



Property Council of Australia
Victoria Division

Submission on the City of Melbourne's draft Housing Strategy, *Homes for People*

August 2014

INTRODUCTION

The Property Council of Australia is the largest and most influential advocacy organisation in the property sector. This industry is a critical part of the Victorian economy responsible for delivering the built environment in which we live and work.

The Property Council welcomes the City of Melbourne taking the proactive step of developing a long-term and aspirational Housing Strategy for its municipality, and consulting with both industry and the public on its contents.

While we can appreciate the intent behind the Strategy, we have grave concerns about certain elements of the strategy. In particular, we are concerned by the direct effect it will have on the development sector. This will have flow on effects for the State's economy, and ultimately also for housing affordability.

The emphasis on mechanisms such as inclusionary zoning and greater restrictions on apartment design are both likely to lead to significant increases in the cost of developing apartments in Melbourne – in effect undermining the entire purpose of the *Homes for People* strategy. Additionally, this will detrimentally affect Victoria's competitive position and attractiveness as an investment destination relative to other jurisdictions.

The following submission has been developed with input from the Property Council's member base in Victoria, and seeks to highlight what we consider the key issues and unintended consequences of the *Homes for People* strategy as currently drafted. We have also attempted to provide the City of Melbourne with possible alternative policy approaches or ideas for consideration as part of the next steps in the development of its housing strategy.

The submission is divided into three parts – the first provides general commentary on the housing market in Melbourne, particularly the apartment market. The second section provides a direct response to each of the Goals and Actions outlined in *Homes for People*. The third and final section contains a list of recommendations for further action and policy changes based on the earlier discussion.

The Property Council is committed to achieving a better planning and development framework that manages growth in Melbourne and ensures that housing affordability, choice and diversity are not constrained by short term policy reactions. We look forward to working collaboratively with the City of Melbourne to maintain our city's place as one of the world's most liveable.



Jennifer Cunich
Executive Director, Victoria Division
Property Council of Australia

1. INTRODUCTION

At the highest level, the Property Council supports the aspiration to provide more and better affordable housing in Metropolitan Melbourne, including in the CBD.

However, any policy changes aimed at achieving this goal must be developed in partnership with industry, and with full understanding of the unique nature of the CBD housing market and the broader context of the metropolitan Melbourne market. We also urge the City of Melbourne to move beyond the idea of dwelling ownership as a universal goal and the only means of fostering a more stable community.

Responses to each of the Goals and Actions in *Homes for People* are outlined in Section 2 of this submission, and our full list of recommendations can be found in Section 3. Below are those issues we consider are key to the further development of this housing strategy. The Property Council believes it is imperative that this process continues to include effective consultation with all stakeholders.

Key Recommendations

1. Undertake full and rigorous consultation with industry in the development of any design guidelines.
2. Engage with stakeholders and international best practice in the creation of a model for development bonuses.
3. Engage with all stakeholders, particularly the development industry, to develop an equitable and sustainable inclusionary zoning framework that includes:
 - a. Feasibility tests for provision of affordable housing on a site-by-site basis;
 - b. Concurrent up-zoning of relevant land areas;
 - c. Recognition of and compensation for the differential costs of larger apartments;
 - d. Detailed transition arrangements with a minimum ten year forward implementation schedule;
 - e. 'Buy out' provisions that allow developers to provide financial contributions in lieu of providing affordable housing units. This must be supported by mechanisms to ensure these contributions are appropriately expended on the provision of affordable housing in other areas;
 - f. Incentives for developers who provide affordable housing; and,
 - g. Provisions that allow developers to offset affordable housing obligations to other, more appropriate sites.
4. Create an Implementation Advisory Committee comprised of representatives from key stakeholder groups, including the development industry.

