Strathfield Triangle, for example, has a median weekly household income of $1213, which is significantly below the regional median, and an unemployment rate of 12.8, which is significantly above it.

Although many households in Canada Bay have above median incomes, housing affordability is an increasingly significant issue. Consistent with trends across the metropolitan region as a whole, median rents and dwelling sale prices have increased substantially in Canada Bay over the past decade. Data from Housing NSW shows that in the December quarter, 2014, the median price for a detached dwelling in Canada Bay was $1,475,000, while the median price for a strata-titled dwelling was $790,000.[50] To afford the latter, a first-time homebuyer would need a household income of approximately $135,000 per annum.[51]

Data on new bonds for the March quarter of 2015, shows that the median weekly rent for a two bedroom flat in Canada Bay is $610. That compares to a median cost of $480 in other middle ring suburbs.[52] A household looking for private rental accommodation in Canada Bay would need an income of approximately $105,000 per annum to afford a two bedroom flat at the median price. Indicative gross incomes for various key worker jobs are provided in Table 10, for reference.

Table 10: Select key worker salaries

Job	Approximate gross salary per annum, 2014($)
Police Officer	65,000-74,000
Fire Fighter	72,000
Nurse	57,000-80,000

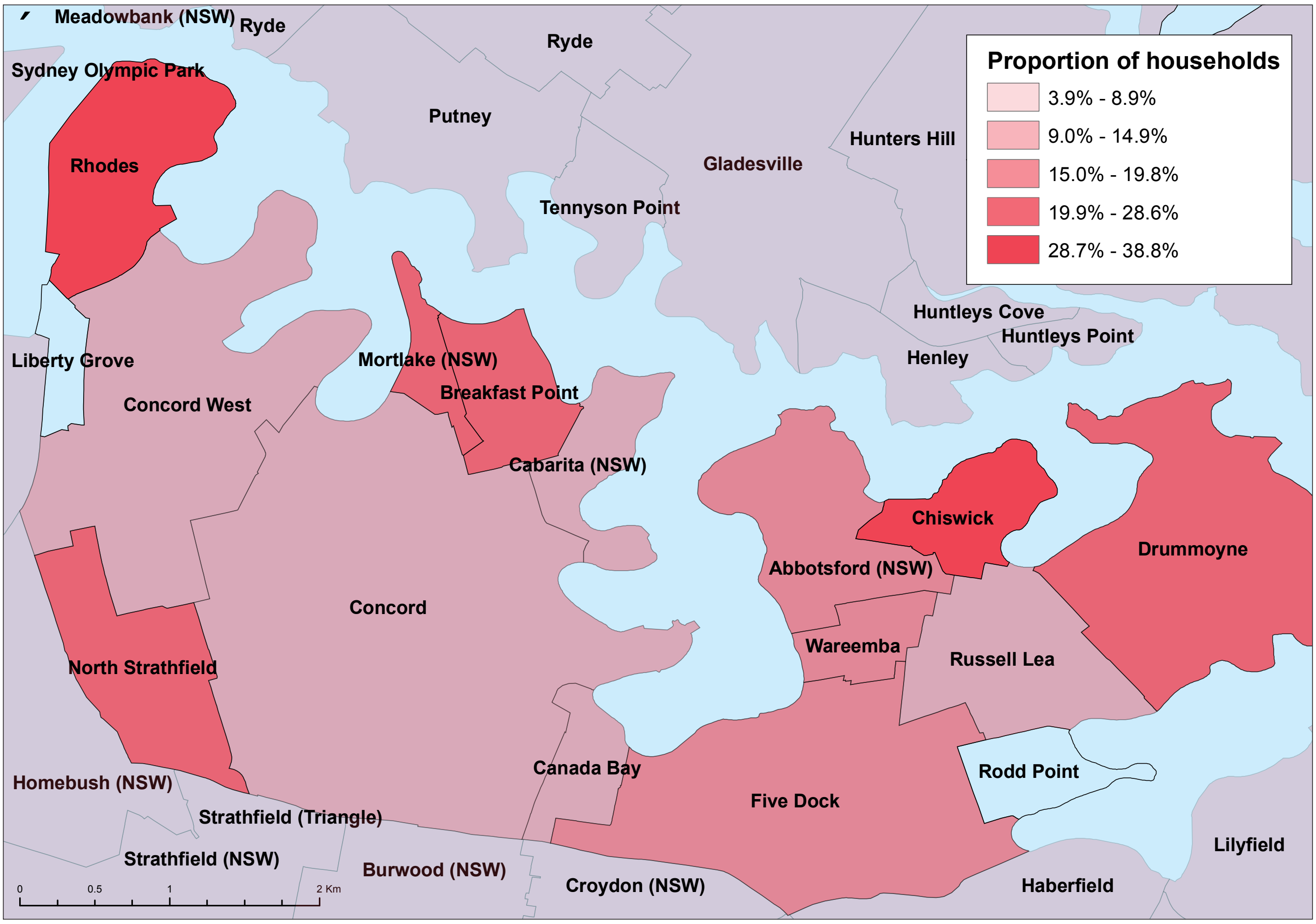
Source: author; salaries calculated from information derived from NSW Government

In Canada Bay, insufficient housing for low and moderate income households is already affecting the ability of local service providers to retain workers.

47. Australian Bureau of Statistics, 2011.
48. Ibid.
49. Australian Bureau of Statistics, "Census of Population and Housing: Socio-Economic Indexes for Areas," Australian Bureau of Statistics, Canberra, 2013.
50. Department of Family and Community Services, 2015.
51. Mortgage cost per month estimated using the CommBank loan calculator assuming a 20 per cent deposit, a 30-year term and a standard variable interest rate of 4.85%. Retrieved from https://www.commbank.com.au/personal/home-loans/loan-calculator.html, Commonwealth Bank of Australia, 2015.
52. Ibid.

Figure 14 shows the proportion of households in each suburb who were paying more than $400 per week in rent at the time of the 2011 Census.[53] While the proportion of households paying what will be termed "high rents" is significant across the LGA, it is important to note that concentrated high rent areas include those that have recently undergone significant urban renewal, including Rhodes. High rents in these areas likely reflect high demand for waterfront locations and new units.

Figure 14: Proportion of households paying high rents in 2011 (i.e. $400+ per week)



Source: the authors (data derived from Australian Bureau of Statistics, "Census of Population and Housing," Australian Bureau of Statistics, Canberra, 2011)

53. Australian Bureau of Statistics, 2011.

Rising house prices and rents are a particularly significant issue for households earning very low, low, and moderate incomes. According to the Centre for Affordable Housing, Canada Bay currently has no housing stock that is affordable to very low, low or moderate income households to purchase.[54] As shown in Table 11, the proportion of housing stock that is affordable to households earning a moderate Sydney income was just 0.3 per cent in 2011, but had declined to nil by 2014.

Table 11: Proportion of housing stock for purchase that is affordable to moderate income households

Area	Purchase stock that is affordable to moderate income households (%)							
	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14
Canada Bay	0.3	0.2	0.0	0.0	0.3	0.1	0.0	0.0
Sydney Statistical Division (SD)	12.3	17.3	20.7	20.9	24.3	21.8	17.4	12.4
New South Wales	21.6	28.3	32.6	33.6	36.3	34.8	31.5	26.5

Source: Centre for Affordable Housing, "Table M3b: Proportion of purchase stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015

Data from the Centre for Affordable Housing also shows that the proportion of rental housing stock in Canada Bay that is affordable to households earning a moderate Sydney income has remained relatively constant over the past three years, at around 28 per cent. However, that compares to 52 per cent across the metropolitan region as a whole. The proportion of rental housing stock that is affordable to very low and low households has declined in recent years from already extremely low levels, as shown in Tables 12a and 12b.[55]

Table 12a: Proportion of housing stock for rent in Canada Bay that is affordable to very low households

Area	Rental stock that is affordable to very low income households (%)							
	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14
Canada Bay	3.2	1.2	1.2	1.6	1.3	0.7	0.6	0.4
Greater Sydney	4.3	3.8	3.6	3.0	4.1	3.4	2.8	3.0
New South Wales	11.6	10.3	11.0	9.2	11.4	9.4	9.2	9.3

Source: Centre for Affordable Housing, "Table M3a: Proportion of rental stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015

Table 12b: Proportion of housing stock for rent in Canada Bay that is affordable to low households

Area	Rental stock that is affordable to low income households (%)							
	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14
Canada Bay	4.6	2.3	2.6	2.9	2.8	2.1	2.1	2.3
Sydney SD	16.3	14.4	15.0	13.9	17.8	13.7	11.9	13.4
New South Wales	28.8	27.0	27.6	25.4	30.2	26.9	25.3	25.5

Source: Centre for Affordable Housing, "Table M3a: Proportion of rental stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015.

54. Centre for Affordable Housing, "Table M3b: Proportion of purchase stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015.
55. Centre for Affordable Housing, "Table M3a: Proportion of rental stock that is affordable," Department of Family and Community Services, Sydney, NSW, 2015.

A high proportion of low and moderate income households in Canada Bay are experiencing housing stress. Using 2011 Census data, the Centre for Affordable Housing has determined rates of housing stress by income category for the LGA.[56] As shown in Table 13, an estimated 63 per cent of moderate income households in Canada Bay were experiencing housing stress in the private rental market at the time of the last census, which is double the estimate for the wider metropolitan region. Incidences of rental housing stress were estimated to be much higher for low and very low households (86 per cent and 98 per cent, respectively).

