

Delivering Affordable Housing

April 2021

*Submission to the Victorian
Government's consultation on a
10-yr social and affordable housing
strategy*



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A. Foreword

The Committee for Melbourne's proposals in this submission have been under development since 2019, however the COVID-19 pandemic and subsequent economic turmoil resulting from the lockdowns, has shone a light on the importance of increasing the supply of affordable housing in Melbourne for those that need it the most. There is no doubt that there is an undersupply of social and affordable housing across Victoria and Melbourne. As the economic ramifications of COVID-19 continue to play out, with resulting job losses, pay cuts and reduced hours of work, then the need for additional supply of social and affordable housing will become even more apparent. Creating an environment where there is a mix of types of housing available to all, including key workers, is essential to provide a long-term economic platform for a prosperous Australia. That's why the Committee welcomes the development by Victorian Government's Homes Victoria of a 10-yr social and affordable housing strategy and is pleased to contribute this submission to the consultation process.

The Committee's Housing Mix Taskforce, in releasing this submission, considers that now is the perfect opportunity to be determining how to accelerate the provision of affordable and social housing and for creating and embedding a long-term strategy for its supply. Ensuring there is a range of housing options for those in need, including social and key worker housing, is an economic issue as it impacts liveability, contribution to jobs and the economy and the health and wellbeing of generations of society. We also have a strong view that we need to eradicate homelessness and therefore the 10-year plan should be part of 40-year strategy to end homelessness in Victoria and in fact, end homelessness in Australia.

Government rightly focuses a lot of attention on public and social housing, through assistance programs, direct building capability and financial support. This is a necessary function of Government and one which should be applauded and encouraged.

However, there is an important cohort of the population – those key workers that may not be able to afford access to housing in the areas that they work, who do not feel that they require social housing or who do not meet eligibility requirements for social housing, that require the provision of affordable housing. The pandemic has reaffirmed the importance of key workers not only to the functioning of our economy but to broader society. Nowhere in Australia has this importance been more felt during the last year than in Melbourne, which has endured two periods of significant lockdowns. Key workers (such as researchers, innovators, technology specialists, entrepreneurs, teachers, nurses and emergency services personnel) have helped maintain essential services during the lockdown periods and will ensure our economic recovery into the future. It is important for key workers to be able to access affordable housing and particularly in areas close to where they work.

But the affordability problem is increasingly pushing many in our society away from where they work – requiring long commutes and impacting their way of life and mental health. Commutes and lack of stability can impact productivity and innovation, impinging on the ability to create start-ups and innovative enterprises - amongst other things. To maintain a robust economy into the future, it is important that essential jobs and living standards are supported throughout the economy, and housing is an essential component of this.

Critically, Australia must focus on developing new industries and expanding its existing capabilities, as it becomes more competitive and independent economically in a post-COVID world. This means encouraging innovation and creativity and allowing those who are developing new industries and ideas, the capability and space to be able to do so. Melbourne should be considering how, in the development of innovation hubs and neighbourhood areas, the encouragement of creatives and innovators can be supported in those areas. A plan for ensuring that affordable housing is available for key workers in all areas must be developed and is an essential element for our future productivity.

Collaborations between Government and the private sector to deliver affordable housing for these key workers will be needed, and this requires promoting an environment whereby private developers are able to build affordable housing and, in fact, want to build affordable housing. Properly incentivising the industry so that these developments are economically viable is essential, and this can be achieved through multiple policy levers that are detailed in this submission.

The Committee commends the Victorian Government's announcement of various policy reforms and investments in social and affordable housing and in private rental supply. For example, the Committee supports the tax exemptions announced in the Victorian Budget 2020-21 to support Build-to-rent (BTR) as an asset class. However, when a public incentive is provided (in terms of tax concessions) a public benefit must be provided in return.

Specifically, from 1 January 2022, Victoria's Big Housing Build will provide a 50 per cent land tax discount for *eligible new BTR developments* until 2040. These developments will also be exempt from the Absentee Owner Surcharge (AOS) over the same period. The Victorian Government also announced a \$5.3 billion Big Housing Build program, to construct around 12,000 social and affordable homes over 4 years. However, more is needed to develop a long-term pipeline of social and affordable housing (over at least 40 years). The Committee therefore supports the creation of a 10-yr social and affordable housing strategy for Victoria, as part of a more extended 40-year strategy.

The five key elements for an affordable housing strategy as proposed by the Committee are:

- 1. Engage the community on the importance of an adequate supply, mix and quality of housing for Australia's future prosperity.**
- 2. Collect centrally and make accessible, comprehensive data on housing mix (including social and affordable housing needs).**
- 3. Set appropriate long-term housing targets across a range of housing types, including affordable key worker housing, aligned to an integrated transport plan with an appropriate governance frameworks for implementation.**
- 4. Review the value of a levy to sustainably fund affordable housing (in perpetuity) - with appropriate governance arrangements for the management and distribution of such a levy. Such a review should be undertaken by a representative stakeholder group (including representatives from both side of politics). The disbursement of an affordable housing levy should be placed in the hands of an independent organisation/group of trustees, to oversee and distribute the funds according to the housing targets which have been set. Transparent governance and reporting should be included in the role of such an organisation/fund.**
- 5. Set policies and initiatives, which clearly show how they will help meet housing targets. A suite of possible policy levers is discussed in this submission under the following headings: Finance and Taxation; Planning; Transport; Unlocking excess government land; Build-to-rent (BTR) and Private Rental Sector.**

What is clear is that that there is no single solution to the challenge of increasing the supply of social and affordable housing. Instead, a range of levers will need to operate simultaneously to address the issue, with a range of stakeholders (governments at all levels as well as industry and community) being participants. Affordable housing is essential economic infrastructure and there is a responsibility on all stakeholders, in providing it. Maintaining a healthy stock of affordable housing ensures that Melbourne can uphold its reputation of an inclusive city made up of diverse communities and professions, no matter the level of income and set the economic platform for a future successful Victoria.

Jane Hodder

Chair, Housing Mix Taskforce

Committee for Melbourne Board Member

Martine Letts

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B. Housing Mix Taskforce

Committee for Melbourne (the Committee) welcomes the opportunity to contribute to the Victorian Government's consideration of a 10-yr social and affordable housing strategy for Victoria.

