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Submitted by email: [affordablehousing@melbourne.vic.gov.au](mailto:affordablehousing@melbourne.vic.gov.au)

Dear Ms Allanadale

## **Submission to the City of Melbourne's draft *Affordable Housing Strategy 2030***

Committee for Melbourne (**the Committee**) welcomes the opportunity to contribute to the City of Melbourne's draft *Affordable Housing Strategy 2030* (**Draft Strategy**).

The Committee is an apolitical, not-for-profit, member-based entity that brings together over 140 organisations from Greater Melbourne's business, academic, local government and community sectors whose common purpose is to shape a better future for Melbourne.

As an independent organisation the Committee represents no single interest group or political position but seeks to challenge conventional thinking and to develop innovative ideas to continue to enhance Melbourne's position as an economically prosperous and highly liveable global city.

In 2017, the Committee launched its Melbourne 4.0 strategy to help prepare Greater Melbourne for the accelerating speed of innovation and disruption that has catapulted us to the early stages of the 'Fourth Industrial Revolution'. The Committee identified nine strategic needs underpinning a liveable and flourishing Melbourne into the future.

One of the strategic needs identified was 'Housing Mix'. The 4.0 Taskforce noted that high cost of living – of which housing costs are a major determinant – has a detrimental effect on a city's economic viability, creativity and innovative capacity. Expensive cities make self-employment and entrepreneurship more difficult. In addition, without delivering a mix of housing including affordable housing, emergency and other key workers may be unable to live near their place of work.

A Housing Mix Taskforce was established by the Committee, led by a Steering Committee of industry leaders from a broad range of sectors. The Taskforce is currently preparing an affordable housing research paper, identifying key levers that can be used to deliver more affordable housing. What is clear from the paper is that there is no 'silver bullet' for delivering the volume of affordable housing required in Greater Melbourne into the future. There is great opportunity for more collaboration between stakeholders to deliver more affordable housing, and in particular a need for leadership from all levels of government.

The Committee therefore welcomes the release of the Draft Strategy that seeks to provide some possible policy solutions to the affordable housing crisis. The Draft Strategy highlights that the affordable housing crisis in the City of Melbourne is projected to deepen by 2036, with a growing shortage of affordable homes. The Draft Strategy highlights that in the city there is a shortfall of at least 5500 affordable rental homes for people on very low to moderate incomes and the shortfall is anticipated to increase to approximately 23,200 by 2036 if no action is taken.<sup>1</sup>

The shortage of affordable homes is likely to become even more profound in the wake of the COVID-19 pandemic and the detrimental impact the virus is having on the economy. New data released by Roy Morgan shows national unemployment figures in late March 2020 to be at 16.8 per cent, over three times higher than the Australian Bureau of Statistics' February estimate of 5.1 per cent. The same research indicates that 1.4 million Australians became unemployed in the second half of March.<sup>2</sup> These impacts are likely to place further extraordinary pressure on affordable housing stocks in the future.

The Committee also welcomes the analysis in the Draft Strategy that demonstrates that there is an economic benefit to investment in affordable housing, showing that:

*"for every \$1 invested in affordable housing, \$3 of community benefit is generated through key worker retention, educational benefits, enhanced human capital, health cost savings, reduced domestic violence and reduced crime."*<sup>3</sup>

Affordable housing is essential infrastructure and there is a responsibility on all stakeholders, including Government, the private sector and the broader community, in providing it. Maintaining a healthy stock of affordable housing ensures that Melbourne can uphold a reputation of an inclusive city made up of diverse communities and professions, no matter the level of income. The Committee therefore agrees with the City of Melbourne's assessment of the value of affordable housing as community infrastructure, and the need to do more to avoid the ever-worsening housing situation.

Whilst the delivery of more affordable housing is therefore an important priority for the city, the Committee cautions against a focus on only a narrow set of policy recommendations related to inclusionary zoning. This could place a significant burden for delivery of affordable housing on one sector of the economy, such as the private development sector. Much of the City of Melbourne's financial modelling has been based on an assessment in an economic environment and property sector that was very robust. The COVID-19 pandemic has created an unprecedented and uncertain economic environment, in which the returns for developers and business are being challenged.