Table 13: Proportion of households (by income) in rental housing stress (2011 Census)

Area	Very low income households in rental stress (%)	Low households in rental stress (%)	Moderate income households in rental stress (%)
Canada Bay	98	86	63
Sydney SD	95	69	43
New South Wales	92	62	34

Source: Centre for Affordable Housing, "Table M2: Number of households in housing stress", Department of Family and Community Services, Sydney, NSW, 2015

What is particularly concerning about incidences of housing stress in the City of Canada Bay is the higher proportion of incidences within areas that have undergone major urban renewal. As shown in Table 14, incidences of housing stress are proportionally higher in Rhodes.[57] This suggests that processes of urban renewal to date have not delivered housing that is affordable to lower income households.

Table 14: Proportion of households in housing stress by suburb (2011 Census)

	Households paying 30 per cent or more of their income for:	
Suburb	Weekly rental payments (%)	Monthly mortgage payments (%)
Abbotsford	12.4	7.4
Breakfast Point	12.4	14.7
Cabarita	7.7	11.1
Canada Bay	10	11.9
Chiswick	18.4	8.8
Concord	8.1	10.2
Concord West	6.5	11.2
Drummoyne	11.1	9.5
Five Dock	10.3	9.9
Mortlake	15.3	12
North Strathfield	15.5	12.2
Rhodes	27.2	15
Russell Lea	6.8	10.9
Wareemba	10.1	7.7

Source: the authors (data derived from Australian Bureau of Statistics, "2011 Census Quickstats," retrieved August 2015 http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/1GSYD?opendocument&navpos=220)

56. Centre for Affordable Housing, "Table M2: Number of households in housing stress," Department of Family and Community Services, Sydney, NSW, 2015.
57. Australian Bureau of Statistics "2011 Census Quickstats", retrieved August, 2015, http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/1GSYD?opendocument&navpos=220

The need for affordable housing in Canada Bay

Comparatively high incidences of housing stress, coupled with a very limited and declining stock of affordable rental and purchase housing, suggests that there is an urgent need for designated affordable housing in Canada Bay. The lack of affordable housing is a concern not only for individual households living in, or seeking to relocate to Canada Bay, but also for the wider community. It should be remembered that local affordable housing opportunities can support community cohesion, diversity, and stability; labour recruitment and retention; and, local service provision. Likewise, positive environmental outcomes are made possible as a result of people living closer to work, through reduced commuting hours and higher take-up of public transport or bike riding, for example. In Canada Bay, insufficient housing for low and moderate income households is already affecting the ability of local service providers to retain workers.

For policy arguments for affordable housing see:

- Gurran et al. (2007) International practice in planning for affordable housing: lessons for Australia, AHURI Positioning Paper No. 99. Melbourne: Australian Housing and Urban Research Institute
- Frontier Economics (2014) Assessing the social and economic impact of affordable housing investment: a report prepared for G15 and the National Housing Federation. London: Frontier Economics Ltd.

Past and current initiatives

The retention of key workers, particularly hospital and aged care staff, has been a major driver of initiatives to secure affordable housing through new development within Canada Bay. Council's current Affordable Housing Policy, adopted in 2007 (and last revised in 2012), aims to assist local residents and workers on low to moderate incomes to access affordable rental housing by:

- Improving access to rental housing that is affordable for low to moderate income households (helping to alleviate housing stress)
- Ensuring that the mix of affordable rental housing is appropriate to the changing needs of households with regard to size and type, location, sustainability, and community connectedness
- Efficiently managing revenue provided through the affordable rental housing program to procure, manage, maintain, and grow the affordable rental housing portfolio in the City[58]

Over the past decade, the City of Canada Bay has sought to secure development contributions for affordable rental housing as part of major redevelopment processes, through negotiated, voluntary planning agreements (under S93F of the EPAA). To date, this approach has produced a portfolio of 24 perpetually affordable dwellings. Located in North Strathfield and Concord West, the dwellings range in size from one to three bedrooms and currently house 55 adults and children. The dwellings are owned by the City of Canada Bay Council, but are managed by St. George Community Housing.

58. City of Canada Bay, "Affordable Housing Policy," City of Canada Bay, Drummoyne, 2012.

In allocating the dwellings, priority is given to low and moderate income households who are employed in Canada Bay or surrounding areas, particularly in: health services (including support and ancillary staff); childcare, public primary or secondary education (including support and ancillary staff); emergency services (including support and ancillary staff); public transport; local government; retail; labouring; manufacturing; and, hospitality. Six of the 24 dwellings are made available to Concord Hospital staff who satisfy the eligibility criteria. Rents are set at no more than 75 per cent of weekly market rent for a comparable dwelling, or 30 per cent of the National Rental Affordability Scheme eligible income amount.[59]

The use of voluntary planning agreements to deliver affordable housing has incrementally increased the stock of affordable housing in Canada Bay. These voluntary planning agreements have allowed some of the uplift value resulting from urban renewal to be captured and put to community benefit, such as through the provision of affordable housing. The approach has also presented relatively few financial risks to council.

However, owing to the voluntary nature of developer participation, voluntary planning agreements offer a relatively ad hoc means of delivering new affordable housing. The planning agreement approach can also create a negative perception that baseline development controls can be traded off as incentives.

In light of these considerations, Canada Bay is looking at alternative affordable housing supply models, as discussed below.

Opportunities for affordable housing delivery at Rhodes East

The City of Canada Bay has resolved to pursue an inclusionary housing mechanism, in particular, to deliver affordable housing at Rhodes East, which is the next major area identified for investigation for urban renewal. The Department of Planning and Environment is currently working in partnership with the City of Canada Bay and the Future Cities Collaborative to investigate a potential priority precinct at Rhodes East.

Rhodes East is a particularly opportune site for addressing the need for key worker housing, owing to its proximity to Concord Hospital. The area is approximately 35 hectares and is currently characterised by light industrial uses along the foreshore with low density residential development behind. An inclusionary zoning mechanism will ensure that dwellings for very low to moderate income households are included as part of the redevelopment of the area.

S94F of the EPAA enables councils to seek affordable housing as a development contribution. However, for S94F to apply at Rhodes East, an amendment to SEPP 70, to expand the geographic area of the provision, is required. If Canada Bay/Rhodes East is listed under an amended SEPP 70, council will need to address implementation through new policies, procedures, and guidelines.

59. Ibid.

What is inclusionary housing?

Inclusionary housing is a term that refers to a range of policy mechanisms that either require or incentivise developers of market-rate schemes to contribute a proportion of dwellings for designated affordable housing (or to make a financial payment in lieu). Inclusionary zoning for affordable housing is one such mechanism. It establishes statutory contribution requirements as part of the development standard in particular locations or land use zones. The approach was originally developed in the US as a means to foster more socio-economically mixed communities, and as an alternative to direct public sector affordable housing provision. Today, inclusionary zoning applies in many jurisdictions internationally where land use zoning is the primary means of development control, including Boston, Denver, New York, San Diego, and San Francisco in the US,[60] and Vancouver[61] and Montreal[62] in Canada. The approach is used to secure designated affordable housing in locations where it would not typically be provided by the market, and to offset the loss of affordable housing through urban renewal.

If introduced when land is rezoned, inclusionary zoning can help to capture some of the land value uplift resulting from rezoning to benefit the wider community. As residential use is typically the highest value use of land, the rezoning of industrial land to allow for residential development can significantly increase land value. Likewise, rezoning land to allow for higher residential density and greater development yield can increase land value. This can produce a windfall gain for landowners. If an inclusionary zoning requirement is introduced at the time of rezoning, the idea is that it can capture some of the value uplift resulting from a public action (the rezoning of land) for the public benefit. In the case of Rhodes East, one of the public benefits sought is the provision of affordable housing for key workers.

The economics of inclusionary housing

The feasibility of all development is influenced by the cost of undertaking the development and the potential revenue that can be generated from the sale or lease of completed properties. Development costs depend on a number of variables, including: time and expense of gaining development approval; site preparation costs (including demolition and decontamination of land); labour and building material costs; type and size of development (including number and type of dwellings and parking spaces); construction method used; cost of off-site development contributions/service provision (such as roads, open space, land dedication for schools); and, cost of marketing and professional services. The cost of land is also a significant expense.

The revenue generated from a development depends on the price at which completed properties can be sold (or leased), which in turn depends on market factors, as well as the size, quality and amenity of the properties. It should be noted that, in Australia, institutional investment in rental housing is almost non-existent, although it is common in North America and elsewhere.

For new development to be economically feasible, the potential revenue generated from a development must exceed the cost of undertaking the development, as well as provide a return to the developer. While a requirement to contribute affordable housing will have implications for the revenue and cost of development, whether or not the inclusion of affordable housing is financially feasible will depend on the full range of variables outlined above, as well as the scale and structure of the affordable housing contribution requirement. As market values (for land and dwellings) and development costs vary across regions and development types, the feasibility of inclusionary housing may be greater in some areas, and for some development types, than others.

60. Nicholas Brunick, "Case studies in Inclusionary Housing, Issue No. 3: Practice in Inclusionary Housing," American Planning Association, Chicago and Washington, 2007.
61. Canada Mortgage and Housing Corporation, "Using inclusionary housing policies: income mix zoning - Vancouver, British Columbia," retrieved august 2015 http://www.cmhc-schl.gc.ca/en/inpr/afhoce/afhoce/afhostcast/afhoid/pore/usinhopo/usinhopo_006.cfm
62. Ville de Montreal, "Strategy for the inclusion of affordable housing in residential projects," Ville de Montreal, Montreal, 2005.