The Committee is an apolitical, not-for-profit, member-based organisation that brings together over 140 organisations from Greater Melbourne's business, academic and civic 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 September 2016, 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's Melbourne 4.0 project makes it clear that if we keep progressing with 'business as usual,' the future of our City may not be all that bright. The Committee therefore identified nine 'Strategic Needs' that we must address if we are serious about underpinning a liveable and flourishing Melbourne in the future.

One of the Strategic Needs identified was ensuring we have an appropriate 'Housing Mix', which must include more public, social and affordable housing and accessible pathways between these. To help address the need of housing in Greater Melbourne a Housing Mix Taskforce was established, led by a Steering Committee of industry leaders from a broad range of sectors, and chaired by Committee for Melbourne Director and Partner at Herbert Smith Freehills, Jane Hodder.

The Housing Mix Taskforce that has contributed to this submission, was drawn from the Committee's cross-sectorial membership from various industries including finance, infrastructure, housing associations, developers, legal, academia and consulting firms. Each sector leader brought unique methods and ideas to solve the issue of affordable housing based on their expertise.

The Housing Mix Taskforce members have contributed to a series of findings and recommendations about key levers that are considered in this submission (see section C5). Those levers are as follows: Finance and Taxation; Planning; Transport; Unlocking excess government land; Build-to-rent; and Private Rental Sector.

The members of the Taskforce include:

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Disclaimer

Please note, the views in this publication reflects the synthesis of the Committee's diverse and cross-sectorial membership views. All material expresses a merging of these differing perspectives and the concepts presented in this paper should not be attributed to any individual member organisations.

C. Four key requirements of a social and affordable housing strategy

The Committee welcomes the Government's proposal to create a social and affordable housing strategy but considers that it needs to be a long-term strategy with at least a 40-year horizon and 10-year increments. The five key requirements of an affordable housing strategy as proposed by the Committee are as follows:

1. Engage the community on the importance of an adequate supply, mix and quality of housing for Australia's future prosperity.

This education program could highlight the contribution that adequate supply, mix and quality of housing can have for productivity, urban health and community wellbeing.

The property sales boom has pushed people who would have been able to afford their own property, into the rental market. Gentrification of the inner-city suburbs has also put pressure on available housing stock. This broadening of the housing affordability problem creates an imperative to increase affordable housing across the spectrum of need (very low, low and moderate income households) and through the provision of both social and private affordable housing (as well as increasing the supply of rental housing stock more generally like BTR projects). Concurrently, there is an imperative to supply sufficient housing options to enable accessible housing pathways between these as resident needs change over key life stages.

Homelessness has clear community impacts. A lack of affordable housing across a spectrum, also has productivity impacts. There is a productivity imperative to ensuring that there is a settlement strategy for housing and a clear roadmap for housing development. As CEDA notes in its *Home truths: the role of housing in economic recovery*:

*"Unaffordable housing also increases commuting times, as households seek alternative housing opportunities in more affordable but less central locations. Time spent commuting is unproductive, in the sense that the activity is neither work, which generates income, nor utility-generating leisure activity. There are also indirect impacts on productivity, because as households move away from productivity and innovation centres, this reduces entrepreneurial activities such as new business start-ups."*¹

There is a difficulty for governments alone to produce public, social and affordable housing in the quantities needed – and the problem is one that the whole of the community bears. Accordingly, the community must be made aware of the problems and generational impacts of homelessness and housing gaps can have on the whole of society. This necessarily requires a consistent national approach and may be developed with federal and state co-operation.

This might facilitate support by the community, for policy proposals that could generate supply of public, social and affordable housing.

1. CEDA Report, Professor Rachel Ong ViforJ and Professor Chris Leishman, *Home truths: the role of housing in economic recovery*, October 2020, p.2

2. Collect centrally and make accessible, comprehensive data on housing mix (including social and affordable housing needs)

The Committee notes that there is recognition of the lack of consolidated data available regarding the gaps in supply for public, social and affordable housing. There are various organisations that have made estimates of the lack of public, social and affordable housing, but no conclusive data on the gaps or the mix that is needed. Infrastructure Victoria states in its Draft 30-yr Strategy that:

“All estimates, including our own, indicate Victoria requires much more social housing to meet the needs of all Victorians. Estimates vary from 1,700 each year – just to keep pace with population growth – to 8,300 annually to cover evident need. Reaching a provision rate of 4.5 social housing properties for every 100 households by 2031 would require around 4,900 extra properties each year, or as little as 3,900 with lower population growth.”²

Anglicare Australia states that the “shortfall of affordable homes across Australia is massive. The Australian Housing and Urban Research Institute has shown we that we need 433,400 social and affordable rentals just to make up for that shortfall”.³ City Futures research estimates that currently “The unmet social housing need is estimated to be 437,000 while the unmet affordable housing need is estimated to be 213,000.” City Futures also estimates that Greater Melbourne needs 109,100 social and affordable dwellings and to 2036 needs 176,800.⁴

What is clear is that data on a housing mix and the types of housing and where it should be located – is not currently centrally collected and used to feed into a clear social and affordable housing strategy.

Whilst there is work being done in the private sector to collate some data around housing needs, this is not sufficient to develop a clear and consistent strategy. For example, *Housing all Australians* is a private sector initiative supported by the Committee and included value aligned organisations including PWC, Metricon, Quest Apartments, Shinewing, Adapt, Premier Technology Solutions, ARQ Group, Chambers & Partners, Norton Rose Fulbright, Minter Ellison and Design Labs, that believe it is in Australians long term economic interest to house all Australians rich or poor. *Housing All Australians* is currently undertaking an economic study into the long-term costs to Australia of not providing sufficient public, social and affordable housing. This is the first time such a study has been done and phase 1 is being undertaken by SGS Economics. This study is financially supported by organisations such as APD Projects, Assemble, AV Jennings, Bendigo & Adelaide Bank, City of Sydney, Council of Capital City Lord Mayors, Department of Housing and Human Services (Vic), Fraser Property Australia, ISPT, Melbourne University, Metricon, Minter Ellison, MONA, Monash University, Plenary, Salvation Army, Simonds Group, Stockland, TRACT, Victorian Planning Authority. The results of this study are expected in the 3rd quarter of 2021.