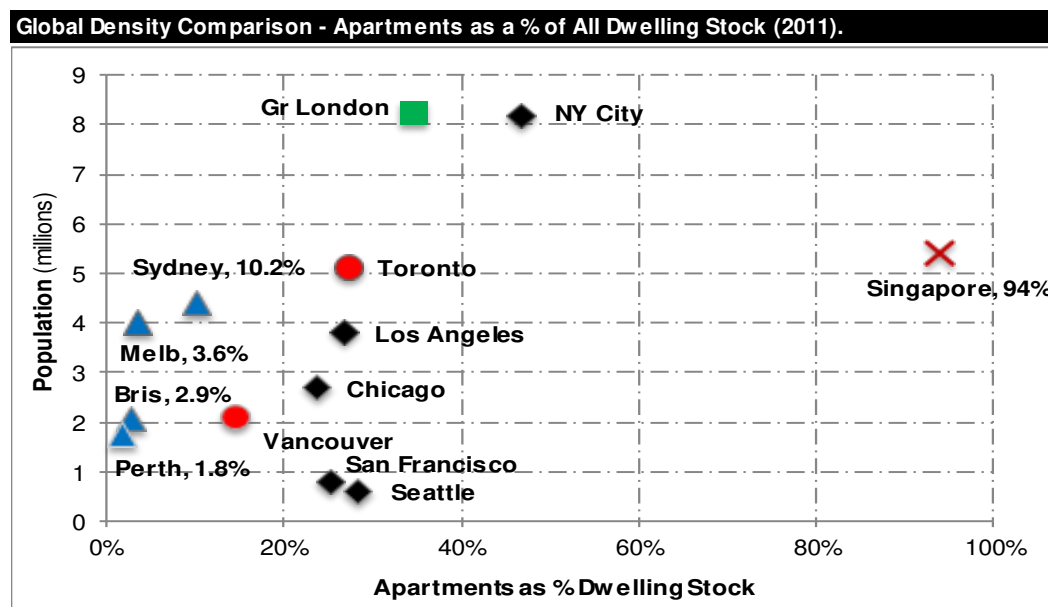
1.1 Melbourne's Future Growth

Melbourne's housing demands are constantly evolving. Demographic profile changes have resulted in an increased demand for non-traditional housing as the population continues to grow across the city. While Melbourne's growth areas will accommodate a large portion of the increase in population, the established suburbs must also absorb their fair share of demand for new housing. In cities as large as Melbourne, it is vital that the balance between growth and established areas be determined by the State Government. This is important because matters such as the difference in housing needs of the increasing aging population compared to younger or migrant populations cannot be addressed effectively at the municipality level.

The latest figures from the Australian Bureau of Statistics (ABS) indicate that even based on medium assumptions of Melbourne's population growth, an additional 40,000 new dwellings per year to 2031 will be required. Over the past decade, average dwelling approvals across Melbourne have been approximately 35,000 per year, with a jump to around 38,000 in the last year as a result of apartment construction cycles.

Analysis of historic housing supply across Melbourne illustrates that a majority of consumers choose to live in non-apartment housing stock. The HDD series data provided by the Department of Transport, Planning and Local Infrastructure indicates that apartment projects were estimated to account for around 30 per cent of dwelling additions in the 2004 – 10 period.

Melbourne is a rapidly growing city, yet still a relatively immature apartment market by global standards. As at 2011, apartments only represented 3.6 per cent of all dwelling stock in Melbourne, significantly lower than other comparable cities, including Sydney.



SOURCE: Charter Keck Cramer, Australian Bureau of Statistics (2011), Statistics Canada (2011), US Census Bureau (2010), UK Office for National Statistics (2011), Statistics Singapore (2013)

While this indicates there is likely to be an increase in apartment activity as the city continues to grow, the clear implication is that overwhelmingly local residents choose detached dwellings, townhouses or villa units to meet their housing preferences.

Apartment living does not suit the housing preferences of all consumers across all stages of their life. Housing markets should seek to respond with appropriate levels of supply for consumers across different market segments, including young families priced out of detached housing markets.

Yet in Victoria's current residential property market, apartments do not represent a realistic alternative choice on the basis of cost, when compared to existing detached or semi-detached dwellings, or new greenfield house and land packages. For example, consumers are in many cases able to buy a dwelling with two or more bedrooms and private open space in inner metropolitan suburbs for a similar cost as a two bedroom apartment in a complex in the Melbourne city area. Until this price differential is eliminated, or at least significantly reduced, most consumers will continue to opt for the larger dwelling.

Even in the central city, the apartment market is relatively immature. This is a consequence of the historical housing structure, which is only now beginning to see the emergence of apartments in the broader housing market. Apartments are neither the preferred, nor forced (by cost) choice of owner-occupiers at this stage of the housing market's evolution. Only once detached or semi-detached housing is too prohibitively priced will owner-occupiers look to apartments en-masse. Until this occurs, the sector will be most influenced by investors, particularly until such time as the established apartment market sees price growth to push new owner-occupiers into new apartments.

Moreover, the quantum of current residential development activity in the apartment sector, particularly in the City of Melbourne area, is being driven by non-local factors. This applies across the development spectrum – from site acquisition to project selling – with Melbourne in effect acting as a host to developer and non-local (interstate and offshore) capital in many cases. This, in combination with the dominance of investors in the market, changes the type of product that is brought to market.

In combination, these factors generally render larger apartments too highly priced on most sites, thus we have seen a shift towards smaller one and two bedroom apartments. This does not necessarily mean that design and quality are compromised – buildings such as EQ Tower and Lighthouse are examples of large scale apartment projects that have high quality internal amenity, however the volume of smaller apartments in the project is a direct response to the market price thresholds.

The Property Council does not believe it is accurate to say that the needs of occupiers are disregarded by developers of apartments. It is however true that the primary driver is the metrics of investor purchasers. Until the market matures to the point where owner-occupiers, investors and tenants are willing to pay the required premium for larger accommodation, the current situation will likely prevail. Government policy that seeks to force change, particularly without any flexibility or incentives, will have detrimental effects on all parties involved in the market, not simply developers.