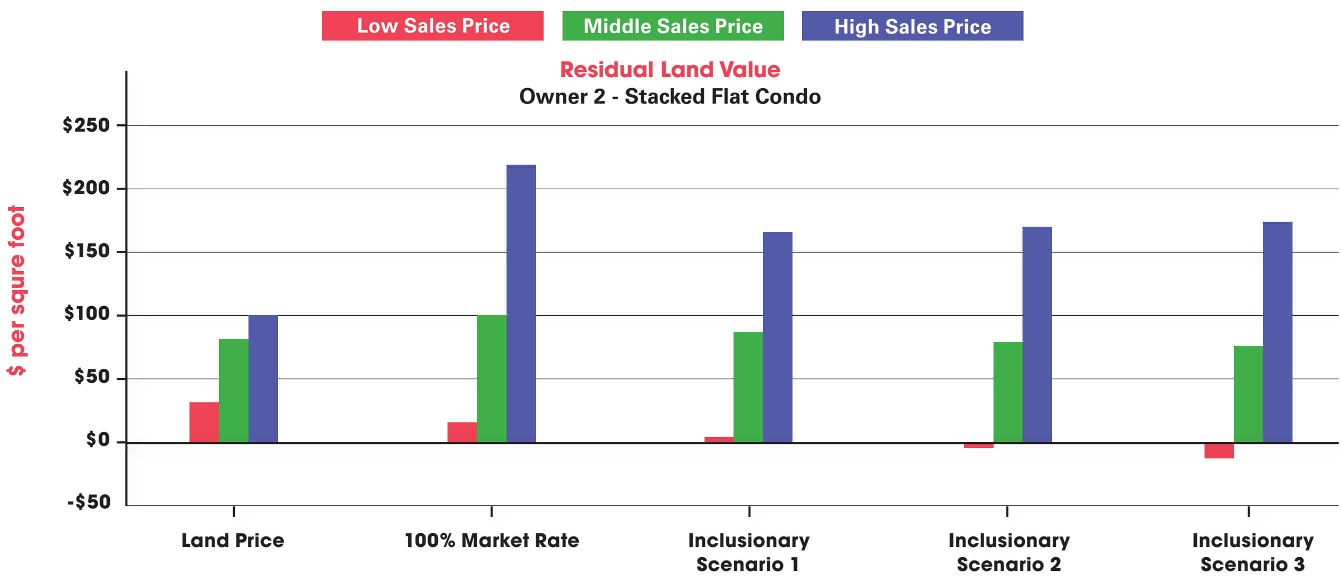
This is illustrated below with reference to an example from San Jose, California, drawn from a study by David Paul Rosen and Associates (DRA).[63] The study used a land residual analysis approach to examine the feasibility of different inclusionary housing requirements (and offset or incentive packages) across a range of typical development typologies. The approach used is consistent with the method employed by property developers, lenders, and investors to determine whether a potential development is economically feasible. The land residual is derived by calculating potential development revenue and then subtracting development costs, which include a return to the developer. The residual is the price that can be paid for the land. While a development that generates a negative residual value (i.e. development costs exceed potential revenue) will not proceed, a development is also unlikely to go ahead if the land residual is insufficient to compel a land owner to sell. That is likely to be the case where the land residual is materially less than the recent trading range of comparably zoned land in the immediate market area.

For each development typology, DRA examined the economic impact of different inclusionary zoning scenarios, under different housing market conditions (high, medium and low sales values). The inclusionary zoning scenarios tested were as follows:

- Scenario 1: 20 per cent of units affordable at 110 per cent of area median income (AMI)
- Scenario 2: 5 per cent of units affordable at 90 per cent of AMI and 10 per cent of units affordable at 110 per cent of AMI
- Scenario 3: 5 per cent of units affordable at 70 per cent of AMI and 5 per cent of units affordable at 90 per cent of AMI

Figure 15 shows results for a notional residential flat building. As illustrated, the assumed sale price of dwellings (whether low, medium or high) had a significant impact on the likely feasibility of different inclusionary zoning policies. In a low value market scenario, the notional scheme was found not to be feasible even with 100 per cent market housing. However, in the high value market scenario, even the more cost intensive inclusionary zoning requirements (i.e. Scenarios 2 and 3) were found to generate residual values in excess of the benchmark land price.

Figure 15: Extract from DRA study: feasibility of different inclusionary zoning scenarios



Source: David Paul Rosen and Associates, "City of San Jose: Inclusionary Housing Analysis," David Paul Rosen and Associates, Oakland, 2008, 79

63. David Paul Rosen and Associates, "City of San Jose: Inclusionary Housing Analysis," David Paul Rosen and Associates, Oakland, 2008

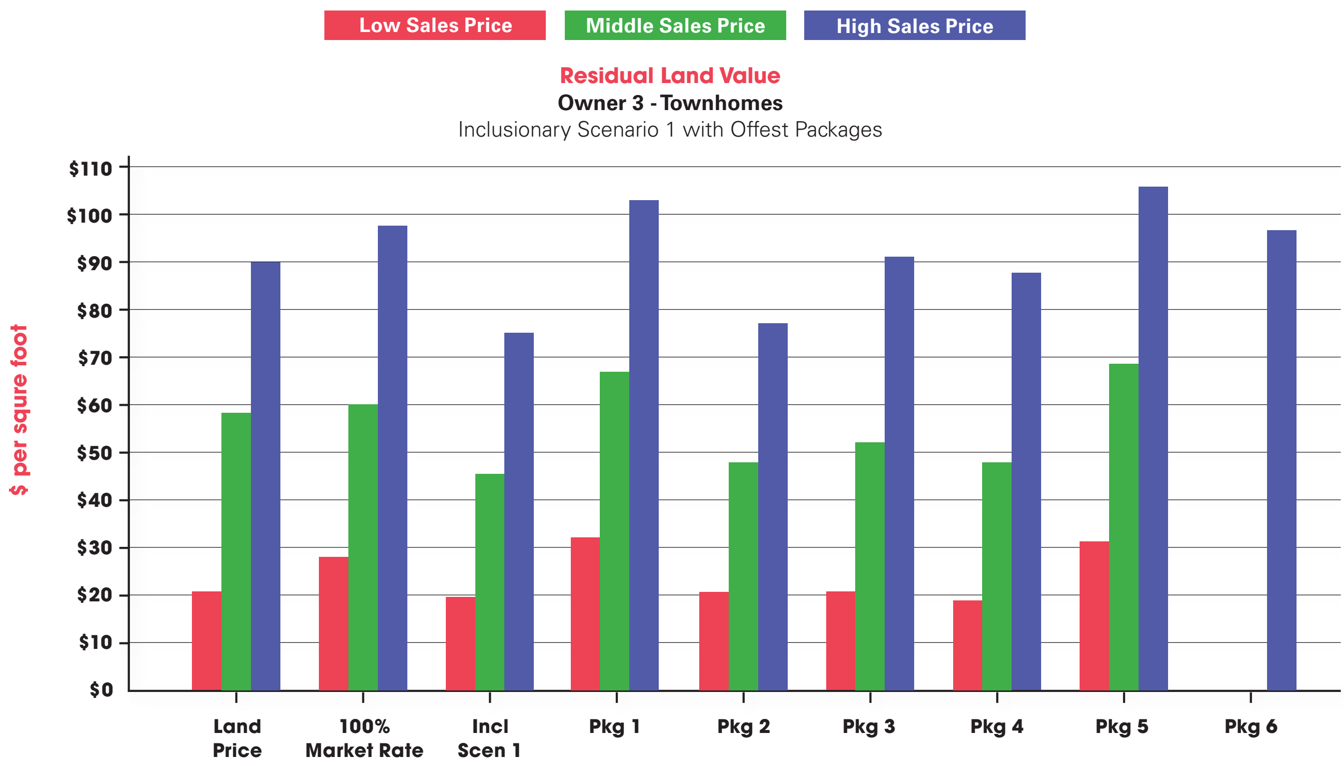
The study also considered the potential for a range of policy tools and flexible delivery mechanisms to offset some of the cost of affordable housing provision, with potential implications for feasibility. Across the development typologies and inclusionary zoning scenarios, six "packages," consisting of different economic incentives or alternative compliance measures, were tested, as follows:

- Package 1: 20 per cent density bonus
- Package 2: Allowance of an alternative affordable housing product type on-site (i.e. as part of the same development)
- Package 3: Allowance for off-site affordable housing provision (i.e. the construction of affordable dwellings by the developer on an alternative site)
- Package 4: Contribution to be delivered through acquisition/rehabilitation of existing rental properties for long-term affordable housing
- Package 5: 20 per cent density bonus and design modification for affordable units
- Package 6: Allowance for off-site construction and alternative affordable housing product type and design modification for affordable unit

As illustrated in Figure 16, which shows results for a notional townhouse development, several of the packages improved the feasibility of inclusionary zoning Scenario 1, particularly in the low sales price scenario.

These results highlight the way in which multiple factors, including the scale and type of affordable housing sought, and the rules governing how affordable housing contributions are delivered, can impact the feasibility and success of an inclusionary zoning program. With this in mind, the following section sets out some of the issues Canada Bay will have to consider in developing an inclusionary housing policy.

Figure 16: **Extract from DRA study: impact of incentive packages on feasibility**



Source: David Paul Rosen and Associates, 2008, 83

Developing an inclusionary housing policy for Rhodes East

As outlined above, the structure of an inclusionary housing policy can have important implications, not only for feasibility, but for addressing housing need. It is Canada Bay Council's intention to work with the Department of Planning and Environment and Future Cities Collaborative to undertake further analysis to determine a feasible affordable housing contribution requirement.