The Housing spectrum demonstrates that there is a range of housing needs to be considered. The diagram below shows that social and affordable housing do overlap, and that there are a range of providers including the private market that are responsible for the provision of this type of housing.

The housing supply continuum							
Emergency shelters/crisis accommodation	Transitional/Supported housing	Social housing (including public housing)	Affordable (community rental) housing	Affordable home ownership/shared ownership	Private market affordable rental housing (including boarding houses and student accommodation, which may be government subsidised)	Private market rental housing	Home Ownership/shared ownership
Government subsidised housing (including housing provided by the government and the community sector)			Non-market housing (community housing sector)		Market housing		

Source: City of Sydney, Housing Issues Paper, April 2015, p. 3

2. Infrastructure Victoria, Victoria’s Draft 30-Year Infrastructure Strategy, p.191

3. Anglicare Australia, Rental Affordability Snapshot, Update, August 2020, p.10

4. City Futures Research Centre, Estimating need and costs of social and affordable housing delivery, Dr Laurence Troy, Dr Ryan van den Nouwelant & Prof Bill Randolph, March 2019, p.3 (Table 1)

As the City of Melbourne states in its Affordable Housing Strategy 2020-2030:

“The term ‘affordable housing’ is often confused with ‘social housing’ and ‘community housing’, as these terms overlap..... In some instances, private market housing may qualify as affordable housing if it is affordable for very low to moderate income households. This is largely dependant on price, property type, location and size. However, for a number of reasons, the private market is increasingly unable to provide affordable housing in many neighbourhoods.”⁵

The Committee is of the view that there is a lack of clarity on the affordable housing definition in the *Planning and Environment Act* (which is based on qualifying income levels) as well as a lack of clarity about the housing needs and types of housing that need to be targeted. Data collection across multiple sources will therefore facilitate a better understanding of the true housing needs along the spectrum.

With appropriate data, this also allows a consideration of how the legislation might accommodate key workers⁶ and could also facilitate a prioritisation of affordable housing developments for key workers in areas in which they work. For example, the pro forma S173 affordable housing agreement available on the Department of Environment, Land, Water and Planning’s website, while specifying that it is not exhaustive, relies on the legislative definition of affordable housing and those eligible under the appropriate income brackets, without identifying specific types of workers. Policies that identify key workers and affordable housing provision for those workers, may allow for governments and developers to more appropriately allocate affordable housing developments.

3. Set appropriate long-term housing targets across a range of housing types, including affordable key worker housing, aligned to an integrated transport plan with an appropriate governance frameworks for implementation

The Committee supports the identification of a clear settlement strategy and roadmap – particularly in priority areas in established places, and the delivery of greater densification in areas where there is existing services and infrastructure available. As already noted, people being pushed away from where they work or in established suburbs can be detrimental for commutes and access to services and amenities.

Plan Melbourne Refresh outlines the need to increase density, particularly in inner and middle-ring suburbs, to ensure that the appropriate mix of housing in Greater Melbourne will be delivered to meet the requirements of future population growth. Most current housing plans, including Plan Melbourne Refresh, Local Government housing plans and state government plans, do not include targets (and/or specified geographical locations) for delivering social or affordable housing. Without meaningful targets, solutions will never be created to achieve those targets. It will be extremely difficult to solve homelessness and create the required initiatives that will deliver the appropriate addition to stock that our state needs.

However, at present there is not a clear settlement strategy or housing targets for Melbourne or Victoria. As Infrastructure Victoria notes in its Draft Infrastructure Victoria Strategy 2030 *“Plan Melbourne generally supports building new homes in good locations and delivering more housing closer to jobs and transport.....but does not specify how.”⁷*

Importantly, during the pandemic in 2020, the Committee released its report *Transporting Melbourne*, which called for an integrated transport plan that included land-use and economic development planning. What was clear from the report is that Plan Melbourne does not provide an adequate plan for settlement and a clear strategy for precinct development – that identifies business and residential land-use and how settlement and transport underpinning settlement will occur over time. The Committee endorses Recommendation 33 in Infrastructure Victoria’s Draft

5. City of Melbourne Affordable Housing Strategy 2020-2030, p.10

6. Key workers are not defined in legislation, however the City of Melbourne lists ‘emergency workers, nurses, teachers, police, hospitality workers and cleaners’ as examples in 2013 Housing Discussion Paper (p. 31).

7. Infrastructure Victoria, Victoria’s Draft 30-Year Infrastructure Strategy, p 114

30-yr strategy which requires the immediate development of Victoria's transport plan, which would include land use and transport plans aligning together.

The Victorian Government therefore needs to publish an integrated transport plan that includes land-use and economic development planning, and that will also align with Plan Melbourne and set appropriate housing targets. Along with this, because Melbourne has a complex governance framework with 31 councils and state government – a governance framework to ensure the delivery against those targets – will be required. As UDIA notes in its submission to Infrastructure Victoria's Draft Strategy 2030:

“.....the Greater Sydney Commission has developed a top down and bottom-up strategic planning methodology for preparing and achieving consensus on local council scale ten-year housing targets across a metro area.”⁸

Sydney is able to identify targets and plans through levels of targeting that move through the Greater Sydney Region Plan, District and Metro Plans and Local Strategic Planning Statements (LSPS)⁹.

Accordingly, it is important to set real targets and to also create a coordinated data monitoring and governance framework by which those targets can be implemented and delivered in Victoria. As Infrastructure Victoria states in its Draft 30-yr strategy:

“Social housing, like other infrastructure, needs long lead times for careful design, planning, regulatory approvals and procurement. Delivering social housing at scale requires a rolling construction program planned over several years.”¹⁰

4. Review the value of a levy to sustainably fund affordable housing with appropriate governance arrangements for the management and distribution of such a levy.

To deliver the volume of below market value housing required in Greater Melbourne into the future, a range of levers and stakeholders must be engaged. No single lever will deliver the volume required; therefore, the levers must operate simultaneously. Many of the possible policy levers available are highlighted in section C5 below. However, to ensure that social and affordable housing can be delivered at scale (and to facilitate the targets being achieved), a mechanism to raise funds, indefinitely, and earmarked for the purpose of supply could be considered. A levy, applied at a low rate to all businesses and households in Victoria could be one mechanism considered.