1.2 Housing Diversity

The degree to which housing diversity is delivered by apartments is a function of the market. One and two bedroom apartments dominate in response to established and prevailing household formation and investor demand. Regardless of this, three bedroom apartments in new central city buildings of any meaningful 'family friendly' size will carry an economic cost of greater than one million dollars. To reduce this cost, size is reduced, however even an 80 – 90 square metre three bedroom apartment is arguably not 'family friendly', despite having three bedrooms.

There is a clear dislocation between how the market operates and the agenda the City of Melbourne desires to prosecute. In high profile and high values neo-global and global world cities, housing affordability for purchasers/owner-occupiers is largely non-existent. Melbourne is taking its place on this world stage, and with that comes a cost. The reality of successful, CBD oriented cities is that all but the very wealthy are long-term tenants/renters. It is rental affordability that is desired and pursued, against the realisation that purchasing in such prime locations is not a realistic option.

Melbourne's CBD provides a level of amenity and opportunity that is unique and not replicated among medium to larger cities around the world. In how many cities is the CBD as vibrant and centralised as the core of activity be it employment, fashion, retail, food, entertainment, or general amenity, in the way that Melbourne is? On the global stage this resonates, and Melbourne's quality of life and liveability continue to draw high levels of migration – both of people and investment capital.

Generally, there is an acceptance that in those cities *Homes for People* makes reference to – the likes of London, Paris or New York – it is not possible to buy an apartment with the equivalent (in terms of space) of a detached house in the suburbs. Given the historical development of the housing market in Melbourne, there are also considerable differences in the average size of dwellings here to those in cities overseas, with the associated differences in average costs per square metre. These must be considered before using those cities as a comparison or model to follow. Additionally, there is an understanding that even renting such apartments is not the norm, nor available to all. Furthermore, many of the cities *Homes for People* would have Melbourne emulate have a different residential lease structure that enables longer term leases, and facilitates a sense of community and stability for residents without pursuing dwelling ownership as the only means of achieving this.

The Property Council has concerns about the conclusions drawn in *Homes for People* around housing diversity and choice. In particular, there appears to be a contradiction between "...the predominance of 1 and 2 bedroom apartments..." and the statistic that 50 per cent of all new units built between 2006 and 2012 were one bedroom apartments. Further, the qualitative evidence put forward in the Future Living document that supports *Homes for People* suggests that only 19 per cent of respondents identified a lack of three bedroom apartments as one of their top five issues. While the Property Council commends the City of Melbourne on its willingness to engage in community consultation, we are concerned that the responses are not necessarily reflective of the views of current apartment residents, and therefore support the use of resident surveys to inform any future policy development in this area. We are further concerned that similar weight has not been given to the quantitative analysis of the effect of policy changes on project feasibility and market dynamics.

The development sector is subjected to significant criticism for creating small apartments and developments where the dwelling mix is skewed towards studio and one bedroom stock. However, in addition to the above mentioned market forces and demand, it is worth noting that dwelling sizes, specifications and car parking provisions are the only few levers currently available to the development industry to respond to the affordability challenge. Mandating requirements in these areas will only further restrict developers' ability to provide housing that meets the needs of Melbourne's growing and changing population.

Despite the obvious challenges, the current cycle of residential development is delivering significant supply, in many cases activating and renewing previously dormant or underutilised areas of the CBD and immediate fringe. This leads to rejuvenation of secondary retail and commercial precincts, and the provision of better amenity and activity in those areas. This should be considered a positive outcome for the City of Melbourne if not the state more broadly, not least because of the uplift in rates and economic activity it generates. Further, it leads to a centralisation of the population in areas with high amenity and accessibility, capitalising on existing infrastructure. In a city already struggling to keep pace with infrastructure demand in its growth areas, this is critically important.

In the context of the above discussion, it is vital to acknowledge that apartment living requires a trade off from the more traditional detached dwelling housing choice. Living in the 'action' of the city and all its surrounding amenity balances the fact that living spaces themselves are smaller. It is a conscious choice that consumers make, and governments of all levels need to remain cognisant that there will never be a one size fits all approach to housing.

2. Responses to *Homes for People*

2.1 Goals

2.1.1 Goal 1: Help provide at least 1,721 affordable homes (subsidised) for low and moderate income earners by 2021

The Property Council supports the City of Melbourne's goal of finding ways to increase the provision of housing that enables a greater socio-demographic cross section of people to live in the city. Given the mix of services and employment we have in the city, having a better representation of the people employed in those jobs or providing those services living in proximity is to be encouraged. Not only are there benefits to the individual in terms of reduced time spent travelling to work, but it also makes better use of infrastructure, increases economic activity in the CBD through retail, entertainment and food spending and has broader environmental benefits.

However, the Property Council is concerned that dialogue in *Homes for People* either oversimplifies or disregards a number of critically important issues as part of the discussion around providing affordable housing.