A key step will be to identify indicative development prototypes for testing the feasibility of different affordable housing contribution requirements, and to obtain necessary data on development costs, potential revenue and indicative land values, relative to each prototype. Figures 17-9, drawn from the DRA study previously cited, show examples from the City of San Jose. The prototypes shown are indicative of the types of developments occurring in San Jose, at different densities, ranging from developments comprising of detached family homes only to high density residential flat buildings comprising of units for owner occupation (i.e. condominiums or "condos"). For each prototype, key information includes the size and mix of dwellings and parking spaces, the size and density of buildings (including FSR), and the provision of open space and other communal amenities. These details are important for calculating likely development costs, as well as determining the target market for developments, for example whether they are mid-range or luxury.

As outlined in Figure 17, development costs include site preparation and construction costs, as well as financing costs, professional fees, and contractor and developer returns. The average cost of land and the likely median sales value of dwellings are also key variables for assessing development feasibility. Figure 18 shows the range of development costs and revenue variables collected for each prototype to inform the feasibility analysis of San Jose. The inputs shown are indicative only, and will need to be tailored to the NSW context for examining the feasibility of potential affordable housing requirements at Rhodes East.

Figure 17: **Example of development prototypes for feasibility analysis for San Jose**

PROTOTYPE	Type I High-Rise Condos	Type V Stacked Flat Condos	Type V Townhomes	Single Family Detached
Total Unit Count	200 Units	157 Units	75 Units	45 Units
Zoning	A(PD)	A(PD)	A(PD)	A(PD)
FAR	3.95	1.92	0.67	0.42
Resident Population	Family	Family	Family	Family
Product Type	High Rise 11 Stories	Stack Flats 4 Stories	Townhome 3 Stories	SFD 2 Stories
Construction Type	Type I Subterranean Parking	Type V Podium Parking	Type V Garage Parking	Type V Garage Parking
Density (DU's/Acre)	100	55	17	9
Net Site Area (Acre)	2.00 Acres	2.86 Acres	4.41 Acres	5.00 Acres
Streets, etc @ % of Gross:	0.00%	0.00%	20.00%	20.00%
Gross Site Area	2.000 Acres	2.86 Acres	5.513 Acres	6.250 Acres
Units by BR Count				
One Bedroom	80	31	0	0
Two Bedroom	108	95	29	0
Three Bedroom	12	31	46	27
Four Bedroom	0	0	0	18
Unit Size (Net SF)				
One Bedroom	950	950	0	0
Two Bedroom	1,150	1,150	1,500	0
Three Bedroom	1,550	1,550	1,700	1,700
Four Bedroom	0	0	0	2,100
Manager's	0	0	0	0
Average	1,094	1,197	1,623	1,860
Building Square Feet				
Net Living Space	218,800	186,750	118,300	83,700
Community Space	0	15,700	11,250	6,750
Total Net Bldg. SF	218,800	202,450	129,550	90,450
Type of Parking	3 Levels Subterranean 99,750 SF 350 SF/Space	2 Levels Podium 71,400 SF 350 SF/Space	30,000 SF 400 SF/Garage	18,000 SF 400 SF/Garage
No. of Parking Spaces				
Below Grade	285	204	0	0
On Grade	24	24	35	27
Above Grade (Podium)	0	0	0	0
Garage	20	0	150	90
Street	0	59	0	0
Total Parking Spaces	329	287	185	117
Amenities	Pool/Spa Small Community Room	Pool/Spa	None	None

Source: David Paul Rosen and Associates, 2008, 24

Figure 18: Data inputs: development costs and potential revenue

	Type I High-Rise Condos	Type V Stacked Flat Condos	Type V Townhomes	Single Family Detached
Land Acquisition Cost				
Low Land Cost Per Gross SF Site Area	N/A	$34	$23	$32
Middle Land Cost Per Gross SF Site Area	$67	$77	$59	$46
High Land Cost Per Gross SF Site Area	$97	$106	$91	$71
Development Cost Assumptions				
Site Improvement Costs per SF	$30	$30	$20	$15
Site Improvement Costs per Unit	$13,000	$24,000	$51,000	$73,000
Unit Hard Construction per SF (1)	$300	$135	$110	$110
Unit Hard Construction per Unit (1)	$386,000	$205,000	$190,000	$221,000
Hard Cost Contingency (2)	7.00%	5.00%	5.00%	4.00%
Architectural/Engineering (2)	5.00%	5.00%	5.00%	5.00%
City Impact and Permit Fees per Unit (3)	$21,000	$22,000	$25,000	$35,000
Environmental Phase I	$7,000	$7,000	$7,000	$7,000
Soil Testing	$20,000	$20,000	$20,000	$20,000
Property Taxes During Construction (% TDC)	1.20%	1.00%	1.00%	0.80%
Insurance During Construction (4)	2.00%	2.50%	2.50%	1.00%
Selling/Closing Costs (per unit)	$7,000	$2,000	$2,000	$5,000
Sales Commissions (% TDC)	2.00%	2.00%	2.00%	2.00%
Developer Overhead (2)	3.00%	3.00%	3.00%	3.00%
Developer Profit (% TDC)	9.00%	9.00%	9.00%	9.00%
HOA fees (per unit per month)	$700	$400	$275	$150
Construction Loan				
Construction Loan % of TDC	70.00%	70.00%	70.00%	70.00%
Construction Loan Amount	$86,406,380	$44,403,035	$29,267,538	$22,438,037
Interest Rate (Prime + 0.25%)	6.25%	6.25%	6.25%	6.25%
Loan Fees	1.00%	1.00%	1.00%	1.00%
Average Loan Balance - Construction Period	60.00%	60.00%	60.00%	60.00%
Construction Period	18 Months	18 Months	15 Months	12 Months
Absorption Period (5)	15 Months	8 Months	NA	NA
Total Sales at Construction Completion (5)	108 Unit	108 Unit	75 Unit	45 Unit
Remaining Loan Balance at Const Completion	$24,246,654	$7,386,548	$3,561,644	$0
Months to Pay off Remaining Loan Balance	7.0 Months	3.6 Months	1.7 Months	0.0 Months
Average Loan Balance - Absorption Period	50.00%	50.00%	50.00%	50.00%
Construction Loan Interest - Construction Period	$4,860,359	$2,497,671	$1,371,916	$841,426
Construction Loan Interest - Absorption Period	$443,339	$69,092	$16,064	$0
Total Construction Loan Interest	$5,303,698	$2,566,763	$1,387,980	$841,426
Construction Loan Fees	$864,064	$444,030	$292,675	$224,380
Mezzanine Debt				
Mezzanine Debt % of TDC (6)	15.00%	15.00%	15.00%	15.00%
Mezzanine Debt Amount	$18,515,653	$9,514,936	$6,271,615	$4,808,151
Rate of Return	16.50%	16.50%	16.50%	16.50%
Average Draw - Construction	75.00%	75.00%	75.00%	75.00%
Months to Pay off Mezzanine Debt (7)	5.4 Months	4.6 Months	3.0 Months	1.5 Months
Return During Construction	$3,436,968	$1,766,210	$970,140	$595,009
Return During Absorption (8)	$2,470,063	$772,588	$280,846	$48,823
Total Return on Mezzanine Debt	$5,907,031	$2,538,798	$1,250,987	$643,832
Average Market Sales Price Per Unit	$575,553	$342,745	$342,745	$542,566

(1) Includes parking hard costs and contractor profit, overhead and general conditions
(2) As a percentage of direct costs (site improvements and hard costs)
(3) Estimated based on South Bay Cost of Development Survey, 2005-2006, developer interviews, and Housing Department projects.
(4) As a percentage of TDC, exclusive of land cost and develper profit.
(5) Assumes an absorption rate of 6 unit per month, beginning at start of construction, for Owner 1 and 2. Owner 3 and 4 assumed to be built in phases and leased up as completed
(6) Exclusive of developer profit.
(7) Assumes payments on mezzanine debt begin after construction loan is paid off in full.
(8) Assumes return paid on 100% of mezzanine debt until construction loan is paid off, and then returns on an average of 50% of mezzanine debt for the months remaining until paid off in full.

Source: David Paul Rosen and Associates, 2008, 35

These development costs and revenue variables (as adapted to the NSW context) will be the key inputs for the feasibility modelling, while the land value data will provide a comparator, or benchmark, against which to gauge feasibility. They will be used to derive the key output of the modelling — the land residual value for each notional development prototype — under different affordable housing contribution scenarios. As outlined above, the land residual value is calculated by subtracting total development costs for a development prototype from total anticipated scheme revenue. The land residual value is indicative of the price that can be paid for the development site (i.e. land). Using this approach, land residual value (per square metre) for each prototype, under different affordable housing contribution scenarios, will be calculated and then compared to indicative land values for Rhodes East (and comparable areas), to determine whether the prototype developments are likely to be feasible. A development prototype and affordable housing contribution scenario will be considered to be feasible where the land residual for that prototype and affordable housing contribution scenario meets or exceeds the benchmark land values.

The analysis will begin by calculating the land residual for each prototype assuming no affordable housing contribution is required. This will determine whether the prototype is feasible as a market-rate development. Each prototype will then be modelled again assuming that a proportion of dwellings are transferred to council for the provision of affordable housing. As that scenario will reduce development revenue without decreasing costs, the land residual will be lower. However, as long as it remains above the benchmark land values for the area, the requirement will be considered to be feasible.