The Committee notes that the City of Melbourne has finalised its *Affordable Housing Strategy 2030* outlining possible policy solutions to the affordable housing crisis. One of the mechanisms proposed in the City of Melbourne strategy to achieve greater supply of affordable housing is the creation of a levy that collects funds for affordable housing year-on-year. The fire services levy is an example of this sort of funding, which is applied at a low rate to all businesses and households in Victoria.

However, the Committee considers that there are many important governance and transparency arrangements that would need to be considered, if this levy were to be established and applied at a low rate to all businesses and households in Victoria, then it would not be a pool of funds administered by the Government alone. Some of the mechanisms that must be implemented to administer those funds would include:

- **the use of the levy** - any consideration of levy funding should be considered very carefully and applied to increase housing supply, applied at a low rate to all businesses and households in Victoria.
- **governance frameworks and accountability mechanisms** – an independent body/group of trustees would need to be established that would include industry involvement in decision-making and management of the use

8. UDIA, Submission to Infrastructure Victoria, Victoria's Draft 30-Year Infrastructure Strategy, p. 10

9. UDIA, Submission to Infrastructure Victoria, Victoria's Draft 30-Year Infrastructure Strategy, p. 10

10. Infrastructure Victoria, Victoria's Draft 30-Year Infrastructure Strategy, p 191

of levy funds. An entity that is independent of Government would need to be established that would provide sufficient governance arrangements about how levy funds would be collected and managed. The private sector would also be involved in delivery of the affordable housing product.

- **transparency** – the independent agency would need to be subject to clear public reporting mechanisms.

This issue is of such importance that a stakeholder group, including industry participants, may need to be convened to specifically consider this issue and whether it would be possible to raise a levy and ensure appropriate delivery mechanisms, with community engagement and consultation. This group would need to consider the fairness and equity issues around different property values and income levels.

5. Set policies and initiatives, which clearly show how they will help meet housing targets.

Establishing regular reporting of a 'housing target impact statement' could provide a useful means of coordinating and targeting policy levers toward intended outcomes. Policy levers which can be employed that are discussed below include: Finance and Taxation; Planning; Transport; Unlocking excess government land; Build-to-rent (BTR) and Private Rental Sector. These levers need to be considered as they need to work together to deliver the volume of affordable housing needed.

5.1 Finance and taxation

To deliver affordable housing, mechanisms to finance the gap between full market value of a property versus the inherent below-market value of affordable housing can be offered to incentivise more investment from the private sector and enhance community housing providers (CHPs) capabilities in affordable housing.

Government intervention may facilitate the delivery of affordable housing by developers within their projects, whilst maintaining the commercial viability of a project for the developer and assist CHPs to finance more affordable housing. There are many approaches which can be used by Government to achieve this outcome, such as:

- Reducing overall cost of delivery (eg fast-tracked planning, density bonuses and offering government land at reduced cost)
- Providing allowances towards projects to permit developers to include affordable housing
- Creating/supporting financing options for parties who invest in affordable housing
- Undertaking tax reform to reduce cost of delivering affordable housing

Government could review existing initiatives to supplement new affordable housing stock and encourage further institutional investment into affordable housing. For example, the National Housing Finance and Investment Corporation (NHFIC) was established in 2017 by the Federal Government and one of its initiatives uses capital markets to attract investment into an 'affordable housing bond aggregator' (ABHA). The pool of funds from ABHA provides low interest loans to registered community housing providers (CHPs). Currently these loans are primarily used to refinance existing debt, not necessarily increase affordable housing stock. The Committee considers that NHFIC could look at ways to encourage new affordable housing stock with ABHA loans and expand NHFIC loans beyond CHPs into other NFP charities that want to deliver affordable housing. This could also be extended to selected private sector developments that achieve a specific target of affordable homes.

Institutional investors, such as banks or super funds, may need to be incentivised to lend to or invest in affordable housing projects. The risk profile for affordable housing projects is higher than full-market value projects which

makes it more difficult for developers and CHPs to obtain finance for such projects. Governments could act as guarantors on loans made by institutional investors for affordable housing projects to encourage more capital flow from institutional investors to become available for affordable housing projects.

Tax reform could also be considered to promote increased investment in affordable housing.

Case Study: Low Income Housing Tax Credit in US

Low Income Housing Tax Credit (LIHTC) provides owners or developers with transferable tax credits if they provide specified levels of affordable housing within a project. The system has resulted in approximately 110,000 affordable dwellings being constructed and rehabilitated across the US each year since its permanent establishment in the early 1990's¹¹. A similar taxation model could be explored in Australia to increase the stock of affordable housing.

The influence of certain existing tax regimes, such as stamp duty, negative gearing, GST and MIT, on affordable housing is currently not well understood. Thus, it is recommended the government reviews the effect of existing tax structures on affordable housing.

Importantly, any modification to financing arrangements or tax structures to promote affordable housing should be predictable in the future to create certainty for investors and ensure continued stability in the market beyond affordable housing. Predictability may be achieved through creating bipartisan support for a long-term affordable housing strategy. Reforms should also be measurable to ensure the changes are delivering additional affordable housing stock. The Housing Affordability Measures (HAM) in New Zealand offers a possible template Australia could employ to quantify affordable housing gained through finance and tax reforms.