The Property Council firmly believes that there is a greater role to be played by housing associations and State and Federal Government in the provision of affordable housing. Page 47 of *Homes for People* recognises that the achievement of the City of Melbourne's goals greatly depends on:

- *"The skills and capacity of housing associations and other not-for-profit organisations to help deliver and manage the affordable housing;*
- *The Australian Government for continuing to invest in affordable housing; and,*
- *The Victorian Government to support national schemes, ensuring a sufficient supply of social housing and enabling our actions through the Victorian planning system..."*

However, the proposed solutions of development bonuses and inclusionary zoning appear to forget these points, and leave the private sector facing the majority of the burden of meeting the housing affordability challenge.

Despite stating on page 20 that *"...the Victorian Government is responsible for funding, administering and delivering social housing and homelessness services and providing financial support to renters through private rental assistance..."*, the proposed use of inclusionary zoning seems to disregard this notion. If 15 per cent affordable housing is to be mandated in *"all growth areas (urban renewal areas and the Hoddle Grid)"* there must also be a discussion of how this is to be funded and administered – implementation is crucial. It is the Property Council's position that affordable housing provision requires very clear governance structures to fund, regulate and manage it. These must exist before any policies such as inclusionary zoning are brought into effect.

In countries such as England or the United States, such solutions are able to be used to great effect because there are supporting mechanisms in place in the shape of Government funding for affordable/subsidised housing through housing associations. Therefore, even though inclusionary zoning type obligations are placed on development there is Government funding available, and the

housing associations are appropriately skilled and resourced that the private sector can work with them to make it both economically feasible and practically deliverable. Moreover, in some jurisdictions commercial tests are applied to determine the percentage of affordable housing that can be feasibly delivered, rather than simply relying on a uniform mandatory percentage of dwellings per development. Unfortunately, in Australia housing associations are chronically under-resourced and inexperienced, and thus strategies such as *Homes for People* are largely based on the assumption that the developers/land owners should and will bear the full cost of delivering affordable housing. This is neither equitable nor sustainable.

Currently housing associations lack the revenues or resources to acquire additional properties without Government funding and support. For the most part, they are seeking to manage more properties (without owning them), to raise additional revenue, and to undertake only refurbishment and/or very small development projects. The Nation Building stimulus was needed to enable housing associations to purchase properties, but the State Government's requirement that the Associations had to borrow 25 per cent of the purchase price means that many are in the position where their balance sheets are so leveraged that they are unable to borrow additional funds, and will in fact likely need to sell down some stock to repay debts. Consequently, without further Government support, housing associations are unlikely to have the financial capacity or skills required to play the crucial role they must in order to achieve the goals of *Homes for People*.

The Property Council continues to urge both the City of Melbourne, and the Victorian Government to draw from international best practice to design a scheme or mechanism to increase the provision of affordable housing in an appropriate way, without adversely affecting the development market. This must also include provisions for a transition period to provide clarity and certainty to developers and investors who may already have purchased sites and commenced the planning process.

Any goal of increasing housing affordability must take into consideration the costs of developing apartments, and find ways to reduce these where possible. However, in addition to proposing extensive design guidelines, the City of Melbourne is progressing two planning scheme amendments that require increases in developer contributions for new infrastructure and public realm works. *Homes for People* rightly states that “as developer contributions add to the cost of development they add to the problem of housing affordability” (p30). This is particularly true of open space requirements, which the City of Melbourne has consistently sought to increase. The Property Council has repeatedly argued that under the present system, there is no guarantee that the development contributions will provide equitable and proximate amenity to the development providing the contribution. Thus far, the City of Melbourne has failed to provide sufficient detail of how and where the revenues collected from development and open space contributions are being expended. If housing affordability is to be achieved in any meaningful way, the City of Melbourne must review the cost burden it already places on development.

2.1.2 Goal 2: Improve the design quality and environmental performance of new apartments

The Property Council appreciates the City of Melbourne's desire to improve the design quality and environmental performance of apartments, and we remain committed to working with the City of Melbourne and the Victorian Government to achieve this. However, any policy changes in this area must be considered in the broader planning context, including recent changes to residential zoning

and the Government's commitment to the delivery of *Plan Melbourne*. There must also be meaningful and extensive consultation with industry and the public, to ensure that there is a solid evidence base for the formulation of policy and an understanding of its implications for the market.

Homes for People makes reference to the design guidelines for apartments that are currently under development by the Office of the Victorian Government Architect. The Property Council has had limited involvement in the development of these guidelines, and we would urge the City of Melbourne to be very cautious about mandating design requirements for apartments without undertaking an analysis of the commercial implications. For example, changes to the minimum sizes of apartments will translate to a direct cost to purchasers, and in due course renters, at a rate of approximately \$9,000 per square metre increase. Thus, ill-considered design guidelines are directly counter to the objectives of much of the *Homes for People* strategy and will significantly undermine housing affordability.

In *Homes for People*, the City of Melbourne recognises that high land values and construction costs are impacting affordability, housing mix, and design quality, however it seeks to add further costs and additional red tape by increasing design compliance costs for developers through 'municipality specific' design standards, in addition to those being developed by the OVGA.