Land residual values (per square foot) for the four San Jose development prototypes are shown in Figure 19, as an example of the outputs of this approach. The figure shows results for three market scenarios (low, middle and high value). Under each market scenario, and for each development prototype, the land residual value (per square foot) is shown for the 100 per cent market housing scenarios, a scenario where 15 per cent affordable housing is required, and a number of scenarios where the cost of providing 15 per cent of dwellings as affordable housing is partially offset through various "packages." Taking the townhouse prototype and the middle market scenario as an example, the results show that the scheme is viable with 100 per cent market-rate housing (i.e. the land residual for that scenario exceeds the average market land price per square foot). While the land residual for the 15 per cent affordable housing scenario is lower than the market land value, meaning that the scenario is not financially viable, it becomes so when the requirement is applied in conjunction with Offset Package 1 (shown in the first column of Figure 19), which is a 15 per cent density bonus.

The City of Canada Bay has sought to secure development contributions for affordable rental housing as part of major redevelopment processes through negotiated, voluntary planning agreements (under S93F of the EPAA). To date, this approach has produced a portfolio of 24 perpetually affordable dwellings.

Figure 19: Example of outputs of land residual analysis (i.e. land residual per square foot for different prototypes and market and policy scenarios)

Prototype: Total Units (1)	Type I High-Rise Condos 200	Type V Stacked Flat Condos 157	Type V Townhomes 75	Single Family Detached 45
Low Trading Range of Land, 2003 - 2006	N/A	$31-$35	$22-$33	$25 -$34
Low Market Land Price (2006 Ave)	N/A	$34.00	$23.00	$32.00
LOW UNIT SALES PRICE SCENARIO				
100% Market-Rate Units	N/A	$11.48	$30.04	$34.80
5% of Units Affordable at 90% AMI and 10% of Units Affordable at 110% AMI, No Offsets		($4.81)	$21.72	$25.90
Package 1: With 15% Density Bonus		($26.33)	$30.79	$33.64
Package 2: On-site Alternative Product Type		N/A	$22.63	$27.31
Package 3: Off-site Construction, Same Product Type		($37.78)	$16.46	$21.32
Package 4: Acquisition / Rehabilitation		($27.98)	$22.02	$30.67
Package 5: 15% Density Bonus and Design Modification		($23.65)	$31.64	$34.19
Middle Trading Range of Land, 2003 - 2006	$30-$67	$51-$77	$37-$59	$30-$49
Middle Market Land Price (2006 Ave)	$67.00	$77.00	$59.00	$46.00
MIDDLE UNIT SALES PRICE SCENARIO				
100% Market-Rate Units	$165.18	$112.08	$63.08	$53.31
5% of Units Affordable at 90% AMI and 10% of Units Affordable at 110% AMI, No Offsets	$19.64	$80.38	$49.92	$41.51
Package 1: With 15% Density Bonus	($127.72)	$71.68	$63.89	$51.77
Package 2: On-site Alternative Product Type	N/A	N/A	$50.84	$42.92
Package 3: Off-site Construction, Same Product Type	N/A	$62.81	$49.50	$39.83
Package 4: Acquisition / Rehabilitation	$95.63	$72.62	$55.06	$49.18
Package 5: 15% Density Bonus and Design Modification	($123.44)	$74.36	$64.74	$52.32
High Trading Range of Land, 2003 - 2006	$47-$97	$77-$106	$57-$91	$41-$71
High Market Land Price (2006 Ave)	$97.00	$106.00	$91.00	$71.00
HIGH UNIT SALES PRICE SCENARIO				
100% Market-Rate Units	$612.59	$222.27	$99.21	$110.01
5% of Units Affordable at 90% AMI and 10% of Units Affordable at 110% AMI, No Offsets	$399.70	$173.69	$80.77	$89.34
Package 1: With 15% Density Bonus	$312.30	$179.03	$100.08	$107.32
Package 2: On-site Alternative Product Type	N/A	N/A	$81.69	$90.75
Package 3: Off-site Construction, Same Product Type	N/A	$173.00	$85.64	$96.53
Package 4: Acquisition / Rehabilitation	$543.04	$182.81	$91.19	$105.88
Package 5: 15% Density Bonus and Design Modification	$316.58	$181.72	$100.93	$107.87
Package 6: Off-site Construction, Altern. Prod. Type and Design Modification (2)	$573.70	$202.65	$95.63	$106.74

(1) Off-site inclusionary units in Packages 3 and 6 are in addition to the total on-site units shown.
(2) Package 6 residual land values refer to on-site land, assuming high sales prices for market rate, on-site units and low land cost for off-site units.

Source: David Paul Rosen and Associates, 2008, 92

The City of Canada Bay may consider defining preferred policy and program elements through further research and consultation. Key components for consideration are outlined below.

Form of contribution and compliance options

Key considerations will be:

- How the affordable housing contribution requirement is calculated (for example, as a proportion of dwellings or as a proportion of development floor space)
- The methodology for determining contribution requirements
- What options will be provided for developers in complying with the requirement (discussed below)

The ultimate goal of an inclusionary housing policy is to produce housing units affordable to very low, low, and moderate income persons in appropriate locations. The simplest method is to require developers to build affordable units on the same site and at the same time as the market-rate units. That approach ensures land is made available for affordable housing development, and supports the development of a community which is economically mixed. However, developers face a variety of circumstances where council may wish to consider alternatives to on-site compliance of inclusionary requirements. For example, it can be costly for a luxury single family detached housing development, or a luxury apartment development, to include affordable homes on-site that are comparable to market-rate homes. Such developments can also have high strata fees and running costs.

One important consideration is the need to create incentives to ensure that a jurisdiction's public policy goals for its inclusionary housing policy are met. To achieve this goal, jurisdictions can design alternative compliance measures to provide developers with an incentive to build affordable units on-site. For example, a jurisdiction may allow developers to dedicate land to the jurisdiction or a not-for-profit community housing developer, rather than provide affordable housing units on the same site as the market-rate development. However, as an incentive for developers to provide affordable units on the same site as the market-rate development, the jurisdiction may require that the value of the land dedicated by a developer exceed the cost of providing the affordable units on-site. In this context, an affordability gap analysis can be used to develop alternative compliance measures that provide developers with an incentive to construct affordable units on-site because the gap analysis quantifies the cost of providing affordable units.

Most jurisdictions in the US offer alternative compliance options as part of their inclusionary housing programs. Alternative compliance measures offer developers opportunities to reduce development costs by allowing developers to meet their affordable housing requirements through methods other than on-site construction of units comparable to market-rate units. The strengths and weaknesses of three alternative compliance measures are summarised below:

In-lieu fees: payment of fees to a jurisdiction in lieu of constructing affordable housing units

Off-site compliance: construction of affordable units at a site other than the market-rate development

Land dedications: dedicating land to a not-for-profit housing developer or to the jurisdiction for the purpose of constructing affordable units

Table 15: **Summary of strengths and weaknesses of alternative compliance measures**

Alternative compliance option	Strengths	Weaknesses
In-lieu fees	• Easy to administer	• Can be used when inclusionary requirements result in fractions of units • Jurisdiction can target uses of funds to meet a variety of affordable housing policy goals • Unless fees are comparable to affordability gap, fees may result in development of fewer affordable units • Affordable units may not be constructed in a defined time frame • Affordable units not provided on-site • Could result in provision of affordable units on cheaper land away from infrastructure and jobs • Could work against achieving socio-economic diversity objectives • Cash in-lieu may require the purchase of land as well as development cost, which increases the contribution rate and provides more risk and uncertainty in a rapidly changing housing/land market
Off-site compliance	• May lower costs of compliance • Can result in development of more affordable units with additional subsidies • Allows for partnerships between market-rate and affordable housing developers	• Difficult to enforce construction of units • Affordable units not provided on-site • Completion of affordable units may be delayed • Potential neighbourhood opposition issues
Land dedication	• Can result in development of more affordable units with additional subsidies • Allows for partnerships between market-rate and affordable housing developers	• Additional subsidies necessary to build affordable units • Affordable units not provided on-site • Completion of affordable units may be delayed • Potential neighbourhood opposition issues

Source: provided by David Paul Rosen and Associates

Recognising that an inclusionary housing program results in economic costs to a land owner or developer, many jurisdictions provide developers with strategies to reduce the cost of complying with inclusionary requirements. The most common strategies are as follows:

Alternative housing product types: allowing the developer to provide a different type of housing product for the inclusionary units, such as allowing the construction of townhouses in a single family detached housing development

Alternative unit comparability standards: allowing modest differences between affordable housing units and market-rate units, such as reducing the size of affordable units (while maintaining the same number of bedrooms), reducing the number of bathrooms, and using more modest grades of interior finish

Fee deferral: deferring payment of building permit fees to lower construction interest expenses borne by the developer

Density bonus: providing developers with a density bonus, thereby lowering per unit land expenses

Zoning code reform: allowing lower parking requirements and other design code changes

Table 16: Summary of strengths and weaknesses of strategies to offset costs of compliance

Offset/Incentive	Strengths	Weaknesses
Alternative housing product type	Lowers costs of compliance by reducing per unit construction costs	• Most applicable to single family detached housing developments • Developers may not want to provide alternative housing product type on-site • Risk of oversupply of smaller affordable units
Alternative unit comparability standards*	Lowers costs of compliance by reducing construction costs	Council must establish clear minimum standards that are easy to apply for council staff
Fee deferrals	Lowers costs of compliance by reducing construction interest expense	• Fee deferrals do not result in significant savings to developers • Reduces revenues to public agency
Density bonus	• May lower costs of compliance by reducing per unit land expenses • Potentially increased profit for owners/developers	• Developers may not seek to increase density • Can be controversial in low density neighbourhoods • Integrity of "base" density controls may be questioned
Lower parking requirement	• Material reduction in development costs • Many urban renewal areas are well served by public transport, meaning that low or nil parking can be contemplated	• May increase congestion and on-street parking • May not meet residential demand

* These may include allowing affordable units to be smaller than the market-rate units, using modest interior finishes, and reducing the number of bathrooms

Source: provided by David Paul Rosen and Associates

Tenure of affordable dwellings

Historically, council has sought to deliver affordable housing for rent, targeted at low and moderate income working households. While council will continue to seek affordable rental housing, there is also interest in the longer term in exploring affordable home ownership models. Home ownership has the benefit of enabling occupant households to build equity over time, and may also be better aligned with cultural preferences and the aspirations of target households. Council will consider a variety of potential affordable home-ownership models (e.g. shared ownership), the market for affordable home ownership products in Canada Bay, and whether dwellings for affordable home purchase should be kept affordable in perpetuity and what mechanisms can achieve this (e.g. re-sale restrictions, equity sharing).