11. <https://www.taxpolicycenter.org/briefing-book/what-low-income-housing-tax-credit-and-how-does-it-work>

Lever	Key Recommendations and opportunities	Local	State	Federal	Private	CHPs
Finance and Taxation	Efficient regulatory frameworks					
	Local, State and Federal Governments should aim to create a stable policy environment where subsidies, funding arrangements and regulatory requirements are predictable for the medium to long term - creating more private sector investment confidence.	✓	✓	✓		
	Local and State Governments may attract further private investment in affordable housing by using planning measures, such as fast-tracking and density bonuses, and offering government land at lower costs, and risk, of investment.	✓	✓			
	Improved financing options					
	Federal Government should continue to build on the National Housing Finance and Investment Corporation (NHFIC) and put in place targets to ensure the bond-aggregator delivers new stock rather than just being used to refinance debt.			✓		
	Federal and State governments could provide credit enhancement instruments (e.g. partial or full guarantees and/or Yield Gap subsidies) to registered Community Housing Providers (CHPs). This will allow investors, be it private or institutional (retail or industrial superannuation funds), to manage underlying risk/return which should create a new capital stream for delivery of affordable housing.		✓	✓		✓
	Taxation systems					
	Federal Government should consider tax structures that stimulate capital flow in affordable housing such as the Low Income Housing Taxing Credit (LIHTC) model used in the United States which has created a considerable number of affordable housing options.			✓		
	The State and Federal Government should look at tax system reform which aims to deliver more affordable housing with clear and measurable outcomes (such as the Housing Affordability (HAM) in New Zealand).		✓	✓		
	The Federal Government should have an evidence-based discussion around negative gearing and taxes such as GST and MIT their capacity for delivering more affordable housing.			✓		
	State and territory taxes' influence on affordable housing should be reviewed, particularly stamp-duty.		✓			

5.2 Planning

Responsible authorities, for example local and state government, have significant influence on the housing market through the planning regime (including zoning and approval for development of land) and through their own development and ownership of land, can encourage the delivery of affordable homes. This is discussed further in the *unlocking excess government land* section.

As outlined previously, Governments can influence which classes of housing stock are delivered by offering fast-tracked planning, density bonuses or government land at reduced cost which could be targeted at the delivery of affordable housing. Governments might also amend planning schemes to mandate affordable housing in developments through methods such as inclusionary zoning. Section 173 (S173) agreements are currently used by Local Governments to place conditions on developments such as the inclusion of affordable housing. The Constellation Project estimates that introducing a policy of mandatory inclusionary zoning has the possibility of increasing additional affordable housing stock by 17,000-86,000 between 2020-2036.¹² The total number would be dependent on the percentage of affordable housing set for each development.¹³

These planning amendments might be further targeted, for example, towards specific precincts or geographical locations. In addition, State and Local Government should investigate how developments, particularly in 'infill' areas, can deliver sensible density and affordable housing (eg as-of-right codified planning approvals for secondary dwellings or subdivisions and/or encouraging higher density developments). Planning scheme amendments should be explored in an open dialogue between governments, the private sector and member organisations, such as the Committee, to find an outcome which strikes a balance between community needs and the private sector's commercial imperatives.

S173 agreements are quite complex and difficult to negotiate for both local governments and developers. This may cause local governments to avoid S173 and adds delay costs for developers who could, if certainty existed, factor affordable housing into a development. Approaches to simplify S173 negotiations, or adoption of alternative planning instruments which generate clarity and certainty, should be considered collectively by local governments to boost affordable housing.

The Committee however, cautions against a focus on 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. The outcomes that the policy aims to achieve would need to be clear. This will ensure that amendments to planning rules can achieve those outcomes without unintended consequences. For example, if mandatory inclusionary zoning was applied across the state (e.g. dedicating a percentage of dwellings as social or 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 to the consumer, thereby increasing the cost.

Some alternative policies may offer viable opportunities when used in conjunction with a range of policy levers, particularly those that provide incentives to developers like planning and tax reform, and beneficial funding arrangements.

The National Housing and Homelessness Agreement (NHHA), an agreement between the State and Federal Governments to increase social housing and reduce homelessness, includes some measures around social housing although does not include affordable housing. The projections in the agreement suggest the current targets

12. The Constellation Project, Mandatory Inclusionary Zoning: Setting Targets for Affordable Homes, 15 May 2020, https://theconstellationproject.com.au/wp-content/uploads/2020/05/2020-05-15-MIZ_Brochure_20200318_v5.pdf (accessed 25 September 2020).

13. The SA Housing Authority operates on a 15% affordable housing policy by working to facilitate partnerships with the private sector and not-for-profit entities. This means all new significant developments within a designated affordable housing zone in a council redevelopment plan or the Planning and Design Code must provide 15% affordable housing.



for addition of social housing stock are significantly below future need¹⁴, which leaves concern for not only social housing but also affordable housing. In addition, the lack of granularity in the data creates uncertainty regarding whether social and affordable housing measures will target the areas of most need. Consequently, federal, state and local governments should work collaboratively towards creating strategies with affordable housing targets that are geographically specific, clear and measurable, and that hold parties to account for delivery. A carrot or a stick approach might be considered in terms of holding parties to account for meeting targets (eg financial bonuses to councils who meet specified housing targets).

14. https://www.parliament.vic.gov.au/images/stories/committees/SCLSI/Public_Housing_Renewal_Program/QON/VPTA-QON-Victorias_social_housing_supply_reqs_to_2036.pdf
<https://s3-ap-southeast-2.amazonaws.com/budgetfiles201920.budget.vic.gov.au/2019-20+State+Budget+-+Service+Delivery.pdf>



Level	Key Recommendations and opportunities	Local	State	Federal	Private	CHPs
Evidence-based policymaking and improved bureaucracy						
	State and Local Government should leverage international experience to immediately investigate a range of incentives, including density bonuses, and other financial levers, and other methods, such as inclusionary zoning, to encourage greater affordable housing development.	✓	✓			
	State Government, in conjunction with Local Government, should commence investigating new mechanisms to fast track planning applications which include an affordable housing component in order to deliver housing more quickly and to reduce holding and other time related costs for developers.	✓	✓			
Inner and middle ring densification						
	Local and State Governments should consider increasing sensible density aims in Greater Melbourne's inner areas and middle-ring to promote affordable housing	✓	✓			
	Federal, state and local governments to develop social and affordable housing targets (including clear locations) within 6 months, specifically focused on inner and middle ring areas and highly accessible locations to give industry and Local Government guidance on priority affordable housing needs. These targets could have incentives attached to encourage progress.	✓	✓	✓		
Increased consultation between Governments and stakeholders						
	State Government should commence consultation with the property sector to create an even playing field for developers by establishing an early understanding of their affordable housing obligations, so development and other costs are fairly reflected in land prices over time.		✓		✓	
	State Government should commence work with Committee for Melbourne, Community Housing Industry Association and other member-based organisations to develop a capability statement for the not-for-profit housing sector and a model partnership agreement for developers and Local Government to facilitate stronger relationships, and potential partnerships and alliances that will create more affordable housing.		✓		✓	✓
	Local Governments should come together to collectively come up with planning solutions to deliver affordable housing across the entire Greater Metropolitan area	✓				



5.3 Transport

Aside from the cost of housing, one of the greatest living costs borne by households tends to be transport, especially where private vehicles are included in the household living expenses. Strategically placing affordable housing on transport corridors, to reduce reliance on personal transport, may release more income for households to contribute to their housing needs. As previously highlighted, the Committee’s report, *Transporting Melbourne* calls for the publication of an integrated transport plan – which is further supported by Infrastructure Victoria’s recommendations. A social and affordable housing strategy should be aligned to such a plan.