The Property Council is also highly concerned to note included on page 29 of *Homes for People*, the following statement: "... many of the apartment developments include a significant amount of car parking and 'luxury' items such as second bathrooms, gyms and swimming pools." The 'luxury' items referred to provide a high degree of amenity to residents of the buildings. Those same residents are willing to pay a premium for that amenity, not simply at the time of purchase, but on an ongoing basis through increased body corporate fees. This is recognised by proponents of 'good design' such as the OVGA, which has stated approximately 15 per cent of a site should be dedicated to the provision of amenity. We would question how such requirements can be met if 'luxury' items are to be avoided. There also appears to be an unjustified assumption that these types of facilities are provided in each development – this is by no means the case. Arguing that such items should not be included on the basis that it would be a way to make apartments more affordable is simplistic and completely ignores the economic principles underpinning the development market.

2.1.3 Goal 3: Foster a high level of awareness and knowledge around good housing outcomes

The Property Council supports initiatives that educate the community about housing choice, particularly apartment living, and would welcome any opportunity to work with the City of Melbourne on this initiative.

Although not fully articulated, the development of a campaign to raise awareness of good housing would be welcomed by the development industry. There are many examples of high quality design and development that should be celebrated, and the stories of those residents told.

2.2 Actions

2.2.1 Action 1: Affordable housing on City of Melbourne owned land

The Property Council recognises that the City of Melbourne is committed to this principle; however there is insufficient detail in *Homes for People* to provide certainty to industry about how this will be implemented. If, for example, the City of Melbourne owned site is brought to market and sold to a private developer, will the delivery of affordable housing be achieved through a caveat on the sale? Further, will these requirements be above and beyond the proposed inclusionary zoning requirement? By which mechanism will this process be managed? While admirable as a statement, the Property Council recommends further work be done to clearly outline the practical steps by which this will occur.

2.2.2 Action 2: Development bonuses

The Property Council supports the principle of development bonuses; however it is crucial that there is a genuine recognition by the City of Melbourne of the commercial impact of the provision of affordable housing on a development. It is also vital that developers' flexibility and Council's discretion on matters such as height are not compromised in the pursuit of greater affordable housing.

The Property Council is concerned that should a mandatory development bonus mechanism be pursued, there will be less flexibility or discretion for increases to building height or plot ratio based on considerations such as design excellence, which is an important part of the present planning approvals process where discretionary controls exist. This is because future discussions about increased height will likely focus solely on the provision of affordable housing to justify an increase in height, rather than any other matters.

Whilst there is a need for a threshold from which development bonuses can be established, it must not come at the expense of the discretion and flexibility that already exists as part of the planning process. We note with some concern that these types of measures are being proposed as a means of addressing 'unrealistic landowner expectations'. Developers of residential apartments generally undertake rigorous due diligence processes to evaluate the development potential of sites, and base any expectations they have on the legislative and planning framework in which they operate – one which the City of Melbourne has significant control over.

Furthermore, we are concerned that the use of further development controls such as height, density or plot ratios are the only mechanisms being considered as 'bonuses' for the provision of affordable housing. We would strongly urge the City of Melbourne to consider reductions in development contributions or streamlined planning processes – both of which represent significant costs to developers – as part of a suite of incentives available to offset the costs of providing affordable housing.

As it currently stands, there are insufficient details regarding the operation of a development bonus mechanism. In particular, there must be clarity as to whether it will be mandatory, or whether developers will have the opportunity to negotiate outcomes with the City of Melbourne, given the specific circumstances of their project. In some instances it may not be feasible to include affordable housing in a development. In such circumstances, there should be potential for a development bonus system to still apply, but with discretion that allows the developer to provide 'payment in lieu', similar to open space contributions in order to be eligible for the bonus. This measure should only be considered in tandem with the development of appropriate structures to ensure the funds are efficiently applied to the provision of affordable housing, rather than becoming another revenue source for Council. The UK model of development bonuses uses a feasibility model to test and determine the most appropriate level of affordable housing provision, rather than relying solely on mandatory controls such as height. We would urge the City of Melbourne to consider a similar mechanism as part of a suite of options.

2.2.3 Action 3: Inclusionary zoning

The Property Council does not support the introduction of inclusionary zoning in the format proposed in *Homes for People*. Any policy change in this area represents a fundamental change to the existing planning system in Victoria, and any measures enacted by the City of Melbourne will have flow on, 'precedent' effects for municipalities across Melbourne. It is an initiative that should be pursued by the State Government, rather than by individual local governments, in order to provide a uniform, integrated and well considered state-wide approach to the issue, similar to what has recently occurred with reform to development contributions. The applications of such requirements in an individual municipality such as the City of Melbourne, may well act as a deterrent to higher density residential development in the very municipality where planning policy seeks to encourage such development.