Other considerations for designing inclusionary housing programs

Implementation practices need to be addressed and resolved in crafting an inclusionary housing policy. These are summarised in matrix form in "Inclusionary housing programs in NSW: considerations for policy development and implementation," prepared by David Paul Rosen and Associates (Appendix 1).

Progressing affordable housing in Rhodes East

The City of Canada Bay Council is seeking to pursue an inclusionary zoning approach to deliver affordable housing in Rhodes East. This communiqué strongly supports council's position and identifies a residual land value model which has been employed with success elsewhere. This model can be used to identify a feasible contribution requirement for the provision of affordable housing, and can be adapted for the NSW context.

Initial work on a residual land value model for Rhodes East has been completed as part of this communiqué, including the identification of potential development typologies, development costs, and sales figures. To complete the model, however, additional data is required in relation to matters such as land values, purchase values and what will be termed "soft costs" (financing, contingency, professional services, etc.). The validation and precision testing of data through engagement with the land and development industry is also required to improve its reliability and acceptance.

Initial discussions have been held between the City of Canada Bay Council and the Department of Planning and Environment, council's partner in planning for Rhodes East, in relation to potential data sharing to assist with completion of a residential land value model for Rhodes East. Council acknowledges that further data collection and analysis is likely to be required.

The City of Canada Bay Council has endorsed a draft vision and several objectives to guide the investigations and planning for Rhodes East. One of these objectives is to deliver a minimum of five per cent of new dwellings in the area as affordable housing for key workers. This may mean the delivery of in excess of 150 affordable housing units, a significant increase from council's current portfolio of 24. In light of this potential, council is currently considering the development of a new affordable housing policy and more sophisticated procedures and guidelines for the implementation and ongoing management of affordable housing.

Council sees the delivery of affordable housing in Rhodes East through an inclusionary zoning approach, supported by a residual land value model, as a pilot project. It considers that the project has significant potential to demonstrate an efficient and effective approach for the delivery of affordable housing and, therefore, must run in parallel, and inform further discussions with, state government and the Department of Planning and Environment on a long-term strategy, a policy position to guide detailed planning, and assistance to local government in the delivery of much needed affordable housing.

If introduced when land is rezoned, inclusionary zoning can help to capture some of the land value uplift resulting from rezoning to benefit the wider community.

Components of an Affordable Housing Strategy for NSW

As illustrated in the case studies outlined in this communiqué, selected local governments have demonstrated a strong commitment to tackling the issue of affordable housing in an attempt to meet the needs of a diverse, vibrant, and productive community. It is also recognised that the scale of housing stress is such that a more significant response is required from local, state and federal government to arrest the decline of affordable housing. To bring scale to local responses, such as those outlined, a state-wide planning framework is required to support all local governments to meet the needs of their communities. The components of a comprehensive Affordable Housing Strategy (the strategy) for NSW are set out below. Following the adoption of this communiqué, we propose that NSW, in collaboration with commonwealth and local government, private banks, mortgage lenders, capital market institutions, superannuation funds, and other institutional investors, together with not-for-profit and for-profit developers, collaborate in developing each of the component parts for the strategy.

i. Quantify affordable housing needs

This should include:

- Homelessness
- Cost-burdened renters (i.e. renter households paying more than they can afford for rent and utilities)
- Cost-burdened owners (i.e. owner households paying more than they can afford for their mortgage, utilities, insurance and strata fees (if applicable))
- Overcrowded households
- Substandard housing units in need of refurbishment, including social housing, community housing, and dilapidated market-rate private housing
- Future housing production needs, quantified by income level of affordability, based on projected population and workforce growth
- Other special housing needs, including housing for developmentally disabled, physically disabled or elderly persons, and supported housing

This information should be reported at a fine spatial scale (e.g. LGA and suburb level) and be updated periodically.

ii. Define affordable housing income levels and affordable housing expense

The strategy should be driven by clear and consistent definitions of income levels and affordable housing expense. Income levels are most appropriately defined in relationship to regional medians or AMI, adjusted for household size (for example, by adjusting downward in ten per cent increments for households of three, two and one, or upward for larger households). In Australian policy and research, households have typically been defined as very low, low, and moderate income. In the US, a more detailed, five point classification system is used, as follows:

• Extremely low income	below 30 per cent AMI
• Very low income	below 30-50 per cent AMI
• Low income	50-80 per cent AMI
• Moderate income	80-120 per cent AMI
• High income	greater than 120 per cent AMI

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

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

* Utilities are commonly expressed as a utility allowance for a geographic market (e.g., Sydney metro) appropriate to unit size (i.e. bedroom count) and the type of utility (gas, electric, water, other) employed.

iii. Quantify housing affordability gaps

As has been stated, an "affordability gap" is the difference between the amount a household can afford to pay for housing and the actual cost of a typical housing unit. The affordability gap is calculated separately for renters and owners.

The first step in the gap analysis establishes the amount a tenant or homebuyer can afford to contribute to the cost of renting or owning a dwelling unit based on established state, federal and/or municipal standards. Income levels, housing costs, and rents should share a common definition, tied to AMI, and adjusted for household size.

The second step estimates the costs of providing affordable housing units in a particular jurisdiction. The affordability gap may be calculated based on the cost to: purchase and rehabilitate existing single family detached units; build new single family detached units on infill lots; build new attached ownership units in multifamily developments; and, build a prototypical rental development.

The third step in the gap analysis establishes the housing expenses borne by the tenants and owners. These costs can be categorised into operating costs, and financing or mortgage obligations. Operating costs are the maintenance expenses of the unit, including utilities, property maintenance, property taxes, management fees, property insurance, and replacement reserves. For rental housing, the gap analysis may assume that the landlord pays all but certain tenant-paid utilities as an annual operating cost of the unit.

For owner housing, the gap analysis may assume that the homebuyer pays all operating and maintenance costs for the home or unit. Financing or mortgage obligations are the costs associated with the purchase or development of the housing unit itself. These costs occur when all or a portion of the development cost is financed. This cost is always an obligation of the landlord or owner. Supportable financing from affordable sales prices or rents is deducted from the total development cost, less any owner equity or down payment, to determine the affordability gap associated with developing those units.

For rental housing prototypes, the gap analysis calculates the difference between total development costs and the conventional mortgage supportable by net operating income from restricted rents. For owners, the gap is the difference between development costs and the supportable mortgage plus the buyer's down payment.

iv. Quantify capital requirements to meet affordable housing needs (for a five-to-ten year period):

For renters these include:

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

For owners these include:

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

Quantifying capital requirements will provide the capital plan necessary to carry out the strategy and will specify the type and volume of capital required.

v. Establish permanent and annually renewable source/s of public capital to finance renter and owner housing affordability gaps

This is the single most critical component for the strategy. Without public subsidies, the private marketplace will not meet housing affordability gaps. These gaps require investment from the public sector. Globally, financing for public housing affordability gaps has been provided through a variety of mechanisms, which include:

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

vi. Land use policy

Almost as important as meaningfully scaled public capital commitments to finance housing affordability gaps, is the creation of comprehensive land use policy in support of affordable housing development. Such land use policy needs to accommodate growth, as well as neighbourhood revitalisation, throughout NSW, consistent with the best principles of smart growth and sustainable community development. Zoning and land use policy have the potential to materially contribute to affordable housing production through:

- Inclusionary housing land value capture mechanisms
- Density bonus policy
- Transfer of development rights mechanisms
- Air rights development mechanisms
- Zoning code/development standards reformed aimed at lowering residential development costs while maintaining quality of life, neighbourhood quality and standards for design

vii. Dedication of publicly-owned land for affordable housing development

Commonwealth, state and local governments should inventory publicly-owned land and review its suitability for affordable renter and/or owner housing development. Acknowledging that there are competing uses for publicly-owned land assets, state and local government should set aside those sites most suitable for affordable housing development. These sites may be conveyed to affordable housing developers in the form of a long-term, low cost ground lease, or "loaned" to affordable housing developers. This means the public agency may secure its property interest by a loan for affordable housing development. Such ground lease and loan instruments will assure very long-term affordability and compliance with regulatory and financial standards and best practices.