In addition, value capture should be considered as a mechanism to deliver affordable housing. Value capture is the process of government recovering a portion of land value uplift caused by a government action. For example, the government may rezone an area, improve public transport or add infrastructure which causes the land value to increase. Developers or investors that benefit from those actions would be required to contribute a portion of the land value uplift. The actual vehicle to recover the uplift varies, from a direct collection, such as a ‘betterment’ tax or mandating affordable housing as part of development within a value uplift area, or indirect collection, such as future projected gains from stamp duty, capital gains tax and land taxes. Accordingly, there is an opportunity for government to implement a value uplift capture policy, which could assist funding affordable housing in areas of value uplift.

Lever	Key Recommendations and opportunities	Local	State	Federal	Private	CHPs
Transport	Awareness of the issue					
	Stakeholders, such as government, facilitating and delivering affordable housing must consider the important relationship between affordable housing and accessible transport. This should be enshrined in policy documents.	✓	✓			
	Improved policymaking					
	State and Local Governments should implement sensible density policies, particularly around key transit areas, for planning and delivering affordable housing	✓	✓			
	The State and Federal Government should implement an official value capture mechanism policy, with clear measures, to facilitate affordable housing.	✓	✓	✓		

5.4 Unlocking excess government land

The Victorian State Government is the largest landowner in Victoria, including land allocated for natural parks and public spaces. A significant cost in any development is the initial and ongoing cost of land. Therefore, there is an opportunity for the Government to use its excess land to overcome the barrier of land costs to deliver affordable housing.

Currently government-owned land in Victoria is held by a plethora of government agencies and departments. Disposal of surplus land is governed by the *Victorian Government Land Use Policy*, which mandates the consideration of the ‘public value’ (i.e. whether holding the land would be more valuable to the public than if sold). The definition of ‘public value’ covers four areas, intergenerational, social, economic and environmental

considerations. Notably, affordable and social housing is not specifically identified in the definition of 'public value' and therefore may not necessarily be considered. Specifically highlighting 'social and public housing' in the social component of 'public value' within the land use policy may facilitate the further retention of public land for this purpose.

Once government land is allocated to be sold it must pass through a process called 'first right of refusal'. This is where a government department or agency must offer other government department or agencies, the Commonwealth and local governments the first opportunity to acquire the land before a public offering. Land offered through this process must be sold at full market value. Therefore, it is unlikely agencies managing social or affordable housing could acquire all appropriate sites for social and affordable housing, particularly in the inner and middle suburbs where housing costs are a significant issue. However, if social and affordable housing was assigned 'public value' and the acquisition of land could be below market value, then it is possible more sites for affordable housing could be acquired, potentially by a new government body setup for this purpose. It is acknowledged this would have an influence on disposing agencies' balance sheet which would have to be addressed by Treasury.

An additional mechanism to promote affordable housing could be government agencies retaining ownership of land and applying a long-term peppercorn rent, or nominal rent, to lease the land for affordable housing development to a CHP or other investor. This has two benefits for reducing overall cost of development; firstly, the initial land purchase costs would be avoided, secondly, stamp duty and other transfer fees might be avoided. Through minimising these costs, a CHP or developer may be able to include affordable housing in the project. Furthermore, because the government agency retains ownership of land, future uses of the land would not be precluded.

In support of accessible and affordable housing pathways for very low, low and moderate income households, such a strategy could be informed by innovative examples of hybrid rent-to-buy schemes such as those operating within parts of the ACT and WA, in which land is held by governments on which dwellings are mortgaged, with occupants able to begin to purchase the land component of the package if and when this becomes financially possible to them. Investigation of such innovations will assist the Victorian Government to avoid spatially concentrated affordable housing clusters while at the same time enabling occupants to remain in place when their economic circumstances change over time.

Lever	Key Recommendations and opportunities	Local	State	Federal	Private	CHPs	
Unlocking excess Government land	Victorian Land Use Policy						
	The State Government should alter the Victorian Government Land Use Policy to include social and affordable housing as an item of public value which would lead to government departments considering affordable housing as a priority under first right of refusal.		✓				
	The State Government should distinguish between <i>social housing and affordable housing</i> in the Victorian Government Land Use Policy to ensure a separate value is given to both in the first right of refusal process. This would enhance the ability to deliver affordable housing, which may have greater ability to achieve commercial returns with less subsidy, as a separate class to social housing.		✓				
	The State Government should include provision for non-monetary evaluation of affordable housing in the Victorian Government Land Use Policy which could lead to disposal of land to a CHP or private sector participant delivering this benefit on the land.		✓			✓	✓
	Broad policy reform on the provision of Government land						
	The State and Federal Government should implement an official value capture mechanism policy, with clear measures, to facilitate affordable housing.		✓	✓			
	The State Government should consider alternatives to the relinquishment of property through sales as a viable recourse for land disposal for government departments. For example, long term leases, for a period of 40 years at a 'peppercorn' rent will allow developers to incorporate affordable housing due to reductions in key taxes, such as stamp duty and land tax, which would thereby make affordable housing provision more economically viable.		✓			✓	✓
	Should government departments offer land at below market value, the State Government should allow for Treasury reconciliation on monetary gaps between market value and publicly valued allocated land to ensure departments make up the revenue shortfall.		✓				