In *Homes for People*, the City of Melbourne recognises that a developer needs to make a 15 – 25 per cent profit, and that higher density projects require higher margins as recognition of their inherently higher risk. However, we are of the view that there has not been adequate justification provided for the 15 per cent affordable housing target, how it has been derived or how it equates to the figure of 1,721 affordable homes to be delivered by 2021. Nor is there adequate explanation of how project viability will be maintained if project profits are to be diverted to the provision of affordable housing. There are a number of alternatives to inclusionary zoning that can, if appropriately applied, deliver real affordable housing without compromising the commerciality of projects.

It should also be noted that any inclusionary zoning measures must be enshrined concurrently with the up-zoning of the relevant areas to ensure that the land value increases reflect the requirement for affordable housing. This was done with some success in East Perth (WA) and Green Square (NSW).

By contrast, the City of Melbourne is currently proposing to deploy inclusionary zoning after the up-zoning, although in *Homes for People* it has recognised that this will drive up the cost of housing. In essence, inclusionary zoning is a new tax on development. This will particularly affect developers/land owners who have already purchased the land, and is a fundamental flaw in the City

of Melbourne's policy construction. It demonstrates a lack of understanding of the economic impacts of such policy and its implementation, and will have significant detrimental effects on both developers and future purchasers.

Additionally, the Property Council suggests that feasibility tests similar to those used in the UK be applied to sites to determine the most appropriate level of affordable housing provision, rather than a blanket 15 per cent mandatory quota. As part of this, there must be recognition of the economic cost of providing apartments of greater than two bedrooms, with recognition of this cost reflected in the calculation of affordable housing provision requirements – that is to say, the cost of delivering a three bedroom apartment is greater than that of a one bedroom apartment, and the credit applied to each should be reflective of this.

Furthermore, there is a marked absence of transition arrangements for a move to inclusionary zoning. The Property Council suggests that a minimum ten year transition period is required for the market to adjust to such change, and to ensure that the new requirements can be appropriately factored into future developments. There must also be an understanding that such measures cannot be retrospectively applied to projects for which sites have already been purchased on the basis that no such requirement exists. Any attempt to do so is not only inequitable, but it would send a negative message to the market and reduce Melbourne's attractiveness as an investment destination.

It is highly concerning that the cost of implementation, where the requirement for inclusionary zoning has not been factored into the development, is considered to be 'not material' according to a study by Biruu completed in 2008 and referenced in *Homes for People*. That same study stated the costs of bearing a substantial affordable housing component in a development is significant – approximately \$3,000 per apartment. The Property Council has little faith in the credibility of this figure. Nevertheless, despite the fact that these figures are over six years old, even \$3,000 per apartment represents a sufficient additional cost that must be taken into consideration if the goal of a strategy is to increase the supply of affordable housing. If a \$3,000 stamp duty cut is called a major improvement in housing affordability, then a \$3,000 increase in housing costs must be a major decline. This notion goes to the heart of the discussion about housing affordability – is the goal of *Homes for People* to increase housing affordability for all, or to simply require a portion of the market – purchasers of new apartments in selected developments – to subsidise housing for another group? Fundamental to this discussion is the question of 'who should pay' and the degree to which proposed requirements would impose a cost on one section of the industry and market. The City of Melbourne must decide whether it is the number or the type of affordable housing units is most important.

Consideration should be given to whether it would be more appropriate to allow a developer to 'buy out' the inclusionary zoning obligations, with such contributions being appropriately collected and expended on new affordable housing projects and/or mixed tenure projects. Alternatively, the City of Melbourne could consider providing faster planning approval for those developments that will include their inclusionary zoning obligations, rather than offset them. Provided the time savings, and associated cost savings are real, this could incentivise those types of developments that are more suited to mixed tenure. Finally, we recommend consideration of a model whereby developers could be given the option to meet their inclusionary zoning obligations on another, more appropriate site. Contrary to what some commentators espouse, if correctly managed, this will not lead to the

creation of 'ghettos' but rather will deliver truly affordable housing on a more sustainable basis. An example is The Nicholson in East Coburg where social housing, subsidised market rental and private owners are all in the same building.

From the Property Council's perspective, it is clear that the need for a financially secure and appropriately skilled housing association sector is crucial to achieving the goal of increasing housing affordability in Melbourne. There must be frameworks in place that extend well beyond simply reducing the sale price of a select number of apartments in a development.

In our view, government or housing association ownership of affordable housing stock is the only way to ensure that such stock remains 'affordable' if and when it is re-sold, and that it cannot be used for individual profit. The concept of affordable housing is an admirable one to pursue, however it is fundamentally at odds with the operation of a free and open market.

2.2.4 Action 4: Victorian Apartment Design Standards (underway)

The Property Council is aware that the Office of the Victorian Government Architect is in the process of developing design guidelines for apartments in Victoria. Whilst a formal draft has yet to be released for consultation, we remain highly concerned by the potential for any such standards to restrict developers' flexibility and to add further costs to the delivery of apartments. Any such controls must be pared back to address only the necessary key issues without any duplication or contradiction with existing Building Code of Australia requirements.