viii. Landlord-tenant law

Landlord-tenant law in Australia should be reviewed nationwide to provide the necessary protections for owners and renters, best assuring secure, stable, long-term leases, while providing for rental housing preservation, private market financing, and investment. Such landlord-tenant law reform and/or development will be necessary if NSW, and Australia more broadly, is to develop an institutional market, developer interest, and provision of private financing for rental housing development, both market-rate and affordable.

ix. Bank lending and institutional capital for affordable housing development

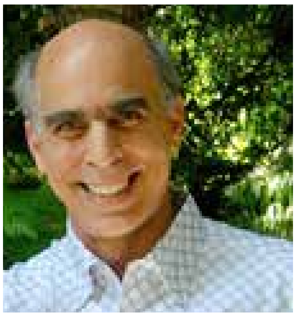
NSW should develop an active public-private partnership with the banking industry, capital markets, superannuation funds, and other sources of institutional capital for investment in the construction, long-term financing and preservation of affordable housing for both owners and renters throughout the state. In developing a stable, reliable and readily available source of private capital from banks and institutional investors, affordable housing developers and policy makers will need to satisfy private market concerns over profitability, creditworthiness, and industry best practices for credit enhancement, asset management, and capital preservation.

x. Housing developer capacity building for not-for-profits and for-profits

To carry out the strategy, NSW will need to dramatically increase the capacity of both not-for-profit developers and for-profit developers of both renter and owner housing. Such developers will need to: post strong balance sheets; have financial track records for development, property and asset management; develop keen expertise in project entitlement finance and construction; and, in the case of rental housing, demonstrate a capacity for long-term property ownership and management. For-profit developers will need to make a reasonable return on capital and/or risk.

Not-for-profit developers will need to maintain positive cash flow business models for the development and long-term operations of affordable renter and owner housing. A formalised program of developer capacity building will likely be needed to grow this enterprise to the level of capacity necessary to carry out the strategy in NSW in the long-term, with the end goal of establishing sustainable business plans for both not-for-profit and for-profit developers of affordable housing.

Biographies



Dr David Rosen

Dr. Rosen, Founder of DRA, an international advisory firm specializing in affordable housing policy, development and finance, has consulted with the FCC and its member cities, the University of Melbourne, and the Australian Housing and Urban Research Institute. He has worked with more than 220 government agencies over 35 years of practice. DRA Principals have advised on more than $9 billion (US) in affordable housing transactions and portfolios. He delivered the International Keynote Address to the 2015 Biannual Australian National Housing Conference. He has worked for the World Bank, the International Finance Corporation, the European Mortgage Federation and European Covered Bond Council, the Federal Housing Finance Agency, Federal Home Loan Bank System, Freddie Mac and the Federal Housing Administration in the US. Dr. Rosen has presented his analysis and recommendations on affordable housing policy to senior officials in the Obama White House, the U.S. Treasury Department and others.

Catherine Gilbert

Catherine has a background in planning policy and housing market research, with a particular focus on affordable housing. From 2009-11, Catherine worked for Three Dragons Consultancy in the UK, where her work examined the implications of different housing policy positions for the economic viability of new development, for organisations including the Welsh Assembly Government, the National Housing and Planning Advice Unit, the House Builders Association and the Zero Carbon Hub. She has worked with local and regional planning authorities across the UK on studies to support the development of inclusionary housing policies. Since joining the University of Sydney in 2011, she has provided research assistance on numerous projects, including an Australian Research Council (ARC) Discovery Project and three Australian Housing and Urban Research Institute (AHURI) funded projects. This research has focused on comparing systems of land use regulation; examining evidence of relationships between planning policy settings and housing market outcomes; and, approaches to planning system performance monitoring. She commenced a PhD in early 2015.

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Appendices

1: Inclusionary Housing Programs in NSW: Considerations for Policy Development and Implementation

Note: blank spaces (i.e. _________) signify where the decision making authority should specify an appropriate number.

Part A: Inclusionary housing requirements

Issue	Questions	Alternatives		Advantages/Disadvantages
Geographic applicability	What geographic area should be included? Should there be one policy that applies citywide?	Applies to designated areas in the City		
		Citywide		
Set aside requirement and level of affordability	What percentage of units within a proposed development should be affordable and to whom? Should the levels of affordability be different for rental and ownership?	Number of units	Income target	High set aside increases the amount of affordable units produced
		High	• Home ownership: Moderate • Rental: Moderate to low	
		Medium	• Home ownership: Moderate to median • Rental: Low to very low	
		Low	• Home ownership: Median to low • Rental: Low to extremely low	
Partial units	What number of units should be required when the percentage requirement results in a partial number?	Always round up if there is a fraction, developer can choose to either pay the fraction of the in-lieu fee or provide unit		Will result in a greater number of units being produced and/or fees collected
		Round up for any portion of .5 or above, developer can choose to pay the fraction of the in-lieu fee or build the additional unit		• Follows the basic rules of math when rounding up or down • Provides developer flexibility and choice on whether to pay a fee or build a unit
Threshold	What is the minimum number of housing units that the proposed development must build to trigger the affordable requirement?	5 units		Project size is too small. Not economically feasible for developer to provide units
		10 units		If set aside percentage is less than ten percent, project may be too small to provide unit
		20 units		Allows developments to escape compliance, even though economically feasible; may encourage multiple subdivisions to escape compliance
		50 units		Project size is too large — will result in less units being produced because many of the sites are in-fill and are therefore smaller

<table>
<tr><th>Issue</th><th>Questions</th><th colspan="2">Alternatives</th><th>Advantages/Disadvantages</th></tr>
<tr><td rowspan="4">Term of affordability</td><td rowspan="4">How long should the affordable unit remain affordable?</td><td>Rental</td><td>Home ownership</td><td rowspan="2">Rental
• Longer term of affordability (55+ years) maintains stock of affordable housing
• 99 years allows for a greater period of affordability</td></tr>
<tr><td>30 years</td><td>30 years</td></tr>
<tr><td>55 years</td><td>45 years</td><td rowspan="2">Home ownership
• Longer term of affordability maintains stock of affordable housing
• Longer term of affordability decreases ability of homeowner to benefit from increasing equity</td></tr>
<tr><td>99 years or permanent</td><td>99 years or permanent</td></tr>
<tr><td rowspan="2">Type of resale restriction</td><td rowspan="2">How should the affordability of units for sale be maintained over time?</td><td colspan="2">Resale restriction — subsequent buyers must be income eligible to purchase the home and the price of the home controlled by a formula to preserve the affordability</td><td>• Preserves affordability for subsequent owners
• Limits appreciation for initial, and subsequent, buyers</td></tr>
<tr><td colspan="2">Shared equity — city recaptures the difference between the market-rate price and the affordable price plus a portion of the appreciation upon sale. Funds are used to assist another buyer to purchase a home anywhere in the city</td><td>In hot markets, city will not keep up with price escalation, requiring additional subsidy to maintain affordability upon each sale</td></tr>
<tr><td rowspan="2">Effective date of ordinance/policy</td><td rowspan="2">When should the ordinance/policy take effect?</td><td colspan="2">Ordinance should take effect 30 days after the final reading and passage of the ordinance</td><td>To assure clarity for landowners, developers, and other stakeholders, jurisdiction should announce at earliest date its intention to study the feasibility, and adopt an inclusionary policy</td></tr>
<tr><td colspan="2">Ordinance should take effect one year after the final reading and passage of the ordinance</td><td>• Date certain is administratively easy
• Fixed time may not be adequate for the market to recover from the existing economic condition
• Long phase in period or delayed effective date results in lower production of affordable units</td></tr>
<tr><td rowspan="2"></td><td rowspan="2"></td><td colspan="2">Ordinance should take effect when ___ building permits have been issued over a ___ month consecutive period</td><td>• Tying to the production of the building permit allows the market to recover to a certain level before the inclusionary requirement is imposed
• Otherwise feasible developments may escape compliance</td></tr>
<tr><td colspan="2">Ordinance should take effect when ___ permits have been issued over a ___ month consecutive period or within ___ months of passage of the ordinance — which ever comes later</td><td>• Defers implementation to active market i.e. recovering from recession
• Allows some feasible projects to escape compliance
• Impossible to predict strength and duration of recoveries</td></tr>
</table>

Issue	Questions	Alternatives	Advantages/Disadvantages
Grandfathering/ Pipeline	What developments should be exempted from providing the affordable units because they are too far along the development process? Should developments demonstrate that continued progress has been made?	• At the time a developer makes an offer to purchase • At the time a developer submits a reasonably complete application for a planning permit • At the time the developer receives a building permit Continued progress should be made including: a certain date that the approved planning permit should be issued; a certain date that a building permit should be issued	Balance trade-off between projects escaping requirement and requiring compliance for projects which have incurred substantial sunk costs for predevelopment prior to announced intention to study and adopt an ordinance
Pressure relief valve	Can developments be relieved of an inclusionary requirement during difficult economic periods? What is the timing of the pressure release valve? Should the program adjust during a down economy? How should the pressure release valve be structured? How would this be defined?	When permits are below ___	• Demonstrates economic distress in the development community • Difficult to administer • Unpredictable
		• When the gap between the market price and the affordable price is $___ or less for units targeting the lowest AMI • Only the requirement to restrict the unit should be lifted	• Easier to administer and track • Based on current market conditions • In the event of a loss of an affordable unit city will not be able to count the unit as meeting any affordability goals