	<p>The State Government could set up a body to accept affordable housing opportunities through first right of refusal. Monetary recompense would most likely be required. This body would be able to act in the best interests of the state and the community administering the provision of affordable housing through first right of refusal – even if the intention was to allocate stock to a CHP or private entity.</p>		✓			
Setting appropriate targets						
	<p>Local and State Governments should consider increasing sensible density aims in Greater Melbourne's inner areas and middle-ring to promote affordable housing</p>	✓	✓			
	<p>The State Government should set targets for the use of public land for affordable housing which would encourage government agencies to ensure excess land is used for affordable housing.</p>		✓			
	<p>Federal, State and Local Governments to develop social and affordable housing targets (including clear locations) within 12 months, specifically focused on inner and middle ring areas and highly accessible locations to give the private sector and Local Government guidance on priority affordable housing needs. These targets could have incentives attached to encourage progress.</p>	✓	✓	✓		

5.5 Build-to-Rent

The Build-to-rent (BTR) model, where ownership of the build is held by an institutional investor and rented for profit, is well established in markets such as the United Kingdom and United States. BTR can increase rental stock, stability and quality. However, in Australia it is still an emerging market and is a less attractive asset class than build-to-sell because of certain tax treatments.

At a federal level MIT and GST continue to be a barrier. The Federal Government should consider a review of those taxes and their application to BTR development models. Investors, with experience of BTR overseas, are likely to be the potential drivers of the BTR market in Australia. International investors commonly use Managed Investment Trusts (MIT), which are highly taxed for residential developments in Australia. This acts as a disincentive to invest in residential development in Australia compared to other asset classes, and therefore investors with BTR experience are amongst those discouraged. It is recommended that the Federal Government actively considers reform to offer MIT exceptions, or discounts, on the MIT residential tax regiment in BTR projects in Australia.

The application of GST on BTR models differs to build-to-sell models. Under a build-to-sell model, a developer can claim GST credits on the project, but BTR projects are unable to claim such credits. This makes build-to-sell more financially viable, thus attractive, compared to BTR.

The Committee commends the Victorian Government's announcement of tax exemptions in the Victorian Budget 2020-21 to support BTR as an asset class. Specifically, from 1 January 2022, Victoria's Big Housing Build will provide a 50 per cent land tax discount for *eligible new BTR developments* until 2040. These developments will also be exempt from the AOS over the same period.

The Committee is very supportive of the BTR product to achieve scale of product in the private rental market. Australia currently houses one-third of its population in the rental market - and this statistic is much higher in our capital cities and among younger Australians (for example, around 50% of homes are rented in Melbourne¹⁵). Of this rental market, 40 per cent of overall renters are considered 'long-term', holding this status for at least 10 years¹⁶. Most rental homes in Australia are owned by individual investors which means that tenure is usually short term. As such, the tenant often is unable to influence the aesthetics of the property or feel security of tenure as the landlord has the power to evict the tenant on 60 days' notice. Half of all renters move three times and 10 percent of all renters have moved more than ten times¹⁷.

The Committee recognises the imperative of providing affordable housing in Victoria. This is especially the case as increasing house prices and COVID are pushing greater demand towards affordable housing product. However, the Committee considers that the primary aim of stimulus for BTR product should be to support this asset class so that it can be achieved at scale in Victoria, thus increasing the supply of rental product on the housing continuum which also benefits the supply of stock more generally. BTR is not necessarily an answer to affordable housing and should be fostered as a new addition to the housing mix and to further increase rental stock. Therefore, the inclusion of a range of rental housing types/mixed-tenure – like affordable housing – should be encouraged to the extent possible but **perhaps if** significant Government incentives are provided (such as fast-tracking planning approvals) to make-up shortfalls for the provision of affordable housing (for example the QLD model where a top up was provided for the shortfall in rent for the affordable housing component).

15. <https://www.realestateinvestar.com.au/property/melbourne#:~:text=Melbourne%20is%20a%20suburb%20in,occupants%20live%20in%20rental%20accommodation.>

16. <https://www.pwc.com.au/tax-alerts/build-to-rent-conversation-in-australia.html>

17. <https://www.pwc.com.au/tax-alerts/build-to-rent-conversation-in-australia.html>

Case Study: Brisbane, Queensland

The Build-To-Rent Pilot Project is an initiative by the Queensland Government to deliver more affordable housing in inner Brisbane. The Government will partner with a private developer and intends to construct up to three significant developments to potentially supply up to 750 dwellings. 20-40% of these dwellings will be required to be affordable housing, with rent to be offered to eligible people at 20% below market value. For a lease of between 15-20 years, the Queensland Treasury will top up the remaining market rent value using public funds.

Lever	Key Recommendations and opportunities	Local	State	Federal	Private	CHPs
Build-to-rent (BTR)	Awareness of the issue					
	All levels of government should note that build-to-rent is not necessarily an answer to affordable housing and should be fostered as a new addition to the housing mix and to further increase rental stock.	✓	✓	✓		
	Finance and taxation reform to assist BTR developments					
	State levers could include relaxation of building regulations and fast-tracking planning applications and design bonuses such as increased density and height.		✓			
	At a federal level, levers include GST and MIT changes to fall in line with other commercial investments and access to concessional funding where affordable housing key worker housing is included in a project.			✓		
	The State and Federal Governments should support build-to-rent through incentives to corporate landlords as an opportunity to increase long-term stability for renters and encourage market rental stability (also applies to Increased market incentives listed below).		✓	✓	✓	

The BTR sector could usefully be included within an investigation of rent-to-buy schemes, whereby portions of stock might be purchased by occupants over time, enabling establishment of progressive housing pathways as well as a means of achieving ongoing investment in new supply. This aspect of RTB is an under-explored yet potentially important component of the BTR sector which could enhance transformative innovation within the Victorian housing system. Such approaches warrant additional investigation to assess how such innovation might provide a showcase model in the Victorian context.

5.6 Private Rental Sector

As housing prices continue to rise, home ownership will become less and less realistic for individuals on low to moderate incomes, particularly in inner and middle suburbs. Therefore, the ongoing ability for individuals on these incomes to rent affordable housing in the private rental sector (PRS) will become more important. With new rental laws requiring minimum standards for properties in Victoria now coming into effect (March 29th), some existing landlords are rushing to sell, putting further upward pressure on an already constrained rental supply. There are various mechanisms that government can employ, to encourage increased supply of rental properties at affordable rates for households.