The Property Council appreciates the City of Melbourne's goal to improve the design and quality of apartments in the city; however we remain firmly of the view that overly onerous mandatory standards are not the most appropriate mechanism, particularly not in the already constrained CBD environment. If implemented, mandatory design requirements, however well intentioned, will add to the cost of delivering an apartment in Melbourne – in direct conflict with the stated objective of *Homes for People* of increasing housing affordability.

The work of the OVGA appears to be largely based on the NSW SEPP65 planning instrument and its related Residential Flat Design Code (RFDC). It is worth noting that at the time SEPP65 was introduced, the planning system in Sydney was significantly less robust than that which exists in Melbourne today. The original intent of SEPP65 was to improve apartment design and amenity however it has come under constant and almost universal criticism in NSW as it hinders innovative building practices and makes apartments significantly more expensive.

In reality, SEPP65 has become an onerous policy that is not up to date with emerging and cutting edge building practices, and is overly complicated in its application through design controls. It is interesting to note that *Homes for People* selectively quotes the Property Council's NSW Division as recognising that SEPP65 and the RFDC have led to improvements in apartment design and amenity. While in some instances this may have been the case, the remainder of the quoted Property Council document highlighted a number of fundamental structural and operational failings of SEPP65 and the RFDC. In particular, it demonstrate that in many ways SEPP65 sets a list of mutually exclusive requirements, without allowing developers any flexibility to make trade-offs that ultimately improve amenity for apartment residents.

This absence of flexibility in its application is the Property Council's key concern with SEPP65, and we remain opposed to the implementation of a similarly flawed set of standards in Victoria. The City of Melbourne and the OVGA must consider the commercial implications of the requirements they seek to impose on development. For example, any increase to the minimum size of apartments will add approximately \$9,000 per square metre to the cost of development – a cost that will be passed on to the purchasers, and in turn the renters of apartments. In this context, the pursuit of housing affordability becomes almost futile.

Additionally, any implementation of minimum standards for apartment design must be done with an appreciation of the costs and requirements *already* placed on residential development, including development contributions and open space contributions. As with inclusionary zoning provisions, there must be very clear and appropriate timeframes for transition to any new, more restrictive framework in which design standards are implemented. This will be crucial to ensure that projects which are already underway or sites which have been transacted on the basis of the current requirements are not adversely impacted. The NSW market experienced an almost instant, significant downturn with the overnight introduction of SEPP65, and a similar outcome must be avoided in Victoria.

2.2.5 Action 5: Ratings tool

The Property Council believes that there are already a number of tools in the market that could be used to measure that which this initiative seeks to address. We would therefore question the need for an additional layer and/or process.

2.2.6 Action 6: Higher density living paper

The Property Council supports the principle of this Action, however this form of discussion paper, and more importantly the feedback it would elicit from stakeholders, should have been used to inform the development of both *Homes for People*, and any design guidelines the OVGA are developing.

2.2.7 Action 7: Good housing campaign

As stated previously, the Property Council firmly supports balanced education and awareness raising campaigns that dispel the myths that persist about apartment living. We would welcome the opportunity to work with the City of Melbourne and the Victorian Government in ensuring that consumers have access to objective information that allows them to make informed choices.

As discussed earlier in this submission, until the price differential between detached house and land packages or existing dwellings and apartments reduces significantly, the apartment market in Melbourne will remain dominated by investors. Prices will reflect this, thus a key driver in making apartments more affordable must be a shift in the market demand for them.

2.2.8 Action 8: Resident surveys

Again, the Property Council is supportive of increasing awareness of what apartment living actually means. Too often the public is made aware of only the worst case scenarios – it is rare to see a story or article that accurately reflects the positive experiences many apartment dwellers have, let alone a full exposition of the drivers behind consumers' choice to live in an inner city apartment.

The Property Council would again be willing to work with the City of Melbourne, to provide a balanced and objective perspective to the public debate about apartment design and 'liveability'. We strongly urge the City of Melbourne to ensure that any surveys are neutral in their language, but contain clear measures of the relative importance of factors that represent the trade-offs apartment dwellers make when choosing to live in the city rather than in another dwelling type or location. Information gathered through such surveys should be used to inform updates to the *Homes for People* strategy, as well as any associated policies.

2.2.9 Action 9: Inner city coordination

The role of State and Federal Governments in the ongoing provision of affordable housing is multi-faceted and cannot be ignored. Greater funding is required to increase the supply of Government owned or managed housing, as well as significantly more funding for independent housing associations. Similarly, planning provisions and controls that facilitate delivery of more affordable housing should be developed on a state-wide basis, rather than being left to individual Councils which causes inequitable outcomes and can potentially skew the market.

The issues of social infrastructure provision is also one which must be addressed at a higher than municipal level. The provision of schools or childcare centres falls within the remit of the state government, and yet an absence of these facilities has been quoted as being a barrier to more families moving to the CBD.