Additionally, with immigration likely to decline and CHPs revenues under pressure (they have been forced to provide rent relief during the pandemic), the demand-side modelling also needs to be reviewed.

The implementation of inclusionary zoning would require an amendment to the Victorian planning rules by the Victorian Government. This would apply across Victoria. Therefore, the outcomes that the policy aims to achieve, would need to be very clear, to ensure that the amendments to the planning rules are

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<sup>1</sup> City of Melbourne, 'Draft Affordable Housing Strategy 2030,' <https://www.melbourne.vic.gov.au/about-council/committees-meetings/meeting-archive/MeetingAgendaItemAttachments/888/15845/MAR20%20FMC1%20AGENDA%20ITEM%206.2.pdf>, p. 11 (accessed 9 April 2020)

<sup>2</sup> Roy Morgan, 'Extra 1.4 million Australians out of work in wake of COVID-19 pandemic – 3.92 million (27.4% of workforce) now unemployed or under-employed,' Article No. 8363, Wednesday 8 April 2020, <http://www.roymorgan.com/~media/files/findings%20pdf/2020s/2020/february/8363-australian-unemployment-estimates-march-2020.pdf> (accessed 9 April 2020).

<sup>3</sup> City of Melbourne, 'Draft Affordable Housing Strategy 2030,' <https://www.melbourne.vic.gov.au/about-council/committees-meetings/meeting-archive/MeetingAgendaItemAttachments/888/15845/MAR20%20FMC1%20AGENDA%20ITEM%206.2.pdf>, p. 12 (accessed 9 April 2020)

able to achieve those outcomes without unintended consequences. For example, if mandatory inclusionary zoning were to be applied across the state (e.g. dedicating a percentage of dwellings as affordable housing in a development, or making a payment in lieu), then the result may have the consequence that some developments may not go ahead or the costs will be passed on (e.g. dwellings in the development more expensive for the end consumer).

Any policy initiatives should ensure that there is a range of policies applied that can achieve a balance between delivering outcomes and ensuring the ongoing economic viability and sustainability of the economy and community. Some additional policies that are considered in the Draft Strategy, such as build-to-rent and value capture, may also offer viable opportunities where used in conjunction with a range of policy levers (especially those that provide incentives to developers like planning and tax reform and beneficial funding arrangements).

The economic environment in which the City of Melbourne's study was conducted has changed, perhaps fundamentally. It is likely that the returns and margins that developers will be able to achieve from their investments will be significantly reduced.

The Committee therefore recommends that further economic analysis is now required, in consultation with developers, to determine the appropriate economic modelling for a post-COVID environment. This analysis should also include an assessment of the range of policy levers available, like build-to-rent and value capture.

In response to the specific recommendations in the Draft Strategy, the Committee provides the following qualified (see above) comments:

1. Inclusionary zoning is an important tool for the provision of affordable housing stock, however, should be applied through a model that will continue to ensure the viability and financial sustainability of the development sector. Considerations of a more flexible approach may be needed, including additional policy levers such as rewarding and incentivising developers for including affordable housing in their development projects.
2. The commitment to allocate 25 per cent of City of Melbourne land for dedicated affordable housing dwellings is a positive one and welcomed by the Committee.
3. Any strengthening of internal processes within the City of Melbourne should also consider ensuring that financial contributions made in lieu of inclusionary zoning are used transparently and in a timely manner.
4. The commitment by the City of Melbourne to continue to advocate and lobby other parties including the Victorian and Australian Governments, and other councils in the Greater Melbourne area, is welcomed by the Committee.

## **Recommendation 1: Advocate for mandatory inclusionary zoning**

### ***Mandatory inclusionary zoning***

The Draft Strategy advocates for state-wide mandatory inclusionary zoning on new developments, phased in over time.<sup>4</sup>

The Committee supports consideration of a policy on mandatory inclusionary zoning for new developments, provided a model is able to be developed that delivers a balance between the ongoing viability of the development industry and the provision of affordable housing.