The reinstatement of a national advisory body, such as the former National Housing Supply Council, may assist in advising the Federal Government on affordable housing, particularly in the PRS, and allow greater coordination on this national-level issue. Although the issue of affordable housing is nation-wide, the response will vary on a local level. As such, establishment of clearly actionable and measurable affordable housing plans, supported by the federal, state and local governments, will be vital.

Government can further lead the way on methods to reduce the cost of procurement and construction, reducing the overall cost of housing, which may allow more provision of affordable housing. The 'HubCo' model, operated by the Scottish Futures Trust, divides the country into regions ('hubs') that each have a jointly owned public-private company (Hubco) for project delivery. This model reduces the need for complex tendering and procurement processes thus driving down the cost of project delivery. It also allows the targeting of projects on a local level. A similar model could be applied to building social and affordable housing in Greater Melbourne to deliver further stock more cost effectively. Furthermore, there are various examples of innovative building practices, including modular housing, which can deliver large savings at scale. Modular buildings tend to get the biggest savings at scale. Thus, government support of this construction method may allow the delivery of large-scale affordable housing projects.

The government may also consider making direct investment contributions towards affordable housing. The National Rental Affordability Scheme (NRAS) was a partnership between the federal, state and territory governments to invest in affordable rental housing for low- and moderate-income earners. The properties are owned and managed privately by non-government organisations, like private investors, who are given subsidies to provide below market rentals. As of December 2018, NRAS has been grandfathered. Without commenting on the specific effectiveness of NRAS, the sunseting will cause the loss of over 36,000 affordable rental properties leaving a significant hole in the affordable rental market. The Committee recommends that governments consider a similar model that could replace NRAS. Another program administered by the Victorian State Government, Private Rental Access Program (PrAP), provides immediate assistance to individuals who are at imminent risk of homelessness. Whilst this is beneficial to address those facing temporary hardship for those who would otherwise face eviction from the private rental sector it does not address long term affordable housing issues.

The Commonwealth Government might also consider reform of the Commonwealth Rent Assistance (CRA) program. CRA is a direct government payment to individuals looking for affordable rental housing and its increase is linked to CPI rather than market rents. Market rents have outpaced CPI for many years, leaving a large gap between increases in market rents compared to CPI increases.

Governments should also consider ways in which it can (or continue to) support and protect affordable housing models developed and invested in by the private sector, such as Homes for Homes or the Permanent Rental Affordability Development Solution (PRADS).

Developed by a private sector not for profit called *Housing All Australians*, the essence of the PRADS model is that during the planning application phase, the developer and the local council negotiate the number of affordable dwellings and the percentage

below market rent that the development can commercially support. This obligation is then secured, in Victoria, by way of a section 173 agreement. Once built, the affordable homes are rented through an approved private sector property manager (or NFP housing provider) that has agreed to comply with a governance process similar to how NRAS is managed currently. As an additional level of governance, Housing All Australians is promoting the model includes the creation of an Affordable Rental Housing Register audited annually by the State, or another approved body, to ensure compliance.

The applicability of the PRADS a model was considered worthy of further exploration by the Victorian Parliamentary Committee who recently tabled its Report into its Inquiry into homelessness. In Recommendation 51, the Committee recommended to the Victorian Government to further investigate the use of the PRADS model.

RECOMMENDATION 51: *That the Victorian Government further investigate the use of the Permanent Rental Affordability Development Solution to ascertain whether it is a practical and appropriate mechanism for increasing provision of affordable housing in Victoria.*¹⁸

If scaled up for delivery through voluntary planning agreements, the model has the potential to create a significant supply of long-term affordable private rental without the need for any ongoing government subsidy. The principles of the model can apply nationally, albeit the method of securing the obligation on title will differ in each State.

Lever	Key Recommendations and opportunities	Local	State	Federal	Private	CHPs
Private Rental Sector	Effective national leadership					
	The Federal Government could consider reinstating a national independent advisory body to give a coherent and long-term strategy such as the revival of the National Housing Supply Council, or an equivalent, to address these issues on a national wide level.			✓		
	The State and Federal Governments could consider the provision of dedicated resources to support the creation of local government strategic delivery plans, facilitating the provision of a cohesive national approach to determining targeted local social infrastructure need.		✓	✓		
	The Federal Government should immediately respond to the loss of housing stock caused by the sunseting of the NRAS by creating an alternative to the NRAS program for those seeking affordable housing.			✓		
	Reducing costs of delivery					
The State and Federal Governments should look to establish innovative procurement and delivery models that can reduce the overall project delivery cost through procurement bid cost savings (such as the Scottish Hubco model).		✓	✓			✓

18. Parliament of Victoria, Legislative Council Legal and Social Issues Committee, Inquiry into homelessness in Victoria Final report, March 2021, p. 321

	The State and Federal Governments should support the use of new technology, such as modular and prefabricated housing which, at scale, may reduce overall building delivery costs and rents.		✓	✓		✓
Increased market incentives						
	The Federal Government should increase Commonwealth Rent Assistance, and align it to market rental rather than CPI, to assist those in the affordable housing market to achieve better access to affordable housing.			✓		
	The State and Federal Governments should offer incentives to landlords who offer below market rent to vulnerable groups, through the provision of NRAS style payments or access to green energy subsidies.	✓	✓	✓		
	The State and Federal Governments should look towards providing further direct assistance to vulnerable persons in order to prevent the risk of homelessness. This could include an extension of the Private Rental Access (PRA) model.		✓	✓		
Private sector innovation and support						
	The State and Federal Governments should promote and nurture private sector models, such as PRADS and Homes for Homes, where appropriate.		✓	✓	✓	✓

About Committee for Melbourne

The Committee is an apolitical, not-for-profit, member-based entity that brings together over 150 organisations from greater Melbourne's business, academic and civic sectors, who share a common vision to make Melbourne a better place to live, work and do business.

As an independent organisation we represent no single interest group or political position, but seek to challenge conventional thinking and to develop innovative ideas to continue to enhance our position as an economically prosperous and highly liveable global city.

We would like to thank Committee members for their helpful comments and contributions.

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