

AFFORDABLE HOUSING POSITION PAPER

Property Council of Australia (Victorian Division)

The case for affordable housing

Housing plays a significant role in Victoria's social and economic prosperity. Lack of affordable housing can lead to homelessness, poor health and lower rates of employment and education.

Affordable housing is the responsibility of both government and industry. It requires cooperation and must remain viable for all parties.

Our position

The Property Council does not support inclusionary zoning on privately held property.

To impose inclusionary zoning on private land fundamentally alters the premise upon which the land was purchased and amounts to a tax on that landowner. Changes in government policy to this effect create sovereign risk and discourages both individual and institutional investment in Victoria.

Notwithstanding the Property Council's position, this paper sets out several particular issues that need to be addressed when considering inclusionary zoning.

Affordable housing on government-owned land

There are certain circumstances in which mandatory affordable housing (also known as inclusionary zoning) might be appropriate, although never to privately held assets. A landowner who purchases a property should not be subject to changes in regulation which subsequently prevent or constrain its ability to develop or deal with that property. To do so fundamentally alters the premise upon which the land was purchased and amounts to a tax on that landowner. Changes in government policy to this effect create sovereign risk and discourages both individual and institutional investment in Victoria.

The mandatory application of affordable housing may be appropriate in the following circumstances only:

- as it applies to Government land releases;
- provided that the affordable housing requirements are clearly identified in any master planning or bid documents issued by Government; and

- provided that those requirements are not varied after the completion of any procurement process.

This approach will assist to provide certainty for potential private sector participants and allows them to factor these requirements into feasibility modelling prior to any bid.

Development economics must be realistic

Like all business, property development requires a commercial return, sufficient to cover project risks. The extent of any required return (or margin) relies in part on equity investors and in part on external financiers and includes consideration of a project's risk profile.

Where anticipated margins are insufficient to meet the expectations of debt or equity holders, a project cannot proceed. From the perspective of affordable housing, it means additional housing stock will not be built. Clearly, affordable housing requirements that do not respect the commercial viability of a project, or that are unrealistic, will lead to outcomes contradictory to their purpose.

Implementation mechanisms

Clear and implementable mechanisms for the delivery of affordable housing are critical to its success. These will provide certainty for Government, the community and the property industry.

For the community, clear implementation mechanisms are important to ensure that affordable housing is reserved for low-moderate income earners, and dwellings not able to be immediately on-sold at market rates, ensuring that policy objectives are being met.

Similarly, clear implementation mechanisms provide certainty and confidence to the property industry. This removes a level of project risk and, ultimately, may increase the number of landowners willing to develop properties to increase affordable housing stock.

Key implementation measures must include (at a minimum):

- A central body responsible for the assessment of eligibility requirements, being HomesVic or the Office of Housing. Central oversight is critical. Developers should not be required to deal with differences in policy or interpretation across municipal boundaries. The provision of affordable housing should be provided with equal opportunity to succeed across Victoria, regardless of location;
- Appropriate incentives should be available to assist project feasibility and encourage uptake from the property industry. These incentives could include:
 - tax incentives, including land tax relief for dwellings offered for affordable housing;

- a fast-tracked system for planning approvals in respect of projects that include a component of affordable housing, removing an element of risk for developers and minimising costs and delays associated with the planning process; and
- floor space ratio and other design incentives, that reward developers prepared to offer a component of affordable housing with additional height, or that provide developers with flexibility in respect of Better Apartment Design Standards; and
- clear parameters to define the number of affordable dwellings to be provided and at what percentage of market rent those dwellings must be offered, removing ambiguity in the negotiation of affordable housing agreements.

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