2.2.10 Action 10: Housing Advisory Committee

The Property Council would support this initiative on the proviso that there is meaningful engagement with the development industry. As those ultimately responsible for delivering housing, and for bearing the costs of policy changes, the sector must be directly involved. Closer links with industry would also provide the City of Melbourne with greater and more accurate evidence about all elements of the housing market – from the cost of developing apartments, to mechanisms for the delivery of affordable housing that have been successfully implemented in other jurisdictions.

2.2.11 Action 11: Annual reporting

In principle the Property Council would support this initiative; however there is a distinct lack of detail about what potential KPIs and performance measures would be used as the basis for reporting. The Property Council recommends these be developed in tandem with *Homes for People*, and in consultation with all stakeholders.

2.2.12 Action 12: City of Melbourne Design Standards (if required)

The Property Council does not support the creation of an additional layer of planning or design requirements for the development of apartments in Melbourne.

In the event that state-wide design guidelines are implemented, the creation of a similar set of requirements by the City of Melbourne would represent a duplication of effort and simply create additional red tape, in turn hindering development processes and increasing costs.

Overly prescriptive design standards will restrict not only development opportunities in Melbourne, but will also remove the ability of developers to innovate in ways that achieve a better outcome in terms of amenity than would be possible if all the standards were adhered to.

Any guidelines for the design of apartments must allow for flexibility in their application, and we urge the City of Melbourne to use caution when considering mandatory controls. As discussed earlier in this submission, requirements that limit a developer's flexibility in the design of apartments will increase the cost of development, which will be passed on to the buyer (and subsequently the tenant) – directly counter to the aim of increasing housing affordability.

3. RECOMMENDATIONS

1. Draw from international best practice to ensure appropriate governance structures are in place to fund, regulate and manage affordable housing prior to any introduction of inclusionary zoning policies.
2. Partner with stakeholders to lobby State and Federal Governments for long-term sustainable funding for housing associations.
3. Undertake full and rigorous consultation with industry in the development of any design guidelines.
4. Work with all stakeholders, including the development industry to raise awareness and knowledge around good housing outcomes.
5. Provide full and clear details on the practical steps that will be taken to deliver affordable housing on City of Melbourne owned land.
6. Engage with stakeholders and international best practice in the creation of a model for development bonuses. This must include feasibility models to test and determine the most appropriate levels of affordable housing provision on a site-by-site basis.
7. Engage with all stakeholders, particularly the development industry, to develop an equitable and sustainable inclusionary zoning framework that includes:
 - a. Feasibility tests for provision of affordable housing on a site-by-site basis;
 - b. Concurrent up-zoning of relevant land areas;
 - c. Recognition of and compensation for the differential costs of larger apartments;
 - d. Detailed transition arrangements with a minimum ten year forward implementation schedule;
 - e. 'Buy out' provisions that allow developers to provide financial contributions in lieu of providing affordable housing units. This must be supported by mechanisms to ensure these contributions are appropriately expended on the provision of affordable housing in other areas;
 - f. Incentives for developers who provide affordable housing; and,
 - g. Provisions that allow developers to offset affordable housing obligations to other, more appropriate sites.
8. Create an Implementation Advisory Committee comprised of representatives from key stakeholder groups, including the development industry.
9. Publish full and clearly detailed KPIs and performance measures against which the implementation of *Homes for People* will be assessed on an annual basis.
10. Ensure resident surveys accurately capture the value proposition of apartments and trade-offs consumers are willing to make.

4. CONCLUSION

The Property Council remains supportive of the City of Melbourne's aspirations to achieve greater housing affordability in its municipality.

However, while we can appreciate the intent behind the *Homes for People* strategy, we have grave concerns about its emphasis on mechanisms such as inclusionary zoning and greater restrictions on apartment design. Both are likely to lead to significant increases in the cost of developing apartments in Melbourne – in effect undermining the entire purpose of the strategy.

Melbourne's CBD provides a level of amenity and opportunity that is unique and not replicated among comparable cities around the world, and arguably not in Australia's other major capitals either.

The development sector is subjected to significant criticism for the type of apartments and developments it produces, and for sacrificing affordability for consumers in the pursuit of profits. This sort of discussion is unhelpful, and fails to recognise or understand the commercial and planning realities of the environment in which developers operate. Already stringent requirements around design, ever-increasing costs due to government charges such as developer and open space contributions, and a market at present driven by investors all contribute to the complexity of the challenge of providing affordable housing.

In this submission we have sought to highlight what we consider are the key issues and unintended consequences of the policy measures proposed in *Homes for People*. We have also outlined a number of alternative policy approaches that could be used by the City of Melbourne to achieve its objectives, without fundamentally compromising the ability of the development sector to operate sustainably.

We strongly urge the City of Melbourne to continue to engage meaningfully with all stakeholders, particularly the development industry, as the process of reviewing, implementing and updating *Homes for People* continues. It is vital that the commercial and financial implications of policy are fully understood and taken into consideration before any changes are made to the planning policy framework in Melbourne.