Affordable housing is a social good and therefore should not be a burden that developers bear alone. Policy proposals should operate as a mix of proposals that ensures the government and community

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<sup>4</sup> Ibid, p. 30.

also contribute to the class (which is why the Committee supports the further recommendations involving City of Melbourne and State Government land below).

The Committee considers that alternative policies that incentivise and reward the private sector for contributing to this asset class, such as tax relief and subsidies, should be considered as an alternative to *mandatory* inclusionary zoning. The Affordable Housing and Urban Research Institute provides examples of such measures that could be applied, including (but not limited to):

- planning process incentives such as the fast-tracking of development applications that include affordable housing;
- tax, rate and fee relief, and
- relaxing controls on elements such as height, density and parking for development applications that include affordable housing.<sup>5</sup>

Affordable rental housing according to the planning laws, covers a broad spectrum of types of housing (based on income like key worker or social housing). Accordingly, it would be important for developers to be able to determine the appropriate types of housing that would be applicable to their development (such as the location and style of development). It would be very important for developers to have certainty around the types of affordable housing applicable for their development.

### ***10 per cent dwellings requirement***

The Draft Strategy recommends that a minimum percentage of dwellings in a new development be required under the inclusionary zoning policy, and that a higher percentage might be allocated in locations where this is justified. The Draft Strategy suggests that the minimum percentage would be introduced in a staged approach and would reach 10 per cent by 2031.<sup>6</sup>

The Committee supports a staged approach, but considers that further research may be needed in relation to the proposal that all new developments must include *10 per cent* of affordable housing by 2031.

The model needs to operate fairly and effectively and should ensure the continuing viability of development projects. Developer margins are already slim and in the wake of COVID-19, the impact on the property and construction industry and economic viability is yet to be determined. In this uncertain economic climate, a model that is less rigid may be needed. For example, a model might include varying the percentage based on:

- the size of the development, or
- financial margin thresholds being achieved by developers.

### ***Financial contribution in lieu of providing dwellings***

The Draft Strategy also notes that it will consider money in lieu of affordable houses being built in new developments:

*“Where it is agreed that a direct contribution is not practical or appropriate, developers should make a financial contribution towards the delivery of affordable housing in lieu of providing dwellings for this purpose in their development.”<sup>7</sup>*

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<sup>5</sup> Australian Housing and Urban Research Institute, ‘Understanding inclusionary zoning,’ 17 March 2017, <https://www.ahuri.edu.au/policy/ahuri-briefs/Understanding-inclusionary-zoning> (accessed 9 April 2020).

<sup>6</sup> City of Melbourne, ‘Draft Affordable Housing Strategy 2030,’ <https://www.melbourne.vic.gov.au/about-council/committees-meetings/meeting-archive/MeetingAgendaItemAttachments/888/15845/MAR20%20FMC1%20AGENDA%20ITEM%206.2.pdf>, p. 30 (accessed 9 April 2020).

<sup>7</sup> Ibid.

Where a clearly articulated model is able to be established, the Committee supports this as a flexible approach. that can deal with cases where the allocation of physical dwellings may not be feasible. Of course, the policy will need to clearly outline how and when those contributions are to be calculated.

Additionally, a transparent framework for using and distributing any funds collected through the inclusionary zoning policy, will need to be developed. The Committee therefore supports Recommendation 3 below that would allow for a strong framework to be developed for the use of those funds on affordable housing in a timely manner.

### ***Staged roll-out of inclusionary zoning***

The Committee welcomes the commitment in the Draft Strategy for a staged rollout of the inclusionary zoning policy, stating that:

*“The introduction of mandatory IZ should be phased in over a period of time, so that the market has adequate time to adjust to the change.”<sup>8</sup>*

Property developments have very long lead times and complex financing arrangements and we support a staged approach, based on a clear and transparent model, so that developers can factor inclusionary zoning into their modelling.