Part B: Alternatives

Issue	Questions	Advantages/disadvantages
On-site		• Affordable units will be built on-site and dispersed within the new development • Increases choice in location for lower income households • Prevents concentration of incomes and allows for economic integration of developments • Can be a financial burden for the developer depending on the type of construction
Alternatives	Under what circumstances should a developer be allowed to provide an alternative to the on-site affordable housing requirement? • Should the developer by right be allowed any choice? • Should the developer be required to provide more units if an alternative is selected? • Should the developer be required to demonstrate financial hardship or financial infeasibility in order to provide units off-site? • Should the developer demonstrate that more affordable units will be built if alternative is selected?	• Alternatives provide maximum flexibility • By limiting the granting of an in-lieu fee option developer choice is limited and outcome can be unpredictable
Off-site construction	Should the developer be allowed to construct affordable units at another location as an alternative to building affordable units on-site? Should there be limitations placed on where the developer is allowed to construct affordable units?	• Developer has burden of proof • Lower cost of compliance to developer if land is less expensive • May be better to produce a more suitable alternative to meet community needs • Allows for partnerships between market-rate and affordable housing developers which may result in the development of more units or deeper affordability • Ensuring that affordable development is produced at the same rate as market-rate development can be difficult to coordinate and can result in compliance issues • May lose opportunity for economic integration in development • Completion of affordable units may be delayed • Potential neighbourhood opposition issues • Potential for clustering of affordable units
In-lieu fees	Should the developer be allowed to provide cash payment instead of constructing the required affordable units on-site? Should the in-lieu fee option be provided only in certain circumstances?	• Can be easily administered • Requiring developers to build affordable units on-site with low density developments may be an unfair economic burden — in lieu fee option may be more appropriate • City can target uses of funds to meet a variety of affordable housing policy goals • Affordable units may not be constructed in a timely manner • When affordable units are not provided on-site city loses opportunity for economic integration • Responsibility to provide units is placed on the city to find a new site and on the developer to provide the affordable units • The fee may be insufficient to cover the full cost of producing the affordable unit
	How should the in-lieu fee be calculated? • Average amount of the public subsidy required to produce the unit • Cost to construct the unit • For home ownership units in lieu fee is calculated based on: o Gap-to-cost o Gap-to-price	• In lieu fee should be at least equivalent to cost of compliance for providing units • Policy decisions regarding including or excluding the value of leveraging public subsidies for affordability • Gap-to-price or gap-to-cost for owners and policy preference to pay fees or provide units

Issue	Questions	Advantages/disadvantages
Land dedication	Should the developer be allowed to provide developable land as an alternative to providing on-site affordable units?	• Can result in development of more affordable units with additional subsidies • Allows for partnerships between market-rate and affordable housing developers • No financial impact to the city if the land is donated to an affordable housing developer • Additional subsidies necessary to build affordable units because free land is insufficient to subsidise development of affordable units • If affordable units are not provided on-site city may lose opportunity for economic integration • Completion of affordable units may be delayed • Potential neighbourhood opposition issues • Possibility that affordable units may not get built • City may be responsible for ensuring that the affordable housing development is completed • If land is dedicated to the city then costs for holding and disposing of the land are bearable by the city
Acquisition/ Rehabilitation and acquisition (Allows developer to acquire an existing market-rate unit and convert it to an affordable unit)	Should acquisition/rehabilitation be included in developer offsets?	• Reduced cost of compliance • Can result in development of more affordable units with additional subsidies • Allows for partnerships between market-rate and affordable housing developers • May serve to revitalise neighbourhoods • Improves deteriorated housing stock • Limits which offsets the developer may use • Affordable units not provided on-site may rob city of opportunity for economic integration • Completion of affordable units may be delayed • Potential neighbourhood opposition issues • May encounter relocation issues or existing tenants may be displaced • More difficult to administer because standards will have to be developed regarding what types of units will be accepted • May be difficult to identify willing sellers of properties • Does not create new units, thus will not help the city to meet the growing need for affordable housing
Credit trading for units (credit transfer)	Should developers be allowed to transfer credits of affordable units to other developers?	• Provides increased flexibility to developers • Allows developers to work together to build a development that may be larger and therefore more economically feasible to build and manage
Combination	Should the developer be allowed to combine alternatives to meet the affordable housing requirement?	• May reduce cost of producing affordable units • Combination provides flexibility for developers to work with a range of options that best serve proposed developments

Part C: Offsets

Issue	Questions	Options	Advantages/Disadvantages
Flexibility with design standards	What flexibility to design standards should developers be allowed to change to offset the cost of providing affordable units?	Provide a density bonus based upon the percentage set aside provided by the developer	• Can lower the cost of compliance because the developer is allowed to produce additional market-rate units • Developers may not seek to increase density • May meet neighbourhood resistance • May have a financial impact for the city as more housing units will increase demand for city services
		Reduced parking	• Reduces cost of producing units because the cost of providing structured parking is high • No financial impact to the city • Consistent with other state level funding programs which provide financial incentives for developments that reduce parking near transit to promote smart growth policies • May meet neighbourhood resistance
		• Lot-size requirements • Setbacks • Landscaping • Minimum size yards/ side setbacks • Floor area ratios	• Reduces cost of producing affordable units • No financial impact on the city • May raise neighbourhood concerns
Alternative design/ Alternative unit type: bedroom mix must be equal and must be functionally equivalent	Should the developer be allowed to change the exterior of the affordable unit for on-site developments? Should the developer be allowed to provide alternative interior materials, appliances and/or design for the on-site affordable unit?	Yes	• Reduced costs of compliance by reducing per-unit construction costs if interior finishes and alternative types of housing are allowed • May work better on some sites than others • No financial impact for city
		No	• Developers may not want to provide alternative housing product type • If "affordable" units are differentiated by design they may be recognisable as such in a cluster which could lead to segregation
Deferral of impact fees	Should the developer be allowed to defer the payment of impact fees (typically due prior to the issuance of the building permit currently)?	Yes, developer should be allowed to defer the payment of impact fees	• Consistent with current city policy • Easier to administer and enforce • Higher cost to developer
		No, developer should not be allowed to defer the payment of the impact fee	• Reduces cost of development for developer • May be difficult for the city to enforce • Will have a financial impact on the city

Issue	Questions	Options	Advantages/Disadvantages
Expedited review for developments that include affordable units	Should the developer who provides affordable units on-site have an expedited review process?	No, developers should not be offered expedited review	If all developers provide on-site units then it may be difficult to provide expedited review
		Yes, developers should be offered expedited review	• Reduces cost of providing the unit if developer saves time • May result in the need for additional staff to effectively implement and meet timelines
Technical assistance	Should the developer who provides affordable units on-site be provided assistance with the development review process, financing alternatives and assistance in selling/renting the affordable units?	No	
		Yes	
Ability to obtain federal and state financial subsidy	Should the developer be allowed to apply for financial subsidies?	Yes	• Reduces cost of producing the affordable unit • Creates an incentive to deepen the affordability of units
Ability to obtain locally controlled funds if deeper affordability or more units are provided		No	Competes with affordable developments for limited funds
Park fee exemption	This offset currently is applied to developers who build affordable units that target households who earn less than 60 per cent of AMI	Currently offered as an offset	• Reduces cost of producing the affordable unit • Units for sale do not qualify for this exemption • Only rental units under 60 per cent of AMI receive this financial offset • There is a fiscal impact to the city incurred through reduced park fees
Property tax exemption	This offset applies to rental developers who partner with a not-for-profit and provide housing for households who earn below 80 per cent of AMI* *Not-for-profit must be a 501(c)3	Currently offered as an offset	• Reduces cost of providing the affordable rental unit for not-for-profit affordable housing developers • For sale units do not qualify for this offset • For-profit developers who build on-site would not qualify for this offset • Very limited financial impact to the city

APPENDIX 2: Data Collection Templates for Assessing the Feasibility of Inclusionary Housing Programs

Table A: Indicative development prototypes

	Prototype 1	Prototype 2	Prototype 3
Development type	e.g. Detached houses	e.g. Townhouses	e.g. Residential flat building
Height			
FSR			
Total dwellings			
Density (Dw./ha)			
Construction type			
Gross site area			
Streets etc. as % of gross area			
Net site area			
Bedroom count			
1-bed			
2-bed			
3-bed			
4-bed			
Unit size (net sqm)			
1-bed			
2-bed			
3-bed			
4-bed			
Average			
Net living area			
Community space			
Total building area/ gross floor area (sqm)			
Type of parking	e.g. Garage	e.g. Surface	e.g. Underground
Levels of parking			
Parking area (total sqm or per space)			
No. of parking spaces			
Amenities		e.g. Communal open space	e.g. Gym, pool

Table B: Development, finance costs and revenue

	Prototype 1	Prototype 2	Prototype 3
Land acquisition cost			
Cost per gross sqm of site area			
Hard cost assumptions			
On-site improvements (cost per sqm)			
Site remediation			
Demolition works			
Construction			
Per sqm			
Per unit			
Construction financing assumptions			
Capitalisation rate			
Construction loan			
Loan-to-value ratio			
Loan amount			
Interest rate			
Loan points			
Term of loan			
Sale or lease period			
Average construction loan balance			
Mezzanine debt-to-cost ratio			
Mezzanine debt amount			
Return on mezzanine debt amount			
Soft cost assumptions			
Professional fees (e.g. architecture engineering)			
Development application fee			
Cost of development contributions (excl. affordable housing)			
Taxes			
Insurance			
Furniture/equipment			
Marketing costs			
Soft cost contingency			
Developer overhead			
Developer return			
Median sale prices			
1 bed			
2 bed			
3 bed			
4 bed			