### **Recommendation 2: Develop affordable rental housing on City of Melbourne land**

The Draft Strategy recommends City of Melbourne utilising 25 per cent of its land towards affordable housing developments and recognises the need to work with other Councils in the Greater Melbourne area to enable further usage of Council land for this purpose.<sup>9</sup>

The Committee welcomes this initiative and supports co-operation between governments to deliver affordable housing stock.

Consideration of the most effective arrangements for development of City of Melbourne land will be needed. It is noted that the model under consideration does not involve a sale of land to developers, but a lease arrangement. If the land is leased to developers, then the term of the lease will need to be sufficient to allow developers to obtain finance and achieve a return on investment. If the land and the buildings revert to the City of Melbourne at the end of the lease term, how will the Council deal with a degraded asset with maintenance costs?

### **Recommendation 3: Strengthen our internal affordable housing processes**

The Draft Strategy outlines a proposal to strengthen affordable housing processes and ensure affordable housing stock is efficiently managed and delivered.

The Draft Strategy recognises the need to review and strengthen existing mechanisms, including developing an understanding of appropriate levels of affordable housing developments and managing contributions in order to deliver agreed-upon targets.<sup>10</sup>

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<sup>8</sup> Ibid.

<sup>9</sup> City of Melbourne, ‘Draft Affordable Housing Strategy 2030,’ <https://www.melbourne.vic.gov.au/about-council/committees-meetings/meeting-archive/MeetingAgendaItemAttachments/888/15845/MAR20%20FMC1%20AGENDA%20ITEM%206.2.pdf>, p. 34.

<sup>10</sup> Ibid, p. 36

The Committee supports these measures, and in particular would welcome transparency on any plans or commitment for targets or spending. Private sector investment can be encouraged and facilitated, where there is greater transparency on settlement policy and housing development strategies. It would therefore be valuable to the community to ensure that planning and strategies are made more transparent in the community.

## **Recommendation 4: Advocate and partner for affordable housing**

The Draft Strategy outlines a proposal to continue to advocate for the improvement of affordable housing outcomes with multiple stakeholders such as Government, the private sector and the broader community. This includes working with all levels of Government to unlock Government-owned land for the purpose of converting it into affordable housing stock.<sup>11</sup>

The Committee welcomes this commitment from the City of Melbourne. The Committee considers it incumbent on a range of stakeholders to meet the social obligation to provide affordable housing in Melbourne for those who need it.

The Committee considers that the unlocking of state and local government land is an important policy lever that should be utilised by all levels of Government to deliver more affordable housing stock.

The Committee also considers that it is essential that multiple stakeholders work together to deliver more affordable housing stock, and therefore supports this commitment.

The Committee supports the Draft Strategy's commitment to raising public awareness of the issue of affordable housing, through public forums and media platforms.

There is an opportunity for the Committee and the City of Melbourne to work together to raise such awareness. The Committee will also continue to use its own resources to undertake similar work.

## **Conclusion**

Committee for Melbourne welcomes the opportunity to comment on the City of Melbourne's draft *Affordable Housing Strategy 2030*.

Following the COVID-19 pandemic, the provision of affordable housing will become an even more challenging issue, but also a greater imperative. It is therefore important to ensure that a range of policy levers are applied, like build-to-rent and value capture, as well as incentives such as tax and planning reforms, so that a range of sectors, and government, will together contribute to the solution.

The Committee encourages the City of Melbourne to consider the model of inclusionary zoning that might include a more flexible application of the policy to developments and that might also include reward and incentive mechanisms to assist developers in contributing to affordable housing.

Overall, the Committee recommends that further analysis is now required, in consultation with developers, to determine the appropriate economic modelling and policy mix for a post-COVID-19 environment.

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<sup>11</sup> Ibid, p. 40.

The Committee looks forward to continuing to contribute to this important issue and working with the City of Melbourne to assist where possible.

Please contact Leanne Edwards, Policy Director, Committee for Melbourne at [ledwards@melbourne.org.au](mailto:ledwards@melbourne.org.au) should you require further information.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Martine Letts', with a long horizontal line extending to the right.

Martine Letts  
CEO